

major mail users

SUBMISSION TO ACCC

in Response to
ACCC Issues Paper
10 May 2002

DRAFT NOTIFICATION POSTAL PRICING INCREASES

MAJOR MAIL USERS OF AUSTRALIA LIMITED

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- I As our name implies, members of Major Mail Users of Australia Limited (MMUA) are those companies who are large volume users of Australia Post's network services and companies who are, in turn, suppliers of goods and services to the Australia Mail Industry as a whole.
- II There are 5 basic groups of our members with an interest in Australia Post's Draft Notification proposals of 30 April 2002 (as amended):
1. Generators or Originators of mail whose main use of Australia Post is through the *Bulk PreSort Letters* service;
 2. Generators or Originators of mail whose main use of the mail is concentrated within the direct marketing area and who thus make very extensive use of the *AdPost* service (in addition to their use of the *Bulk PreSort Letters* service):

Many of our members whose core business is not direct marketing nevertheless have a major interest in and use of the AdPost service (eg, banks, telecommunications, credit card companies, insurance companies etc)
 3. Generators or Originators of mail whose main use of the mail is through the *PrintPost* service;
 4. Mailing Houses who take either finished mail product and/or the raw data from the Generator, run it through a series of sophisticated, technology-driven processes and lodge it directly with Australia Post;
 5. Suppliers — eg, machinery manufacturers and/or suppliers, software developers and/or suppliers, paper and envelope suppliers — for whom any change in mailing matters have a flow-on effect.
- III Each quarter, 15 of our Mailing House members participate in a joint Australia Post-MMUA interfirm comparison study — for the March 2002 quarter, the results showed that just the 15 participating Mailing Houses provided to Australia Post 77.58 percent of the total *Bulk PreSort Letters* for the 3-months concerned.

The consultative process with Australia Post

- IV There were three commercial-in-confidence meetings during April 2002 between Australia Post and MMUA as required by the AP-MMUA Code of Business Practice (and the Consultation Protocol arising therefrom). It is not the intention of the Consultation Process that arguments for and against be dealt with, or that it be a form of negotiation but rather a "consultation" on matters being considered. We place on record here our appreciation of the openness and willingness of Australia Post to listen to various points that were made by MMUA and, in some instances of their return to the next meeting with variations to rectify concerns expressed or take up suggestions made for matters to be reconsidered.

Our membership consultative process

- V Upon release of the Draft Notification and the ACCC Issues Paper, MMUA invited all of its members to assist in the analysis of the Draft Notification and taking up the offers to assist that came therefrom, during May we held Members Briefing and Discussion Meetings in Sydney, Canberra and Melbourne, ran a Discussion Group of interested members through one of our Internet *ListServe* systems, and held a final review and drafting session between interested members and directors of MMUA in Sydney.
- VI Additionally, several members have provided commercial-in-confidence material to the chief executive officer which has been helpful in the preparation of these comments.

