



Australia Post's Response to Public Submissions

13 October 2009

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1. INTRODUCTION

This document has been prepared by Australia Post to provide the Australian Competition and Consumer Commission (ACCC) with responses to issues raised in public submissions to the ACCC Issues Paper. The focus of this document is on those issues that relate to the ACCC's consideration of Australia Post's *Draft Notification* of July 2009. Responses within this document include information that is consistent with information provided within the draft notification and Australia Post's *Response to Issues Paper* of September 2009.

The aim of this document is to assist the ACCC in its consideration of the draft notification by providing a combined response to the issues raised in the public submissions. At the time of preparing this document the following submissions had been made to the ACCC:

- Australian Direct Marketing Association (ADMA)
- Post Office Agents Association Limited (POAAL)
- Fundraising Institute Australia (FIA)
- Printing Industries Association of Australia (Printing Industries)
- Remington Direct
- Westbury LPO, Tasmania
- W Anderson, Victoria
- A Heaney, Victoria
- T Browning, Victoria
- The Smithfield Stamp Club Inc, New South Wales
- Nicholas
- G Kierans, New South Wales
- Hon B Such, South Australia
- B Ho
- Caled Containers, Tasmania
- L Smith, New South Wales
- M Mills, Tasmania

In preparing this document, issues raised in the public submissions have been:

- summarised or posted as a direct quote from the original submission (typographical errors in the direct quotes have not been corrected); and
- grouped where similar (for readability).

2. PRODUCTIVITY

2.1 Productivity Performance, Reporting and Comparison

Hon B Such (page 1)	Wants to know 'What efficiency gains has Australia Post made?'
Westbury LPO (page 3)	Notes that over the past several years Australia Post has generated a very generous dividend to its shareholder; compares this to Licensee commissions.
ADMA (page 2)	'the ACCC should continue to monitor and put pressure on Australia Post to continue to reduce its costs'
ADMA (page 5)	Supports Australia Post's initiative to commission the internal benchmarking study.
POAAL (covering letter)	Australia Post '...has an enviable record of improvement over a sustained period' and 'Australians across all sections of the community have been the beneficiaries of its performance.'
POAAL (page 5)	Accepts the growth in delivery points over the past few years but believes that the majority of this growth is in urban areas.
POAAL (page 7)	Contrary to the studies commissioned by Australia Post that shareholder has 'fared worse in the share of productivity the organisation has produced' POAAL believes that 'when taxes statutory charges, dividends and special dividends are taken together the major beneficiary of Australia Post's past performance appears to be the Government.' - Suggests this needs to be seriously examined.
POAAL (page 8)	In reference to the Productivity Dividend study – '... suggests that without more reward for the Government, Australia Post will not be 'motivated' to make capital investments to sustain its statutory obligations.'
POAAL (page 8)	With respect to the sharing of past productivity gains – questions whether Australia Post has gone far enough and 'received sufficient productivity improvements for the additional reward staff have been given?'
POAAL (page 9)	Believes that in addition to mail and customer density issues, differences related to delivery mode are likely to impact efficiency eg heavier reliance on motorised transport.
POAAL (page 9)	Notes that Australia Post's TFP performance against other postal administrations and against its own performance over time '...is quite impressive.'
POAAL (page 10)	Is supportive that the recent review of productivity included some calculated input of Licensee labour.
POAAL (page 10)	'...many of the non-labour factors have a small influence especially in comparison to labour and should not be used to deny the Australia Post price application.'

Australia Post refers to the draft notification and the independently researched and prepared Economic Insights Reports that provide the detail and evidence regarding Australia Post’s productivity achievements over time.

As we noted in Section 5 of our response to the ACCC Issues Paper, the international benchmarking study provides a valuable source of information in reviewing the relative performance of business within the same industry. It is our intent to update this study in the future. Although we would note that benchmarking studies of this type – a number of users across different countries – can be difficult to undertake as participants typically report upon their business differently and may have specific reasons (eg confidentiality) why they may not wish to participate.

In regards to the comment on shareholder dividend, Australia Post considers that the payment rates for licensees and contractors are fair and reasonable. As with all suppliers, payments to licensees and contractors take precedence over those to the shareholder. Dividends to the shareholder and taxes paid to the Commonwealth depend on the profit remaining after all payments to suppliers have been accounted for. Sections 38, 54 and 55 of the APC Act contain specific requirements regarding Australia Post’s dividend obligations. Australia Post currently has a dividend payout target of 75% of post-tax profit; this target was set several years ago following a benchmarking exercise of large listed Australian companies.

2.2 Future Productivity

Hon B Such (page 1)	‘Technology available to Australia Post should bring about cost savings.’
B Ho (page 1)	‘...the advances in technology should allow cheaper delivery of local mail, not more expensive.’
PIAA (page 3)	Suggests that Australia Post should seek improvements in operational efficiency and invest in new technology rather than by raising prices for its services.’
POAAL (page 1)	Does not believe incentives and penalties will create further pressure for Australia Post to improve productivity. Instead, supports the current ACCC assessment process as being the appropriate process to determine merit for price increases.
ADMA (page 3)	Supports the introduction of a reward structure for Australia Post reducing its costs.
POAAL (page 5)	Notes that one argument could be ‘that none of an organisation’s costs are fixed in the long term.’ Points to initiatives such as the introduction of box suites into new urban areas (Canada Post) and the exploration of options of varying delivery schedules on a permanent or seasonal basis.
POAAL (page 12)	References that in Australia Post’s last price notification ‘all interested parties’ provided comment on ‘the unrealised potential in Australia Post’s productivity’ and wants the ACCC ‘...to ensure that price rises do not provide a disincentive for these opportunities to be pursued.’
POAAL (page 12)	For this notification, wants ‘...Australia Post to outline the initiatives other than price increases that will be used to achieve improved performance.’

Information on the programs that support Australia Post's productivity initiatives is at section 11.3 of the draft notification; with more extensive detail on the Future Delivery Design (FDD) program at Appendix 17 of the notification.

