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TRANSCRIPT OF PROCEEDINGS

O/N VT04879

AUSTRALIAN COMPETITION

AND CONSUMER COMMISSION

COMMISSIONER J. MARTIN

THE ACCC'S TECHNICAL FORUM REGARDING

AUSTRALIA POST'S PROPOSED PRICE INCREASES

MELBOURNE

9.18 AM, THURSDAY, 11 JULY 2002

.aupost 11.7.02
Auscript Pty Ltd 2002

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COMMISSIONER JOHN MARTIN: Welcome to today's technical forum to discuss Australia Post's proposed price increase. My name is John Martin. I am a Commissioner with the ACCC and one of my responsibilities is as Chairman of the ACCC's Transport and Prices Oversight Committee and therefore I am in that capacity actively involved in the Commission's assessment of postal regulation matters and I am joined by several of the key members of the ACCC staff: Richard Home, who is in charge of the postal matters within the Commission and I will be joined by Dr Colin Gannon, who is taking the 9.30 start very seriously. Obviously he has got a lot on his plate and he will be here and Margaret Arblaster, who oversees the whole branch's operation is here with us and I thought to start off the forum - and I would like to make it fairly informal as we go along - there will be statements by myself and Gary Lee from Australia Post, but after that, everybody here, feel free to make statements, ask questions and we will try to get some interaction going, but maybe just to start off with, if we could go around the inner table and then the outer table, just so everybody knows who everyone else is. You might have a better idea than I do, so maybe if we could start with.

MR C. SMITH: Chris Smith, MMUA.

MR J. GILROY: John Gilroy, Major Mail Users.

MR K. MILLAR: Keith Millar, Major Mail Users and Centrelink.

MR B. ASHMORE: Brian Ashmore, Commonwealth Bank and MMUA.

MR T. DALY: Terry Daly, HPA and MMUA.

MS S. RAHER: Sally Raher, Australian Mailing and MMUA.

MR R. HOME: Richard Home, ACCC.

MR T. SINCLAIR: Terry Sinclair, Australia Post, Logistics.

MR J. MARSHALL: Jim Marshall, Australia Post Mails Manager.

MR G. LEE: Gary Lee, Australia Post Letters.

MR C. KOO: Chris Koo, Australia Post Letters.

MR P. MEEHAN: Peter Meehan, Australia Post, Chief Finance Officer.

MR A. MARSHALL: Alan Marshall, Australia Post Finance.

CMR MARTIN: If we can just run around that way and back this way.

MR P. BURTON: Paul Burton, Financial Strategy, Australia Post.

MR A. DENNY: Drew Denny, Australia Post, Product Costing.

MR J. STEVENS: John Stevens, Australia Post, Product Costing.

MR R. CARTEY: Ross Cartey, PriceWaterhouseCoopers, adviser to Australia Post.

MS M. ARBLASTER: Margaret Arblaster

MR D. KENNEDY: Damien Kennedy, Department of Communications

MR I.: Department of Finance.

MR A. BERG: Andrew Berg, Department of Finance.

CMR MARTIN: Thanks.

MR F. DE PROPERTIS: Frank De Propertis, from Victorian Newsagents Association.

MR P. COWLEY: Peter Cowley from Victorian Newsagents.

MR R. McKINNIS: Ron McKinnis, Chairman, Victorian Newsagents Association.

MR D. KEES: David Kees

MR C. DAY: Chris Day, Penfold Buscombe, and also from Printing Industry Association.

MR G. COOPER: Gary Cooper, Document Exchange.

MR G. SMITH: Gary Smith from

MS A. MORRIS: Ambre Morris from the ACCC.

MR M. DINES: Matthew Dines from the ACCC.

CMR MARTIN: So, look, we are very happy with the roll-up. We may have some more. As I say, Dr Colin Gannon is going to join us. Once we

start the discussion and I will explain the format of the session as we go along, I would like to see some open discussion if we can and those who are behind, if you need to, come up, just join us and the one thing I haven't mentioned is we are taking a transcript of today's proceedings, which is an important part of the transparency and utilisation of what is said here, so don't hesitate to come up if you are at the back and certainly don't use that as the excuse not to say something and we want to hear from you. Now, as you would all be aware, probably better aware than even I am, Australia Post has advised the ACCC of its intention to lodge a pricing notification under the Prices Surveillance Act 1983. Australia Post intends to increase the price of a range of postal services. Welcome, everyone. The ones who just came in, would you like to identify yourself?

MR M. HOLT: Sorry, Mark Holt from Australia Post.

MR C. JOBLING: Chris Jobling from Australia Post.

MR G. WEST: Greg West from Australia Post.

CMR MARTIN: I think you are just about in the majority now. As well as raising the price of the basic postage stamp from 45 cents to 50 cents, increases are proposed for pre-sorted mail, greeting cards and large letters. The price changes would take effect from 13 January next year. In addition, Australia Post intends to introduce the new bulk mail category, clean mail, priced at a discount to the basic postage rate for un-bar coded mail.

I know that you all know all this, but for the record it is going to be handy for anybody reading the transcript to just get reinforcement of that. In its draft notification Australia Post argues that profitability of providing letter services is declining as a result of falling volume, growth and fewer opportunities for improving efficiency. It also points to the fact that its community service obligations impose a significant annual cost and that the introduction of the GST reduced the amount of revenue that Australia Post received from 45 cents to 40.9 cents per standard article.

As you may be aware, the Commission has recently held a series of public forums throughout the country aimed at allowing consumers, small business and other stake-holders the opportunity to have their say. For those of you who are interested, transcripts of these forums will soon be available on the Internet site. The main issues raised in these forums were cross subsidisation of Australia Post's non-reserved services, quality of services and some difficulties small businesses had in its dealings with Australia Post.

I might comment that we were not overwhelmed by numbers at the forums generally. Obviously, from the community's point of view, maybe it is one of these things that it takes a while for the community response to sink in, but certainly we weren't overwhelmed with numbers. While those forums played an important part in the Commission's assessment process, the primary purpose of today's technical forum is to allow those organisations who have provided the Commission with more detailed written submissions to further expand on the comments that you have made and to enable the Commission to test some of the questions which arise from the differing views that we are receiving.

You should also have a copy of today's agenda, as I mentioned, and the format will proceed as follows. I will kick off proceedings by very briefly outlining the role that the ACCC is taking in assessing Australia Post's proposal and the process that the ACCC is following in the course of that assessment. I will then provide a brief summary of some of the key issues identified in submissions. After that, I will turn the microphone over to - not that we have a microphone so much as turn the floor over to Gary Lee, who will comment from Australia Post's point of view and provide background to Australia Post's proposal.

Gary will only be speaking for 10 or so minutes and I would suggest that we go along on the basis that any specific questions relating to what Gary says come up in the immediate discussion after that, rather than us getting into question and answer straight away, so following on Gary Lee's remarks, we will then open the floor to questions and comments. You will see from the agenda that we have broken down today's forum into three sessions. The first deals with demand for postal services, the second the cost of providing postal services and the third and final session will focus on the efficiency of Australia Post's operations and we have slotted in 11 o'clock for a break so that we can have a bit of networking and there will be continuous tea or coffee, so we will have a break for 15 or 20 minutes and then get back to the third session at that stage.

Each session will allow for short and succinct comments by the nominated respondents. I would ask that each person wanting to speak try to keep it down to a maximum of five to 10 minutes, sometimes even more briefly if that is what suits and it depends how the numbers sort out. We are trying to finish by one o'clock and we do have time constraints, but at the same time don't feel constrained in your comments because since we have all taken the trouble to be here, we may as well get everything on the table that we can.

We are assuming that those responding today have read the submissions and that any further comments will add to the store of our knowledge. In

other words, we would prefer people not to go into any lengthy statements just restating their position, although understand that you need to come from a basis of what your submission is covering so that we are not being draconian in that, but we just don't want long diatribes that we can read in the submissions that are on the site already.

Following the remarks from the registered speakers, Australia Post will be given the opportunity to respond and remaining time, as I say, we will try to get some interaction going. I note we have had a couple more people arrive. We have been introducing ourselves, or we did go around the table at the start and we have done even better than the Italian trains. We actually started ahead of time, but I think, Marie, you have - - -

MS M. McGRATH-KERR: Marie McGrath-Kerr. I am the National Chairwoman of the National Post Office Agents' Association.