FOR AND ON BEHALF OF MAJOR MAIL USERS OF AUSTRALIA LIMITED

Christopher R. Smith
President

John Gillroy
Chief executive officer

BASIC MAJOR POSITIONS TAKEN BY MMUA

1. We are opposed to the approving of the proposed postal pricing increase of the Basic Postage Rate from 0.45 cents to 0.50 cents and strongly recommend that it be rejected.
2. We are of the opinion that Australia Post has not taken up all of the potential productivity gains that can be achieved within the \$500+ million *FuturePost* project and until it has done so it should be denied the increase sought.
3. We hold that Australia Post has not pursued an appropriately active and assertive promotion of the benefits of using paper-based communication and has been concentrating its efforts to launch and/or increase its e.business and other non-mail business, using the benefits gained from its assured cashflow and protection of the Reserved Services monopoly business to do so.
4. We are of the opinion that Australia Post has opted for the easy way out by asking for a product price increase on the unproven ground of uncertain mail volumes ahead - a luxury of business planning not available to commercial enterprises in the highly competitive Australian marketplace and, to us, an all-too-easy tactic for a monopoly protected Government Business Enterprise.
5. We hold that - without arguing the case for or against the monopoly itself which we do not consider an issue at this time in this context - with a monopoly should come much more stringent mechanisms of third party oversight and/or control, segment accounting reporting, expectations of service, accountability and transparency in financial matters, and reliance on internal improvements and productivity than are presently required of, or exercised by, Australia Post.
6. We are of the opinion that although the Draft Notification refers only to the Reserved Services Letters Service any consideration by the ACCC of proposals for Reserved Service price increases needs to go far beyond a narrow, tunnel view approach to a stand-alone Letters Service package:
 - 6.1. the all-important market dominance provided by the monopoly of the Letter Service — allied with the unlikely development ever of any alternative postal network of comparable note on this sparsely populated island continent — needs to be taken into consideration in the processes attached to any increase in the price of the Basic Postage Rate the impact of which go far beyond the narrow constraints of the Letter Service only;
 - 6.2. for the Australian mail industry the inter-relationship of Australia Post's various mail and mail-related products (Reserved and Non-Reserved) makes it important that the price review should embrace all elements of Australia Post's core business: mail.

AUSTRALIA POST CLAIM TO JUSTIFY PRICE INCREASE— *there is less scope for productivity improvement than over the past decade*

7. Australia Post claims that one of the justifications for obtaining a price increase on the Reserved Services basic postage rate is that there is now less scope for productivity improvement over the past decade.
8. No doubt there is less now than when the Barcoding Project began, but there is still room for improvement and MMUA holds
 - 8.1. a number of key elements of the original proposals of the Barcoding Project are yet to be achieved ;
 - 8.2. until Australia Post can show that all the key elements within the Barcode Project included in the original plan which led to the approval of the \$500 million budget have been exhausted then this is not an acceptable ground for postage price increase.
 - 8.3. Australia Post
 - (a) on the one hand has imposed requirements on its customers - *no barcode, no discount* - requirements which have been instrumental in achieving some of its own productivity gains,
 - (b) on the other hand it has not yet achieved its own decade-long targets of cost-saving productivity benefits and now seeks to be excused itself from completing that work so that it may be allowed to substitute therefore an increase in the pricing of its monopoly products.
9. What is now colloquially referred to as *Barcoding* was first introduced to the industry as *Barcoding and Roundsorting* and MMUA members were advised in a paper delivered by the then Manager Operations Engineering, Australia Post, (MMUA Members Luncheon, Sydney, 28 February 1996) of a number of changes that lay ahead some of which were said to be:
 - 9.1. **the introduction of sorting to postman's rounds** "*while we bed [the mechanised delivery sorting system] in*" and, at a later stage, "*we will look at introducing streeting and then sequencing*" — to which there was a qualification added — "*... I think it fair to say to suggest that we are not yet convinced about the return on investment that sequencing theoretically gives us and also whether the technical issues relating to sequencing have been overcome.*".
 - 9.2. **the introduction of videocoding** — "*.... also tied in with delivery sorting will be the need to introduce videocoding. Our current LIDs will be retired as they are not capable of alpha-numerical extract coding which is required for delivery coding*".
 - 9.3. **changes to Australia Post's Flats Business** — "*.... for the last several years our flats business has been outstripping our capacity to process them. Not only has it grown dramatically but the characteristics of the flats have also changed. For instance there are now significantly more plastic wrapped articles than there were 3 years ago [in 1993]. Our current generation machines are deficient in a number of areas which has forced us along with many other overseas postal administrations to consider replacing the existing machines. Several possibilities exist, including new generation machines from companies such as Siemens, Alcatel and Mueller Martini. These latest generation machines have OCR reading capability as well as barcoding reading and printing ability. They can also sort flats 3 times faster than our existing machines*".

