

**SUBMISSION
IN RESPONSE TO THE
ACCC ISSUES PAPER
of August 2009**

**Australia Post's
Draft Notification
POSTAL PRICING INCREASES**

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John Gillroy
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Thursday 15 October 2009

Mr Anthony Wing
General manager, Transport and General Prices Oversight
Australian Competition and Consumer Commission
GPO Box 520
MELBOURNE VIC 3001

Dear Mr Wing:

Thank you for the extension of time allowed for lodgement of our submission. The extra time has been needed for further consultation with our membership ranks as we found that within the process of responding to the Issues Paper there came to light many instances of members' unhappiness over the shortcomings and inadequacies of the present structure of the *reserved services* monopoly that we needed to explore at the three levels of our membership (Generators, Mailing Houses and Supply Partners).

I am sure that you will not be surprised to learn that we are opposed to the granting of a price increase for Bulk PreSort Mail but it is not a case of simply opposing yet another cost increase for the sake of opposing.

Alvin Tofler's comment that *for some the future has come too soon* seems to be ever so appropriate three decades later. The profound changes being wrought through the impact of the information technology revolution has meant collapsing business models right through our membership ranks but our members do not see that in their dealings with Australia Post – when it ventures out from behind its two-centuries' thick protectionist walls of monopoly power – that that corporation is keep abreast of the Australian mailing industry needs for commercially-sensitive service provider.

There has been a major change in emphasis in our ranks from *postage* to *communications*, brought about by the e-alternatives offered through the information technology revolution rather than dissatisfaction with paper-mail *per se*.

All of our members are hyper-sensitive about costs and in this Draft Notification, knowing how tardy Australia Post has been to deal properly with improvements within their monopoly-protected operations, has caused our membership to question the structure and, indeed, relevance in this fourth century of Australian business communications, of what was previously considered a virtual, untouchable *sacred cow*, the Community Service.

Your question – at Section 3.4 of the Issues Paper – relating to the CSO, embarked MMUA on a pathway that makes us now want to question as part of our response to the Draft Notification:

- **Not only** the audacity of Australia Post as a government business enterprise in asking for a price increase in these times of economic pressures and restraint calls on the part of the federal government;
- **Not only** the lack of proper endeavour on Australia Post's part between the last increase granted and today to change Bulk PreSort Mail methodologies and to make better use of available and emerging technology, as well as look to improving services to its customers (customers trapped without any other option of another service provider);

- **Not only** the use of the *reserved services* network (obtained over two-hundred years from benefit of the monopoly) for its highly profitable *non-reserved services* businesses it has built up so well over the past decade;
- **But also** the very corporate structure of Australia Post that now sees two separate and distinct arms – one a statutory monopoly working in a sheltered non-competitive environment supposedly to enable the fulfilment of CSOs – and the other as an assertive business in its own right in the general marketplace — a business with a supremely advantageous foundation of financial security and stability not available to its competitors, with access to a national network of locations, staff, brand recognition and so many other elements that come out of the monopoly all of which are not available to any of its competitors

and our comments that follow, and our response to the various questions asked in the Issue Paper reflect our basic views:

1. Australia Post should not be given a price rise;
2. Australia Post should be told not to return to ask for any further price increases until its has taken full advantage of the as yet untapped residual benefits available in the FuturePOST project (which began in the 1990s) and those of their own proposals for Alternative Lodgement Solutions (which they first advised in March 2007);
3. Australia Post should be broken into two separate corporate bodies – one for the monopoly and the other for their non-monopoly businesses.

Major Mail Users of Australia Limited (MMUA) has a unique interest in *Things Mail* and a special standing which is recognised in the formal agreement entered into (at the requirement and instruction of the Federal Government) between Australia Post and MMUA on 21 October 1999 – the *AP-MMUA Code of Practice* – the Code “jointly developed for users of Australia Post’s Bulk Mail services by the Australian Postal Corporation and Major Mail Users of Australia Limited”.

10-years later, our experience has seen Australia Post’s attitudes towards working within the spirit and letter of the Code divided into two 5-year segments:

- the first saw “partnership” as very much the Order of the Day and together we achieved many good things for the benefit of all concerned - but
- the second saw a hardening of Post’s figurative arteries and a marked reluctance on the part of its designated liaison staff to act as a true commercial partner in a challenging marketplace. Ending with what we consider to be a 5-year period of wasted business and productivity opportunities.

That return to a previous period’s pre-1999 monopoly-driven attitudinal overriding lack of interest in working as a proper business partner – one in which the challenges of the times are met constructively and jointly – is indicative to MMUA and its members of the overwhelming need for the Business Model under which Australia Post operates to be rethought and reconstructed.

It is interesting to note the recent comments of the United States Postmaster General John Potter at the National PCC Day, 16/9/09,

“..... our business model must change to reflect the reality of a volatile economy and a communications marketplace that has been undergoing a transformation as profound as anything that has ever come before”.

MMUA believes that Australia Post’s simple solution of increasing the price of the postage stamp is totally out of step with what is needed and is yet another example of how an organisation cocooned by monopoly powers easily falls victim not so much to ossification but to an unquestioning use of an unchanged state-based business model, unable to move outside of the way it has approached its business for 200 years when faced with business challenges that are – as PMG Potter says – “a transformation as profound as anything that has ever come before”.

Fourth Century Communications

Australia since settlement in 1788 has seen *communication* within four separate centuries: in the 18th Century mail to and from England took months to deliver, the wonders of semaphore communication not being of much use to our early settlers and their colonial masters in London. In the 19th Century and in the 20th Century, paper-mail was dominant in business communications but in this 21st Century – the fourth century of Australian communication – paper-mail is clearly losing its grip and the transformation in *communication* has been truly profound.

It does not need MMUA in this submission to elaborate on that fact but should the need arise we are happy to give examples of how our members are moving into e.communications as a cost effective, faster way of *communicating* with their customers both for transactional and promotional mail.

Indeed the traditional breaking of Bulk [business] PreSort Mail into two basic groupings (Transaction and Promotional) mail is no longer appropriate, a third element – transpromotional – where technology applies promotional material onto the transaction mail item suggests to our members that a single category of *bulk mail* is not appropriate if paper-mail is to be a continuing viable tool of communication and marketing in this fourth century of Australia’s communication marketplace. Our contention is that Australia Post is sitting back in the leisurely surrounds of its monopoly culture and resulting comfort zone and failing to engage and work with its customers as a true business partner. This is reflected in its proposed price range which stills sees size of the envelope as the guideline for setting the price whereas in a changing market all but Australia Post who have an interest in paper-mail are busily seeking ways and means of making the paper-mail product more valuable and more relevant.

Australia Post in its pricing structure for Bulk PreSort Mail, and in its terms and Conditions for same, is out of step with the very industry it has been given the statutory monopoly to serve, and out of step to the extent that its pricing structure is not only not recognising the new driving forces but is working against encouraging greater use of paper-mail.

Our contention is that postage pricing based on the size of the envelope belongs to yesterday: today the focus should be on the varying use of paper-mail and to structure postage prices with a view to encourage increased use to what could otherwise be expected. This requires a change of attitude that we believe would be best achieved through a changed set of postal regulations rather than a reliance on Australia Post to have the ability to shuck-off the monopoly’s cloak of protectionism.

Its Mail Generator customers are outsourcing upwards of ninety percent of their transactional and promotional paper-mail yet Australia Post does not deem it worthwhile for its own “sales and marketing” personnel to work hand-in-glove with the sales and marketing personnel of the quality assurance Bulk Mail Partner (BMP) accredited Mailing House companies handling that outsourced product.

Every day of the business week MMUA’s member BMP-accredited Mailing House members lodge some 86+ percent of all Bulk Mail lodgements in Australia and yet Australia Post sees the solution for a changing reliance of paper-mail in the business community as simply increasing the postage price and has given no thought, nor any indication that it is even interested in, the concept of jointly working with its “86+ percent” group of Mailing Houses to sell the concept of paper-mail.

Estimates vary, company by company, and industry grouping by industry grouping, as to how soon and how fast the migration to digital communication – including the use of mobile phones for marketing, information bulletins and the myriad of other uses that formerly would have come through paper-mail - will occur and to what ultimate extent the present day paper-mail volumes will change – but there is an assurance that it is happening and that increasing the price of postage without offering any new services or inducements for its use will only hasten the company-by-company examination of the cost-effectiveness of paper-mail in comparison to other communication options are available.

A decade ago *postal reform* as a subject centred upon removing the monopoly power and allied areas such as making the Australia Post network separate to the Community Service Obligations. The Federal Government’s decisions of late relating to Telstra and its network are similar. Today, however, *postal reform* is much more than trying to bring Australia Post as a national service organisation into what we call *Fourth Century Communication* through an adjustment of its second century communication monopoly powers: today *postal reform* has become, at least in the commercial dealings of Mail Generators and Mailing Houses, *communications reform*.