CMR MARTIN: Anyone else arrived?

: I work in the regional office upstairs.

CMR MARTIN: And we have another ACCC person and this is Colin Gannon.

DR GANNON: Good morning.

CMR MARTIN: We were just saying, Colin is an adviser to the Commission on these matters and welcome, Colin. For once we have started something early. I am trying to put some of the other Commissioners to shame who keep arriving late. As I said, this is being transcribed, all the discussion. We will do our best for those at the back to be able to come forward and sit closer to a mike so that we don't miss what you say when you need to say it. The transcript will be made publicly available on the Commission's web site.

Now, I have in my notes a whole lot of background that I think everybody here knows, so I won't go over them, but just to say that reserved postal services are declared under the Prices Surveillance Act, as I stated before. This means that Australia Post must notify the ACCC which has the role of assessing the price increase before Australia Post can increase the prices of those services. The ACCC can object to or agree with the proposed price increases or it can specify prices in between the current level of prices and the higher levels proposed. It is important also to note, as you would all be aware, that Australia Post and many services that Australia Post has are not regulated by the ACCC and so are not covered by the current proposal and you would all be aware of those.

In addition, the ACCC's role in assessing any proposed rises relate to reserved prices. In addition to what we do, Australia Post is also required under the Australian Postal Corporation Act to give the Minister for Communications, Information Technology and the Arts written notice of any intention to vary the price of the postage stamp, so that is a sort of sequential or additional thing that Australia Post has to do. The Minister then has 30 days in which to give Australia Post written notice if it wishes to disapprove the price increase.

The Prices Surveillance Act requires that the ACCC consider the need to maintain investment and employment and the need to discourage any business or person who is in a position to substantially influence a market from taking advantage of that power when setting prices. In practical terms, the ACCC will look at things like the efficiency of Australia Post, in particular examining whether its costs are not excessive and the allocation of costs between regulated and non-regulated services and the reasonableness of the rate of return that Australia Post is seeking.

In considering these issues, the ACCC also looks at the related issue of service quality. For example, if improved productivity has occurred as a result of lower quality service, then the case for price increases would be weakened. In terms of our assessment process, Australia Post submitted its draft notification to the ACCC on 30 April 2002. After discussion with Australia Post, the ACCC agreed to work towards a final decision around the end of September 2002.

The key milestones in the ACCC's assessment process, as most of you know, are as follows. We released an issues paper on 10 May calling for submissions in June. The ACCC is still in the process of reviewing those submissions. They are on our web site and obviously many of you have seen those. In addition to written submissions, as I say, we did hold the public forums and these forums were held around the country and have now been completed. We have also been interacting with Australia Post in relation to matters in their submission, or in their notification in relation to material they have provided in clarification of those matters.

We are working towards a draft decision around August. Following the release of the draft decision, interested parties will have a further opportunity to make submissions before the ACCC releases its final decision. Finally, just to summarise it very briefly, because this is what we are also going to be talking about today, in the submissions we have received from a variety of organisations - including representative bodies such as Major Mail Users and businesses involved in the printing, direct marketing, mail aggregation and retailing sectors - many of the submissions have opposed the price increases.

Some of the main issues identified by these submissions which could be explored further today include firstly the accuracy of volume predictions made by Australia Post. Many submissions question the likelihood and appropriate length of these forecast figures. Additionally, submissions also express concern that although letter segments were expected to decline in absolute terms, the price increase was proposed to be applied to all segments.

The second matter that has been raised is Australia Post's suggestions that there is reduced scope for productivity gains. Many submissions suggest that there are still productivity gains to be made from future post. Thirdly, matters relating to the effect of Ad Post's removal to costs, in addition to Australia Post's proposed increase in the price of bulk mail. Many submissions express concern about the impact that the phased removal of the Ad Post discount, in combination with the proposed increases to bulk rates, would have on their direct mailing expenditure.

The ACCC has previously approved the phasing out of Ad Post with an initial increase of 10 per cent to prices on 1 July 2002 and a final increase of nine per cent on 1 July 2003. Another matter raised, perceived conflicts between the initial reasons for introducing bar coding and the proposed introduction of clean mail. Several submissions raise the issue that after spending significant amounts of money on investing in necessary bar coding technology, in order to receive bulk mail discounts from Australia Post, the introduction of clean mail represented an inconsistency with Australia Post's future post directions.

The introduction of clean mail also raised separate issues of market squeezing for Go Mail's aggregation service. Another matter, quality of service. Some submissions commented on Australia Post's operational hours, both at the retail and processing level and the effects on both consumers and business and, finally, a concern in relation to the transparency of Australia Post's operations. Many submissions questioned if there existed sufficient separation and reporting of Australia Post's various activities in order to ensure that any cross-subsidisation would be appropriately revealed.

However, some submissions are supportive of Australia Post's proposals, most notably the Post Office's Agents' Association. The POAA claims that licensees have been unable to achieve significant productivity gains, but have borne the brunt of real decreases in volume and price. Now, that is just a very brief outline of some of the issues that are raised and may indicate the structure some of you may wish to comment on during the morning. As I say, we will be trying to structure the discussion in those three sessions that we have outlined. We will lead in with some of the

speakers who are noted there and happy to have others self-nominate as we go through. Now, for the lead-off in terms of the opening session, I will call on Gary Lee.

: Excuse me, Mr Chairman, is your statement to be made available to us?

CMR MARTIN: Yes, it certainly is going to be on the transcript and that is going to be up I believe fairly smartly, within a couple of days, so you will have it electronically available to you.

: Maybe you could post it out to us.

CMR MARTIN: Well, we can probably actually arrange to get a copy of this statement, anyway.

: Thank you, Mr Chairman.

CMR MARTIN: Maybe if you leave your cards or we have got your details.

: I think Richard knows who I am.

CMR MARTIN: Yes, okay, so I will pass over to Gary, who is going to speak on behalf of Australia Post.

MR LEE: Thank you very much, Commissioner Martin. Perhaps I could suggest that you should mail it out to all the people in the room, as it will help our volumes. Could I thank you first of all for the opportunity to make this introduction and if I could extend your metaphor of not being like the Italian trains, since we have started on time, I think we should also attempt to finish on time. I thank you also because in your summary, you have covered a number of pieces that were in my introductory remarks, so I will try to make certain that I don't go over the same ground as you have already covered.

CMR MARTIN: We always make sure the ACCC speaks first.

MR LEE: Yes, well, thank you very much. So good morning, Mr Commissioner. Good morning, ladies and gentlemen, and thank you for the opportunity to outline to this technical issues forum the basis and reasoning for Australia Post's pricing proposal which is the subject of the current draft notification to the ACCC. The Australia Post team has already been introduced, but I would just like particularly to point again to my colleagues, Mr Peter Meehan, who is our chief financial officer, and

Mr Jim Marshall, who is the general manager of the mail and networks division and thank them for their attendance here today.

In my role as group manager of letters, I have the responsibility for the letters product in Australia Post, including the development of business strategy, product development and pricing and that is why I am here today with this team. I would also like to reintroduce Mr Ross Cartey of Price Waterhouse, who has been working with us on this project and giving technical advice in the regulatory area and thank Ross in this forum for his work.

As Commissioner Martin has said, the notification which was submitted on 30 April notifies changes in prices and conditions to ordinary letters and bulk mail and the introduction of the new service, clean mail. Key changes are, to reiterate, an increase of five cents in the basic postage rate to 50 cents and increases to bulk mail prices of around 2.2 cents, which includes GST. Overall, these changes represent weighted average increases of 7.9 per cent to ordinary mail, 3-1/2 per cent to bulk letters and an average price increase, or weighted average price increase of 5.1 per cent.

Apart from the effects of the removal of Ad Post and the introduction of GST, I would note that these increases, if approved to commence in January 2003, will represent the first general price increase in 11 years. Having noted what is in the notification, let me just reinforce what is not in the notification. The ACCC has also been advised and I used the word advised, of pending changes to large letters over 250 grams as part of the notification.

In the formal sense, these, however, are not required to be notified. Furthermore, and to avoid any confusion about the reserve service, in coming international letters which are part of the reserve service are also not part of this notification. I think it is also appropriate to note and Commissioner Martin has made this comment, that the ACCC approved changes to Ad Post through the removal of the discount in two stages are not part of this notification. After these changes, Ad Post customers using mail will presumably use the normal pre-sort services and they will be subject to the same prices as the pre-sort services.