As noted in the draft notification the circumstances relevant to Australia Post are that:

- volumes in the domestic reserved letter service declined last year (2008/09) and are expected to continue to decline, albeit at a lower rate, over the next three years; and
- it is difficult to imagine any organisation with a resource elasticity of 100%, ie can completely offset any volume losses by equivalent cuts in resources. Specific to Australia Post, regardless of volume losses, linkages within the Australia Post network need to be maintained, and the posties have to cover the same delivery round – eg the delivery distance doesn't change just the amount of mail being delivered to each delivery point. In other words, a great deal of resource usage in any corporation can be fairly volume invariant. In our case, the community service obligations and the associated prescribed performance standards further fix the resource base.

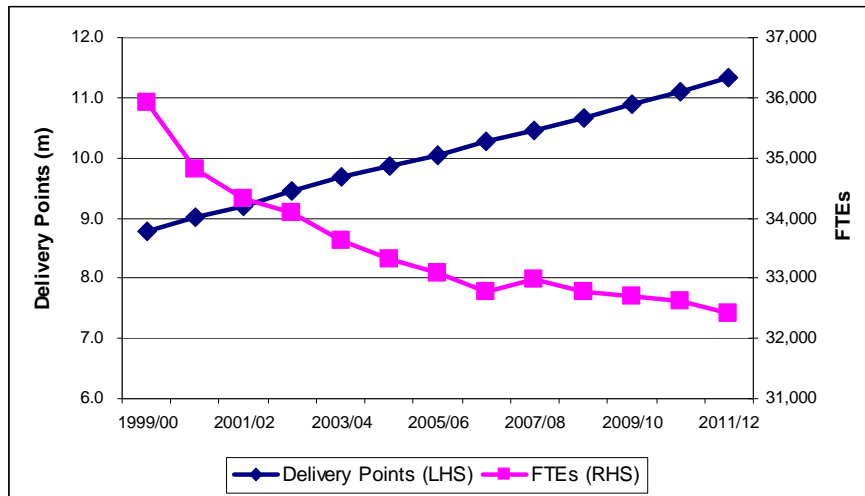
What this means for Australia Post is that no matter how productivity is measured, eg on a total or partial factor basis, the measured productivity must arithmetically fall, even though the organisation has realised all of the cost savings available to it.

An additional non-volume factor in our TFP outlook is that certain infrastructure assets such as IT are scheduled for replacement. Combining this increased investment with the implementation of required network initiatives such as FDD means we will see an addition to the capital resource levels.

For these reasons, our draft notification examines the cost base for its potential to be managed downward. Section 9 of the draft notification explains the various initiatives undertaken and their results. Examples include:

- sustained reductions in labour numbers, despite growth in non-reserved parts of the business and the additional resource demands imposed by the continued increase in the number of delivery points (around 200,000 per annum as illustrated in the following Graph);

Graph 1 – Growth in delivery points



- careful management of labour costs since 1987/88, where, as shown in the following table, it has steadily reduced as a proportion of total costs from 71.1% to 47.4% in 2007/08; and

Table 1 - Labour costs as a % of total costs

Financial Year	Labour costs as a % of total costs
1987/88	71.1%
1992/93	64.7%
1997/98	57.7%
2002/03	49.3%
2007/08	47.4%

- within the domestic reserved letter service labour numbers are forecast to reduce as follows.

Table 2 - Labour costs as a % of total costs

Financial Year	Labour numbers – domestic reserved letter service
2007/08	19,923
2008/09	19,799
2009/10	19,719
2010/11	19,374
2011/12	19,031

2.2.1 Future Delivery Design Program

POAAL (page 4)	Believes little has been achieved despite '...several announcements by Australia Post about its plans for expansion by either leveraging off its delivery network or acquisition'.
POAAL (page 5)	Notes that 'for some years' Australia Post has identified its strategy to move to a more flexible workforce but is unsure when this will be complete.
POAAL (page 6)	'The use of mechanised support for delivery staff is another option discussed by Australia Post but without the detail required to assess its impact.'
POAAL (page 6)	'By Australia Post's own admission it is yet to reap the full potential and productivity from its major investment in mail sorting equipment.'
POAAL (page 7)	'The means quoted by Australia Post to improve its future performance have all been listed before. There remains no detail on the initiative, their timing and impact.'
POAAL (page 8)	Seeks timetable for completion of Australia Post's move to a more flexible workforce - 'The Future Delivery Design (FDD) program states nothing other than obvious and previously identified measures ...'
POAAL (page 12)	Notes that anecdotal evidence indicates that enhanced OCR and letter sequencing are '...well underway in other postal authorities.'

Australia Post's delivery function is a major component of the Australia Post network. It comprises over 7,600 delivery rounds (of which around 84% are motorcycle rounds); 265 delivery centres; over 12,000 FTEs; and services around 10.5m delivery points across Australia.

As noted in the draft notification, the major challenge in the delivery function is to ensure an ongoing delivery capability while containing costs and maintaining service performance standards (the frequency, speed and accuracy of delivery), in an environment of declining letter volumes, and where the delivery network continues to expand.

Our FDD program entails technology, process and workforce change to improve flexibility in the delivery network and create savings. Key elements include:

- improved address recognition software for our Multi Line Optical Character Reader (MLOCR) processing equipment to significantly (> 10%) raise the proportion of machineable small letter addresses that can be read and sorted to delivery round (or round sections);
- automated processing of small letters to street delivery sequence using the existing Barcode sorter machines as well as the acquisition of new equipment;
- reconfiguring indoor and outdoor delivery operations in order to achieve the savings from the reduction in manual sorting and sequencing in delivery centres due to the uptake of automated letter sequencing;

- the development of delivery rounds where the round commencement and cessation is remote from the delivery centre, creating more opportunities for part time street delivery postie roles that are less dependent on motorcycles or new recruits with motorcycle licenses; and
- the deployment of new delivery modes (electric buggies, bikes and tricycles) to assist the outdoor postie roles, eliminate motorcycle accident risks, appeal to a wider job market for new recruits, and expand the postie's carrying capacity.

There is no 'one size fits all' approach in the national implementation of FDD. FDD provides an effective framework for extracting cost savings and efficiency gains across local delivery networks that have considerable variation in their geography, mail types, and staff mix, without threatening service quality.