Every single one of our Generator and Mailing House members is using much more than paper-mail in its *communications*. But these are self-evident facts and it almost seems pointless in a paper such as this to have to draw attention to the blatantly obvious. What we cannot understand is why Australia Post has not addressed in this latest proposal for yet another price increase the fact that it is dealing with at least the following groups of paper-mail:

1. Domestic Mail – mail dropped into the street corner red letter box or over the counter of the local post office;
2. Bulk – transactional only – Mail
3. Bulk – promotional only – Mail
4. Bulk – transactional plus promotional inserts – Mail
5. Bulk – transpromotional – Mail
6. Bulk – merged - lodgements where the mailer can submit multiple (or mixed) lodgements as one lodgement even where there might be more than one postal account or pricing structure – data software systems allow readily for this change of approach to be introduced with a minimum of effort

7. Bulk – where there is a *Reply Paid* envelope or postcard enclosed – the obvious commercial value of sending out one piece of mail that will generate a second in reply (and possibly a third to fulfil an order) is crystal clear
8. Bulk – *Reminder Mail* – where a second mailing flows from the first promotional or transpromotional etc mailing and serves as a reminder that the event/offer is drawing nearer or to a close. An example might be a telco sending out a reminder that on such-and-such a date overseas calls will be cheaper. Marketplace experience shows that such promotional mailings achieve good participation results. The fact that the *TRI-Mail* (Teaser and Remainder Incentive) 20% discount offer is already in place indicates that the value of encouraging paper-mail usage with inducements is already recognised by Australia Post: our contention here is obviously that it needs to be widened, deepened and replace the current pricing structure
9. Bulk – Advertising or Direct Marketing – Mail – in earlier times this category was known as *AdPost* and it should be reintroduced as part of Australia Post’s obligation to Australian commerce which would see this product-specific area of mail covering what is regarded as the most likely to see future growth.

In all of the above, and any others that may well come to light should the “debate” be commenced, there should be an understanding that the Australia Post processing and delivery network has heavy fixed costs where every mailpiece going through the network reduces the per unit cost of processing. We would envisage that the technology-driven systems changes that are foreshadowed in the PIP2 discussions (moving the current Bulk Mail Partner Program into a new area of technology and systems) would be a suitable mandatory requirement to access the pricing structures needed.

Increasingly smart technology is making the mixture option more and more attractive not only in the use of areas of the transactional sheet of paper to place promotional material but also by even smarter technology to personalise the promotional element. Why is it when Australia Post throws untold millions of sponsorship money into a range of areas where there is no measurable commercial benefit offered to the actual mailer for smarter use of paper-mail?

As well as the above categorisation concepts, there are the ease-of-processing elements that flow from the pre-lodgement work done by either a major Generator or a major Mailing House that minimise the handling by Australia Post. This is not the same for every Generator or every Mailing House and there is no recognition in the Draft Notification of the degree of work that is being done before the mail is lodged. An example provided by one of our members will suffice to make the initial point and, hopefully, to open up this matter for consideration in the Draft Notification process. This example comes from one of Australia Post’s top five mailers in volume terms – the high volumes involved provide efficiency opportunities that may not be available for lower volume mailers and our proposal is that postage prices should reflect the savings to Post that the very high volume lodgements can bring. Our member reports that in a recent large mailing there was a *Direct Tray* rate of 95% achieved which means that those trays by-passed the full processing of the Letters Centre and were simply cross-docked to the truck that travelled to the destination area and only 5% needed to go through the entire Letters Centre processing. The member concerned presents high volumes of mail on a daily basis that is consistent in regard to presentation, envelope quality, print quality, tray labelling and all the other requirements of Australia Post who see the same work from the member day in and day out. There are other members in the same position but none of them receive any rebate or discount or special pricing for this additional savings to Australia Post than comes from the usual Bulk PreSort requirements.

Our contention is that Australia Post should be denied any further increase in the price of the postage stamp and Bulk PreSort Mail until it addresses these issues and returns with proposals for an incremental pricing structure that is based on smarter use of paper-mail combined with smarter use of the quality assurance accreditation process that are contained in the Bulk Mail Partner Program.

The main points we wish to raise at this stage in the Draft Notification process are:

1. Australia Post's continuing failure to work with its high-volume customers in a true and proper commercial fashion should not be rewarded with yet another Bulk PreSort Mail postage price increase;
2. If there is to be an increase in postage prices, it should be timed for either 1 January or 1 July to match with industry's normal budgeting and financial reporting timings and the pricing changes should be known 12-months in advance of coming into effect.

In respect of the 1 January or 1 July date of effect, we note that in July 2009 Australia Post itself broke an agreed AP-MMUA timeframe for annual October increase in Print Post prices so as to unilaterally move them forward to July commencement – what is good for the Australia Post gander ought to be good for the Australia Post customer goose! As at today's date they are still not able to provide an amended Calendar of Print Post Pricing Changes.

3. There should be an opportunity afforded by the ACCC before it takes its draft decision extended to all interested parties to work through with it all of that matters raised by each of the parties concerned with Bulk Mail;
4. We therefore suggest a one-day workshop in either Sydney (for the convenience of the main users of Bulk Mail) or Melbourne (for the convenience of Australia Post's headquarters staff) linked into the release of the ACCC's preliminary decision.
5. We submit again, as we did for last year's price application, that there is a need to see the Reserved Services as having two separate and distinct streams:
 - Domestic Mail - the element collected from the local roadside red mailboxes and/or local post offices and, requiring a much different handling process on Australia Post's part than that of Bulk PreSort Mail. There is business mail in this element – small mailings by local businesses that do not have the volumes to be able to access the Bulk PreSort Mail discounts and system of lodgement;
 - Bulk PreSort Mail – the element where individual mailers do a great deal of the preparatory work (barcoding, sorting into geographical areas, placement in trays etc) in accordance with Australia Post's Terms and Conditions and for which a special price rate applies in recognition thereof;

and thus, in any pricing proposal those two elements should be costed, analysed and dealt with as two separate elements.

6. The Business Model used by Australia Post – which has a state-by-state autonomy out of step with industry's uniform and national approach to doing business in Australia – needs to be recast but not by Australia Post.

We submit that circumstances having changed it is time for all stakeholders to play a role in deciding how the monopoly powers given to Australia Post over *Letters*.

If it were fitting for the then newly elected prime minister in 2007 to convene a conference to look at ways and means of making Australia more relevant in the 21st Century, we contend that it is fitting for all stakeholders in Australia Post to be similarly convened to seek ways and means of making this statutory monopoly more relevant to the needs of the Australian mail industry before any further postage price increase is permitted;

In this fourth century of communications in Australia business needs have changed dramatically and it is simply not good enough for Australia Post, alone of government agencies and government business enterprises not to be subjected to the full exposure of transparency and accountability;

7. Access to the Bulk PreSort Mail discounts should be restricted to:

- Mailing Houses and/or Mail Generators who hold quality assurance accreditation status under the Bulk Mail Partner Program (BMP) or,
- alternatively, a sliding scale of discounts should apply depending on the degree to which the party lodging the mail has taken work away from Australia Post pre-lodgement, the greatest level of discount being applicable only to BMP-status.

No price increase for Bulk PreSort Mail should be approved until BMP entitlements have been accepted as an element in determining the level of pricing discounts for Bulk PreSort Mail.

8. We question the continued relevance of the present definition and structures of the Community Services Obligation (we have developed this argument further in our comments below regarding Section 3.4 of the Issues Paper).

ABOUT BULK PRESORT MAIL

In the following comments we have used the 14-months of July 2008 to August 2009 inclusive. The migration from paper-mail to digital means of communication is speeding up through all industry segments and it is difficult to see where it will end. Some of our members anticipate that within 5-years from now they will not be in the “paper-mail” market space either as mail generators or mailing houses whilst others indicate that whilst there will be much less usage of paper-mail it will still remain a significant factor. What that “significant factor” is likely to be makes for astute business assessment and decision-making.

Suffice it to say, however, that our members are firmly of the opinion that the legislation surrounding Australia Post’s monopoly powers insofar as they apply to the Australian business community’s main interest in paper-mail – the Bulk PreSort Mail element – are out-of-date with 21st Century *RealKommerce* and need urgent review and change.