Again as stated, for Australia Post the primary objective of the price rises is to achieve appropriate profit levels for the letters business. Let me consider what are appropriate profit levels. How do we set these? Under what rules do we work? Profit targets for the letters business are set within the context of Australia Post's corporate plan. Under section 37 of the Australian Postal Corporation Act, Australia Post is required to determine our agreed corporate financial target.

In determining this target, the board is required under section 38 of the Act to consider the need to earn a reasonable return on assets, the expectation of a reasonable dividend return to the Commonwealth, the need to maintain a reasonable level of reserves and the cost of the community service obligations. That gives us the umbrella on which we set prices. Below that we then have a series of pricing principles which we apply to letter prices and I would just like to take this forum through those principles.

I will put them up in a summary form on the board and, of course, this will be available to people. The start of our pricing principles is the basic postage rate, the rate for the standard letter by ordinary post which is currently 35 cents and this price is the keystone of the pricing structure. Carriage of this standard postal article by ordinary post is central to the community service obligation, with most of the community service obligation requirements attaching to the 45 cent letter and that involves all of our outlets and the delivery and the universal price, etcetera.

Pricing of the standard postal article, that is the basic postage rate, will reflect the need to maintain an affordable rate and as a result of this, the basic postage rate is not expected to fully recover the cost of providing these services. Consequently, prices for other letter services will contain a cross-subsidy to the standard postal article. That is a very important point for the forum, that in our pricing, as a result of this, the need to cross-subsidise letter prices will be set to achieve an appropriate aggregate rate of return for the letters business as a whole and that is central to our pricing principles.

Bulk inter-connection prices, or bulk prices, will in addition to the requirements of section 32A(2)(c) of the Act which talks about inter connection, broadly reflect the level of work saved by Australia Post through work carried out by customers. Bulk inter-connection prices will be uniformly applied for carriage within Australia, subject to the point of lodgment and there is a variation in our prices for intrastate lodgment. Subject to meeting minimum agreed quantities and conditions, bulk inter connection prices will be applied uniformly regardless of volume.

The pricing structure will reflect Australia Post's commercial, social and Governmental obligations. Our primary social obligation is to supply a letters service that is accessible, available equitably and meets community needs. The pricing structure will be as simple as possible. Prices will be set to enable Australia Post to meet its statutory requirement, to provide an adequate commercial return and to fund the community service obligations and price rises will be made as infrequently as possible, with adequate notice and after appropriate consultation with stake-holders.

Those principles, when overlaid on our statutory obligations, are the framework which we use for setting prices and which the prices in this notification have been set, so I said earlier that price rises were required to maintain profitability and I would like to talk to that under three headings, please, the GST, the issue of volume growth and the issue of peaking productivity gains. With the implementation of the GST in 2001, July 2001, Post was required to maintain the 45 cent basic postage rate by absorbing the GST.

In order to maintain price incentives for bar coding, certain pre-sort prices were also reduced. This has resulted in an annual cost to the letters business of \$90 million and that is an ongoing cost and a saving to business on an annual basis, businesses able to claim the GST as an input of \$75 million per annum, so there was a very significant decrease in cost to business of letter mail at the time of introduction of GST.

Let me now examine the issue of volume growth briefly. Through the 1990s, mail volume growth tracked or exceeded gross domestic product and, in fact, achieved a compound annual growth rate of 4.7 per cent. After a very spectacular six and a half per cent growth in 2000, mail volume has declined in 2001 and 2002 looks like just being about half a per cent above 2001. We spend a lot of time trying to analyse both backwards and make predictions forwards and I am sure we will talk to this at length later, when we get into this issue in the discussion.

One thing we have determined, that in looking in the past, where we believe that there was a close connection between gross domestic product, in fact, non-farm GDP and letter volume. Our analysis has determined that there has been a disconnection between these two major parameters. In fact, looking back over the past decade, mail volume has been more or the primary stimuli for mail volume have been a series of one off events, such as the introduction of mobile phones, with the vast increase of billing that was associated with mobile phones which immediately billed on the month, as opposed to the quarterly billing that we were used to with our simple fixed line phones; a range of telecommunications services which had the same impact in the marketplace.

A variety of postal regulation changes, both changes that were deregulation and regulation changes that required financial institutions to send more mail, such as the impact on bank and the requirement to send multiple statements to single households. The implementation of the GST itself drove most of that six and a half per cent volume growth in the year 2000 and, of course, the stock market activities of the period, the IPOs, the new launches, the mailing of annual reports, etcetera, etcetera.

Our analysis, when you take into account these what I have called one off events, however, indicates that these events are not expected to repeat themselves into this decade and I think any of us who have looked at our own business in the past will probably see a very similar picture looking forward and, of course, we have the somewhat unknown impact of technology substitution and hidden behind that mail piece consolidation which is mailers seeking to reduce their postage costs and consolidated their mailing where appropriate under regulations or, where possible, having regulations change to allow that to occur which, of course, is good business practice.

From that view, and I must say and I will repeat this again, trying to predict technology substitution is extremely difficult. There is no history. There is a lot of noise. There is experience from overseas countries, but it is very difficult to be precise, but we do take the view and certainly that view is being substantiated by the last two years that we are in for a period of subdued volume growth and potentially decline in volume growth around 2005, 2006. I must also add that this picture is very, very similar for all of the major postal authorities.

Much of the productivity gain of the past years has come from continued growth. With this decline in gains, that productivity, that volume related productivity, will not be repeated. We also noted that productivity gains peak, but let me say this is against a background of very substantial productivity gains and not just for the last decade, but for decade prior and we will talk to that. During the period 1991 to 2001 Post achieved productivity gains of 67 per cent, more than double the national average of 28.7 per cent in the same period.

In the centrepiece of all of that, of course, was the future post program at the latter end of the past decade. We do, however, see that these gains will peak with the completion of future post and related projects and we can't see future improvements at the rate that we have been able to sustain through the past decade. Technological advances such as were introduced under future post are not there to be had and Mr Marshall will talk at length about that and we certainly don't see them being repeated in the next five years.

So to keep that Italian train on time, in conclusion I would just like to sum up. Australia Post does deliver a high standard of reliable service which has supported essential business communications. The reliability, reputation and performance of Australia Post's letter service is recognised by business and the general public alike as a contributor to our success as a nation. It is our intention to maintain and build on this reputation and contribution, but this can only be achieved if the business is able to

continue to achieve adequate rates of return to facilitate ongoing investment.

As you stated, Commissioner Martin, in the end the ACCC will examine the notification to determine whether Australia Post has efficiently used its assets, whether the proposed price increases are appropriate and looking at the quality of service in the light of those two determinants. Today we will have the opportunity to examine the notification in issues raised, in the light of issues raised by those present and I suppose others not here as well. We do submit to this forum that Australia Post's performance more than meets each of these determinants. Thank you.

CMR MARTIN: Thanks, Gary. Before we move on, thank you very much for that. I think the Italian analogy is rather appropriate, given the apparent mutual admiration society between our two Prime Ministers as we witnessed overnight. Would anybody like to raise any questions on the matters raised?

MR LEE: Well, I think we are probably going to break the metaphor about now, I think, Commissioner, because I think we are going to stop at every station.

CMR MARTIN: That is right. Any questions at this stage, before I move on to the demand for postal services?

MR MILLAR: There are probably a number of points in Gary's presentation that warrants comment, but they probably fall under headings.

CMR MARTIN: Okay, yes. Just in terms of your reference to volumes, you were talking financial years?

MR LEE: Yes, and through all our presentation we will talk financial years.

CMR MARTIN: Up until now.

MR LEE: Up until now, yes.

CMR MARTIN: And there has been some marginal growth.

MR LEE: About .5 per cent increase in volume.

CMR MARTIN: Well, let's move on and let the other side now have a say. Projected mail volumes, I think John Gilroy, you open the batting.

MR GILROY: Mr Chairman, I am really concerned about the Italian mail metaphor, because I think whilst it has been used, we have to realise it was a very cold-hearted disregard of the rights of the individual and the community as a whole for the benefit of the State and the State enterprise and it all finished up unfortunately on a lamp post, so I just make that point. We should be very, very careful of using metaphors in this.