10. There has been no public follow-up statement or progress report to those project outlines of 28 February 1996. We do not know if Australia Post has further explored each of the 3 target areas which obviously were part of the program. A full and detailed statement should be required of Australia Post by the ACCC as to these matters. Australia Post has imposed a totally new regime on mail users (large and small) — *no barcode, no discount* — causing considerable investment of labour, capital expenditure and change in systems and has not itself met its own targets but wants a price increase nevertheless, a further imposition on mail users.

Productivity expectations from roundsorting, streeting and sequencing:

11. Australia Post states in its Draft Notification that it has been able to reduce labour costs from 65.4% in 1992 to 49.6% of total Letter Service costs, and compares its cumulative labour productivity growth of 67% to the Australian average of 28.7%. We hold that that latter comparison is misleading in that it fails to acknowledge the very poor state of [Australia Post labour] affairs that existed at the beginning of the process.
12. The fact is that a \$500 million project was launched with roundsorting, streeting and sequencing clearly stated as part of the promise of future gains thereby removing a major labour cost. Those projected gains have not been realised and until they are it is unreasonable to ask the Australian mail industry to pick up the difference in a price increase in the monopoly products.
13. MMUA is concerned that the reason for Australia Post not having achieved its objective of roundsorting, streeting and sequencing is union-based not technology-related at all. The ACCC should seek information on this matter from Australia Post and this should be made public.
14. If industrial relations issues are the reason for the non-achievement of roundsorting, streeting and sequencing we are concerned that if there were price increases from January 2003, any subsequent resolving of union objections to roundsorting, streeting and sequencing would be funded by the extra Reserved Services revenues thus achieved. The ACCC should include comment on this matter in its Statement of Reasons for reference in future proposals for Reserved Services increases.

Productivity expectations from the introduction of videocoding:

15. The anticipated *alpha-numerical extract coding which is required for delivery coding* referred to above as one of the stated 1996 objectives has not been achieved — the new videocoding only goes as far as postcode — clearly the productivity benefits of taking this down further are yet to be achieved and until they are it is unreasonable to ask the Australian mail industry to pick up the difference in a price increase in the

Productivity expectations from changes to Flats Business

16. Following a tender process that began at the end of 1996 and resulted in contract signing in October 1999, Australia Post and Siemens issued a joint statement (in June 2000) that advised the industry *inter alia*:
 - 16.1. *“... this extremely long time [i.e. end-1996 to October 1999] is explainable through the fact that Australia Post’s project team explored in detail its operational and technical requirements to ensure that the machines, once up and running, would fit perfectly into Post’s network.”*
 - 16.2. *“... the first [Flats (Large Letters)] Sorting Machines will be installed and commissioned in Sydney in early 2001. The FSMs will be able to process automatically the majority of Australia’s A4 flats mail, including plastic*

wrapped flats, magazines, newspapers, direct mail brochures, as well as foolscap size envelopes."

17. However, the fact is that as at this date, 6 years on from when the industry was first publicly advised of the changes ahead, and almost a year-and-a-half on from the trumpeted delivery date of the first FSM, the industry:
 - 17.1. still awaits delivery of all the machines ordered that were part of the original concept of the Barcoding Project's approval of some \$500 million budget;
 - 17.2. still awaits commencement of mail processing with them and achievement of the productivity gains — for the industry as well as Australia Post — that were envisaged in the original plan;
 - 17.3. still awaits the opportunity to discuss with Australia Post the final proposals for changes in the processing of PrintPost products, and finally
 - 17.4. still awaits implementation of the changes in the *Flats Business* that were part and parcel of the costings and savings for Australia Post envisaged in the Barcoding Project.
18. Whilst at first sight the *Flats Business* and *PrintPost* are outside the scope of the Draft Notification, they were an integral part of the costing of the Barcoding package of reform and should be taken into account in dealing with Australia Post's productivity claims comments. Those projected gains have not been realised and until they are it is unreasonable to ask the Australian mail industry to pick up the difference in a price increase in the monopoly products.