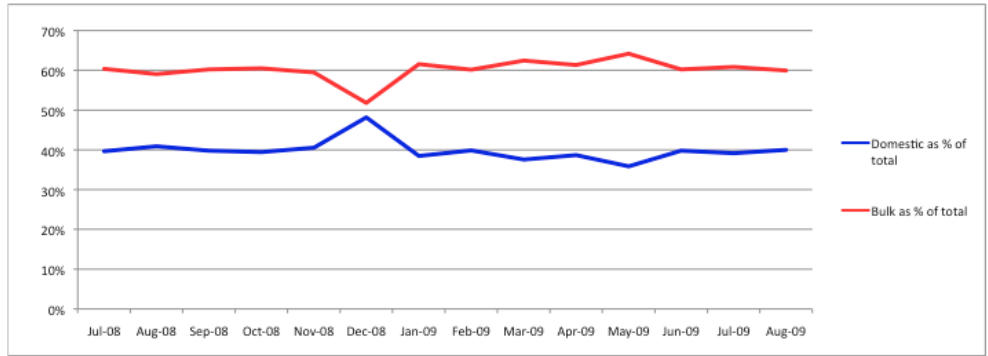
Bulk Mail – MMUA’s main focus of interest – over the past 14-months (July 2008 to August 2009 inclusive) ran for each month in that span (except December’s Christmas mail) between 59 percent and 64 percent of the total of the monopoly’s Reserved Services letter mail – suffice it to say for the example that Bulk mail represents 60 percent give or take a percentage point or two or three. Chart 1 below shows that there is a consistency between the percentages of the two elements (except for the Christmas period)

CHART 1

Snapshot Report • MONTHLY MAIL VOLUMES • August 2009

(millions)	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09
DOMESTIC MAIL	151.261	138.407	147.346	152.249	143.899	182.095	109.674	121.728	132.760	121.944	124.406	135.951	138.463	126.643
BULK MAIL	230.306	199.839	223.079	233.576	211.301	195.729	175.454	183.546	220.466	193.555	222.572	205.661	215.065	189.772
Domestic as % of total	40%	41%	40%	39%	41%	48%	38%	40%	38%	39%	36%	40%	39%	40%
Bulk as % of total	60%	59%	60%	61%	59%	52%	62%	60%	62%	61%	64%	60%	61%	60%

Full Rate - Small	130.985	120.258	126.992	131.772	126.497	162.222	95.252	105.145	114.860	105.437	107.679	118.242	119.996	109.820
Full Rate - Large	20.276	18.149	20.354	20.477	17.402	19.873	14.421	16.583	17.909	16.508	16.727	17.709	18.467	16.823
Clean Mail	15.382	12.882	15.657	14.781	12.604	12.655	10.486	12.042	13.594	13.081	12.486	13.492	14.698	12.514
PreSort Small	201.090	170.551	186.217	198.715	184.028	172.122	155.564	160.867	193.441	168.807	170.229	181.843	189.679	163.947
PreSort Large	13.834	16.407	21.204	20.074	14.668	10.952	9.403	10.637	13.431	11.667	39.857	10.326	10.688	13.311



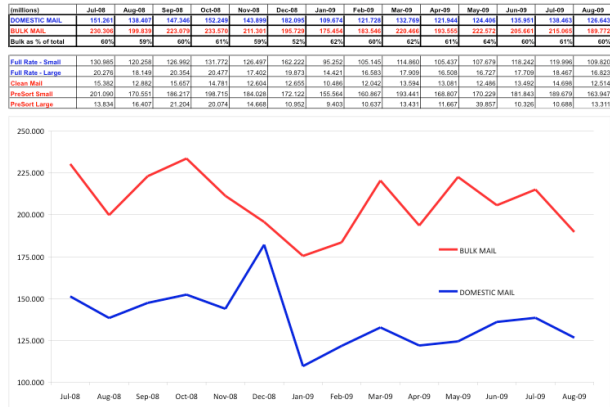
If the above is expressed in actual volumes, (Chart 2) it shows a similarity in drop of paper-mail usage between the two elements, a drop in product that we suggest should be addressed by Australia Post in ways other than a simple price increase.

We question the commercial wisdom of a price increase at a time of shrinking use of the product concerned: with 60 percent of the product being easily attached to a quality assurance inducement for its users, why does Australia Post not pursue that option instead of the anti-market growth approach of making its product more expensive (without any improvement intended)?

Alas, it is all too easy when there is a monopoly law – no need for customer relationships to be on a proper commercial supply partner basis, no need perceived to look carefully with customers at ways and means of introducing cost effective changes, no need to do other than up the price!

CHART 2

Snapshot Report • MONTHLY MAIL VOLUMES • August 2009



MMUA's quality assurance accredited [*Bulk Mail Partner Project*] mailing house members lodge daily with Australia Post some 86+ percent of the total Australian Bulk PreSort Mail product.

Having rejected without proper consultation MMUA's proposals for a better processing system (the *Advanced Network Integration* proposals that were available for early implementation), Australia Post has been considering internally its own *Alternative Lodgement Solutions* proposals since March 2007. They have the promise of identified cost effective changes but despite that foreshadowing of efficiencies to be had, cost-savings available for the plucking, without shame they have asked for a postage price increase their 30-month project ambling notwithstanding: our reaction is to oppose the increase being even considered until the Alternative Lodgement Solutions proposals are decided upon, one way or the other.

As does Australia Post itself, we view the Reserved Services as having two separate and distinct elements: Domestic Mail and Bulk PreSort Mail.

Australia Post sees Bulk PreSort Mail has having a fairly basic pricing structure based on size, regular or off-peak options of delivery, Same State, Other State, Residue and Unbarcoded Residue. This is no longer an appropriate way to price a product that is under market attack from the digital technologies now available to major mail users. It shows that Australia Post cannot move from the mindset of the statutory monopoly where what applied yesterday, applies today because there is no competition anyway and *what we say goes* but the truth of the matter is that there is competition – fierce, unforgiving, unrelenting digital technology options – competition that will relish the business opportunity to present to the major mail user an alternative to paper-mail as Australia Post slowly but surely pushes the price into areas that make the e-alternative a better business deal. In the real business world, the one where most Australia businesses operate, the continuum of suppliers form a linked business partnership: that does not apply in Australia Post dealings with those who are major users of its delivery services – *take it or leave it* is the Order of the Day and *consultation* is not in the Post lexicon.

In a normal business partnership at a time such as this the partners work together to make each other's business moire relevant to the other and thus more profitable. A price increase proposal is discussed with options for changes of goods and services on the table: but that is not what we see in this Draft Notification – there are no proposals for a better product. No proposals for faster deliveries. No proposals, in fact, for anything other than a price increase and our submission is that for a statutory monopoly – for a highly profitable Government Business Enterprise made possible only because of the financial strengths afforded by that statutory monopoly – such a simplistic approach is no longer acceptable.

Comments on Section 3 of the Issues Paper

3.1 - PRICES OVERSIGHT IN A PERIOD OF TRANSITION FROM TRADITIONAL LETTER SERVICES

Issues Paper Section 3.1

[...] The ACCC considers that the reasons advanced in support of the proposed price increases raise broader questions about the appropriate funding of Australia Post's reserved letter operations in the context of its CSOs and performance standards [.....] there has been a substantial change in the nature of Australia Post's business operations over time [.....]

[.....] Australia Post also notes that it systematically developed new revenue streams in its Parcels & Logistics and Agency Services & Retail Merchandise portfolio business portfolios since corporatisation and that "this reflected Australia Post's decision to pursue economies of scope in addition to economies of scale, thereby spreading fixed network costs both across a wider range of goods and services and also away from non traditional letter and parcel services."

This environment may raise broader regulatory policy questions about the appropriate approach to prices oversight of an industry in transition. The ACCC would appreciate the views of interested parties in this matter.

MMUA's comments:

In short our views on this matter of a "broader regulatory policy" come down to the following:

1. Australia Post 2009 is much more than the Australia Post 1989 (the year of the current Act) when it had a basic service and little more: it has shifted in emphasis and practice to positions that go far beyond its original singular functional role as the deliverer of CSO services;
2. Its secondary area of interest, the commercial areas of the non-reserved services it provides, has, in our opinion, created the need for the "broader regulatory policy" to be reviewed with the objective of breaking-up Australia Post into two separate bodies, one to meet the CSOs enabled through its statutory monopoly and the other to enable it to act in the Australian and international marketplaces as a truly competitive organisation;
3. There has been no public discussion, or inquiry, into the shift that has occurred over the past 20-years that has seen Australia Post develop into its two basic streams, the statutory monopoly (now in its third century) and the commercially competitive areas of business it is now seriously engaged in. Such a public inquiry is long overdue. A recent article in *Harvard Business Review* (July-August 2009, p86ff) gave *The Shift Index* as a "[metric by which executives can] gauge the long-term forces shaping the business environment and improve their firms' overall performance. They should (i) monitor *foundational changes* in digital technologies and public policy that could alter competitive dynamics; (ii) assess how well their companies participate in *flows* (that is, the movement of knowledge, talent and capital, focusing especially on knowledge creation and sharing), and (iii) note the *impacts* of those foundational changes and flows on markets, firms and people".
4. The statutory monopoly was granted to ensure that the CSO were met. The costs of the CSO in 1998 were \$67 million (when the *Letters* profit was \$113.3) and in 2008 they were \$104.3 million (when the *Letters* profit was \$148.5). Both ends of the decade show a profit, both ends of the decade reflect a healthy revenue for *non-reserved services* and a healthy (and commendable profit) for same.

