

major mail users **ADDENDUM**

ADDENDUM TO SUBMISSION IN RESPONSE TO THE ACCC ISSUES PAPER of August 2009

Australia Post's Draft Notification POSTAL PRICING INCREASES

Major Mail Users of Australia Limited

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John Gillroy
Chief Executive Officer



Monday 9 November 2009

Mr David Salisbury
Acting General manager,
Transport and General Prices Oversight
Australian Competition and Consumer Commission
GPO Box 520
MELBOURNE VIC 3001

Dear Mr Salisbury:

This addendum sets out:

- to correct what we hold to be some of the errors of omission and commission that spring to attention from a reading of the Australia Post *Addendum* document (2/11/09) in which it deals with comments made by MMUA in its 15 October submission, and
- to follow-up on some matters of importance we would like re-emphasise following our discussions with you and your colleagues at the ACC-MMUA Workshop on Wednesday of last week, 4 November.

Essentially our position in this paper is that Australia Post, protected from having to operate in a Twenty-First Century marketplace environment because of its monopoly has not been prepared to subject itself to the normal drivers that mark any attempt by any management team, to increase its prices in the face of

- shrinking revenue or
- shrinking market share or
- shrinking sales volumes or
- shrinking profit levels or

a combination of one or more the four – and it should be compelled by the ACCC to do just that before any price increase is approved

Our members constitute Government Departments, Government single-issue authorities, public companies, private companies, national and international operators, single and multi-product suppliers and consumers: they all have had over the past few years as the digital technologies (of which so much has been spoken and written) have encroached upon the traditional paper-based mail/communication market:

- reduce costs
- review and reduce overheads
- face up to internal and customer-related challenges to individual operating models

but, none of that standard approach to these matters can be evidenced in the material provided by Australia Post to justify its proposals for FY.2010, FY.2011 and FY.2012 postage price increases.

During times of falling demand, the first response of executive management is to modify the business to preserve results before any price increases can be justified to customers. Australia Post has offered no advice that that has been done and clearly it sees that as a monopoly all it needs to do is increase the product price without proper regard to the immense impact that will have on the business community.

We submit that the Australian Postal Corporation for its Reserved Services areas of operation – and for all those overlapping areas where the non-Reserved Services use the network and other facilities of the Reserved Services – should be open in all aspects to a full, transparent examination, the same as applies in the Australian marketplace as it has a monopoly to service – furthermore, until that is done any postage price increase should be denied.

Specifically our contention is that the ACCC should insist on Australia Post provided written – **open for public comment** – statements and detailed disclosure thereof covering the following points:

1. That it has implemented a major cost reduction program in response to falling profits;
2. That it has either reduced its workforce consistent with the drop in volume or has plans to do so over the next 6 to 12 months;
3. That it has put a freeze on salaries and bonuses;
4. That it has examined whether it can relocate national, state and regional offices and operational sites to lower cost sites;
5. That –in the light of its primary function being to provide the monopoly’s Reserved Services for Community Service Obligation purposes - it has examined the financial and other aspects of advantage to the Corporation by such means as:
 - Whether or not the Corporation is better off selling its logistics business to a logistics company;
 - Whether or not the Corporation is better off outsourcing its mail freight operations;
 - Whether or not the Corporation has identified underperforming assets and/or locations and put in place plans to exit.

A most important further element is related to a normal practice in the non-monopoly marketplace and that is that a supplier always works with its customer in times such as this to see if there are ways and means that changes can be made to keep prices under control: From the unique within the Australian mail industry advantage point that MMUA has of its BMP-Mailing House members supplying daily some 86+ percent of all Bulk Mail lodged, we can say that Australia Post has not done so and therefore we would make that a sixth point in this listing, viz:

6. That it demonstrate that it has worked with Bulk Mailers to explore all opportunities to reduce costs (and increase productivity) within their processes. Any response to this should be open for further public comment before the Preliminary Decision is made by the ACCC.

PRICE REDUCTION AS AN OPTION

In our opinion, Australia Post's postage price increase strategy may provide short-term revenue increase, however it is not sustainable into the future on its own. The fact that the 6 points referred to above are missing from the Australia Post documentation shows that the starting point in their thinking is to justify a price increase as the simple – and only – solution to a problem that the rest of the Australian marketplace tackles daily on a multi-fronted battlefield.

One option that has not been proposed –or even covered – is for a **price decrease** to hold or grow the paper-mail volumes and at the same a fresh engagement with the Bulk Mail industry for the purpose of finding cheaper, more productive ways of preparation and lodgement of the mail.

If the price were to be dropped; if the quality assurance accredited mailing houses were treated as professional partners instead of pesky *agents of* customers; if people who understood the day-to-day *operational interface* between Australia Post and the mailing house were the true primary contact, then and only then would it be possible to develop a joint approach to stemming the tidal flow from paper-mail to e.communications in ways that simply will not happen if the postage price increase is allowed.

