

7 July 2011

The Manager  
Postal Strategy Unit  
Consumer Policy & Post Branch  
Department of Broadband, Communications and the Digital Economy  
GPO Box 2154  
CANBERRA ACT 2601

Dear Sir,

**Re: Review of Prices Surveillance of Australia Post's Reserved Letter Services**

Please find attached a submission from the Printing Industries Association of Australia (*Printing Industries*) in relation to the above review.

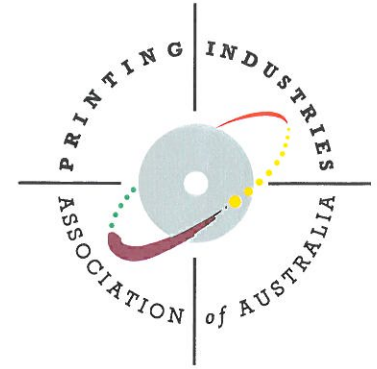
**Background to the Association**

*Printing Industries* represents some 1800 companies across Australia. It is the peak advocate and support organisation for businesses in the print, packaging and visual communication industries. The industries the organisation represents have a presence in every region of Australia making it a truly national body.

The Association is an independent, member-based body, representing large, medium and small businesses with a history that dates back to the late 19<sup>th</sup> Century. Membership covers all imaging and communication sectors. These include print, prepress and design, publishing, distribution, software and hardware, paper and paper board, print consumables, packaging and flexible packaging, paper converting, binding and finishing, communication and media services.

Over the last decade the industry has undergone significant change and the number of businesses has declined significantly. Further rationalisation is anticipated as operators come to grips with the role of print in the digital age.

Despite the industry consolidation, the industry we represent continues to make a significant economic contribution to Australia. According to the latest industry data the industry's value chain generated sales of more than \$33 billion in 2008-09 including more than \$14.7 billion in gross value added; employed more than 119,000 people and invested more than \$2.3 billion in capital expenditure.



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*Printing Industries* is working with its members to assist them respond to the many challenges facing the industry and adjust their business models to take account of different market conditions and changing customer needs. This aims to ensure that printing and its associated activities remain a key component of the Australian manufacturing and service sectors especially in regional communities.

*Printing Industries* has an interest in the current review because it represents members who:

- (i) are directly involved in the provision of bulk mail services
- (ii) produce printed material associated with bulk mail.

### **Our Understanding of the Review**

Australia Post has the exclusive right to collect, carry and deliver letters within Australia that (subject to exceptions) weigh not more than 250 grams. These statutory monopoly services, along with the right to issue postage stamps, are termed Australia Post's 'reserved services'.

Australia's reserved letter services are notified services (and Australia Post is a declared person) under the prices surveillance provisions of the Competition and Consumer Act 2010 (the CCA). This means that Australia Post must notify the Australian Competition and Consumer Commission (the ACCC) if it proposes to:

- increase the price of a reserved letter service
- introduce a new service that would fall within the definition of reserved letter services
- provide an existing reserved letter service under terms and conditions that are not the same or substantially similar to the existing terms and conditions of that service.

This scrutiny by the ACCC is intended to promote efficient pricing and consumer protection where there is reduced competition.

Other letter services—used mainly by businesses, government agencies and not-for-profit organisations—are generally offered at prices lower than those of equivalent ordinary letter services.

The government is considering whether prices surveillance should focus on the ordinary letter service (which includes the basic postage rate) and discontinue for other letter services which are priced below these rates or for which special conditions apply.

The proposal would enable Australia Post to set the prices for discount letter services without reference to the ACCC. Postage rates for ordinary letter services, including the basic postage rate, would remain subject to ACCC scrutiny.

*Printing Industries* notes that the Discussion Paper suggests that the rate for ordinary letters would “effectively operate as ceilings” and other letter services would “generally be priced

below the equivalent ordinary letter price". This assumes that if the rate for other letter services moved beyond the ordinary letter rate then a user would merely cease to use other mail categories and send all mail as ordinary letters. This would be unfair because it fails to acknowledge that current discounts are generally the result of the efficiencies that have been generated by users of other letter services.

The removal of ACCC surveillance would allow Australia Post to increase price without factoring in the value of these efficiencies.

## **Issues to Consider**

### The Need for Change

It is unclear whether the justification for the proposed change proposed change is due to changing market conditions or the time taken by the ACCC to respond to applications for price changes.