5. The question is, of course, would Australia Post, had it to operate in a normal commercial setting where finances did not come to by way of a statutory monopoly's guaranteed cashflow and guaranteed stability been able to achieve the same financial results for its *non-reserved services*? Whatever the answer to that question the position today is that Australia Post has moved outside of its original mandate and in doing so has become more than what its statutory monopoly intended but there has not been a review of the broad regulatory framework that applies;
6. Australia Post has been providing an excellent service in the *reserved services* arena but it has a two-hundred year old culture, bred of its statutory monopoly, passed on within its staff ranks from generation to generation, that does not make it easy in 2009 for its staff to cope with what the ACCC has called "an industry in transition". We submit that what is needed, for the statutory monopoly area of Australia Post, is a regulatory approach that would render it to be part, and part only, of a wider Australian "mailing industry" in which all the stakeholders would have a strong role to play at this time of changed – and changing - communications techniques and one in which the Australia Post emphasis is shared between *service* and *partner to the industry*, with appropriate enforcement legislation and regulations to bring that about in practical terms;
7. The success or otherwise of Australia Post in its *reserved services* area is so important, with such wide-flowing impact and effect on the Australian community and economy, that it should not be divorced from direct community and industry input and oversight and this will not be achieved without early amendment to the existing broad regulatory framework;
8. The downturn in the use of paper-mail over the past few years, and the migration to digital communication options, is something that is without precedence: there are none in the marketplace who have business experience in this broad field but what all who are in the mail industry agree is that for all practical purposes paper-mail lost to e-alternatives is lost forever.
9. In the Australian marketplace, where businesses are subjected to competition, there is a compelling need to deal promptly and with technical skill and business acumen to solve the commercial problems that the transition presents but that is not the case with the protected environment of the statutory monopoly in which Australia Post is cocooned. Hence the easy solution, as we can see, for Australia Post in its monopoly protected thinking is simply to put up the postage price rather than work positively and constructively with business partners. But the truth of the matter is that in the statutory monopoly mental approach to such matters customers – what the normal business would call "partners" – have nowhere else to go with their business, so why bother consulting properly anyway? In this setting – a complaint heard across the broad spectrum of those who have to deal with the statutory monopoly – we can only ask that a full examination of this need for a broader regulatory policy – one that will change the way the statutory monopoly interacts with its customers - be made before any further postage price increases are approved.
10. A decade or so ago, Australia Post set itself upon a course of network renewal and innovative changes to the processing of mail – FuturePOST – but stopped short before all the potential of areas such as deeper sorting by Generators and/or Mailing Houses and use of current technology within areas such as operational interface between Australia Post and the Generator and/or Mailing House to obtain maximum productivity and cost effectiveness had been either sought or obtained. Our experience since 2006 has been one of frustration in trying to deal with Australia Post in these areas of modification, improvement and advancing the processing of

mail through new technologies.: they should not be rewarded with yet another postage price increase when they fail to take up the business partnership arrangements that are available.

11. We are emphatically of the view that whilst Australia Post as a government business enterprise is to be congratulated on the successes of its non-reserved services business portfolios it is not appropriate for its reserved services network to be used to provide financial security and other commercial benefits that are unique to Australia Post without an independent assessment and costing of the commercial value of access to the statutory monopoly-created network, and appropriate charging of that access and use to those non-reserved services businesses.
12. We also hold that in the light of Australia Post's own corporate decision to branch into business areas other than its statutory monopoly, it is time for the Australia Post network – in terms of the ACCC's "broader regulatory policy question" – to be seen as a commercial asset obtained solely (over the past 200 years) from the statutory monopoly and any use by Australia Post for purposes other than the reach of that statutory monopoly should see a charge being imposed on the non-reserved services products and services using it. Clearly such a charge should then be seen as revenue for the reserved services products and a factor to be dealt with – in full, open and transparent accounting terms – in any Notification for postage price increase.
13. We submit that in respect of this current Draft Notification, Australia Post by its own admission has stated that it is using the reserved services network for its non-reserved services business portfolios – no postage price increase should be considered until these matters are dealt with.

The Print Post de facto monopoly

Because of its statutory monopoly Australia Post has been able to build up a massive *de facto* monopoly in areas such as its Print Post product where the "letter" definition within the Act prevents any real competition ever likely to be established. Two instances of product (and thus sales increases and cost reduction) suggestions over the past few years show the inability of Australia Post to deal with anything out of the ordinary when it comes to making changes of even examining something that falls outside of the norm:

- Printing and software advances have made customised magazine/newsletters easy to produce but the *de facto* monopoly puts a barrier into play and when we suggested a new approach – our *Format Variable Mailpack* proposal – it was rejected out-of-hand, not even to be discussed because the Letters Group considered that it would require "changes to the Act" and they were not prepared to enter into dialogue - only a statutory monopoly could breed amongst its staff such an attitude in a time of industry transition – something needs to be done to rescue Australia Post from itself!
- The Group Manager Letters in November 2008 made statements indicating that Australia Post was interested in growing the magazine postal market (subscription sales as distinct to newsagency sales) – our area of expertise in these matters falls within preparing and lodging such magazines into the Australia Post network and we suggested that a new quality assurance grading of *PIP-MAGAZINES* for accredited (ie Bulk Mail Partner Program) mailing houses might be a way of shaving-down time elapsed between the magazine coming off the printing machine and delivery to the subscriber – an obviously valuable marketing tool to all interested in seeing magazines a-by-post increase in numbers. From March 2009 when the idea was suggested, to today, Australia Post has been silent on the suggestion: choosing inaction over working with us to see what can be done. The point to be made is not that it is a good idea because that is yet to

be proven but rather that in the monopoly-induced culture that controls these matters, it seems all too hard to deal with something innovative, no one cares, no one acts and at the end of the day there is no independent authority in place to deal with issues such as this that arise within the *de facto* monopoly of Print Post and the result is, for all his fine words, there is nothing to make the Group Manager Letters or his staff act on suggestions.

Finances and the suggested broader regulatory policy review

The financial stability, cashflow and investment capacities that are tapped into by Post for its many non-Reserved Services activities all flow from the statutory monopoly and have enabled Australia Post, for better or for worse depending on one's personal viewpoint on such matters, to venture into fields that were neither envisaged nor intended when the statutory monopoly was created.

In 1998 Post's annual report showed its Revenue in two basic groupings:

- *Reserved*, \$1644.5 (Profit before interest and income tax expense, \$113.3) and
- *Non-Reserved*, \$1647.6 (Profit before interest and income tax expense, \$236)
- *Total Revenue*, \$3292.1 - *Total Profit before interest and income tax expenses*, \$349.3

During the 1990s, and into the 2000s, MMUA argued strongly within Canberra circles for there to be a better segmented accounting and reporting regimen for the non-reserved services and in due course changes were made (including the annual cross-subsidisation exercise). We submit in follow-up that it is now time for the two arms of Australia Post to be separated – *Reserved Services* for the provision of the CSOs is an entirely different proposition (especially in these times of transition) to the commercial activities of the *non-Reserved Services* groupings and we believe that the regulations applicable to Australia Post should now reflect that difference. The starting point in our view is to reject the current Draft Notification's proposal for increased postage prices, and to see the ACCC run a public inquiry into all these matters and recommendations therefrom to be presented to the Federal Government as soon as possible.

In 2008, Australia Post's annual report reflected the legislative changes for record keeping and reporting introduced in between the 1998-2008 years and the Revenue was shown in four basic groupings:

- *Letters*, \$2731.2, (Profit before interest and income tax expense, \$148.5);
- *Parcels & Logistics*, \$1315.1 (Profit before interest and income tax expense, \$246.4);
- *Agency services and Retail Products*, \$713.4 (Profit before interest and income tax expense, \$86.5);
- *Other & Unallocated*, \$128.6 Profit before interest and income tax expense, \$102.8)
- *Total Revenue*, \$4888.3 - *Total Profit before interest and income tax expenses*, \$561.9

As we all know, the statutory monopoly was granted to ensure that the CSO were met. The costs of the CSO in 1998 were \$67 million (when the *Letters* profit was \$113.3) and in 2008 they were \$104.3 million (when the *Letters* profit was \$148.5). Both ends of the decade show a profit. Both ends of the decade reflect a healthy revenue for *non-reserved services* and a healthy (and commendable profit) for same. The question is would Australia Post, had it to operate in a normal commercial setting where finances did not come to by way of a statutory monopoly's guaranteed cashflow and guaranteed stability, been able to achieve the same financial results for its *non-reserved services*?

