



Printing Industries Association of Australia

Submission to the ACCC's Australia Post's Draft Notification Issues Paper

11 September 2009



Association and industry background

The Printing Industries Association of Australia (*Printing Industries*) is the peak advocate and support organisation for companies operating in the print, packaging and visual communication industry in Australia.

The Association is an independent member based organisation, representing large, medium and small businesses. The Association has a diverse membership representing some 2000 companies and includes printers, desktop publishers, graphic designers, prepress houses, publishers, mail houses, software and hardware manufacturers and distributors, paper and paper board manufacturers, paper merchants, ink manufacturers, manufacturers and suppliers of printing equipment and consumables, packaging and flexible packaging, paper converting, binding and finishing, communication and media services.

Interest in review

Printing Industries welcomes the opportunity afforded by the Trade Practices Act 1974 to provide feedback on the proposed price increases by Australia Post to its reserved letter services. The interest of *Printing Industries* in this review stems from the fact that the proposed price increases will directly impact on part of its membership providing mail house services as well as indirectly on its core membership which comprises of printing organisations who manufacture items of printed matter such as magazines and other items that are subsequently distributed through the post channel.

Being an active promoter of paper based communication mediums, *Printing Industries* as a matter of principle is concerned about any proposed price increases that will have the effect of making the paper based communication medium relatively more expensive to end users.

A significant proportion of the print and mailing house industry operating in a competitive market environment will be adversely affected by this proposed new cost impost imposed on them by Australia Post which continues to function as a large public monopolist.

Given this industry background, any action or proposal that has the effect of raising postage prices will be fundamentally opposed unless a well advocated case justifying the proposed price increases is presented.

Companies represented by *Printing Industries* have been operating in an ultra competitive marketplace for decades characterised by a situation that sees most companies being forced to periodically reduce their prices.



The response to this ultra competitive trading environment has been a drive and commitment to reduce operating costs which are largely achieved by investment in new technology and ongoing improvements to both processes and labour productivity.

Industry in transition

The ACCC Issues Paper highlights the issue of appropriate approach to prices oversight for an industry in transition such as the one Australia Post is operating in. *Printing Industries* has extensive experience dealing with an industry in transition.

The printing sector has been an industry in transition for more than a decade and an important feature associated with the transition has been persistent price and margin pressures on core product lines and services. This is the reason why an increasing number of printing businesses are diversifying their product and service offerings. Regular price increases should not become a justification for an industry or business like Australia Post that is undergoing transition.

Proposed price increases

Australia Post's proposed price increases for early 2010 are excessive given the current as well as short term projected economic environment.

The proposal to increase the basic postage rate by 5 cents translates into a 9.1 per cent price increase, seasonal greeting cards mail is proposed to increase by 10.0 per cent; clean mail by 6.7 per cent; the proposed price increases for prepaid envelopes range from 7.7 per cent to 10.3 per cent; for reply paid mail they range from 2.4 per cent to 8.8 per cent; for pre-sort letters they range from 2.6 per cent to 16.9 per cent; and for impact mail they range from 5.0 per cent to 6.7 per cent.

Also, the Bulk Mail Houses have already seen their pre-sort letter service rise from 38 cents to 39.9 cents (5 per cent) and 40 cents to 41 cents for interstate mail, as a consequence of the last price rise.

The current annual rate of inflation as measured by the Consumer Price Index is a modest 1.5 per cent. Based on Reserve Bank of Australia forecasts, inflation is projected to be around 2.25 per cent when the proposed Australia Post price increases take effect. The projected end of calendar year 2010 outcome for inflation is 2.0 per cent.

Printing Industries believes given the inflation outlook and the contemporary fragile economic situation the ACCC should reject the excessive price increases submitted by Australia Post for early 2010.



Any increases approved by the ACCC will prove detrimental to the paper-printing-mail house value chain and the compounding effect will result in product substitution with mail users switching to non-mail alternatives such as e-communications at the expense of paper based communication mediums. Under such circumstances employment losses will eventuate amongst the paper-printing-mail house value chain.

Monopoly issue

Given that Australia Post is a large and influential public monopoly, it should not be allowed to escape the market disciplines that other key sectors of the paper based communication value chain are confronted with on a daily basis.

The printing industry has demonstrated time and time again that improvements in operational efficiency and productivity gains flowing from investments in new technology are possible and this should be the business philosophy that Australia Post adopts rather than opting for the easier option of raising prices for its services in this instance reserved letter services which will have serious negative impacts on the paper-printing-mail-house value chain.

Australia Post's proposed price increases for early 2010 were submitted for consideration and approval by the ACCC in the midst of the worst global economic crisis since the great depression. And if the proposed price increases are approved by the ACCC, they will take effect at a time when the Australian economy will be emerging from the current economic downturn. A fragile economy should not be exposed to excessive price pressures.