Productivity expectations from Australia Post's own projections — no completion, no price increase

19. In later presentations to our members during the 14 AP-MMUA Barcoding Workshops that were held in the lead-up to the introduction of "barcoding", one constant, proudly pronounced point made was that Australia was going to end up with a World's Best system that was not merely a patchwork quilt of other countries systems but one designed and built for our special needs. In other words, Australia Post set out on a course to build a system specific to Australia - it was obviously part of the business plan that led to the approval of the \$500 million project and until all of the projected gains have realised and it is unreasonable to ask the Australian mail industry to pick up the difference in a price increase in the monopoly products.
20. Given the failure to achieve the range of productivity gains envisaged in 1996, MMUA suggests to the ACCC that it question Australia Post regarding the FuturePost - Barcoding - Project to establish whether there were elements of *Gold Plating* attached to it which the Australian marketplace is now being asked to accommodate through increased postal prices.

Note: *Gold Plating* has been a problem in foreign privatised utilities. Return on capital investment is used as a regulatory measurement tool in many privatised utility industries (as well as Australia Post). In many of these industries, such as water, energy or post, volumes are generally static and product development difficult or impossible. As the stock market demands high performance year on year, these firms struggle to grow within their capital base. They therefore *gold plate* their capital base by acquiring property or technology. This increased capital base therefore justifies an increased profit.

The Postal Address File

21. The importance of the PAF (Postal Address File) cannot be overstressed in any

- consideration of Australia Post's Reserved Services use by major mail users and it needs to be considered when dealing with the Draft Notification.
22. MMUA is working constructively with Australia Post on PAF matters in a variety of ways to our mutual and commercial advantage and we have no criticism in the context of this response to the ACCC Issues paper on the manner in which Australia Post has handled this extremely complex area to date.
23. We do, however, wish to raise PAF in the context of the changes that were imposed upon the mail industry under the Barcode Project and
- 23.1. the still incomplete nature of it and its effect on the cost of postage to major mail users and our belief that there should be no Reserved Services pricing increase until Australia Post is able to provide a 100% matching within the AMAS system for every Australian address: a not unreasonable requirement to be placed on Australia Post in the light of its own requirement upon mail users to Barcode using the AMAS and PAF systems;
- 23.2. the deficiencies in rural areas in particular where the outcome of these deficiencies is that our members with Australian-wide customer bases are likely to be prejudiced after 1 July 2002 by not having full and proper access to all the Barcoding discounts available simply because of the geographic spread of their customer base:
- (a) is this not a contravention of Australia Post's legislated Universal Service Obligations?
- (b) and ought not special provision be made in the proposed pricing increases to provide **full discounts** for all mailers where the inability to achieve higher levels of Barcoded mail is because of Australia Post's own PAF deficiencies ?

Recommendation on *lesser productivity available claim*

24. Until such time as all the targets self-set by Australia Post in the early 1990s for that World Best system have been achieved:
- 24.1. one or more elements of them should not be unbundled from any consideration of price increases in another element - in today's instance the Letter Services.
- 24.2. It was a total package of change that was imposed on the Australian Mail Industry, a package that required massive changes and investments: a package driven relentlessly by Australia Post's mantra — *no barcode, no discount*.
- 24.3. and for Australia Post the criterion should be no less demanding — *no completion, no price increase*.