Whatever the answer to that question the position today is that Australia Post, with heavy reliance on the network created through the statutory monopoly, has moved outside of its original mandate and in doing so has become a successful business separate and distinct to

that of the original statutory monopoly's CSO and in this time of great technology-driven change a new regulatory structure is needed.

We do not argue against such an expanded role for Australia Post but rather that it has been able to do so by building upon the trading advantages afforded it through its statutory monopoly without those unintended consequences ever having been subjected to parliamentary or other full, open and transparent examination to see what is in the best interests on Australian competition and consumer policy and practice. As we said above, we submit that until such time as that has been done, Australia Post should be denied any further increases in the prices of products that fall within its statutory monopoly given the excellent financial surpluses it has achieved within the *reserved services*.

Australia Post has a unique community-by-community presence across this island continent, one that has changed dramatically over the past 10-15 years. The constant complaint of long queues in local post offices is a regular reminder of the important role that it has, and the recent announcement of an IT spend of some \$700 million to improve its e.network clearly indicates where Post itself that community presence is headed. Post has embraced a commercial role in the ordinary marketplace, a role that will increase its importance in Main Street and shopping malls around the nation in towns large and small, urban, rural and remote.

It is role that substantially clouds such matters as approving another postage price increase.

The purpose of the statutory monopoly was – and is still – surely to enable the provision of the *reserved services* and its allied CSO and not to act as a springboard for financing a range of services that can be provided by non-government business enterprises operating under normal commercial constraints and competition.

Australia Post is now a highly successful Government Business Enterprise, competing openly with many of its own *reserved services* customers from an unfair trading advantage position, one that should be recognised by the ACCC. It is not that there is an objection to the commendable entrepreneurial endeavours (and successes) of Australia Post in the *non-reserved services* areas but rather that there is an objection to the network established under the statutory monopoly for meeting the CSO continuing to be rolled – without proper costings and accounting processes - into the business activities pursued outside of the *reserved services*.

3.2 - SCOPE AND DURATION OF AUSTRALIA POST'S DRAFT NOTIFICATION

Issues Paper Section 3.2

1. *Does the information about Australia Post's intention to increase the prices of its reserved letter services in 2011/12 provide certainty to customers about future prices for reserved services?*
2. *One option available to the ACCC is to consider the need for price notifications over the period 2010/11 to 2011/12 in its assessment of Australia Post's proposal. In the light of that option what are your views on:*
 - *the appropriate sharing of volume risk (i.e. the extent to which reserved letter volumes vary from those forecast in this notification) between Australia Post and its key customers;*
 - *whether Australia Post should be rewarded for reducing its costs below the ACCC's forecasts in future price notifications;*
 - *if the 2009 model is used to assess future price notifications, how should variances between actuals and forecasts be treated?*
 - *what would constitute a 'significant' variance?*

MMUA's comments:

Question 1 - The answer is simply, no.

As the ACCC is aware, last year the MMUA put a suggestion to both the ACCC and Australia Post to the effect that a less formal regime might be considered in line with annual review of pricing and that there be a form of 3-year notice provided to give the business mail industry ample time to plan for cost increases. When this was put to Australia Post it summarily rejected the approach.

We believe that rejection came from a fundamental lack of understanding of how the real business world operates in respect to partnership with all of the suppliers of goods and services. Australia Post's untrammelled statutory monopoly and its internal hierarchical staffing structures effectively stifle any move to introduce normal business arrangements on matters such as product pricing discussions – there is no such word as “consultation” (within the normal business partnership meaning of that word) within the Australia Post lexicon when it comes to *reserved services* pricing.

Consequently, our considered answer to Question 1 is a straight-forward “no”. The only “certaint[ies] about future prices for reserved services” that the Draft Notification provides are:

1. that Australia Post will be seeking annual increases – Financial Year 2010, FY.2001 and FY.2012;
2. and if it can get away with it without having to subject itself to the checks and balances imposed by legislation that this current oversight and examination process provides will do just that;
3. such price increases will only hasten the migration of present day paper-mail users across to the many current e-communication options available, not to mention those that are working their way into the business world in this time of profound e-technology change
4. The Draft Notification's lack of vision as to ways and means of providing paper-mail answers or alternative strategies to combat the global push to e-delivery underscores the mail industry's impression that Australia Post sees only one solution and that is to increase postage prices in FY.2010, FY.2011 and FY.2012.

The mail industry, however, sees that pathetically inadequate strategy as one that will only drive Bulk PreSort Mail customers further away from paper-mail. Our offer to work through these matters in a business partnership setting (first discussed in broad principle with the ACCC) made to Australia Post last year, dismissed with scant consideration by Australia Post (twice), shows decisively the ossification that exists when it comes to approaching this normal business problem from a different standpoint to that of the existing protectionist mentality born of the statutory monopoly's cocoon.

The information provided within the Draft Notification is full of “ifs” and “maybes” and qualifications and uncertain guesswork for the future – the vagaries that abound prevent the Australian mail industry from having only one certainty and that is that Australia Post will continue to see itself, not as a servant of the Australian business community and the nation as a whole to deliver its CSOs but as a protected statutory monopoly that conducts its *reserved services* business as it wishes without normal business partnership relationships applying and works to protect any weakening of that monopoly, the marketplace demands and needs notwithstanding.

Question 2:

In the absence of any detailed discussion process:

- either through a public inquiry or workshop conducted by the ACCC in the context of this current Draft Notification procedure,
- or through a parliamentary process such as a hearing before the Senate Standing Committee on Environment, Communications, Information Technology and the Arts

where the whole gamut can be run of what *communications* means in this day and age to the users of the Bulk PreSort Mail monopoly services, and how the users of that service have, and are, embracing all that *information technology* allows by way of cost effective communication and where Australia Post can be called to account on such matters as are relevant to approval of yet another postage price increase, MMUA is vehemently opposed to any action that would provide Australia Post with any avenue of escape from the current legislation's requirements of a separate Notification for each price increase sought.

Proposal - Sharing of volume risks with "key" customers – first of all what is the definition of "key" when it applies to a customer? And for that matter, what does the word "customer" mean? Australia Post has confused thinking on "who is the customer?" already – it has difficulty in coming to grips with the difference between a customer who creates the mail piece (the Generator), and a customer to whom the Generator has outsourced all the work attached to preparing the mailpiece (the Mailing House), and a customer who pays the postage account (ie, is that the Generator or the Mailing House or the Australia Post Charge Account holder?).

In the wonderful world of non-competition that the statutory monopoly has built for Australia Post, "customer" is a word with truly *Alice in Wonderland* mad tea-party application – "customer" means what Australia Post says it means – but in the competitive world outside of those hallowed grounds, "customer" means something much more than that.

The idea that to all that confusion (and manipulation to suit itself on Australia Post's part) over the word "customer" will be added another uncertain waffly qualification of "key" beggars description.

Who are these supposed "key customers" – are they the select group of customers who sit in the special boxes at football and tennis matches, or get to be invited to the lavish Christmas parties, or "industry" golf days – or are they determined on the basis of number of Bulk PreSort mailpieces fed into the Australia Post – or well suffice it to say for the purpose of this comment on this matter, the ACCC will be failing in its task if it does not obtain a clear, unqualified, no mental reservation allowed, definition from Australia Post as to what is meant by "key" and what is meant by "customer" and then, just to be sure, what is meant by "key customer".

As to the suggestion of *appropriate sharing of volume risk* – the comments regarding the need to define terms laid out in the previous paragraph apply equally here. What, in this context, does the word "appropriate" mean and who will define it? It seems to us that this would be a lawyer's delight and such an imprecise, subjective word, when linked with Australia Post's track record of using *Postglish*, is not at all conducive to entering into a business contract to divvy up financial rewards and/or penalties – and the same applies to *volume risk* as a phrase when applied to highly subjective areas such as predicting what Bulk

PreSort Mail volumes are going to be over the next few years in this time of profound change.