I do want to say, however, that from MMUA's point of view, we believe that the admonition you have given us of not going over our submission is appropriate and we have carefully written the submission and we don't wish to come here today to reiterate everything that is in it, so we will be highlighting a few things. I do think, however, that I would just like to put something here about Gary's comment about the first price increase in 11 years because whilst we commend Australia Post on that, it has, however, not been the case on the part of the major mail user that there hasn't been a price increase, because although the 45 cents has remained stable, lodgment conditions that Australia Post is at liberty to change without any reflection back to you or an approval from you or from the Minister or from Parliament, lodgment conditions change the cost of mail and its use to the major mail users and that is a very important element of price that is not picked up in Australia Post's submission to you, but it is very important from our point of view because every change of a lodgment condition or a change such as imposed by the half billion future post project which was imposed on the industry has a cost reflection on the usage of post and we put that before you.

I don't think the time today allows us to go into it in greater detail, but we are more than happy to elaborate upon that, with or without Australia Post's presence, but certainly it is a very important element to us. Later on in the day, under item 2.2, future productivity gains, Terry Daly will give you some examples of what it has meant to an individual company in terms of meeting the requirements of future post and where that goes, so I make that point.

Now, on the slide we saw, there was a very important point that Gary made, that bulk prices broadly reflect the level of work saved. What was missing from it are three words, work saved for Australia Post and I make that point, that the bulk prices do in fact reflect the changes that have been made by the people who are providing - something like 87 per cent of Australia Post's mail is business mail and so the changes that are required for them to get their bulk mail discounts do in fact reflect on that chart, but that is not picked up in terms of a price.

Now, we could go all day with some very sort of iffy type arguments on both sides, so I don't wish to bog us down on that, but just to make the

point to the Commission that pricing is not simply 45 cents or 50 cents. There are other very important elements from the point of view of the major users, the bulk major users. Now, another point that I feel must be picked up is the GST. The GST wasn't a saving to all parties. In fact, a very large proportion of the mail volume that goes through in the bulk level relates to financial organisations such as the banks who do not enjoy the same benefit of the GST factor, so that also needs to be looked at by the Commission when you are looking through.

There is an element there and, of course, we would say that the GST is only one element in a balancing effect. Some are up and some are down, so the overall impact of the last 11 years has to be measured with a number of factors. Essentially, we are coming on the projected mail volume from looking at table 3 of Australia Post's document which is on page 14 and Gary referred to the fact that it is not until the end of financial year 2006 that it levels out and Gary also mentioned - I am in mail volume growth - and also the figures that Gary has quoted of the comparison between financial year 2002 just finished and last year have presented a virtual line ball.

The percentage is slightly above and Post has been kindly supplying us with those figures because we are interested in it as well and it is when you break it down into the three groups that you get the variance between the pluses and the minuses. Our concern is that if the overall growth of mail is not for another four or five years, why is the price increase justified today, if mail volume dropping is one of the major premises for the increase?

We have not seen the diversified specifics study which is referred to on page 13 of the Post document, although Gary very kindly is going to bring that to our members' attention later this month and speak on it and we will have to wait until that is made available to us, but we are concerned that it is quoted in the document as one of the justifications, but it has not been made accessible to others obviously who have got a keen interest. We don't see Australia Post promoting mail. We see it promoting certainly its fulfilment packages and its e-bill payment and a whole host of other services, but we don't actually see Australia Post out there trying to do what the Americans call the mail moment, the concept of mail is a really important thing to have, that it is a much better medium of communicating than an e-mail or clicking on to a web site, that that piece of paper that you get in the envelope at home has a real commercial value and that is our concern, that Post is spending a lot of money on promoting a whole range of products, but not its core business product, so how can a price increase be justified when it is recognised that the mail volume is dropping, but what are they doing to promote it?

CMR MARTIN: Has your Association proposed that they do that?

MR GILROY: Well, we have got the preliminary concept started out of the last Ad Post increase, but unfortunately, Mr Chairman, although we are representative of 70-plus per cent of Australia Post's bulk mail - - -

CMR MARTIN: Sorry, 70 per cent or 87?

MR GILROY: No, I said that was their business mail, but we don't have huge resources of staff, like, it is me part-time and all of my folk here have limited, so we are happy to work with Post and Post have said they are happy to work with us on this, but I think that is a different issue, Mr Chairman. I think the issue that we are saying as a corporation Post is not spending money on. I think nary a night goes past on television these days that we don't see the wonderful digitally enhanced warehouse, but we never see the mail moment, so we question that.

We put the question on the table for the ACCC. If you are not promoting mail, how can you be justified to put the price up of a product you don't promote? That is not a good business approach. We believe that amongst the top 10 of their customers, the growth or rather that there is not necessarily going to be a drop in mail usage. Now, we are quite happy to canvass our own folk. If Post likes to nominate those of our members they would like to see, we will do that one as well, as a separate one, but we have done a quick snapshot survey of our members, none of whom agree that mail is going to see an immediate drop in volume, despite the intrusion of e-commerce and different ways of paying bills, but we don't believe that the figures are necessarily correct. They are Australia Post's internal figures and we are happy to do some work for you, if that is of interest to you and I might just finish at that point on project mail volumes.

CMR MARTIN: Yes, Terry.

MR DALY: We are just going to hand over to me for a few minutes, Commissioner. Just a couple of things. HPA is one of the larger mail houses or bureaus in Australia, producing quite a lot of the mail that goes into the Australia Post infrastructure. Obviously we have to re-equip from time to time. We are a publicly listed company and as such we have shareholders. We are accountable to those shareholders. We have to make a profit.

Part of our re-equipment justification was to access some of Australia Post's future projections with regards mail volumes and the figure that Gary talked about a few minutes ago was point 1 of a per cent difference to the figure they gave me a few years ago which enabled HPA to re-equip

substantial amounts of equipment. Now, I have done that re-equipment. My volumes are still sitting up there quite well. The last couple of months haven't been as good as we would like, but they have been quite good, but I just can't go back to my customers now with this volume decline that they are talking about and say, well, look, sorry, I have made a mistake, the volumes aren't going to be there, I need to get a price rise.

In our particular segment of industry, I have got statistics, our largest customer has had a 34 per cent decrease in pricing over eight years and on top of that they have got increased functionality, increased service levels, better features and benefits and that is what competition has done in our industry that supports the Australia Post infrastructure, so for me to sit here and think, well, a seven per cent increase in stamps or whatever it is, I think it is just totally unjustified and we have managed in the industry that supports it to have that sort of decrease has hit us.

Now, that is our company on one large customer and I would say, looking at the competitive nature of our industry, that is the sorts of hits that we have had in the industry over the last eight to 10 years, so I feel very sorry for Australia Post to have to have kept their price at the same level. I would be making a fortune if I could have done that. The second thing, I have noticed that both Salmat and Toll that now owns the DX distribution businesses aren't here. I have got some information that shows that the Salmat distribution business that works on a different - I am not sure whether you know about the Salmat distribution business, but it has had double digit growth last year in volumes and I am sure that Toll that has just bought the DX business, it bought it very quickly and Toll is a pretty sensible company and it would have based its business decision on growth, too, so I am a little bit amazed that growth and prices are such a thing that has come to this Commission for an increase.

MR MILLAR: Commissioner, I would like to give a very real example of where - - -

CMR MARTIN: Can you just identify yourself?

MR MILLAR: Keith Millar from Major Mail Users' Association and in this case Department of Social Security. I want to give an example of a very real situation where a change in the lodgment conditions affected the cost of mail and that was when Australia Post I think it was in 1996 required the State identifier to be on envelopes to get the bulk discount prices. Now, given the size of our databases, we were unable to implement that in a timely enough fashion for Australia Post. It actually cost us over three months a quarter of a million dollars in lost discounts. Now, I put the question on the table to you, Commissioner. When a

change in lodgment conditions like that is a de facto increase in the price of the service, should that come before the ACCC?

CMR MARTIN: We will take that one on board.

MR MILLAR: Thank you.

CMR MARTIN: Was there another comment - I have got listed Chris Day was going to make a comment.