EFFICIENCY OF THE COST BASE, AND REASONABLENESS OF THE RATE OF RETURN

25. In addition to the comments made in the previous section relating to Productivity we turn to the ACCC's interpretation of sections 17(3)(a) and 17(3)(b) of the PSA and its intention that in the context of assessing price notifications it will direct its attention to certain matters, viz:
- 25.1. *the efficiency of the cost base that [Australia Post] is working from to earn a return:*
- 25.2. *the reasonableness of the rate of return that [Australia Post] is seeking:*
- and MMUA submits that the following matters should be part of the ACCC's examination of Australia Post.
26. The figure varies according to the teller but the early announcements on the matter by Australia Post was that some \$500 million of public funds was to be invested to establish a world class mail handling, processing and delivery capability. The substantial investment in barcoding technology and equipment to provide for electronic barcoding, mail sortation and processing logistics efficiencies was designed to drive change throughout the mail services industry consistent with the investment decision of Australia Post – at a significant investment (cost) to the mailing industry.
27. MMUA holds:
- 27.1. that the Draft Notification should have provided full disclosure on all elements of the investment decision that have an impact on the proposed price increases;
- 27.2. that as a Government Business Enterprise - one uniquely enhanced with a monopoly - Australia Post should be exposed to the rigours of normal commercial transparency and governance to demonstrate the effectiveness of its financial decisions to the market and key stakeholders;
- 27.3. that with \$500 million of the public purse committed, it is not unreasonable to expect Australia Post to be held accountable to report on investment decisions of this magnitude;
- 27.4. that as its decision required the Australian mailing industry to make parallel investment in technology and processing logistics to support Australia Post's FuturePOST direction, Australia Post as a monopoly services provider has a responsibility to the industry it serves and should be subject to full disclosure to justify its actions.
28. Further, we believe that the following questions should be asked by the ACCC of Australia Post:
- 28.1. What were the established financial criteria (quantum and time scale) that supported the original investment decision to proceed with FuturePOST?
- 28.2. What was the projected Net Present Value of the FuturePOST investment decision?
- 28.3. Of the identified savings, what was the split between savings through productivity improvements (plant utilisation, leveraging technology) versus cost savings.?
- 28.4. How do savings to date compare to original investment decision assumptions?

- 28.5. Within sub-point (1) above, labour savings through eliminating labour inefficiencies (union demarcations) were identified as a major part of meeting return on investment hurdles — the question therefore needs to be asked as to what extent have workplace changes taken place to ensure that maximum efficiencies of mail processing automation have been delivered to positively contribute to meeting ROI criteria?
- 28.6. Australia Post's original investment strategy was centred around achieving processing efficiencies through the maximum throughput of barcoded letters – hence the original plan to move towards 100% barcode compliance. In respect of the proposed price change, it undermines the original strategy by offering continued discounts on unlimited non-barcoded letter volumes. This poses 3 sub-questions:
- (a) Is the price rise "justified" to cover a poor investment decision in the FuturePOST strategy?,
 - (b) Is Australia Post's proposed decision to maintain discounts for unlimited non-barcode volumes, an admission that the original barcode compliance strategy was undeliverable?
 - (c) Is the price increase designed to "fund" the change in pricing to maintain discounts for non-barcoded volumes?

AUSTRALIA POST CLAIM TO JUSTIFY PRICE INCREASE — *it expects declines in volume growth rates*

29. MMUA has had some difficulty in coming to grips with Australia Post's comments in Section 5.1 (Letter Volume Trends) of the Draft Notification and seeks the ACCC's assistance in obtaining clarification.
30. The "in-depth analysis of letter volumes" of Diversified Specifics has been relied upon but is not provided in the Draft Notification and it is therefore impossible for MMUA to comment on Australia Post's reliance on what is an assumption that mail volume growth rates will decline: the report should be made available to the ACCC and as a public document for comment by interested parties.
31. In the meantime we wish to make the following general remarks from our reading of Table 3 (Five Year Growth Estimates) of the Draft Notification which:
 - 31.1. shows only one of the 3 quoted key letter segments in negative growth for the 5-year period- *Social Letters* which is only 13% of the total Letters volume
 - 31.2. Transactional Letters — the largest of all segments — is not projected into negative growth until the year ending 30 June 2005 and then the figure is minus 0.2%
 - 31.3. Promotional Letters — presumably AdPost users — are in growth over the entire 5-year period
 - 31.4. Total Letters do not drop into negative growth until the financial year ending 30 June 2007 and the figure is minus 0.5%