In summary therefore, our attitude to this proposal is: **absolutely no sharing.**

There is no commercial reality in this proposal at all and apart from the fact that it seems to be creating a two-tiered customer level (key and non-key) within what is supposedly a uniform and national CSO-based statutory monopoly service, even for a government business enterprise it goes against all concepts of business partnership. Our members would embrace the concept of being able to say to all of their respective business customers and partners that they reserve the right within each contract to increase automatically the price if their costs were to increase regardless of the terms and conditions of the contract – but their customers are highly unlikely to agree to such a business deal. Australia Post in their Draft Notification say that they have done the financial homework and analysis and have submitted their request for an FY.2010 price increase based on that work, this proposal allows the monopoly something that no other business partner would ever get – upwardly mobile pricing based on an anticipated Australia Post inability to control costs and, from our experience over the past 3-years with them, inability to think laterally and strategically and adopt new technology and new practices to reduce costs.

Proposal – rewards for reducing costs below ACCC's forecasts –

This proposal is based on a false premise. Australia Post has not followed through on all the potential cost savings that are available to it from the earlier FuturePOST project, nor has it been prepared to deal seriously with all the costs savings that MMUA proposed in 2007 through our Advanced Network Integration and e-Pre Lodgement Advice proposals, nor has it advance appropriately its own 2007 proposals for Alternative Lodgement Solutions. Each of those proposals contain major cost savings for the having.

In our opinion, the current request for a Bulk PreSort Mail price increase should be refused because of the unrealised potential in those three areas.

In our opinion, until the baseline is adjusted to incorporate such changes, the ACCC's forecasts in future price notifications should not apply. To do otherwise is to reward inaction and failure to run Australia Post's statutory monopoly on a proper commercial basis. The *reserved services* business is only one of the businesses within the Australia Post stable and we have suggested elsewhere in this submission that it is time to pull that *reserved services* business into a separate corporate structure and to operate the *non-reserved services* businesses in their own corporate structure. Until that is done there will always be the laid-back approach to cost savings, realisation of potential productivity gains, and changes in methodology and technology that can be made. The old business question, when asked of the *reserved services*, "if we have an adequate way do we bother to look for a better way" is sadly answered in the negative.

The *reserved services* business unit is the last major area of Australia Post operating under the monopoly umbrella. The recent announcement of a \$700 million investment in technology upgrade was for *non-reserved services* across the network established over the past two-hundred years by the *reserved services* area of operation. Plans for moving into the insurance business recently announced show clearly that, innovation, initiative and good old-fashioned business acumen is at work in the non-monopoly staffing areas of Australia Post where they have to operate and compete as a commercial organisation where competitive price points and customer churn are normal. It's a situation that obviously does not apply in the *reserved services* area of Australia Post and the mindset needs to be changed so that a question such as *reward for controlling costs* would be answered there, as it is daily in every other business in this wide brown land by a single word – *profit* – that's the reward,

that's the empowerment, that's the motivating force what the *reserved services* staff need is not a *reward for controlling costs* – to which we are bitterly opposed – but a 21st Century lesson in *RealKommerce 101*.

Proposal – variances in the future based on 2009 model –

Price is not the only factor that can be changed to affect an organisations' profitability. The ACCC will be well aware of the fact that over the past two decades the average laser/mailpiece price (which includes all the elements from paper through to lodgement) has halved but in the same time Australia Post has repeatedly increased the price of the postage stamp and now wants to do so in FY.2010, FY.2001 and FY.2012 whilst, at the same time, avoid completing the changes still available in FuturePOST and adopting the other changes outlined earlier. We find this almost arrogant disregard of the responsibilities that surely must apply to a statutory monopoly.

What is needed in this proposal is for the ACCC to open up all the areas that impact on an organisation's profitability and put the spotlight of scrutiny upon such areas as costs, product lines offered, sales and marketing, overheads, supply costs, licence fees, site costs, labour ratios, pick-up and delivery schedules – to name but a few – and to treat Australia Post as if it were a normal business venture where variances between actuals and forecasts and management reviews and trimmings take all such elements into account as matter of course.

Proposal - defining 'significant' variance

What is "significant"?

Our experience with Australia Post negotiators over the past 5-years is that any word that has a subjective quality to it will lead to endless and unsatisfactory debate cum discussion with its personnel. But to answer the question, how about "greater than plus or minus 'x' percent" and let Australia Post start the process of definition by saying what it considers "x" equals and then throwing the debate open to all of its customers – "key" and otherwise?

3.3 - AP's FORECASTS OF RESERVED SERVICES MAIL VOLUMES FOR THE PERIODS OF FY.2010, 2011 and 2012

Issues Paper Section 3.3

1. *Do you think Australia Post should seek price increases in the context of declining volumes? What impact do you consider increases in the price of domestic reserved letter services will have on the demand for those services.*
2. *Do you agree with Australia Post's volume forecasts by category of reserved letter service?*
3. *Are these forecasts reflective of the long-term trend of demand for Australia Post's mail services and your expectations about future usage?*
4. *What impact do you consider the decline in current economic activity will have on volumes of Australia Post's reserved services?*
5. *If there is an impact, how long do you expect that this will persist?*
6. *Do you think that the long-term trend toward consolidation, rationalisation, and substitution will be affected by the recent downturn in economic conditions?*

MMUA's comments:

Question 1 - We have made our view clear throughout this paper. There should be no Bulk PreSort price increase at this time.

Major mailers no longer see the budget item as *postage* but as *communication* and that is the starting point: is the paper-mail option better, cheaper, as effective as, the e-alternative(s) on offer? The *communication* budget allocation is, according to our members' reports, not typically increasing and therefore an increase in *postage* costs will make the transition to one of the *e-communication* alternatives more attractive to the procurement office personnel who these days are increasingly in charge of deciding the *communication* medium to be used.

We should never lose sight of the fact that Australia Post's *reserved services* is for the benefit of the nation, not some latter day version of a Divine Right of Monopoly bestowed upon it for its own self-perpetuating enjoyment. The fact that the *Letters* reserved service area is not the profit machine it once was, and that Australia Post has moved so successfully into the Retail, Parcels and Logistics businesses where volumes, revenues and profits are trending upwardly so well, does not alter the fact that as a monopoly it is under no real commercial pressure (such as survival) to improve its *reserved services* position in the market.

MMUA has from its experience in dealing with Australia Post over many years – and the last 5-years in particular - in trying to make the *reserved services* – and the Bulk PreSort Mail area – work more efficiently, has come to the conclusion that irrespective of what the chairman, managing director and Board members think they are doing, others in the *reserved services* area of their Corporation need to become serious about addressing the problems that exist from the falling demand for Bulk PreSort Mail or they should step aside and open up the market to competitors to spur on the very important economic factor of the Australian mail industry and all its support industries.

Questions 2, 3, 4, 5 and 6

The following actual mail volumes for the past 14-months charted in the Snapshot Report below (the same Chart 2 as referred to above) show a trend in the two areas of mail: **Domestic** (ie mail from the red letter box at the corner of your street, and lodged at the local post office) and the **Bulk PreSort Mail** in which we are primarily interested.

Domestic Mail is running at approximately 40 percent of all *Letters* mail handled, and Bulk PreSort Mail is running at approximately 60 percent.

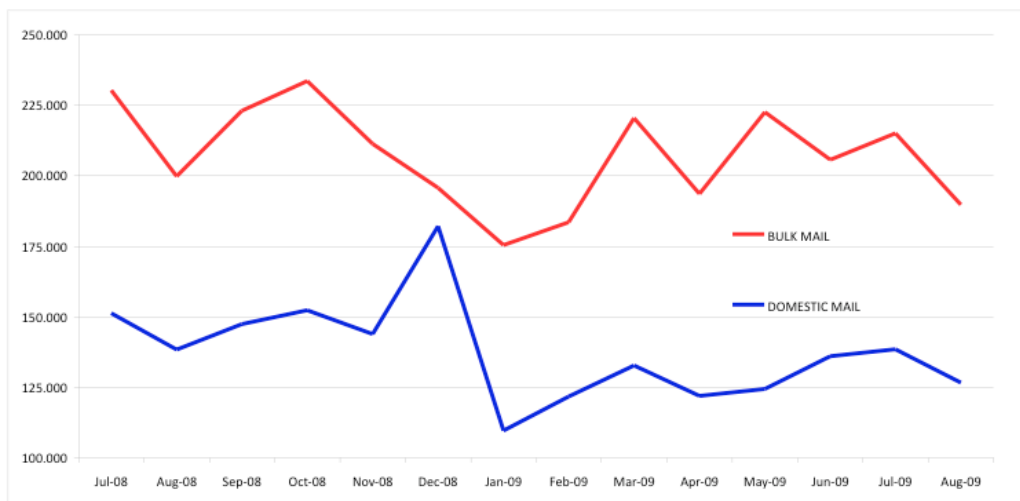
Both groups are showing a downward trend with the Christmas Domestic Mail an obvious exception. Australia Post's forecasts are, in our opinion, like all such forecasts, neither to be accepted at this time of dramatic change in *communication* methodology nor to be rejected. We agree with the trend they have shown but the numbers will no doubt vary – we have, however, no alternative set of figures to suggest and the best we can offer is to say that all of our members are reporting great interest in finding e-alternatives to paper-mail and some are projecting being non users of paper-mail within the next 5-years.