As a public monopolist Australia Post needs to heed the advice of the Prime Minister who has encouraged Australian business to pull together to see our nation through these difficult economic times.

Australia Post as a government owned business has a duty of care to support Australian industry. It appears contradictory that the Government is attempting to support and stimulate business whilst its 100 per cent owned businesses are attempting to reduce business activity through raising prices.

Price elasticity

Australia Post projects falls in reserved letter volumes for the period 2009-10 to 2011-12. A valid question for Australia Post to answer is what proportion of the expected volume reduction is attributable to the excessive price increases it is seeking approval for.



Printing Industries maintains that mail volume is price sensitive meaning that any price increases will have an adverse impact on volumes. For an industry that faces competition from “other” mediums such as electronic mail, *Printing Industries* believes that the price elasticity of mail items will only increase over time and regular price increases will culminate in reduced volume.

Australia Post’s assertion that letter mail pricing is highly price inelastic fails to properly represent the full story. Often when component prices increase, such as postage or the cost of preparing for post, it is the paper-printing-mail house value chain that absorbs some or all of the increase to retain the work. In these challenging economic times, it is vastly unfair for a large public monopolistic organisation such as Australia Post to force other businesses, some of whom are very small and on low profit margins, to carry extra financial burden so that it can increase its profits.

Cutting quantities is not in the best interest of printers, mailing houses or publishers or the industries that serve them and it certainly is not in the best interest of Australia Post. Reducing the volume of publications throughout the postal network is cutting off and ignoring the flow on effect of additional mailings to Australia Post and pushing more publication resources on to the web.

As one industry member clearly stated: “*The mailing industry is already facing reduced volumes. Raising prices during an economic downturn will simply push more businesses to reduce costs and move to electronic delivery of information. This mail will not return as the economic cycle improves*”.

For these reasons *Printing Industries* urges the ACCC to reject the price increase proposals to reserve letter services submitted by Australia Post. Given its role as a public monopolist, Australia Post should be required to submit the likely economic impact of price increase proposals on the paper based communication sectors value chain serviced by Australia Post.

Return on capital

In the consultations that *Printing Industries* had with Australia Post the issue of “appropriate return on capital” was discussed. Australia Post uses the appropriate return on capital argument to justify price increases. It would be great if we were all able to achieve a reasonable or appropriate return on capital simply by increasing prices – most can not. Australia Post can because it is a monopolist.

Printing Industries is of the view that any consideration of what constitutes “appropriate return on capital” has to take into account the economic business cycle. If the majority of businesses in Australia are facing pressures on margins then it would be reasonable to expect Australia Post’s profit results to reflect this lowering rate of return. Furthermore, Australia Post has to take into account what is happening with upstream and downstream activities as well such as printing, mailing and distribution.



Australia Post should not pursue pricing strategies that are inconsistent with the rest of the industry value chain that it is associated with.

While *Printing Industries* remains opposed to regular postal price increases, industry feedback supports smaller phased price increases in preference to larger upfront increases. The former approach allows industry participants to better manage the price increases.

Increased industry rebates

Industry participants such as mailing houses are also concerned that they have started to undertake an increased share of tasks that were previously performed by Australia Post resulting in them incurring greater costs but without any offsetting compensation from Australia Post. Tasks such as electronic lodgements of mail jobs and ordering of cages and trays to sort and transport the mail were all previously handled by Australia Post. To help offset these increased workload costs that are being borne by industry participants, Australia Post should consider increasing the bulk rebates that it currently offers.

Pricing of household mail

Another issue that warrants closer examination by the ACCC is whether ordinary household mail is priced too cheap resulting in more expensive business mail. Industry participants seem to be of the view that there is significant cross subsidisation taking place between ordinary household mail and business mail culminating in a relatively more expensive business mail.

Government dividends and operational efficiency

Also, there is a concern that if Australia Post needs to maintain a consistent dividend to the Australian Government, having a monopoly opportunity to increase postage charges on a regular basis, has the potential to camouflage poor management decisions, inefficient internal practices and other ineffective value-added services.

Conclusion

Printing Industries has highlighted a range of issues in this submission for consideration and action by the ACCC. As stated the Association remains opposed to the price increases being proposed by Australia Post given the current economic environment.



According to legislative requirements Australia Post is required to “consult” with, amongst others, the “industry”. Consultation should mean that they listen to concerns raised and include them in their submission. From our observance, there has been no alteration to their plans following many “consultations”. *Printing Industries* members are of the view that the consultations were “presentations” to comply with legislative requirements rather than true “consultations” where all issues are raised, considered and included.

There is also concern that the pricing pressures faced by the paper based communication industry value chain varies considerably between those that face intense competitive pressures such as printing businesses and mailing houses and the public monopolist Australia Post which faces no industry competition for the bulk of its business. This commercial reality needs to be properly acknowledged by the ACCC and subsequently reflected in any decisions it hands down concerning applications to increase postage prices.