none of which hardly supports the supposition that a price increase is justified from January 2003 on the basis of falling Letter volumes which do not impact on Australia Post's monopoly-protected income until 2007!
32. Further, it is our impression that, putting aside the exception mail volume years of Calendar 1999 and Calendar 2000, *Total Letter* volumes in Calendar 2001 and Calendar 2002 are fairly consistent with each other and there has not been a drop in *Total Letters* over that period. If our impression is correct then we would argue against a price increase being approved on the grounds of a fall in volume in some future time particularly in view of Australia Post's own aggressive marketing of its e-commerce businesses that are in direct competition with its core mail business. This seems to us be a case of wanting to have one's [monopoly] cake and eat it too.
33. We accept the premise that in a changing world of communications Australia Post is exercising good business sense in pursuing e.business for itself. What we cannot allow to go unchallenged is a claim for Reserved Services price increases based on falling volumes (unproven) in 5 years time when:
 - 33.1. there is aggressive *cannibalising* marketing of Post's Non-reserved Services e-commerce alternatives to its Reserved Services core business ,
 - 33.2. and no marketing of note of the value of traditional mail.

IMPACT OF PRICE CHANGES

34. According to breakdown figures provided by Australia Post to MMUA (in the quarterly joint AP-MMUA Mailing House InterFirm Comparison):
- *Household Mail* constituted 13% of its total Letter Volumes for Financial Year 2001
 - *Bulk PreSort Business Mail*, 47%
 - *Non PreSort Business Mail*, 41%.
35. As previously stated, 15 of MMUA's Mailing House members participate in the InterFirm Comparison and those 15 mailing houses alone provided 77.58% of the total *Bulk PreSort Business Mail* which clearly indicates that *major mail users* - as distinct from *Small Business* - provide the largest portion of Australia Post's mail volumes. We find it intriguing therefore that in its examples of financial impact on its customers of the proposed increases (Draft Notification - para. 8.2.1(c)) - the annual impact on *Private Household* and *Small Business* users has been provided but no estimate for *major mail users* — or the impact on the AdPost users as a whole.

Paragraph 8.2.2(b) (The Market/Volumes) at Dotpoint 4

36. On the basis of the information provided to us by members, we reject the reasoning behind the statement in paragraph 8.2.2(b) (The Market/Volumes) at Dotpoint 4:
- 36.1. the example of postage being “30% of the total cost [of sending a letter]” is not accepted as a proper example to have been used.
- 36.2. It is true that postage is only one element of the cost of a mail pack but members state it is a highly significant proportion and in comparison with other elements such as printing where technology has been introduced and prices kept reasonable, the cost of postage has been increasing in total for many years;
- 36.3. What needs to be remembered is that for major mail users the multiplier of the large volumes involved make the proposal a significant increase in monetary terms;
- 36.4. and, in the case of AdPost users where the impact of the 2001 approved increases are still to be felt, Australia Post's hypothesis is vigorously opposed and the major mail users end of the direct marketing industry are very adamant in voicing a counter opinion to that of 8.2.2(b), Dotpoint 4.
37. As to the somewhat surprising claim that the postal price increase being sought is “unlikely to have a significant impact on the move to substitution, consolidation or rationalisation” nothing could be further from the truth: One of our members has summed it up for major mail users in the following terms:

“Since the introduction of FuturePost, my organisation has undertaken considerable work to change the way we do letters to fit in with Post's vision of the future. While the definable spend on this process has been outweighed by the savings to be achieved, there is, I believe, a hidden cost that may never be determined: background processes that need to happen to fit into the defined project tasks.

“Post's stick and carrot approach have driven/led us to the FuturePost fold. Just as we were looking forward to reaping the monetary benefits of this move, we are hit with a price rise, one which will probably raise our expenditure to pre-FuturePost levels.

"So what has FuturePost given us in savings? Only what the current price rise will consume in higher expenditure! That is a significant impact.

"Alternative Channels

"While the 'paper channel' provides a well known and reasonably efficient method of communication with our customers, it is a relatively expensive method. Some investigation has already been undertaken by my organisation into the use of electronic communication with our customers. New and emerging technology in electronic communication, together with the increasing costs of the paper channel, will inevitably lead to increased utilisation of alternative methods. The proposed price rise, I believe, will give impetus to this process."