Clearly, Australia Post's simplistic approach to dropping mail volumes to increase the price will only hasten the e-transition process. Australia Post is going to see the rigidity of its monopoly citadel mentality increasingly inadequate to deal with the marketplace's pressures and it ought to be encouraged by the ACCC pushing it to engage properly with private industry to find ways and means where its fixed cost structures can be modified to better provide the CSOs for lower costs.

CHART 2

Snapshot Report • MONTHLY MAIL VOLUMES • August 2009

(millions)	Jul-08	Aug-08	Sep-08	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09
DOMESTIC MAIL	151,261	138,407	147,346	152,249	143,899	182,095	109,674	121,728	132,769	121,944	124,406	135,951	138,463	126,643
BULK MAIL	236,306	199,639	223,079	233,570	211,301	195,729	175,454	183,546	220,466	193,555	222,572	205,661	215,085	189,772
Bulk as % of total	60%	59%	60%	61%	59%	62%	62%	60%	62%	61%	64%	60%	61%	60%
Full Rate - Small	130,985	120,258	126,992	131,772	126,497	162,222	95,252	105,145	114,860	105,437	107,679	118,242	119,996	109,820
Full Rate - Large	20,276	18,149	20,354	20,477	17,402	19,873	14,421	16,583	17,909	16,508	16,727	17,709	18,467	16,823
Clean Mail	15,382	12,882	15,657	14,781	12,604	12,655	10,486	12,042	13,594	13,081	12,486	13,492	14,698	12,514
PreSort Small	201,090	170,551	186,217	198,715	184,028	172,122	155,564	160,867	193,441	168,807	170,229	181,843	189,679	163,947
PreSort Large	13,834	16,407	21,204	20,074	14,668	10,952	9,403	10,637	13,431	11,667	39,857	10,326	10,688	13,311



3.4 - THE IMPACT OF AP's CSOs ON THE COST OF PROVIDING ITS RESERVED LETTER SERVICES

Issues Paper Section 3.4

1. What are the key growth areas in Australia Post's delivery network?
2. Do you agree with Australia Post's forecast increase in delivery points?
3. To what extent do you consider that the costs of providing Australia Post's letter services are predominantly fixed and invariant to volume declines?
4. Does this vary with changes in volume depend on the particular network function, i.e. sales and acceptance, processing, transport and delivery?
5. Are there elements of these functions where costs are more variant with changes in volumes?

MMUA's comments:

Question 1 – Key growth areas

Question 2 – Australia Post's forecasts

The quarterly PAF (Postal Address File) statistics are MMUA's only resource to answer Question 1 which anecdotally has general marketplace credence as being that with the demographic shift towards medium density living it is reasonable to assume that new delivery points (cf PAF v2006.4, 11.4 million to PAF v2009.4, 12.3 million) will occur mainly in the existing network's reach and would therefore be of marginal overall cost as it will be consumed within that existing service.

We would not question Australia Post's forecasts: obviously their knowledge of such matters is worthy of acceptance.

Question 3 – Fixed and invariant costs

Question 4 – Variation from changes in volume

MMUA does not have sufficient knowledge of the internal workings of Australia Post's accounting systems to be able to answer this question other than to say that there is obviously some form of *break even point* – whatever it might be called where the volumes up or down reach the maximum or minimum level. The all-important postie on the beat, for example, has weight and volume levels on an agreed scale but will a decrease in volumes for the individual postie's beat result in that beat being enlarged? We do not have the answer.

What we would suggest however is that in this Draft Notification process the time is right for the recognition of the vital, critical service provided by the maintenance of the CSO. Many of our members, financial institutions for example, are legally heavily dependent on Australia Post's CSO being fulfilled but is time for the whole concept and expectations of CSOs to be re-examined in the interests of keeping costs down?

We suggest that there are fixed costs saving opportunities available through a rationalisation of the CSO that might see, for example:

- Removing roadside red mailboxes with all the associated Monday-Friday infrastructure needed to clear them within the 6pm deadline;
- Reduce the [where currently applicable] daily mail delivery to every second day delivery;
- Utilise different transport infrastructures for the bulk movement of mail, opening it up to non-Post trucking by tender;
- Given the success of franchising the local post office, and parcel delivery contracting, open all areas of Australia Post's monopoly operations to franchising or tendered business, changing the role of Australia Post from direct hands-on in as many areas as feasible to one of management – this could include street delivery where, were the venture to flourish, the move could introduce competition to the Print Post service delivery service as a side benefit.

In this fourth-century of communications in Australia, we do not see the long-term viability of the Bulk PreSort Mail market as we know it today unless the whole industry is considered in a fresh light – the first step is to refuse the price increase, the second is to see the ACCC come down on the side of change for the sake of introducing competition.

Question 5 – Element more affected by changes in volume

In short – mail lodgement and processing; transport; labour and final mailbox delivery.

3.5 - AP's FORECASTED PRODUCTIVITY PERFORMANCE, ITS INTERNATIONAL BENCHMARKING STUDY AND ITS VIEWS ON THE ALLOCATION OF PAST PRODUCTIVITY GAINS BETWEEN ITS STAKEHOLDERS

Issues Paper Section 3.5

1. *To what extent should the ACCC have regard to Australia Post's past and forecast productivity performance in assessing the efficiency of the costs that it is seeking to recover from consumers through prices?*
2. *Are the postal operators which Australia Post's productivity has been benchmarked against appropriate, or are there substantial differences in the nature of the selected postal operators operations?*

3. *Should other international postal operators have been included in Australia Post's benchmarking study?*
4. *If so, on what basis?*
5. *Are the adjustments made to the international benchmarking study to account for mail density and customer density appropriate?*
6. *Are there any other significant differences between the identified international postal operators that should be incorporated into the study?*
7. *Australia Post's productivity dividend study indicates that the productivity gains that it has made over the period 1998 to 2009 have been captured by consumers and labour (contractors and staff). Do you think that this is appropriate?*

MMUA's comments:

MMUA's experience during the 2008 Draft Notification inappropriately named "consultations" wherein the Letters Group withheld the vital, materially important productivity report of that Draft Notification as well as their non-honouring of the terms of the 2001 AP-MMUA Consultation Protocol, soured the members concerned to the extent that they have been reluctant ever since to work with Australia Post in this area. For that reason we have not been in a position to examine in detail the 2009 reports. Our only comments in this sub-section are:

1. As we said in our comments for the 2008 Draft Notification, there remain many areas within the FuturePOST program still untapped that would bring productivity gains – Australia Post consistently sends people without operational knowledge and experience to work with our members in these matters and the efforts become lost in a murky haze of bureaucratic red-tape muddling;
2. The same applies to the Bulk Mail Partner Program – acknowledged by Australia Post in some circles as having brought productivity gains and benefits - but relegated for reasons best known to Australia Post itself to the non-operational Letters Group where it languishes as a minor element in a large portfolio of interest and without any seeming interest in bringing about changes that will result in operational efficiencies and cost savings;
3. The ACCC should not rely on Australia Post's productivity reportage. What is needed is an independent panel of experts and industry stakeholders to validate Australia Post's data and forecasts;

3.6.1 - THE EFFICIENCY OF THE OPERATING COSTS OUTLINED BY AP

Issues Paper Section 3.6

- *What are your views on the efficiency of Australia Post's operating costs (including labour costs, contractor costs, accommodation and depreciation)?*
- *What factors do you consider will affect Australia Post's cost structure over time?*

MMUA's comments:

We feel restricted in commenting on these matters in the absence of being able to conduct a detailed forensic accounting and financial management exercise which, to be frank, although not beyond our reach if we were to call on members with staff expertise in such areas, is at first approach beyond members' desire to become involved into such an almost theoretical exercise when the realities of dropping mail usage is seen to be of far more interest than

such work. We appreciate that that is not necessarily the correct or right approach but nevertheless in *RealKommerce* terms, it is one that our members view as the most practical.

Within the ACCC's comments regarding the final model the ACCC considers appropriate (page 174, ACCC Final Decision, 2008 Draft Price Notification) there is the following:

“These formulae indicate that the maximum allowable revenue a regulated firm should receive in each year should cover the day to day running costs of the business including depreciation and taxation, as well as a reasonable return on and of capital”

that has raised for us the question of what is a “reasonable return on and of capital” when it is applied to a statutory monopoly?