The Discussion Paper indicates that the physical letter market has changed substantially over the last two decades and there is now considerable and increasing competition to letters from digital communications, such as email and social networking websites. As a result, the domestic reserved letter services made a loss of \$127 million (excluding restructuring provisions) in 2009–10, following a decline of 5½ per cent in volume from 4.1 billion items in 2008–09 to 3.9 billion items in 2009–10.

However it does not analyse the reasons for this decline in any depth and how Australia Post has responded. *Printing Industries* believes that such a significant proposal requires consideration of a broader range of factors such as: what other means of communication are being used instead of mail, what is the breakdown in the decline of reserved services between ordinary letters and other letter services, what evidence is there that that Australia Post is operating efficiently and introducing innovative solutions to changing circumstances ?

The document **Price notification for bulk letter services Preliminary view** prepared by the ACCC in response to a recent referral by Australia Post can be used to highlight flaws in how Australia Post determines costs and the benefits of external scrutiny of monopoly providers. While the ACCC supported a price increase and found that Australia Post was likely to under recover its costs across reserved services its estimate was substantially less than the figure submitted by Australia Post. The report indicated:

*Financial information submitted by Australia Post that includes additional revenue from the proposed price increases indicates Australia Post would under-recover across reserved services as a whole by \$195 million in 2011-12 and by \$" million in 2012-13. On the PreSort letter services alone, Australia Post submits that it would be making an operating loss of \$33 million in 2011-12 even after the proposed price increases are implemented.*

*Although the ACCC accepts Australia Post's claim that it is under-recovering using current cost allocations, Australia Post's estimates may overstate the under-recovery of efficient costs. The ACCC's sensitivity analysis shows that Australia Post's underrecovery for reserved services could be closer to \$21 million in 2011-12 and \$" million in 2012-13 under alternative assumptions regarding the WACC, efficient costs, volume mix between Regular and Off Peak, and price elasticity of demand.*

Despite the drop in mail usage and financial losses Printing Industries does not believe that sufficient evidence has been provided to justify the proposed changed based on changing market conditions. There is further scope for efficiencies to be achieved by Australia Post in the reserved letter area and these should be explored prior to changing current arrangements.

We also note that Australia post has developed a digital services strategy. *Printing Industries* is concerned that the removal of price scrutiny could see Australia Post extract higher than normal revenue from its "other mail services" in the short term in the knowledge that it has alternative income streams if other letter services become uncompetitive in the future and effectively it out of existence.

#### The ACCC Surveillance Process

The second issue that the Discussion Paper uses to justify the proposed change is that ACCC prices surveillance processes can be time-consuming—the ACCC took approximately five months in 2008 and 2009 to consider price notifications—and reduce Australia Post's flexibility to respond to market changes and opportunities.

*Printing Industries* believes that if the issue of concern relates to the time taken to consider and approve price increases then the first step should be to address this matter other than do away with what is generally accepted as an important element in the control of monopoly providers – third party oversight.

We note that in the Price Notification for Bulk Letter Services Decision, June 2011 that the ACCC and Australia Post agree that *"the current approach to assessing prices, including the allocation of costs, needs to be re-examined and this needs to occur before another major price notification.* (Page 5)

We also note the ACCC comments regarding assessment on page 4 of this document regarding the assessment process.

*The price notification process provided for in subsection 95ZB(1) of the CCA provides a period of 21 days for the ACCC to form a view in relation to the proposed price increases. This period of time is not sufficient for the ACCC to give proper consideration to the complex issues presented in the assessment of a proposal to increase the prices of a firm with a high degree of market power.*

*The ACCC has established a process, outlined in its Statement of Regulatory Approach*

*to Assessing Price Notifications, which facilitates the ACCC's consideration of the issues raised in complex matters. This process involves the provision of a draft price notification for the ACCC's consideration prior to submission of a formal price notification under section 95Z of the CCA.*

*The ACCC takes a consultative approach to its assessment of price notifications. Specifically the ACCC sought the views of industry and consumer stakeholders in relation to Australia Post's draft price notification following both the release of the ACCC's issues paper and its preliminary view.*

*Printing Industries* believes identifying ways to expedite the review process without undermining its integrity should be considered prior to any further consideration of the removal of the obligation of Australia Post to refer price increases for reserved services to the ACCC.