Our overall approach to the implementation of FDD is similar to the approach adopted by overseas postal authorities in response to delivery cost pressures, declining mail volumes and fixed delivery commitments.

While the design of FDD incorporates a number of features drawn from overseas experience, a comparison with overseas postal authorities is difficult because of the particular characteristics of the geographic and market environment in which each operates. For example:

- the geographic reach of the Australian network, exceeding anything in Europe, which constrains internal operating standards across the network;
- major differences in volume, density, and product attributes;
- differences in the network and operational configuration that flow all the way from addressing conventions, the zip code versus the DPID in Australia, processing network structure, technology and delivery modes which in the US requires the street carrier (postie) to merge and sequence within the delivery vans before walking to the final delivery addresses; and
- notably in Australia, a highly efficient processing operation on MLOCs and Barcode sorters to enable small letters to be sorted to delivery round level in two passes or less. This is not possible in the US due to round and address complexities and a less centralised network.

As proposed above, FDD is tailored to the strengths of our network, which since the major investment in the late 1990s, has been reengineered to achieve an improved performance at low capital cost through a range of process innovations.

3. VOLUME DEMAND

3.1 Letter Volumes and Forecast

ADMA (page 4)	'With alternate lower cost channels now available it is inevitable that there will be further deterioration in volumes of all categories of mail.'
ADMA (page 4)	Submits that '...demand for Australia Post's reserved services will increase as the Australian economic activity increases.'
POAAL (page 2)	Notes that decisions by commercial users of Australia Post's services are made by making 'their own assessments depending on the drivers of demand they are experiencing and the market's response to evolving technology.'
POAAL (page 2)	'Businesses and their agents using hard copy mail may well have just as an uncertain future as Australia Post.'
POAAL (page 2)	Notes that future events such as state and federal elections and the return of economic growth, may disguise long term trends in mail use.
POAAL (page 3)	'Despite past forecasts of doom, mail until recent years continued to experience steady growth. It is clear now however, that the market place has irreversibly changed.'
POAAL (page 4)	Notes that permanent negative effect on mail volumes as organisations: <ul style="list-style-type: none"> - publish annual reports on line; and - encourage the on-line receipt and payment of bills and accounts by using financial incentives or penalties to assist in driving customer behaviour.
POAAL (page 4)	'The assessment of long-term growth forecasts commissioned by Australia Post appear reasonable. They are probably as accurate as any forecast can be in the present climate.'
A Heaney (page 1)	'I sympathise with the problems they face in the market place...'
Westbury LPO (page 2)	States that at his LPO inward mail volumes have increased by 50% in the past decade. However, outward mail volumes have not varied to the same extent.

Domestic reserved letter demand is covered in Section 7 and Appendix 9 of Australia Post's draft notification.

At a high level, the forecasts reflect an average rate of decline of 2.3% per annum over the next three years which compares with an average growth of 0.3% since 2000 and a forecast decline of 3.8% in 2008/09. The volume forecasts are also consistent with what other postal administrations are expecting. We would also note that based on the conditions of the first three months of 2009/10 volumes are currently trading below the forecast level – closer to the declines experienced in the last six months of 2008/09.

The forecasts for the three key segments are consistent with recent trends;

- Transactional – forecast to decline by an average of 3.4% per annum over the next three years. While transactional mail is being impacted at the moment by the general business environment, the existing pressures from substitution and consolidation & rationalisation activities is expected to increase in the future. Within the OECD, countries typically have reported transactional mail has been declining, with pressure – in particular from substitution – expected to increase.
- Promotional – forecast to increase by an average of 2.1% per annum over the next three years. Advertising media spend generally is being impacted in the current business environment and promotional mail is no exception. However, Australia Post believes that promotional mail will experience a moderate level of growth.
- Social – forecast to decline by an average of 4.1% per annum over the next three years. The decline (slightly higher than recent years, which was around 3%) is consistent with the long term trend of lower usage of social mail.

We would also note that the revenue from the proposed prices does not fully recover the sum of efficient costs of providing the domestic reserved letter service plus an appropriate level of return. Further, any variation in volume or cost forecasts is highly unlikely to substantially close the gap.

4. LETTERS PRICING

4.1 Support for the Price Increases / Price Structures

Nicholas (page 1)	Supports price increase to BPR unless it '...is merely to increase the profits for Australia Post and not to protect jobs...'
Westbury LPO (page 3)	Suggests that one way to meet the need to increase the compensation paid to licensees and contractors could be through 'an increase in the price of postage to recompense licensees and contractors.'
POAAL (covering letter)	'POAAL supports the proposal by Australia Post for price increases in its reserved service and the quantum that has been sought.'
POAAL (covering letter)	Notes that Australia Post, over many years, '...has adopted a measured and conservative approach to its pricing proposals...'
POAAL (page 3)	'In the absence of volume growth it is difficult for Australia Post not to seek price increases to offset its growing costs.'
POAAL (page 14)	'...the margins proposed by Australia Post seem reasonable...'
ADMA (page 6)	Believes the margins proposed between PreSort and other reserved services are sufficient.

These comments have been noted by Australia Post. We would also note that the revenue from the proposed prices does not fully recover the sum of efficient costs of providing the domestic reserved letter service plus an appropriate level of return. While, this under-recovery supports our assertion that we are not seeking to offset the impact of any volume decline through price increases, we do consider that proposing prices at this level is reasonable in the current circumstances and reflective of the current global economic environment.

4.2 Opposition to the Price Increases

M Mills (page 1)	Fails to see how Australia Post can justify another increase to the BPR so soon after the last increase.
L Smith (page 1)	Objects to a price increase to the BPR at this time –so soon after last year's increase. Cannot send facsimiles or emails – relies on sending letters and cannot afford an increase.
Hon B Such (page 1)	Objects to all proposed increases as 'postage was increased from 50 to 55 cents only recently in 2008.'
A Heaney (page 1)	Objects to increase in BPR – too close to last increase and represents a 20% increase from 2008 to 2010. Believes postage costs in Australia are very high as it is.
T Browning (page 1)	'Being in the country we need to use the mail more often...The additional cost is another burden on us.'