38. According to our members, Australia Post is wrong to have MADE the assumption under comment: costs are a major element of the transfer across to e.technology, not the only consideration but nonetheless, a major one.

AdPost

39. According to the advice given to us by our members who have a *direct marketing* use of the mail, the impact of the changes will be too large to be simply absorbed. They do not have the option of simply increasing their Postage Budget to accommodate the increase in prices and they have predicted that there will be a reduction in mail use.
40. A reduction of mail use has flow-on effects in all of the support industries supplying goods and services and that in turn impacts on investments made and employment — whilst these elements are present in all mail users groupings in relation to the proposals of the Draft Notification they are particularly noteworthy for the *AdPost* users.
41. The 2001 changes to AdPost pricing - which do not fully come into place until 1 January 2003 - were dealt with without any knowledge of Australia Post's proposals of this current Draft Notification. We hold that they are related issues and Post should have revealed these latest intentions - in detail - to the ACCC last year when its Notification on AdPost Pricing was being dealt with.
42. As we have pointed out elsewhere in this submission we wish to see the promises outlined throughout the Barcoding Project's development examined in-depth as part of the ACCC's process: the freeing-up of the mail to allow for greater use of *creative* initiatives in direct marketing has not materialised and, in fact, the opposite has come to be.
43. We have been kept advised during its preparation of the submission lodged by the Australian Direct Marketing Association and of its intention to cover *inter alia* a detailed impact comment on the direct marketing industry of the Draft Notification's proposals. We have therefore restricted our coverage of AdPost matters to the broader issues of principle of this submission as a whole.

Aggregation

44. The closure of GoMail, the only aggregator operating in the open marketplace is a major loss to the industry but it raises the question of the use of monopoly powers in the setting of postal prices referred to in the ACCC's draft *Statement of Regulatory Approach to Price Notifications* and the s17(3) reference of the Prices Surveillance Act which requires the ACCC to have regard to the need to discourage a person who is in a position to substantially influence a market from taking advantage of that power when setting prices.

45. At the initiative of the Federal Government the scene was set in 1998 for the development of an aggregation industry but the non-adoption of the recommendation of that year of the National Competition Council for the removal of section 32 of the *Australian Postal Corporation Act* (the section that gives Australia Post the right to impose its own terms and conditions upon which its service can be supplied) left the emerging Aggregation industry to the mercy of Post's terms and conditions.
46. The growth of GoMail's aggregation business which by February 2002 had an annualised volume run rate of +/- 170 million showed its value to the mail industry. Its customers took in mid-size to the top-end users and covered varying industries such as banking, financial services, insurance, education, telecommunications, public utilities, federal and local government.
47. Australia Post treated Aggregation as a discrete processing and delivery channel and imposed specific conditions under its section 32 powers but when it released its document *Barcode. A Way of Life by July 2002* it ignored Aggregation as one of the options open to mail users to obtain Barcode discounts notwithstanding the fact that using an Aggregator to process one's mail met the criteria set out in the document to achieve discounts.
48. No explanation has been provided to the industry as to why this legitimate, Federal Government initiated industry, was excluded from the document. MMUA believes that the issue is germane to dealing with the Draft Notification because it raises a concept of whether or not Australia Post in using the powers given to it within the Reserved Services legislation is duty bound to exercise some form of Duty of Care to the industry it serves, and the various elements within it. As a statutory monopoly surely it is reasonable for the industry to expect that Australia Post has a legal Duty of Care to ensure (in this instance of the document under consideration) to ensure that all industry issues, options and solutions are evenly represented so as not to mislead or deceive the reader to which the document is directed?
49. To move that contention on to the Draft Notification, MMUA holds:
 - 49.1. that a monopoly power does have a wider responsibility to the industry it serves and that Duty of Care is an element of that responsibility;
 - 49.2. that the operating margins currently available to Aggregators should be preserved within any future pricing proposalsand seeks the ACCC's opinion on these matters.
50. It is also our contention that not only Aggregators should be embraced by a Duty of Care when considering changes to the — monopoly — Reserved Services prices: all other sectors of the Australian mail industry who are dependant upon Australia Post systems, network and services should be included as well.
51. AP's reasoning for pricing Clean Mail in relation to its assessment of the impact it would make on the Aggregation market should be requested, and the question asked if this is not an example of inappropriate use of dominant market power?