Such an approach would lead into a pricing structure for Bulk Mail based on a more appropriate linkage of "quality" mail to pricing levels – something that cannot be achieved while Australia Post continues its policy of non-consultative approaches to these matters.

MATTERS IN THE AUSTRALIA POST ADDENDUM DOCUMENT

Briefly for the record we wish to make the following points that were not discussed with you at our 4/11/09 workshop:

Page 7 (of the AP Addendum document) – unnamed postal authorities comparison with Australia Post:

The operative word is *unnamed* – why hide their lights under bushels? Australia is a unique island continent setting for a postal service – there is no comparable island continent with our population numbers and spread. "Adjusted for mail density and customer density" means nothing if the definitions and details are to be hidden from examination.

Page 10 – Item 2.3 (Alternative Lodgement Solutions / PIP2)

Australia Post's advice to MMUA – at onr of the AP-MMUA Operational Interface Group meetings this year - was that allocated expenditure was to be as we stated it was (millions) – the change of focus to say what the expenditure is to date (ie \$50,000) is just a debating tactic – let's stick to comparing like with like!

The real point not to be lost sight of is that Australia Post controls PIP2 through its Revenue Protection Steering Committee, the members of which are the same people who, in another capacity, for the main part signed-off at senior management level for a postage price increase recommendation. These people recognise that there are cost savings to be had, productivity gains to be achieved, and value in pursuing PIP2 and at

the same time they wish to increase the price of the postage stamp before that work is done!

Our position is that in normal business partnerships such a price increase should be held over until the results of the [PIP2] project are known.

Page 12 – Item 3.1 (Letter Volumes and Forecast)

Australia Post does not allow full disclosure of its accounting methods and/or results in the annual *cross-subsidisation* process this means that the industry has no means available for a forensic accounting examination of same. Thus the argument present here by Australia Post in the final paragraph on page 12 (ie revenue does not cover costs etc + an appropriate level of return) cannot be substantiated.

But, in any case, what should be the *profit* on the monopoly's Reserved Services – or for that matter, should there be a profit at all: we have made our case in the Submission document that this is an appropriate time (ie within the Preliminary Findings document) for the ACCC to question what we consider to be a flawed Australia Post case for these matters.

Page 16 – Item 4.3 (Proposed Timing)

1. Australia Post is acting inappropriately to simply say that “MMUA declined each invitation” without adding the reasons (which have been explained to them almost *ad nauseum*) for our unwillingness to meet with the Letters Group after the treatment meted out to our volunteer members in 2008, reasons that have been made known also to the ACCC. As others in this current Draft Notification process have also commented, the fact is that Australia Post does not believe in “consultations” – even with the 1999 AP-MMUA Code of Practice and the subsequent 2001 AP-MMUA Consultation Protocol as an agreed due process, the Letters Group were not prepared to act in accordance with its provisions– Australia Post has made a deliberately misleading statement.

MMUA chose this year to use the formalities of the Notification and Draft Notification process rather than subject itself again to the Letters Group disdainful treatment of its major group of customers.

2. However, the main point in this sub-section is the advance notice required. Our members wish to have 12-months advance notice of any approved increase and for such an increase to occur either on 1 January or 1 July to accord with normal business budgeting and price change regimes. It does not constitute 6-months notice (as Australia Post would have us believe) from the time of lodgement of a Draft Notification (July) to a hoped-for approved operational date (January).

Page 23 – Item 5.2 (Functions, Markets and Obligations)

Our comments on the principal and secondary functions of Australia Post are not incorrect as Australia Post contends: they were made in direct answer to the ACCC Issues Paper's Issue 3.1 (Prices Oversight in a Period of Transition from Traditional Letter Services) “broader questions” in general and that of a “broader regulatory policy” in particular. In that sense, and in their posing certain views in response thereto, our comments are correctly made – they will not go away. We can only feel

sorry for Australia Post that it has either deliberately tried to cloud the matter or has failed to understand the Issue raised by the ACCC in the first place.

Page 23 – Item 5.3 (Service and Performance)

Within the context of cost saving potentials, a lessening of the Performance Standards requirements ought to be considered and commented upon by Australia Post – it has not done so in this Draft Notification.

Delivery costs are important elements: within living memory Australia Post delivered twice daily in metropolitan areas – now once a day suffices, but is that now too many in a weekly cycle?

Once upon a time (again within living memory) the proud boast was that post office boxes got their mail by 7am – no longer is that the case but does that matter?

The so-called “key forums” (see page 24) are not necessarily the appropriate ones to be used for comment on such matters.

Yours sincerely

John Gillroy
Chief Executive Officer