G Kierans (page 1)	Strongly opposed to any increase in postage costs. Is reliant upon Australia Post and believes it is an '... utter outrage that we are penalised further by yet another increase in postage.'
B Ho (page 1)	Opposes increasing local stamps to 60c
Remington Direct (page 1)	States that a postal increase only exacerbates the problems faced by companies in tough times. 'Coming so soon after the last price rise, many of my clients are incensed their mailing costs could be on the way up.'
W Anderson (page 1)	States that, "... it would be unwise to raise prices in 2010.' Believes postal price increases will have a detrimental effect – delaying economic recovery. Sees an increase to the BPR (so soon after the last increase) as excessive – 10% followed by 9.09%.
Smithfield Stamp Club (page 1)	Objects to an increase to the BPR because of the impact on the philatelic industry – 'the increase will ultimately kill of the Philatelic Industry as a hobby, ...' Suggests that by profiting from philatelists (and the general public) for so long, prices should come down or at worst, stay at the current rate.
Caled Containers	Objects to the increase too soon after the 2008 increase and will have a negative impact upon small business.
FIA (page 2)	Opposes the proposed prices as they are well above CPI, are too soon after the 2008 price increases and will have a detrimental impact on the delivery of charitable services by increasing cost overheads.
FIA (page 2)	States that the proposed increase to Charity Mail will be a significant increase to the costs of eligible charity organisations.
FIA (page 8)	States that donor acquisition is one of the most important and expensive activities conducted and notes that an increase in postage rates will considerably raise the financial burden upon non profit organisations seeking new donors.
ADMA (page 1)	States that any price increase will have a significant impact on the businesses of ADMA members as they rely heavily on Australia Post's products for transactional and promotional communication.
ADMA (page 2)	'any increase should be in line with Consumer Price Index increases only.'
PIAA (page 1)	Opposes an increase in postage prices because of the impact on 'a significant proportion of the print and mailing house industry...'
PIAA (page 2)	Believes price increases are excessive (greater than CPI)

The proposed prices represent only the third increase to Ordinary Letters prices (including the basic postage rate (BPR)) and the second general increase to PreSort prices since 1992. Overall, the proposed prices represent an average variation on 2008 prices of 7.6%.

The proposed prices were developed pursuant to Australia Post’s Letter Pricing Principals (contained at Appendix 2 of the Draft Notification. Australia Post notes that both ADMA (page 6) and POAAL (page 14) support the Principles. The prices were modelled in an environment where:

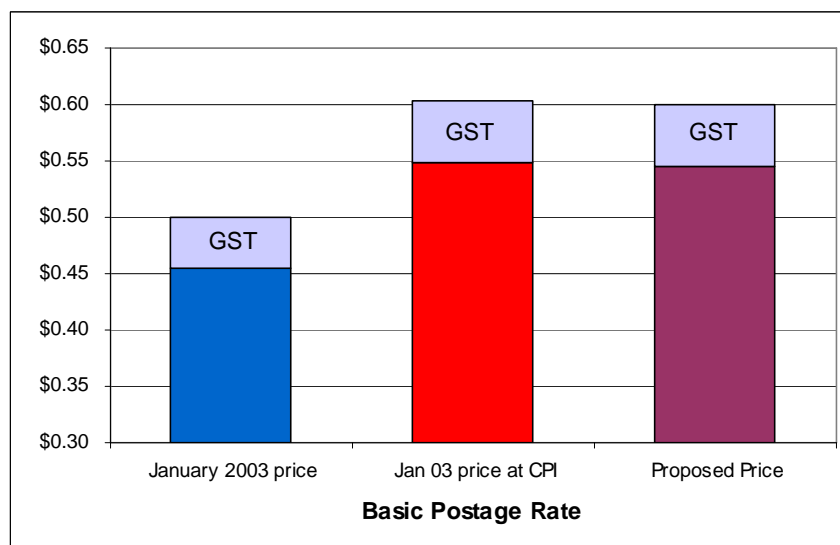
- domestic letter volumes are forecast to decline by an average of 2.3% per annum over the 2009/10 to 2011/12 years;
- there is reduced potential for significant productivity improvements;
- Australia Post does not want to exacerbate volume decline through pricing; and
- Australia Post is required to continue meet its Prescribed Performance Standards.

Furthermore, we believe that the prices:

- are appropriately balanced across all letter price points to ensure, given the current market environment, an appropriate level of revenue from the domestic reserved letter service;
- better reflect the differences in costs within, and between, Ordinary Letters and Bulk Letters;
- maintain a simple pricing structure for Ordinary Letters;
- provide appropriate incentives for customers to adopts efficient lodgement and payment channels; and
- will maximise volumes of machine efficient letters.

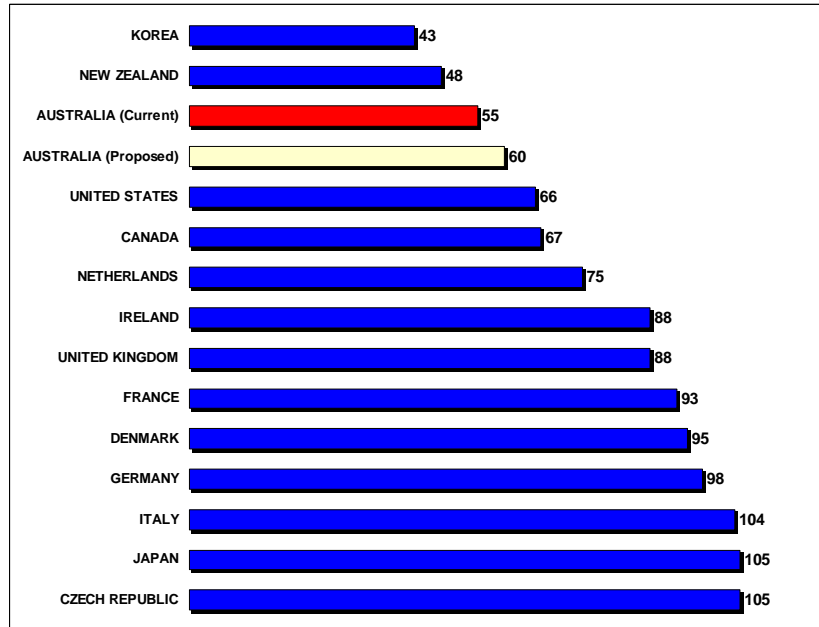
Figure 1 compares the proposed BPR price with what the January 2003 BPR price would be had it moved with CPI. Figure 1 shows that the proposed price is slightly less than if the BPR had increased in line with inflation.

