



*Submission to the*

Australian Competition and Consumer  
Commission

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Australia Post Draft Price Notification  
Issues Paper

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## **Preliminary Comments**

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

POAAL offers its view 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 those who hold Mail Contracts provide an important front-line insight into the operations of the postal service in the diverse communities they serve.

Australia Post has an enviable record of achievement in service delivery – thanks in no small part to the efforts and dedication of Licensees and Contractors – and over many years adopted a 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.

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

Australia Post is pursuing productivity improvements and compares favourably with respect to other postal administrations on service, performance and price.

It should also be noted that Post Office Licensees have several mail payments linked to the price of postage. LPO operating overheads have continued to rise since the last BPR increase.

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

The proposed concession rate stamp will shield low-income earners from the price rise.

The increase is very favourable compared to price of basic postage in other postal administrations around the world.

For a low flat rate, Australians will still be able to send letters to any destination in the country.

The ACCC seeks comments on Australia Post's forecasts of reserved letter volumes for 2013-14 and 2014-15.

- 1.1 Do you agree with Australia Post's volume forecasts for its reserved letter services? In your view do the forecasts reflect likely long-term demand trends for Australia Post's letter services and your expectations about future usage?
- 1.2 Do you consider that Australia Post's forecasts reflect the current and future economic climate and its effect on Australia Post's reserved letter volumes?
- 1.3 What impact do you expect the proposed price increase may

There is little available evidence to accurately predict the impact of the digital economy on the traditional mail service other than through comparisons made by Australia Post with the experience in other postal administrations.

While it's difficult to predict the size of any decline, what appears certain is that there will continue to be a downturn in letter volumes.

We have all witnessed the rapidly changing digital economy that is now a feature of every aspect of our personal and business experience. The move to a greater reliance on the digital exchange of data and communication is clearly a permanent feature of our economy.

In any event an assessment of the accuracy of forecasting and the impact of subsequent price notifications can only be made in retrospect.

It has also been the experience of POAAL, and the Commission has previously noted, that it is the delivery efficiency of hard copy mail, rather than price of the postal service, that is the principle determinate in exercising choice about the use of alternatives. Electronic substitutes are exponentially less expensive and faster than the postal service.

There are now strong signs that the relationship between GDP and the cost of substitutes is likely to change over the coming period as structural change to the communication sector makes its way through the economy. This is one reason that POAAL supports the price increase as these changes impact on Australia Post services.

The price elasticity of the standard letter service has been canvassed previously. POAAL's own experience with changes in business activity around price rises is that for a short period ahead of the price change there is an increase in volume followed by a brief slow down of activity following the increase before a return to "normal" activity.

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

- 2.1 What are your views on the efficiency of Australia Post's cost base, in particular its operating costs for its monopoly letter services?
- 2.2 Do you consider that Australia Post's price notification demonstrates that Australia Post has taken steps to reduce costs in response to its expectation of declining letter volumes? Please provide supporting reasons for your answer.
- 2.3 In your view, in which areas might Australia Post be able to reduce its costs, while still meeting its community service obligations (CSOs) and performance standards?

Australia Post's 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 remain significant costs associated with regional and rural mail delivery. Road infrastructure problems and low population densities in these areas create 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 means of more cost effective delivery.

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 been 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 affect.

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

While measures to cope with seasonal volume fluctuations and their impact have not been spelt out in detail by Australia Post in its submission it is evident that the organisation is intent on bringing reforms forward and pursuing them with vigour, especially in response to the unexpected and now permanent structural changes to the communications sector driven by moves to the digital economy.

It is clear Australia Post does provide a compelling case that it is providing a universal service across a challenging and broad geographical area that favourably compares with other postal administrations both in terms of price and service performance.

It is reasonable to provide a price increase to Australia Post while all its productivity measures are being implemented and the benefits harvested.