MR DAY: Thank you. Besides speaking on behalf of our company, I am also representing the Printing Industry Association and a bit like HPA, our company is a publicly listed company as well and we have done some major expansion in the last few years and to us, we travel all around the world and the Australian printing industry buys equipment from anywhere in the world. We are probably almost unique in that. If you run a printing business in America, you basically buy American equipment. In Japan you basically buy Japanese equipment. In Europe you basically buy European equipment.

In Australia we buy from anywhere and like Terry, we are in a very competitive market. There is far more printing manufacturing capacity in Australia than there are customers and prices are driven down all the time. Technology is helped with that and like with mail houses, the printing industry is very much that way. It is obviously in Australia as a trade, rather than in America, where it isn't a trade and many trades have disappeared in the last few years. We have seen the demise obviously of letterpress, typesetting, currently of film and that is whole companies disappearing and also a major expansion and new technology changes all the time.

We see post very much as being a part of our service. It is the distribution part of our service. We have some issues which we have tabled and I won't go over here today, with some of the restrictions on what we are allowed to do in sizes, formats and so forth and as we have said many times at Ad Mail meetings, the restrictions that Australia Post put on us as an industry are totally different to the rest of the postal services in the rest of the world, in format, style, colours, you name it, that we are allowed to lodge and produce and technology has changed dramatically.

We are not just sitting in an isolation ward here. We deal with many companies that trade throughout the world. It is very simple for them to produce offshore and bring material into Australia and we have a real concern as an industry, as further increases in price, especially in conjunction with the Ad Most reductions, will have real impact on the

industry, especially in employment terms. We are the second largest employer industry in Australia for the graphic arts industry. We have all sorts of suppliers. We are part of a service chain and as is post, but post is the only service that we use which is a monopoly service for our clients.

CMR MARTIN: Do you have a comment, though, given you are talking international comparisons here, how we would stack up against the internationals?

MR DAY: Well, internationally we don't stack up well as opposed to what we are allowed to do and, in fact, we are unique almost in the restrictions that are placed on us of what we can lodge and therefore what can be designed, formats, colours, shapes, whatever and there is no other postal service that we know of in the world that has the same restrictions as Australia Post in that area and technology is changing all the time; therefore, the products you are allowed to lodge have changed dramatically - or are able to produce has changed dramatically in the last few years and you see organisations like Xerox and so on that have spent multi-millions of dollars on equipment like digital colour printing which was unheard of only a few years ago.

The manner in which they can be produced and lodged in Australia is restrictive on the growth of those sorts of products and we know in the years to come total variable data printing presses are the next stage in the world market and as HPA, we have all been driven into spending a lot of money on capital expenditure and the decisions of post with bar coding have obviously cost us all a lot of money because we have to be in the situation of being able to provide our clients the service they need to access the system, so that has been a decision driven by post, because they have changed the method of processing mail.

CMR MARTIN: Do you have any comment, John?

MR GILROY: Just two quick things, Commissioner. I think the impact of price increases on demand, on this issue, we have made a comment in paragraph 56 that this is a concept of volume down, price up in turn brings volume down, so we get ourselves into a spiral. Our members are saying very strongly to us that - before I say that, there are two types of mail that we have to look at here. One is essential mail and one is discretionary mail and essential mail is on the part of organisations such as the bank, which has to send you out the bank statement by law or the tel-coms who have to send - whereas discretionary mail is the one that this impact on price increase demand most affects.

All our folk are saying to us that essentially it is the budget will remain the same, but they will have to drop the mail usage and I think the Admar - if I remember correctly, it is Admar that refers to this, certainly Reader's Digest does, about how the impact is that people who are on the fringe of a database, who may or may not in the future respond, get dropped off, so the budget expenditure is the same, but the mail volume drops and that is not a good thing for Australia Post or the Australian people in the long term, because, I mean, Australia Post makes great emphasis, as it did on the wall up here a moment ago, about its community service obligations. Well, part of that community service obligation is met by the fact that business uses the mail, that makes it available for the communities out there, so there is a very, very real national impact that comes out of damaging the ability of business to keep using the mail, so they are the points that we wish to stress here in this.

CMR MARTIN: With that discretionary part of the mail load, you mentioned the mail - the effort to promote it. How elastic is the response likely to be? You are implying that there is a fixed budget that everybody has.

MR GILROY: Can I give the answer to Sally-Anne, who runs a mailing house down here in Melbourne that is centred upon the advertising community?

CMR MARTIN: Yes.

MS RAHER: It would be fair to say that most people, most companies would have, say a price per pack. They have \$1 a pack, a mail pack, which includes say your printing, the postage, everything. That is what they have got to spend. That ties in with their marketing budget and if you have got a marketing budget of \$10 million, you have got a marketing budget of \$10 million. It is not elastic. You can't suddenly go up to \$12 million. You have a defined budget.

Now, if a pack say costs \$1 and through price increase a proportion of that pack cost is gobbled up by post, by postage, then you have less money to spend on printing, you have less money to spend on envelopes, you have less money to spend on a mail house service, because you are tied to your budget. You are tied to that ceiling of say a per pack price, so inevitably what happens is, as post consumes a greater proportion of that dollar, other services are affected and printing businesses, mail houses, envelope suppliers, in the main it is a volume driven business.

The cost of the equipment is such that you need to be pumping a lot of volume through it in order to amortise the price over a greater range of

product. What we see happening is the numbers of mail packs going out are decreasing, will decrease. Already the Ad Post volumes year on year are down quite significantly and that has been a growth industry and, in fact, in Australia Post's figures, promotional letters are forecast to grow, but this is the type of mail that will be very directly affected by price increases because they just can't grab a budget out of the air for marketing, or it will be diverted to other forms of marketing which we will come to later on in the program.

CMR MARTIN: Okay, well, anybody else want to say anything on this demand issue.

MR ASHMORE: Yes, Commissioner, Brian Ashmore, Commonwealth Bank. The opposite side of the discretionary mailing is the essential mailing sector which obviously the banks are very closely involved in. In that instance, it is compliance mailing. We are compelled to mail certain volumes and at certain rates. I don't think the doom and gloom on projected volumes that Post are putting across in terms of essential mailing is as bad as it seems.

It is impossible to crystal ball it, but every year there is a new product or service that we introduce that involves fairly large increases in mail volumes. We just put one through which is now sort of a month old. That has added eight million to our annual volume, which is about eight or nine per cent. Just to introduce that new service required a mailing of six or seven million mail pieces, so that is six per cent of our annual volume just in one hit to introduce a new banking service.

Now, I don't see those new banking services and new compliance requirements changing. They come up constantly. They have for the last five or six years and they will probably continue, so those essential mail volumes where we have no choice but to mail will continue, so that in that sector, the decrease is just not there.

CMR MARTIN: Certainly the history seems to be saying that. Even if the Prime Minister says we are going to have less regulation, it doesn't ever seem to happen.

MR ASHMORE: Yes, it is a very regulated industry, the essential mail component.

MR MILLAR: Commissioner, we are talking in this particular area about the non-promotion of mail and one of the questions I would ask Post and it relates to a question that you asked of Mr Gilroy, if we are looking at

Post's failure to promote mail to the general public, what incentives, if any, would they be willing to offer the mailing industry to promote mail?

CMR MARTIN: Well, maybe with that we can pass back to Australia Post now and I think this is a bit of a defining session, so don't feel constrained by time.

MR LEE: Thanks, Commissioner, very much. We have covered a very wide range of topics there.

CMR MARTIN: Yes. Demand is everything, isn't it?

MR LEE: Demand is everything. It might be useful, perhaps, if we stopped at some of those points as we went through the others, so that we could address them as they came up, too, just as a thought going forwards. Perhaps I can start with Brian Ashmore's comment, though, and put it in context. Australia Post is not saying mail volume is falling. Australia Post is saying mail volume is flat. Despite Brian's six to seven million mailing, the reality is mail volume last year only grew half a per cent.

That is on a decade of 4.7 per cent average compound growth. That is on a year past where we actually dropped in mail volumes for the year, so I think it is really important to understand when we are looking at the effect on our productivity, we are not talking into a context of declining mail. In fact, we are forecasting a slight increase, so there were a number of comments there that talked about the view that we have and I just want to reiterate, we are talking about lower volume growth than the past decade and the effect that that will have on our productivity and I guess I would have to say on everyone's productivity.