THE DIRECTION OF AUSTRALIA POST'S BUSINESS MODEL

52. Over a period of time Australia Post has carefully repositioned itself to grow a range of e-commerce offerings stating that its strategy is to defend and extend its core business while becoming a leader in both substitute and growth markets, leveraging its core competencies and infrastructures.
53. Australia Post states that its primary objective is to provide a high-quality, on-time, affordable and reliable mail service to all Australians, regardless of their location, while operating commercially. For that objective, of course, it has been granted unique marketplace privilege — a monopoly — a monopoly to feed it with Reserved Services revenues and security of business .
54. We question whether the intention of the monopoly was also intended to be used for the development of the other business activities, competing in the marketplace with companies that do not have the benefit of a monopoly-provided “core competency and infrastructure” from which to lever.
55. We acknowledge that that point is not an argument in this matter, nevertheless arising from the more specific issue of the use by Australia Post of its Reserved Services revenues, core competencies and infrastructures:
 - 55.1. we hold that for accounting (and pricing increase) purposes they should be dedicated to Reserve Services products - any other use of them to be properly accounted for and Reserved Services credited for such use;
 - 55.2. we suggest to the ACCC that in this current pricing increase proposal, segmented accounting reporting requirements should be placed upon Australia Post to account for the degree of dependency and inter-dependency between Reserved Services and the Non-Reserved Services e.business and other business activities.
56. International experience has shown the risk of Post Offices failing to recognise the revenue importance of the core business. We believe that Australia runs the risk of seeing the hastened withering of Australia Post's core business by this proposed adoption of a *Volume Down-Price Up* solution which in turn will see another *Volume Down* - will that be answered too by *Price Up*? This will not only impact major mail generators through price, but risks a radical shake-up within the Australia mail industry as a whole such as occurred in the UK, a disturbance which can be expected to affect the ability of many of our members to meet customer expectations.
57. By the same token, we believe that it is only appropriate that since Australia Post states it has been leveraging its core competencies and infrastructures - gained from the monopoly - that it should follow that as part of any Notification for pricing increases of Reserved Services, the true financial value of such leveraging to benefit and/or build up Non-Reserved Services activities of Australia Post should be factored into the calculations on which the justification for the Reserved Services price increase is based — that has not been done in this Draft Notification and it should be required of Australia Post that it be done.
58. We hold that in this Draft Notification process Australia Post should be asked by the ACCC to outline the future direction of its business model so as to determine if diversification has impacted on Australia Post's core business, or indeed will impact its core business leading to the request for price increases.
59. As an example of why we believe the ACCC needs to take this action: it is believed that the promotion of POSTBillPay by Australia Post directly reduces the volumes of letter mail. The proposed increase in letter mail prices will only expedite the transition to electronic communications. Since the announcement of the proposed price increases some individual members have drawn together internal workshops to begin developing strategies for consolidated and electronic mailing. Research has

shown this to be the case in the USA, particularly among publishers and direct marketing. Furthermore, according to GartnerG2 analyst Kenneth Kerr, postage price increases will make email an even more prevalent method of communication and will also boost the popularity of on-line billing. Kerr says, "At a time when costs are being closely watched, all companies should see mail rate increases as one more reason to re-examine the speed with which they are proceeding with their electronic bill and statement delivery efforts".

60. Australia Post has undertaken very little, if any, marketing activity to protect its core business of mail — in direct contrast with its extensive media campaigns relating to its non-core businesses. We believe it is appropriate for the ACCC to require Australia Post to spell out its intentions in this *falling volumes* market before it grants the simple solution sought by Post of increasing prices.

END