Figure 1 – Proposed Basic Postage Rate compared to 2003 increased at CPI



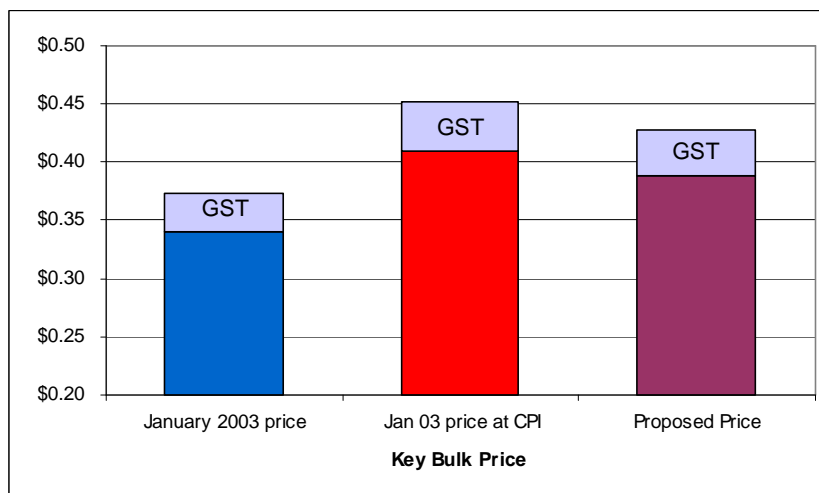
Furthermore, even at 60 cents, the BPR remains the third lowest in the OECD as illustrated in the following Graph.

Graph 2 – Standard (basic) letter price comparison (Purchasing Power Parity)¹



A similar comparison for the key PreSort price (small letter, regular delivery, barcode direct tray, same state), illustrates that the proposed price is 5% below what the January 2003 price would be had it increased in line with CPI.

Figure 2 – Proposed key PreSort price compared to 2003 increased at CPI



¹ Source OECD and Australia Post – prices in other countries as at 25 May 2009

4.3 Price Impact and Elasticity

Hon B Such (page 1)	'Further price increases will discourage greater usage of Australia Post services.'
Remington Direct (page 1)	States that in tough times with many companies reducing marketing expenditure, a postal price rise may have those same companies ceasing marketing activity all together.
Remington Direct (page 1)	States that companies scaling back on their marketing activities will have a pronounced effect on not only the direct marketing sector but also on the company itself.
W Anderson (page 2)	States that 'When faced with a choice between using the postal service or other forms of communication, postage may no longer be the best or cheapest option.'
FIA (page 6) – Greenpeace Australia Pacific	'This proposed increase in postage costs is forcing Greenpeace to review the communications we send to supporters.'
FIA (page 7) – Australian Conservation Foundation	'Postage costs account for hundreds of thousands of dollars in expenditure, and any future price increases will be felt in our reduced campaign budget...'
FIA (page 7) – Surf Life Saving Foundation	'...in light of the proposed postage cost increases, we may be forced to resort to seeking less expensive forms of acquisition.'
ADMA (page 1)	Notes that in a period of difficult trading conditions for many companies an increase in postage prices will directly reduce promotional and transactional mail volumes and force '...organisations to expedite plans to move cheaper electronic methods of communication.'
ADMA (page 2)	Believes that prices increases now will lead to a corresponding decrease in volumes and that this, may in turn, necessitate further price increases.
ADMA (page 4)	'An increase in prices will only expedite Australian business migration away from Australia Post services towards electronic mediums.' – 'This will apply for both transactional and promotional mail.'
ADMA (page 4)	Believes that the "... inexorable trend towards consolidation, rationalization and substitution will be accelerated by the recent downturn in economic conditions and that this trend will also gain further impetus by increases in postage prices".
PIAA (page 3)	'Any increases...will result in product substitution with mail users switching to non-mail alternatives such as e-communications ...'
PIAA (page 4)	Maintains that '...mail volume is price sensitive meaning that <i>any</i> price increases will have an adverse impact on volumes.'
PIAA (page 4)	Believes that price elasticity of mail items will only increase over time.
PIAA (page 4)	Disputes Australia Post's assertion that letter mail is price inelastic as '...it is the paper-printing-mail house value chain that absorbs some or all of the increase to retain work.'

PIAA (page 4)	'Raising prices during an economic downturn will simply push more businesses to reduce costs and move to electronic delivery of information.'
POAAL (page 2)	Believes '...that the delivery efficiency of hard copy mail, rather than price of the postal service, is the principal determinate in exercising choice about the use of alternatives.'
POAAL (page 3)	With respect to the business activity around price rises, POAAL's own experience is that there is '...a short period of increased usage ahead of the price change followed by a short period of reduced sales before a return to 'normal' activity.'
POAAL (page 4)	Notes that although the economy is showing signs of returning to strength, 'organisations that have survived the downturn, have had a sharp look at costs and value in their operations.' Which could further accelerate the move to less expensive alternatives,

As noted in our draft price notification, Australia Post believes the proposed prices are appropriate and necessary. They were developed to ensure that the increases were appropriately balanced across all letter price points to ensure an appropriate level of revenue from Australia Post's domestic reserved letter service.

The revenue from the proposed prices does not fully recover the sum of efficient costs of providing the domestic reserved letter service plus an appropriate level of return. We believe this was reasonable in the current circumstances and reflective of the current global economic environment. It is also consistent with our preference to avoid large upfront price increases which could lead to demand shocks.

Within Australia, letter demand has historically been price inelastic for small price changes. As part of Australia Post's last price notification we commissioned Diversified Specifics to review price elasticity within Australia. The findings of that report indicate that, while letter volumes overall appear to have been inelastic to the low levels of price change experienced in the past decade or two, the elasticity does vary by the type of mail. Typically, social and transactional mail has a lower level of elasticity, whereas for promotional mail elasticity is higher.