There were a number of comments about - and John Gilroy made the one about lodgment conditions and cost and everything else and made the comment that future post had a cost impact, but no-one has given the other side of the equation, that for every one of these changes we have made, we make them in the context of reduced price. The consumer has the choice whether they use the discounted price and if the discount doesn't cover the cost, I doubt that they would be using it, so each one of those could be looked at in that context.

Now, I have heard so many comments from other people about the value to the industry of the net value of bar coding and all the things that it has done to their production lines, to the cost to the consumer and so on, but I feel fairly confident, strongly confident that generally people have achieved the offsetting savings and then some, which mail houses have

been able to charge their customers, which other vendors have been able to charge for their products.

It is a very complex equation, but I think the performance is such that we can be fairly certain that has happened. A comment was made about GST and about the cost of mail to the customers or the members of the major mail users. I would just like to point to this particular chart, if I can turn this on and we have analysed here our top 100 customers and what I have plotted on that chart against a base of 100, so this is mail volume growth year on year, but I have plotted mail volume growth and our revenue growth from those customers year on year.

The top line is volume. The bottom line in this case is revenue and I think that by itself shows very, very starkly that over the past three years there has been a very significant drop in the cost of mailing to customers, so when we talk about the simple demand equation, I would sort of like to turn it around and ask the equation the other way around. I didn't see a great increase in mail packs when those costs went down from the people using mail.

I will agree at the start that the impact on the advertising industry was much smaller than it was on other parts, but I would put to the forum that it is too simple to equate demand in those terms and when you look back at our history and, in fact, I could take us back to 1975, there was an 80 per cent increase in mail costs, 10 cents to 18 cents. There was an enormous drop in demand the next year, but it all came back the year after, so I think it is very, very simple to equate these things to a point in time and I again refer to that, that there is the reverse of the demand equation and certainly we didn't see lots and lots of more mail packs because the cost went down at that time and that has happened across all of the major segments and they are our top 100 customers.

In the question of GST and GST is obviously a component of that, yes, it wasn't shared by all people, but the number that I gave, \$75 million I think it was, was the aggregate number to business in Australia, that business saved. The \$90 million is the real cost to Australia Post's letter business. Certainly banks and financial institutions are not able to claim the full input, but it would be wrong to say there are a number of businesses that can't claim the full impact because banks can achieve 75 per cent of the GST input in most of their mailings and I think, Brian, you would support that and banks are doing that, so it would be wrong to have the forum think that a whole lot of customers couldn't do this.

In fact, it is balanced by that particular regulation on the financial institutions, so let me turn to the issue of promoting mail. Yes, it is

absolutely true and those of us who watched Wimbledon would have seen the power of post that is being promoted at the moment. I guess I would like to put it in a couple of important contexts, though. One of the things about post and one of the reasons why mail is and remains a very trusted medium is the power of our brand, it is the reputation that we have in the marketplace, it is the service quality that we deliver that supports the whole thing, so first of all I would say that promotion is more than simply television advertising.

There are many, many other aspects of promotion. Secondly, and I don't think I will upset anyone by saying this, the next run of the power of post series will have a major segment within it which promotes direct mail, so let me turn to direct mail. Of the mail streams, I don't think many people would disagree with me that the one mail stream which is growing and has grown very strongly in the past is what we call the discretionary mail stream, where you make a choice as to whether you use it or not, where you make the choice in the context of other media as to whether you use it or not.

It is also being used in direct mail, direct marketing, which is the most cost effective, most measurable medium that is available. In the end, as we said in our Ad Post submission which the Commission has already not objected to, it is a decision made financially, will this promotion work or not? And I would argue very strongly again, the change in price we are talking about here in the price of the total pack is not the determinant whether people will use it or not.

There perhaps is an issue about lead time. That is the reason why in agreement with all the parties we delayed the introduction of the Ad Post change. That is why we are on a very long process now in terms of and one of our pricing principles which we have now embodied is the one of lead time, but looking specifically at the promotion of direct mail, or mail generally, I guess I have now spoken at the last four MMUA conventions and I guess every one of those I was standing up there promoting mail until people were probably sick of it, but that is just one person in an organisation where many people are promoting mail in that context.

In the direct mail area specifically, however, my estimate is and this is a very rough sort of an estimate is that between what we do within my group, where I have a group specially dedicated to promoting direct mail, what we do in our States, we think there is about \$5 million a year spent on - specifically on promotion of direct mail and that would be far from covering all of the input we put into that. Here are some of the sort of things that we do.

Industry sponsorship of Admar, Fundraisers' Institute of Australia, Melbourne Direct Marketing Club. There's a number of others that I haven't put on the slide, industry conventions that we support. We put a large amount of money into Admar's Pan Pacific direct marketing conference. We are the major sponsor of that conference and I think the cost overall was nearly \$200,000. Major direct mail events such as the Beam Direct seminar that is held in this State and might I say that all the States hold their own seminars for customers and with customers.

Education support. We support Monash's direct marketing chair. We support - we have a whole range of direct mail material that we send out from small business to medium business. We are about to launch a next phase program which is being made available to graduate marketers to direct them towards the value of direct mail in their marketing mix and at the end there I have noted the sponsorship and the release of the responsibility report. This is a report that we sponsored, arm's length, hand off, into the efficiency of direct mail.

We are in the midst of a major campaign of ensuring that all marketers are well aware of what was in that particular report. That report comes out with some very favourable findings in terms of the value of direct mail. I myself am going to hop on a plane tomorrow morning at six o'clock to fly to Perth to talk to Admar on the outcome of that report, so I think it is very wrong to say that we don't sponsor mail and particularly to say that we don't sponsor and promote direct mail.

Only three weeks ago we held a direct mail summit in Melbourne to which we had some 10 or 12 industry players. The majority of them were advertising industry. In fact, they were the heads of five of the major direct marketing focused agencies. We had a mail house, we had an envelope manufacturer. The mail house we had was probably the leading mail house in terms of focus on direct mail activity and we sat down for two days to look at the industry, to come up with a range of initiatives that we could put together.

One of the outcomes, in fact, of that group was that we will continue that process on a quarterly basis and have an industry advisory group in the direct mail area to come up with a series of products, promotions, etcetera, that people can use. I have to say that there was a consensus in the room that price rises and we were looking at Ad Post, of course, price rises are never popular, but there certainly wasn't a feeling that the price rise that we are going through was going to drive down dramatically the use of direct mail.

If I could look at Terry's comments about investment and again put it in the context that we are talking about flat volume, not dropping volume. We agree with your volume in the past, as you have, but remember that we have done the same thing. We have just invested \$500 million in the future of mail, not a small investment. That is an ongoing program. Now, it is hardly the action of a monopolistic supplier who is not prepared to support mail to put what we have into the future post and we didn't put it in there for any other reason than to improve the efficiency and improve the service and reliability to the Australian public of that product.

We referred also to - Terry referred to Salmat, Toll, DX and in that context the growth in unaddressed mail and I think the implication was that because they are having growth, our growth predictions are incorrect. Well, let me say that we also deliver unaddressed mail and our unaddressed mail grew by 10 per cent last year, but it is a different product. It served different purposes and it is constrained in the content that can be delivered in that unaddressed form by the Postal Act.

CMR MARTIN: Can you just clarify for me where unaddressed for me where unaddressed mail fits in to all of this?

MR LEE: Yes. Unaddressed, unfortunately, is often thought of as junk mail. It is everything from the delivery of the local Pizza Hut through to the sort of mail that we, DX, Salmat, PMP deliver. It is constrained, though, that it must not be a letter and that I would take that off line because there is a long definition there, but basically it can't be specified to the person receiving it and it can be addressed, but it can't be addressed to the individual and then there are regulations around the content. Now, that is the centrepiece of projecting the reserved service. It is one of the regulations that maintains the reserved service for letters for Australia Post, so unaddressed mail can be delivered, letterbox drops they are often called. There's a whole range of people making those drops from the Boy Scouts through to the Salmats and the PMPs.

CMR MARTIN: But what is the service that Australia Post provides?

MR LEE: We actually offer an unaddressed mail service as well, so we offer the ability for people to deliver mail that complies as unaddressed mail and we have a much lower price for that product.

MR GILROY: Mr Commissioner, can I just come in here to say we believe that this is part of your section 3, the relevance of non-reserved services to assessing price of reserved services, because that unaddressed mail is delivered by the postman who has been paid for by the CSO

monopoly reserved services and we won't deal specifically with that, but it will be one of the issues where we want to raise in that context.