In turn that brings us again to our contention that Australia Post, in its third century of operation, a century with amazingly different options available to its customers for their communications needs, should no longer work under the current regulation regimen that allows it to operate as it has been doing as a government business enterprise riding piggy-back on the financial security and network of its primary CSO function, the statutory monopoly from whence all of its commendable business results flow. Surely it goes without saying that there is a fundamental difference as to what a “reasonable return on capital” is for a business in the Australian marketplace, subject to competition, and what is to be expected for a government service for the people of Australia – urban, rural and remote?

These are fundamental questions of political principle that we suggest should not be avoided or swept aside. They cloud the analysis of the costing base(s) used to calculate the suggested price increases (already clouded by the differences inherent in handling Domestic Mail and handling Bulk PreSort Mail) and they bring into play, at least as far as MMUA is concerned, the question of whether or not they are truly answered in the annual cross-subsidisation analysis where so much of the information that is available to parties such as MMUA is withheld by both Australia Post and the ACCC on the grounds of its being commercial-in-confidence. In other words, in our opinion, until it is accepted that Australia Post cannot have it both ways – either it operates only as a protected statutory monopoly, or it operates in the marketplace in fields other than the CSO's *reserved services* field of endeavour and thus should be subjected to a breaking-up of its two arms of activities.

The current Draft Notification's proposal for a price increase where these two separate and distinct arms of operation are mingled and mixed into a single enterprise defies parties outside of Australia Post and the ACCC being able to comment on this sub-section's questions and it will always be thus until our proposal of separation are accepted and applied.

As to the question of “what factors will affect Australia Post's cost structure”, the main one that our members see, the one they come face to face with day after day, is that Australia Post's protectionist mentality translates into an other wordliness approach to normal commercial timelines and pressures and as time goes on, and as the e-alternatives bite deeper into the Bulk PreSort Mail pie, that will be to the detriment not only of Australia Post itself but of the mail industry that its two-century old monopoly says it should be serving.

3.6.2 - AP's PROPOSED FUTURE DELIVERY DESIGN (FDD) PROGRAM

Issues Paper Section 3.6.2

1. *Are the key elements of Australia Post's FDD program appropriate?*

2. Are there other projects that Australia Post could implement to reduce its costs and improve the efficiency by which it provides reserved letter services?
3. Do you consider the pace of Australia Post's implementation of technological changes (such as enhanced OCR software and small letters sequencing) is consistent with other postal operators overseas?
4. Will the FDD be effective in constraining growth in Australia Post's operating expenditure over time?

MMUA's comments:

Question 1 – Not at all. They lack reference to MMUA's suggestions from March 2007 for a more advanced network integration and use of e-PreLodgement Advice systems, as well as Australia Post's own Alternative Lodgement Solutions (PIP2) project which commenced in March 2007 under the aegis of their Revenue Protection Group. Because of that omission of these two sophisticated proposals for use of modern-day technology the [Appendix 17] FDD Program is incomplete and should be rejected by the ACCC until such time as either MMUA's proposals or those of the Revenue Protection Group are written into it. We also submit that as Australia Post has allocating funding (in the millions of dollars) to the PIP2 Project, appointed consultants (The Litmus Group who were used extensively for the FuturePOST Project), entered into company-specific research with two mailing house companies (whose daily Bulk PreSort Mail lodgements probably run to some 65-75% of the total for each day) and engaged the MMUA through its Mailing House Chapter (Bulk Mail Partners MD/CEOs Peer Group) in meetings and consultation, this current price increase proposal for Bulk PreSort Mail should be deferred for further consideration until such time as the result of the PIP2 Project's investigations are determined and available in a public report.

Question 2 – our answer to Question 1 covers this question.

Question 3 - No. In FuturePOST Australia Post had the declared intent of introduce a world-first, world's best practice network – it is fair to say that the consensus of opinion is that, working with its customers (and we think, particular through the MMUA's own network of Generator, Mailing House and Supply Partner networks) it achieved those targets. However, the opinion today is that whilst they were indeed once the world's benchmark with the introduction of FuturePOST (and winners of Mail World Awards accordingly) they no longer are and sadly let their leadership lapse.

Question 4 – Not in isolation.

3.6.3 - AP's PROPOSED ASSET BASE AND CAPITAL EXPENDITURE FOR THE DOMESTIC RESERVED LETTER SERVICE

Issues Paper Section 3.6.3

- *The ACCC would appreciate views on the level and composition of proposed capital expenditure for the domestic reserved letter service*
- *Is Australia Post's approach to funding its forecast capital expenditure appropriate?*

MMUA's comments - We do not wish to comment on this section.

3.6.4 - AP's RETURN ON CAPITAL

Issues Paper Section 3.6.4

- *Are Australia Post's WACC parameters appropriate?*
- *A benchmarking approach is ordinarily taken in estimating the equity beta parameter. Which domestic and*

international firms are most comparable to Australia Post's operations and should be used in benchmarking this parameter?

MMUA's comments - We do not wish to comment on this section.

3.7 - THE STRUCTURE OF AP's PROPOSED PRICE INCREASES

Issues Paper Section 3.7

- *Are the letter pricing principles that Australia Post has had regard to in proposing price increases appropriate?*
- *Are the margins proposed by Australia Post between its PreSort and other reserved letters sufficient?*

MMUA's comments:

We find it difficult to comment in depth on your specific questions not having discussed with Australia Post in 2009 the elements contained in their Draft Notification and referred to in the ACCC Issues Paper in this sub-section. As explained above our members in dealing with the Letters Group of Australia Post in the 2008 discussions were not provided with material information in time for the scheduled meeting and subsequently passed resolutions to the effect that trying to work with Australia Post under such inappropriate consultation techniques was worthless. Having brought this to the same Letter Group's attention early-2009 and having been given an assurance of "getting back" on the matter, and that not being done, there was an unwillingness on our members' part to go through the dishonoured and farcical Letters Group "consultation" process again in 2009.

Having said that, our general reaction to these two questions can be summed up as follows:

We have already stated that we do not consider that the simplistic *Small* and *Large* approach to pricing is appropriate in these times of changing marketplace circumstances for *communications* in general and *paper-mail* in particular: our comments earlier in this submission show an alternative approach to an in-principle concept of structure which we feel should be adopted;

Given the work that is done pre-lodgement for Bulk PreSort Mail, and the extension in that area that could be done were Australia Post want to do so, the difference between *Ordinary Letters* pricing and that of *Bulk PreSort Letters* does not properly reflect the difference in costs to Australia Post for the handling of *Ordinary Letters* as opposed to handling *Bulk PreSort Letters*, the price of the *Ordinary Letter* should be much higher than either the existing 50¢ or the proposed 55¢;

Without being able to quantify a suitable price proposal, *Impact Mail* is felt (judging by marketplace comment) to be too high to encourage greater usage – if the approach to structuring pricing were to be that of all stakeholders having input to pinpoint market potential growth a joint partnership exercise then initiatives such as *Impact Mail* would have greater value and greater use;

The continuum of paper-mail incorporates many different industries – paper, printing, software, plant and equipment, transport and so the list continues and, of course, the Mailing House. All of the participants report similarly that over the past decade there has been a quantum shift as to the impact of the postage cost: whereas 10-years ago it could be said that the PreSort Mail market was inelastic, ie volumes did not fluctuate significantly due to pricing changes, with the introduction of the mass of e-alternatives now available the PreSort Mail is very much price elastic. The result is that whilst Australia Post seeks yet another postage price increase – and foreshadows more in the next two financial periods

after FY.2010 – out in the real world of non-monopoly marketplace competition, the market itself is generally exerting downward pressures on all the goods and service that bring the Bulk PreSort Letter to lodgement with Australia Post: each of the industries involved has seen unprecedented technological changes over the past decade, incurred investment costs to keep up-to-date and had to embrace long payback period projections – to see postage price increases drive current Bulk PreSort Mail users further into the arms of the e-alternative communication industries is hard to justify given that Australia Post has a unique, profit-making, business in its statutory monopoly (quite apart from the extremely profitable non-monopoly businesses it has built up using as a kick-off the non-risk financial foundations afforded by the statutory monopoly's unchallengeable position).

An immense debt – if that is the correct word – is owed by Australia Post to mailing houses who have over the past 10-15 years incurred heavy costs to introduce plant and machinery, new techniques and adapt Australia Post's FuturePOST requirements in order to facilitate a standardised preparation, lodgement and acceptance system that is the equal, if not the best, available in the world. All of that for a statutory monopoly, making good profits in this area of Bulk PreSort Mail when we would question whether making a profit is what should be the objective – or view is that a statutory monopoly should be there to provide a service to the general community and the industries (and the people employed therein) associated with it – asking for a postage price increase at this time does not meet the plumbob's measure.

I should be pleased to elaborate on any of the above points, or to organise for meeting(s)_ with interested members to assist with the ACCC's assessment.

Yours sincerely

John Gillroy
Chief executive officer