



# POAAL

Post Office Agents Association Limited  
A.C.N. 006 382 314

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30 April 2010

Mr. Anthony Wing  
General Manager—Transport and General Prices Oversight  
Australian Competition and Consumer Commission  
GPO Box 520  
MELBOURNE VIC 3001

postalservices@acc.gov.au

Dear Mr Wing,

## **Australia Post's application for an increase in postage**

Thank you for the opportunity to comment on the draft issues paper related to the application by Australia Post for a price increase for a range of postal services.

POAAL supports the proposal by Australia Post for price increases in its reserved postal service and the quantum for which it has applied.

Our detailed comments on the issues in the Commission's paper are attached.

Should the Commission wish to clarify any of our comments or to seek further information that may assist its deliberations, POAAL is available for that purpose.

Yours sincerely,

Ian Kerr  
CEO



# POAAL

Post Office Agents Association Limited

*Submission to the*

Australian Competition and Consumer  
Commission

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Australia Post Draft Price Notification  
Issues Paper

## **Post Office Agents Association Limited**

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## **Preliminary Comments**

POAAL offers its view on the application by Australia Post for a price increase in its role as the trusted and experienced industry body which protects, preserves and promotes the business interests of its members.

The small business people that operate Licensed Post Offices and Mail Contractors provide an important front-line insight into the operations of the postal service in the diverse communities they serve.

POAAL supports the proposal by Australia Post for price increases in its reserved postal service.

Australia Post has an enviable record of improvement over a sustained period and has over many years adopted a measured and conservative approach to its pricing proposals.

It continues to face significant challenges of delivering a universal postal service across a vast continent especially in the face of clear evidence of major structural change to the communications sector.

Furthermore, Australia Post meets stringent Community Service Obligations, with the assistance of Licensees and Contractors who perform the bulk of Australia Post's acceptance and delivery of mail services in rural Australia.

In the absence of volume growth it is difficult for Australia Post not to seek price increases to offset its growing costs.

Australia Post has previously acknowledged that it needs to seek alternative business growth opportunities, in part to obtain growth and in part to replace the revenue expected to be lost from declining volumes of hard copy mail – and possibly parcels – especially in the domestic market sector it presently dominates.

It has also acknowledged the need to bring forward planned productivity improvements available from its existing investment in technology and the enterprise bargains it makes with its employees.

It is evident that these measures are now being pursued more vigorously than in the past. These measures take time to be effective and some interim relief by way of a price increase is reasonable.

The ACCC seeks comments on the efficiency of Australia Post's costs of providing its reserved letter services.

- What are your views on the efficiency of Australia Post's cost base, in particular its operating costs?
- Do you consider that Australia Post's price notification demonstrates that it has *fully* exhausted cost-based responses to its expectation of declining letter volumes? If you do not consider that Australia Post has fully exhausted cost-based responses, to what extent do you think it has done so?
- What are the areas where Australia Post is able to reduce its costs, while still meeting its CSOs and performance standards?

Australia Post states that its main cost driver is the growing number of delivery points. While the majority of these occur in urban areas, reflecting the population's move from regional areas to the more densely populated areas on the coast, there remains significant costs associated with regional and rural mail delivery. Road infrastructure problems and low population densities in these areas creates an expensive service format. As identified in Australia Post's own commissioned studies, customer density also has a material impact on productivity.

In principle it could be argued that none of an organisation's costs are fixed in the long term. Other postal operators, especially those subject to commercial demands, have explored alternative delivery options for "the final mile".

For instance the delivery box suite concept used in new urban areas by Canada Post. Mail is delivered to a group of letterboxes at the end of the street rather than to every household. Other postal administrations have examined means of varying delivery schedules where mail volumes don't merit every day delivery either permanently or seasonally.

Australia Post has recently announced that it will be piloting some of these opportunities in new housing estates in Australia. However, many of these reforms are also dependent on managing the community's current service expectations and the conservative attitudes of the community around changes to postal delivery and access to postal services. This is especially the case in regional and rural areas where its service obligations are greatest and where changes driven by financial considerations alone would have the most deleterious effect.

The use of mechanised support for delivery staff and the opportunities from its investment in letter sorting equipment in mail centres give Australia Post the opportunity to maintain its momentum with productivity reform.

A more flexible workforce would enable variations in staffing around seasonal volumes and any downturns that occur in the economic cycle. Again these need to be progressively adopted to ensure that Australia Post does not jeopardise the retention of its skilled labour force during the transition phases of reform.

While these measures and their impact have not been spelled out in detail by Australia Post, it is evident that the organisation is intent on bringing these and other reforms forward and pursuing them with more vigour, especially in response to the unexpected and now permanent structural changes to the communications sector driven by the global financial crisis.

It should be noted that Australia Post already receives maximum value from Licensees, Franchisees, Contractors and Agents who are unable to automate their individual services.

It is unreasonable, as the Commission's question may imply, to suggest that no price increase is available to Australia Post until all its productivity measures have been implemented and the benefits harvested. This would not be consistent with commercial practice or reflect the reality of the transition period required to win community and labour support for change.

The ACCC seeks comments on Australia Post's proposed FDD program.

- Are the key elements of Australia Post's FDD program appropriate? Are there other projects that Australia Post could implement to reduce its costs and improve the efficiency by which it provides reserved letter services?
- Do you consider the pace of Australia Post's current level of implementation of technological change (such as automated letter sequencing) is adequate?
- Will the FDD be effective in constraining growth in Australia Post's operating expenditure over time?

The Future Delivery Design (FDD) program sets out previously identified measures regarding greater flexibility with staff and the exploitation of the sequencing capability of its existing letter sorting equipment. These are to be encouraged. The Australia Post submission also draws the Commission's attention to the reducing proportion of labour used compared to the past.

It would be reasonable to question whether these reforms have gone far enough and whether or not the productivity improvements are sufficient for the additional reward given to staff.

Taken on a global level, however, it is evident that Australia Post has been serious about reform. By any reasonable comparative measure it performs well against international benchmarks. It has demonstrated a conservative approach to price increases over more than a decade and achieved rightful acclaim from other postal administrations for the example it has set on the nature and extent of its reform.

The study submitted by Australia Post in its 2009 application suggests that customers have benefited by 180% of the value of productivity gain.

On the other hand contractors, especially Post Office Licensees, have had a substantial part of their reward tied to the fixed price of postage over many years. In effect they have had real decreases in their payments while contributing significantly to service and cost improvements. They have undertaken more of Australia Post's work for without additional commission. Mail contractors have until more recent times had to bear the cost of significant fuel increases and new tasks that improve value for Australia Post and its clients but impose additional costs for no reward.

A price increase on standard postage will provide an appropriate reward for post office licensees and mail contractors whose significant and sustained effort has delivered productivity improvements enjoyed by Australia Post and the community.

## **Conclusion**

In the light of Australia Post's past performance and its future commitments, credit needs to be given for its determination in undertaking reform and for its judgement in applying the pace of this change while successfully managing the community's expectations and needs.

Under these circumstances the organisation's FDD needs to be given the opportunity to be applied and the results progressively evaluated. We doubt that any other organisation has the judgement or the knowledge necessary to make radically critical assessment of the program at this stage.

From our assessment the FDD represents a serious and continuing commitment by Australia Post to reform which has been renewed by its new administration. It is reasonable that this be accepted and the Commission and the community monitor its progress.

An increase in the basic domestic postage rate is justified.