MR LEE: If you are happy, Mr Commissioner, we are very happy to address that at the appropriate time.

CMR MARTIN: Okay, good.

MR LEE: There was a comment made about the State identifier, the delay in cost, 250,000, etcetera, and I am not sure of the circumstances. One view of that might be that whoever it was didn't do the implementation in time. That might be an issue of notice or it might be an issue of inefficiency in that organisation. Chris Day spoke particularly about - I think, Chris, the centrepiece was the issue of restrictions, etcetera, in sizes and formats and the comparison to the rest of the world.

Let me say at the outset that there is no restrictions at all, providing you are prepared to pay for the product. It is without a doubt a centrepiece of the ability to maintain prices at the level they have and develop the productivity they have, that we have invested in productivity equipment which needs harmonious or common mail pieces running into it and I think Terry would agree that the mail that runs down his high speed inserting lines has some form of restriction in the sort of mail that you can put down there.

Equally, we can't achieve the sorts of productivity gains and the prices that we hold in our deepest levels of pre-sort by sending down anything of any colour, any size, any weight whatever and I think that is a fairly obvious statement that most people would agree with, so you can send anything, but there is a price for sending it and I would challenge, in fact, that overseas mail authorities are any different in this respect. They all have a set of rules, because they have the same sorts of conditions as we have.

There has been some feedback from Chris and people in other parts of the industry and again pre-empting, one of the outcomes of the DM summit that we had was a request for a basically anything goes type of package to be used in the DM and we are right in the midst of trying to develop that product at the moment, but we won't be able to deliver that product for 37 cents, which is the price of a direct tray bar coded piece of mail. I think, I hope, because there was a lot there, I think I have covered most of the key points. Chris, have I missed anything there?

MR KOO: The only thing I would add, I think, was there's a number of comments in the submissions regarding the elasticity and the impact on the direct mail and I think we have segmented the market reasonably well.

Fifteen per cent of our total volumes are what we call discretionary in that they are direct mail. Gary and others have alluded to the fact that the 20 per cent increase associated with the withdrawal of Ad Post had been approved and so forth and that that is starting to take effect now.

One thing I would just note and there is no right or wrong answer to this, but in looking at our own forecast impacts on discretionary mail of price, we obviously look at elasticity and by doing that, we actually look at segments, so we look at mail order segments that have continuous direct mail, i.e. through catalogues and DM mail pieces. We distinguish those from corporate type customers who have a fixed budget and a mix of media. Like ourselves, Australia Post has a mix of media through the TV, the print, radio and through our own DM, of course.

There's some numbers in a lot of the submissions and I suppose this comment is really just trying to bring together the fact that there is no definitive answer as to, (1) what the percentage of postage cost is a total cost and, (2) what the real elasticity of the price is. An example I would give is if you are a mail order company, then the price elasticity is probably more to do with what the margin you make on that nth item that you actually sell as a result of your mail out and we have definitely gone into that sort of detail in trying to assess our impact on the market.

Summing that up, getting back to the overall volume, we see that certainly the impact on discretionary mail of a 20 per cent price increase, we have factored that in prior to obviously this proposal and we did that through the last process. We also have factored in an additional six to seven per cent as acknowledged through the submissions, but, yes, we still see that this market in its different segments will, (1) have let's say a hit from some price increase, but also that it will be a growing market and some of the stuff that we have from overseas has actually said that cyclical down-turns and economic down-turns, whilst they have affected discretionary mail markets, they have affected those markets far less than they have affected other media because of its affordability, its targetability, etcetera, so that doesn't provide a definitive view. It probably says that in our analysis and in our adjudication of what we think the impact will be. It is quite complex, but at the end of the day we have gone down to those elements to look at real price elasticity and its impact on the actual businesses.

MR LEE: There is a comment I did wish to make, too, and I think it was Sally-Anne that talked about fall in Ad Post this year. Our advertising mail numbers for the year will be about two and a half per cent down on last year and advertising mail, by the way, through the last decade had compound annual growth of 11 per cent, with a very spectacular two years at the end of the decade in 1999 and 2000 when it was up around 20 per

cent, so we are falling from a very big high, but it is important to put it in the context that advertising mail is but one media choice that advertisers make and the overall advertising industry is down very substantially this year as it was last year. Various numbers are available. We estimate at least six per cent down in spend and the fact that we have only gone down two per cent is probably a positive for this medium.

MR DALY: Excuse me, Commissioner, can I just ask Gary, he didn't comment on the mailing houses' price decreases of 30, 40 per cent over eight years and our large clients and I would have suspected they would have picked this up in their own non-reserved services EDI post that the pricing has come down. We as an industry have stayed very competitive and we are all in business still. We have had to adjust to productivity. We have had to really get in there and get productivity gains.

CMR MARTIN: I was figuring it would be under the spotlight on that in the next session to some extent.

MR DALY: Okay.

CMR MARTIN: But if Gary wants to - - -

MR LEE: Well, maybe if we did it then, that would be a little more focused, but I would certainly like to respond to that.

MR GILROY: I would like to ask a procedural question here, Commissioner. How do you wish to deal with some of these issues? For example, the top 100 customers graph was in a sense new evidence supporting Australia Post's case which none of us had privy to before today. The throw-away line there about advertising mail over the past 10 years, we would obviously and I am not speaking for Ad Mail, but I am sure Ad Mail would like to have a look at where that came from.

MR LEE: That is a published result, Commissioner, and has been for some time.

MR GILROY: Fine, but I think - that is why I am asking the question procedurally. How do we deal with this? Do we deal with this now? Do we deal with it in the time lapse before you write the draft decision?

CMR MARTIN: Well, I think this is only one further step in the process. The whole idea of these sort of forums is to get these issues and information on the table, which helps you and your response, allows Australia Post to respond. It would certainly help us in our processes, so,

I mean, don't feel that you need to immediately respond to that. Take it on board and come back to us is the best way, in my view.

MR GILROY: By when? By the time you write the draft decision or after that?

CMR MARTIN: Well, as soon as possible. I mean, it doesn't have to be this morning.

MR GILROY: Well, we would like to see the - I mean, the graph of volume and revenue drops made no mention of the cost factor to those folk and that is the point we made earlier in the piece. We wouldn't take issue with Gary's comment about net value of bar coding to the industry.

CMR MARTIN: Well, I think we are going to get some chances in the following sessions that maybe as you sort of discuss that over morning tea, you can bring it back up.

MR GILROY: Well, I don't want to leave that hanging either, but my last statement had a but to it, okay. That has to be qualified from the industry's point of view. I don't particularly want to do it now. I am just asking you - - -

CMR MARTIN: Well, we take it on board for the moment and if we get an opportunity as we go through the morning, bring it back up again or certainly come back. Yes, I am sure that Australia Post are prepared, even in bilateral discussions, to take it up as well.

MR LEE: Commissioner, perhaps just one very quick response to Terry's point, because I think it is a good point to talk about afterwards. It should not be forgotten that that graph that showed the relationship between volume and revenue which I could also show in terms of unit revenue is a function of the \$90 million revenue hit that we took with GST, so our income has declined very substantially as a result and that was - \$75 million worth of it was enjoyed as lower prices into the business community. That is a very significant element. It is probably worth noting at the same time the price increase we are talking about here, two cents basically on the bulk mail, takes it back to the price pre-GST.

MR GILROY: I am sorry, Commissioner, to belabour this point, but I believe it is quite important that some of the statements that have been made this morning have surfaced for the first time in terms of the graphs, etcetera. According to the timetable that you have given in the issues paper, you are conducting - this is the final forum. It is 11 July. Late

July, early August, which either means 31 July or some time soon after that, you are going to release your draft decision.

The point I am trying to get across is when will the material that has just been presented today be made available to those of us who wish to comment on it and how do we respond or what is the time frame which we will be given? Given that the transcript is not going to be available until before 21 July for us to look at, there is only another 10 days including weekends for us to get back to you before you publish the draft decision and I am sure that is not - that is all I am trying to find out.

CMR MARTIN: Yes, okay.

MR LEE: Everything that we use today we will leave behind as a start.

CMR MARTIN: So we can make it available within the next day?