This is consistent with behaviour overseas, as identified in a recent report by Direct Communications Group², which observed as follows:

- from a review of 45 studies that presented price elasticity estimates for postal operators in six countries only one estimated a price elasticity of greater than -1 (and that relates to a mail category that is unique to the US market); and
- price elasticity measures for postal products ranged between -0.2 and -0.8, with the price elasticity for promotional mail being higher than transactional mail.

The comments made in several submissions regarding the hastening of transition to electronic alternatives are noted. As mentioned above, Australia Post's concern on this matter is a major reason why it believes that large upfront price increases over longer period should be avoided and why the proposed prices do not fully recover the sum of efficient costs of providing the domestic reserved letter service plus an appropriate level of return.

² A Review of Price Elasticity Models for Postal Products, Direct Communications Group, 2007

4.4 Issues with Proposed Timing

W Anderson (page 2)	Suggests Christmas is the costliest time of the year for most families and as such early 2010, in the post Christmas period, '...is not the right time to impose another cost on families, or business.'
Smithfield Stamp Club (page 1)	Believes '...that Australia Post could use its resources, and overcome the price increase until such time that Australia is back on its feet again...'
ADMA (page 2)	'the increase in postage prices should be deferred indefinitely or at least until July 2010...'
ADMA (page 3)	Is concerned with the timing as '...organizations, quite rightly, had no way of knowing, nor expecting that further price increases would occur so soon after September 2008...'
ADMA (page 5)	Submits that price increases should be deferred to allow for a proper assessment of the economic downturn on postal volumes.
PIAA (page 2)	Believes that price increases submitted for early 2010 should be rejected in the 'contemporary fragile economic situation.'
PIAA (page 3)	Notes that '...if the proposed price increases are approved by the ACCC, they will take effect at a time when the Australian economy will be emerging from the current economic downturn.'

Australia Post lodged a draft notification in July 2009 proposing price changes to the domestic reserved letter service in January 2010. Prior to lodging the draft notification, Australia Post undertook consultation with a broad group of key customers and stakeholders from late April 2008 to understand whether the proposed prices would result in a significant disadvantage to a particular market segment.

In setting the prices, we have been cognisant of the current economic environment and although the proposed prices will not generate revenue in excess of the required revenue as based on efficient costs and a reasonable rate of return, we do consider that the proposed prices and date of effect are appropriate and necessary, and as such consider it unrealistic that the prices be deferred.

4.5 Frequency, Duration and Quantum of Future Price Increases

PIAA (page 2)	'...persistent price and margin pressures on core product lines and services' are a feature of an industry in transition and as such 'Regular price increases should not become a justification for an industry or business like Australia Post that is undergoing transition.'
PIAA (page 5)	'...industry feedback supports smaller phased price increases in preference to larger upfront increases.'

POAAL (page 1)	'In our view it is reasonable that Australia Post forecast a price increase in 2011/12 without specifying its quantum at this stage.'
POAAL (page 1)	'the marketplace for hard copy mail is changing quite rapidly and further experience is necessary to estimate its effect before committing to a specific change.'
POAAL (page 1)	Believes previous price increases provide reasonable certainty about the likely range of future price increases.
POAAL (page 1)	Believes the nature of the price forecast provided by Australia Post is sufficient for planning purposes.
POAAL (page 2)	'...as structural change to the communication sector makes its way through the economy.' 'POAAL supports more frequent price reviews as these changes and their impact on Australia Post services are yet to be understood.'

Australia Post has a history of pricing restraint. As noted above in section 4.2, the proposed prices represent only the third increase to Ordinary Letters prices (including the BPR) and the second general increase to PreSort prices since 1992.

While opportunities to drive significant new productivity growth are becoming harder to identify, a number of initiatives and programs are planned to deliver further efficiency gains during the pricing period. Notwithstanding this, consistent with our approach in modelling the pricing structure for the 2008 and 2010 increases, Australia Post, will be proposing modest price increases over more frequent periods, as opposed to larger price increases over longer periods to avoid such demand shocks that may result from larger infrequent price rises.

Supporting this view is a number of arguments:

- domestic reserved letters volumes are forecast to decline by an average of 2.3% per annum over the 2009/10 – 2011/12 period. A large price rise could be a catalyst towards an increased customer uptake of alternative communication media;
- we believe large upfront price increases should be avoided, this is noted in some submissions and is consistent with feedback from users of non-reserved letter products (ie Print Post and Unaddressed Mail), whose preference is for modest increases at more frequent intervals;
- application of a large upfront price increase, over a three year pricing period could generate inadequate profit for the domestic reserved letter service in forward years due to changing market conditions and circumstances out of Australia Post's control.

As noted in section 3 of Australia Post's draft notification, Australia Post believes that in determining whether price changes beyond January 2010 are necessary we will need to undertake an appropriate robust assessment that takes into consideration relevant factors within the market environment. This assessment will also consider the relevant issues related to individual product categories and the impact that any price change would have upon particular customer and market segments. In the event that Australia Post believes price changes beyond early 2010 are necessary we would undertake consultation with key customers and stakeholders prior to a further price notification with full details of the proposed prices.

4.6 Price Discounts and Structure

Westbury LPO (page 3)	Believes Australia Post commonly offers significant discounts to customers for 'standard' letters ("as low as 41c") and parcel contracts – discounting which is '...largely at the expense of licensee income...'
FIA (page 3)	'recommends Australia Post consider a pricing and eligibility structure that enables all nonprofit organisations to benefit from the charity mailing rate.'
FIA (page 3)	Notes that 'The US postal system offers a much greater discount for charities, up to 40% lower than the rate charged to commercial mailers.'
FIA (page 8)	Believes 'Whilst Australia does offer a discounted rate of approximately 18%, it is not yet in line with international practice of supporting charities...'
PIAA (page 5)	Believes that industry participants such as mailing houses are undertaking an increased share of tasks resulting without being compensated by Australia Post.
PIAA (page 5)	'Another issues that warrants closer examination by the ACCC is whether ordinary household mail is priced too cheap resulting in more expensive business mail.'