Currently Australia Post does consult with key stakeholders in the development of proposed price increases. *Printing Industries* experience has been that this consultation has been constructive and often led to changes in the position of Australia Post on a particular matter. However it must be remembered that this consultation is a component of an approval process that ultimately culminates with a referral to the ACCC. Consultation with stakeholders will be a factor in reviewing any application.

It is unclear if Australia Post will continue with the same level of consultation if the obligation to refer price increases to the ACCC is removed.

### **The View of *Printing Industries***

The current scrutiny by the ACCC is intended to promote efficient pricing and consumer protection where there is reduced competition. *Printing Industries* believes the circumstances relating to these objectives still remain in relation to Australia Post other mail services.

Despite the emergence of new forms of electronic communication it is acknowledged that printed material will remain an important part of the multi channel communication world of the future. Included with our submission is a publication Open up to Mail prepared by Australia Post which outlines six reasons why targeted mail delivers benefits to business. These are summarised in Attachment 1.

The success of this channel is heavily dependent on cost effective delivery arrangements. There is a view in the industry that the full potential of this channel is being stifled because of the cost of current Australia Post arrangements.

Removal of ACCC scrutiny may undermine the long term viability of direct mail by enabling Australia Post to use its monopoly power to introduce excessive price increases or fail to take account of available efficiencies. This would damage the viability of this communication channel, impact on consumer choice and unfairly reduce demand for the printed material that is part of this process.



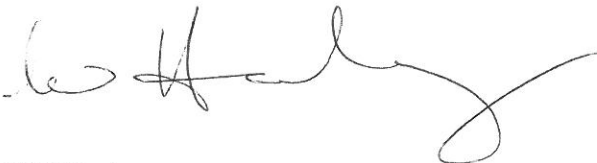
If, as suggested, the circumstances around which Australia Post was given the exclusive right to collect, carry and deliver letters have changed significantly over recent years then the removal of price scrutiny is only one element of the change required. It may be timely to consider whether Australia Post's monopoly in this category of mail should continue. Any removal of ACCC scrutiny should therefore be accompanied by an opening of the market for the carriage of other reserved services.

*Printing Industries* therefore believe that:

- (i) ACCC surveillance of other letter services should be retained
- (ii) The justification for the proposed change is the current time taken by the ACCC to process applications for price increases. The ACCC and Australia Post should therefore review the application process including the current approach to assessing prices, including the allocation of costs. This should be done before another major price notification approach
- (iii) If the Government decides to remove the ACCC surveillance then Australia Post should lose its exclusive right to deliver "the other letter" category of reserved mail.

Please contact me on 0419627693 if you would like further information.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Bill Healey', with a long, sweeping flourish extending to the right.

Bill Healey  
Chief Executive Officer.

## Attachment 1

### SIX REASONS WHY MAIL DELIVERS MORE FOR YOUR BUSINESS

#### 1. THE CHANNEL MORE CONSUMERS PREFER

Despite being presented with an ever-increasing number of communication channels, research has found consumers still show a clear preference for receiving information from businesses by mail.

#### 2. MAIL GETS MORE PEOPLE READING YOUR MESSAGE

According to the latest figures from Roy Morgan Research, 71.7% of addressed promotional items received by households in the last 7 days were read, kept or passed to someone else.

#### 3. RELEVANCE IS THE KEY TO ENGAGING CUSTOMERS

More than ever, consumers today are bombarded with marketing messages. That's why targeting your message and choosing the right channel are crucial to success.

#### 4. LESS CLUTTER – MORE OPPORTUNITY TO CUT THROUGH

Australian households receive an average of just 1.9 addressed promotional mail items per week. This represents a huge opportunity for marketers to take advantage of an uncluttered channel to ensure their message reaches their target.

#### 5. GET MAIL AND DIGITAL WORKING TOGETHER

Whilst mail is still the most preferred channel for communication, recent independent research by Open Mind Research Group has shown that a large percentage of people also prefer a combination of both mail and email.

#### 6. MAIL GETS ATTENTION AND RESPONSE

It is critically important for marketing efforts to drive response. The potential of mail to cut through the clutter makes it one of the most effective ways to achieve this. Consider these facts from a recent research study:

- Mail was nominated as the channel that consumers are more likely to spend time reading
- Mail is the channel more likely to grab attention
- Mail makes people feel more valued
- Mail is the channel that makes people do something as a result.

Source - Open Up to mail – An Initiative of Australia Post