Australia Post has a formal determination of prices for domestic reserved letters (including PreSort letter prices) as published in its 'Post Charges' rates booklet. These prices for domestic reserved letters apply for all customers, which recognises the need for;

- equal treatment of customers in a regulated market; and
- transparency, certainty and fairness to all Australian businesses.

The proposed prices were developed pursuant to Australia Post's pricing principles which provide for a balanced approach to the determination of domestic letter prices. The pricing principles recognise our community service obligation, but also the need to ensure the pricing structure reflects commercial and market needs – which includes the recognition that PreSort Letter prices, in addition to requirements of Australia Post's Act (regarding bulk interconnection prices), reflect the level of work saved by Australia Post through work carried out by customers.

The proposed prices for Charity Mail maintain a 5.5c (for Regular) and 6.0c (for Off Peak) reduction off the (non-charity) PreSort Small Letter barcode prices. In addition to the provision of Charity Mail, Australia Post would point to the section in our 2007/08 Annual Report on Corporate Sustainability – Community³ which summarises Australia Post's support of community and charity groups.

³ Page 41 of the Australia Post Annual Report 2006/07

5. IMPACT OF PRICE CHANGES

5.1 Australia Post's Promotion of Letter Mail / Direct Mail

W Anderson (page 2)	For Australia Post to remain relevant it needs to do all it can to retain customers... 'Otherwise we will not send a letter... We will not receive Annual Reports in the mail... We won't post Christmas cards.'
POAAL (page 4)	States that there is increasing acceptance by the community of the value proposition offered from electronic alternatives – 'and this trend is obviously increasing.'

As noted in the draft notification, Australia Post has a significant investment in the traditional mail market; one that it needs to protect and one which it needs to continue to manage on a commercial basis. To support the mail market Australia Post has committed to a program of work to promote the mail channel to ensure it is seen as a relevant and contemporary part of the broader communications and messaging market. This includes responding to community and business expectations regarding the environment and the role it plays in the letter value chain. Specifically Australia Post:

- will continue to engage with major customers to enhance the value proposition of transactional mail – including through the promotion of 'transpromotional' letters;
- will continue to promote the mail channel for marketing communications, including via the 'Open Up To Mail' mail channel advertising campaign (promotional mail);
- is developing and promoting new products and services across the letter value chain (data services, preparation, delivery and delivery management) that increase the value of the mail channel. This can involve developing new Australia Post products or identifying and promoting existing industry innovations; and
- will minimise volume decline for social mail and maximise the leverage of the positive brand association. The key message to the market is to remind our customers of the joy that 'keeping in touch' (by sending and receiving personal mail) provides over and above other newer types of social messaging.

Australia Post's efforts in promoting the mail channel have been recognised by the following Awards:

- Global Envelope Alliance's Global Achievement Award (January 2009) – recognition of 'the extraordinary job' Australia Post is '...doing to grow direct mail and constantly promote the value of mail.'
- World Mail Awards 2008 – Australia Post won the award in the 'growth' category for successfully encouraging the use of mail as a promotional channel, and
- Print On Demand Industry's Award – the award was given in the 'TransPromo' category for use of strategic segmentation and digital personalisation.

5.2 Functions, Markets and Obligations

W Anderson (page 2 &3)	As an essential service and a monopoly, Australia Post needs to remain affordable for all.
Hon B Such (page 1)	'Australia Post might use its retail component to help offset the costs of its basic services.'
A Heaney (page 1)	'...they have created more business in other areas to help compensate.'
PIAA (page 5)	Concerned that 'the public monopolist Australia Post' faces no industry competition for the bulk of its business.
PIAA (page 5)	'...if Australia Post needs to maintain a consistent dividend to the Australian Government, having a monopoly opportunity to increase postage charges on a regular basis, has the potential to camouflage poor management decisions, inefficient internal practices and other value-added services.'
L Smith (page 1)	States that Australia Post does not need an increase as it made \$500m profit last year.

As noted earlier in this response, Australia Post has proposed prices that do not fully recover the sum of efficient costs of providing the domestic reserved letter service plus an appropriate level of return. We believe this is reasonable in the current circumstances and reflective of the current global economic environment.

Furthermore the proposed prices have been developed pursuant to the Letter Pricing Principles, some key elements are;

- the letters pricing structure will reflect Australia Post's commercial, social and governmental obligations;
- the primary social obligation is to supply a letter service that is accessible, available equitably and meets community needs;
- the BPR – the rate for the Ordinary Small Letter – is the keystone of the letter pricing structure;
- carriage of the Ordinary Small Letter at a uniform rate is central to the CSO. Pricing of the BPR reflects the need to maintain an affordable rate. Consequently, the BPR will not always fully recover the costs of providing the services and as such, prices for other letter services/categories will contain a cross-subsidy to the BPR; and
- subject to this need to cross-subsidise letter products, letter prices have been set to achieve an appropriate aggregate rate of return for the letters business as a whole;

The ACCC issues reports assessing cross-subsidy in Australia Post on an annual basis. In June 2004, the APC Act was amended to allow the ACCC to issue record-keeping rules (RKR) to its regulatory functions. The RKR provide guidelines on how accounting costs are mapped. Both the mapping tables and outputs of these tables are audited yearly on behalf of Australia Post by Ernst & Young.

Consistent with previous years, the ACCC found that the regulatory accounts for 2007/08 did not provide evidence of cross-subsidy from Australia Post’s reserved services to non-reserved services.

5.3 Service and Performance

G Kierans (page 1)	Believes is not getting ‘...any value for money as it is when we have to post our letters in the morning & then go back to receive our mail after the LPO re-opens after lunch.’
B Ho (page 1)	‘Australia Post’s service has not at all improved. They continue to make mistakes: misplacing mail, and having rude and poorly trained staff.’
T Browning (page 1)	Objects to increase based on service standards (2-3 days between Vic country and Melbourne and with “... no Sunday evening mail clearance in the country and this adds another delay to the mail”).
Nicholas (page 1)	Supports increase to BPR if the services provided by Australia Post are improved ‘...faster and more reliable delivery times to destinations, and overall better and faster postal service to destinations across Australia.’
ADMA (page 2)	‘there should be no change to the service standards that Australia Post must meet.’
POAAL (page 5)	Notes that ‘Australia Post’s delivery challenges are significant.’

As noted in Australia Post’s Draft Notification of July 2009 (Draft Notification), Australia Post, in 2007/08, continued to meet its regulated performance standards and provide an efficient and effective postal service to the Australian community.

Australia Post asserts its customer service standards are higher than ever. This is evidenced primarily through increasing delivery and service performance and customer satisfaction levels. Australia Post

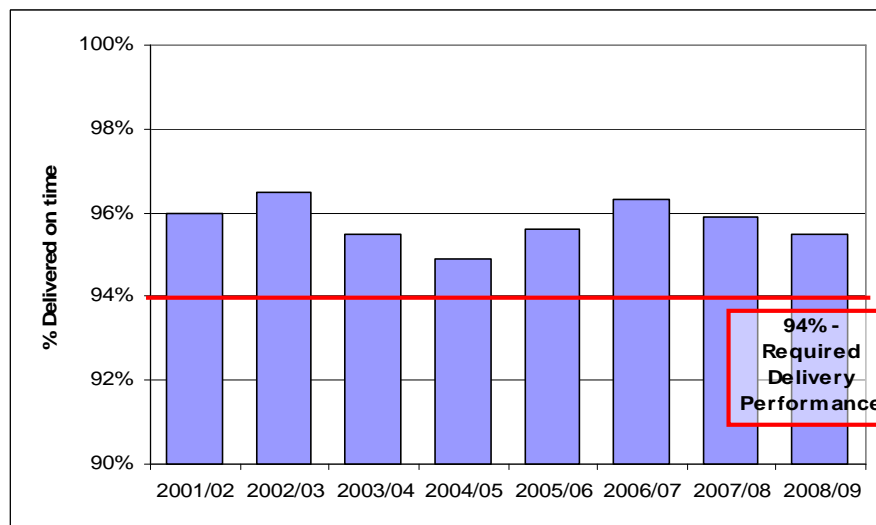
Performance against the regulated performance standards is subject to independent audit by the Australian National Audit Office. As detailed in the Table 3, Australia Post continued to meet its regulated performance standards in 2008/09.

Table 3 - Performance Standards 2008/09

Standard	Required Performance	Actual Performance
Number of Street Posting Boxes	10,000	16,055
Delivery Timetables	Maintained	Maintained
On time delivery of non Bulk Letters	94%	95.5%
Points to receive deliveries five days per week	98%	98.8%
Points to receive deliveries no less than twice a week	99.7%	99.9%
Retail Outlets	4,000 (2,500 in rural and remote areas)	4,433 (2,541 in rural and remote areas)

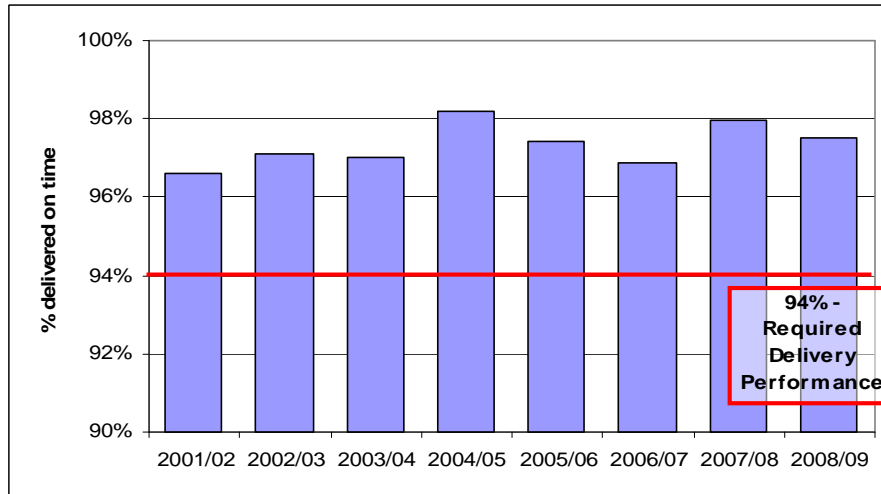
With regard to the delivery performance of non-bulk letters, Figure 3 below shows the delivery performance since 2000/01. In each year Australia Post has exceeded the required delivery performance standard.

Figure 3 Delivery Performance – Non-bulk letters 2000/01 to 2006/07



Australia Post monitors bulk mail performance, Figure 4 below shows the delivery performance since 2000/01. As with the performance of non-bulk letters, in each year Australia Post has exceeded the required delivery performance standard

Figure 4 Delivery Performance – Bulk mail letters 2000/01 to 2006/07



Australia Post also has a number of key forums to gauge and respond to broad customer issues including the:

- Stakeholder Council – comprising community and business representatives and as such covering a broad range of customer viewpoints; and
- Licensee Advisory Council (LAC) – comprising licensees from across Australia and Australia Post management. The LAC discusses key business opportunities including responding more effectively to customer needs.

6. RATE OF RETURN

6.1 Rate of Return Issues

PIAA (page 4)	'Australia Post uses the appropriate return on capital argument to justify price increases.'
PIAA (page 4)	'...what constitutes 'appropriate return on capital' has to take into account the economic business cycle.'
PIAA (page 4)	Believes that in an environment where the majority of businesses in Australia are facing pressures on margins then Australia Post's profit should also reflect this.
POAAL (page 13)	'...it would seem reasonable to follow earlier reviews by the Commission including the current parameters.'

Rate of return issues have been covered in section 12 of Australia Post's draft notification and section 9 of Australia Post's primary response to the Issues paper.

The weighted average cost of capital (WACC) proposed and the previous version used in the last price case would appear to satisfy the PIAA's concerns, as both were set according to the long-term factors that are inherent in WACC parameters based on the Capital Asset Pricing Model.

Australia Post notes again that, although the WACC is included in the PTRM data provided to the Commission, revenue from the proposed prices does not fully recover the sum of efficient costs of providing the domestic reserved letter service plus an appropriate rate of return. Australia Post believes this is appropriate given the current environment.