: Perhaps if you follow up Australia Post off line, if they are happy to clarify anything.

MR GILROY: No, I think this is a formal ACCC - I have no problems with any of the people on the other side, okay, on a personal basis, but I think at this stage, this is a formal ACCC hearing. The ACCC should be in charge of this and I am asking when will the ACCC make available to us these remarks for comment? I think that is a reasonable request.

CMR MARTIN: Well, as I indicated, we are trying to get an interaction going here. It appears as though we will be able to make it available today, if we can get copies of these materials today.

MR GILROY: Okay, so the other part of my question is when is the deadline for our comment back to you?

CMR MARTIN: Well, we could organise a further meeting with representatives of your Association or you provide us with some more written material.

MR GILROY: I will be happy to accept that. Yes, I am happy with that.

MR HOME: There will be further opportunities beyond the draft decision as well.

MR GILROY: Well, that is the point I am making. Do we do it before the draft decision or will you just simply be noting in the draft decision these issues are still open to be - - -

CMR MARTIN: Well, Richard has indicated as soon as possible to get it into our thinking, but even if for some reason that is not possible, there is a process even after the draft decision, but my suggestion is as soon as possible. Chris, did you have - - -

MR SMITH: Yes, I was just going to add a few comments to what Gary was saying and one was his graph.

CMR MARTIN: Can you identify yourself for the record?

MR SMITH: Chris Smith, Reader's Digest, was the graph itself where Gary shows the decline in revenue, there is a line missing which really should be the investment of future post and what those volumes and declines have actually had on the costs associated in that area. I would also like to just briefly talk about DM because that is the main communication channel for Reader's Digest and in our submission we have put a number of charts relating to costs of postage over a period of years and we actually have databases that go back to about 1994, all based on volumes and costs that are incurred through Australia Post invoicing, so they are fairly accurate reflections.

It is a bit like the 10 per cent increase and the nine per cent increase and we are only talking about the standard DL letter. You know, the true cost of those is in the end around 24-1/2 per cent and if you look at the medium and large, which is another high usage envelope in DM, they are in the 30 per cent mark, but rather than go through that, the charts are there. I have also offered to Richard access to our databases, of looking at the usage of mail in DM.

I mean, a lot of us made significant investments in future post to achieve the prices that we did and for Ad Post again and I know Gary has outlined Ad Post as a market segment, really, what has happened there, I mean, our investment was on \$1 million in changing our databases, developing our own software, because none was available, really to maintain the price. The only saving was in let's say billing material which goes under a different mail category, so there have been some savings, but I wouldn't say we have recouped our \$1 million.

Gary says they are doing a lot of work now in promoting DM to the industry and congratulations on that, but I don't think, as Sally-Anne said, that a lot of direct marketers have, because the increase has only come in in July this year, a lot of the companies haven't done their budgeting to take a lot of those into effect and I think in several submissions, like in ours, we are looking - we had so many dollars to spend and that is what we are going to do and that means a 15 per cent decrease in volumes.

One of the others in Magnamail, I think, was cut out one mailing a year to keep our expenditure the same. I mean, this has a flow on effect and I did put a chart with our submission on the impacts of direct mail itself and that the initial direct mailing generates let's say 36 per cent of the revenue that goes to post from a mailing. The rest is from full rate customer mail and all the other additional services which are traditionally non-reserved, like product delivery, magazine delivery and so on, so it is like I say, Ad Post is I think that oils the wheels of the DM industry and it links to the printing industry and employment.

CMR MARTIN: Okay, thanks. For the moment, briefly, because I would like to get on to this next session.

MR LEE: Just perhaps a point of protocol, as John used as well. The Ad Post price increase was previously notified will take effect. I assume that in this particular notification, what we are looking at is the changes that relate after the Ad Post increase.

MR DAY: Yes, I think a point that has been made is this atmospheric sort of impact that is feeding through now and we are not adjudicating on them.

CMR MARTIN: All right. Well, look, if we could just - given that we would like to take a break fairly soon - move on to the second item, efficiency of Australia Post. I think the first - we had some issues that Chris Day was going to raise on printed advertising issues.

MR DAY: I think probably I covered most of it. There is one other thing. It is probably worth talking about. I know it is difficult to talk about one client or one organisation, but it is probably an example of what happens. AOL Time Warner around the world have been producing Cds in sort of a square shape in a plastic bag and have been paying in the order of 30-odd cents to mail that piece.

They were faced with the changes that were going to come in with bar coding and non-use of plastic, that it was going to go to over 90 cents an item to delivery it, so they were faced with a huge increase and there was all sorts of tests and things done and my understanding at the moment is that instead of the 30-odd cents, the price will be in the order of a medium letter rate in future, rather than the large letter, but still a fairly significant increase to what they have been paying in the past.

The decision they have made in the last few days is to virtually and remember they do this sort of mailing all around the world, to cut out that product and market it in that way or greatly reduce the volumes and they

produce and send out a couple of hundred thousand every month of those and they are going to swing over to doing inserts into magazines at a fraction of the cost and that is a marketing decision they have made in the last two or three days, so that has an impact for all the people that supply that product and it has an impact for Australia Post as well, as a loss of business and I think that is systematic of what is going to happen in direct marketing. Thank you.

CMR MARTIN: John, in terms of future productivity gains, have you
- - -

MR GILROY: Well, Commissioner, I don't think we really need to say anything further than what we have said in our submission. We have covered it. Terry wishes to raise certain company specifics by way of example to you, but MMUA is happy with what we have put in the submission.

MR DALY: I am surprised that Gary has said that the productivity has come from continued growth. From my viewing of Australia Post's processes, I would have thought that a lot of that productivity would have come from the future post project and I think it is clear in our submission, in MMUA's submission, that although the future post project may be seen by some to be completed, that we haven't actually seen the results that were promulgated when this was first announced, that of round sorting, all street sequencing. We haven't got that far with the future post project, so the question remains, is it finished? If it is finished, where is the post's implementation review? We don't believe it is finished. We think still there is a long way to go. There is the flat sorting machines that are not installed yet, so while future post isn't completed, I don't believe the productivity gains are not there to be had.

CMR MARTIN: Sorry, what were the other things?

MR DALY: Flat sorting machines, which was one of the - - -

CMR MARTIN: And street?

MR DALY: Street sequencing. That is sorting the letters into a street, so that the postman doesn't have to do so much sorting, which apparently is 70 per cent of the postman's time, give or take a few per cent.

MR GILROY: Commissioner, it is pages 5 to 8 of our submission. We assumed that you didn't want us to read - we have nothing further to add than what we have put here. That is the essential point we are making, that there were certain statements made at the beginning of the future post

project as to what the changes would be and they have not been fulfilled. They are still in the pipeline and we are saying, well, one of the grounds that Australia Post is using to justify a price at this time is that they have run out of productivity gains.

Our argument is to say, well, you haven't finished the project yet, so how do you know you have run out of productivity gains? And a \$500 million project should be treated with some respect, that if you set out to do all these things, tell the industry to make huge changes, capital investment along the way to do it, I mean, that is the line that - not the line, sorry, that is the argument that Gary put up to us, that the net value of bar coding, well, that is what we are talking about here, the productivity, etcetera, associated with the future post project and that is our industry jargon, bar coding, what we call in the industry database to mailbox, the whole process starts on our side in the database and ends up going into the mailbox of the addressee. That is what is involved and Australia Post has a corresponding side of that and they have not finished the project. I mean, they haven't even got the machines in place for one big element of it, flat sorting, which they told us in 1996 was an essential part of the project, okay, so we have argued the toss in our submission.

MR DALY: I am still sitting on the same thing, that I don't believe that productivity gains ever finish in our industry. The pricing causes us to continually look and look and look and we do it every year and every day and we strive and we put ourselves some goals each year to decrease our costs again by X per cent and we have managed to do that over many, many years.

MS RAHER: Something I would like to say in relation to productivity gains. I don't think Australia Post could have achieved the productivity gains it has through future post without the industry, the mailing industry's co-operation. If we hadn't invested in the capital, in the equipment required to produce the mail in ways that suit Australia Post, then the productivity gains which have been achieved wouldn't be achieved and there is still room for substantial productivity gains at their end.

Now, one of the things that happens in this industry with a monopoly supplier of services like Australia Post, they can place an impost on our businesses. You change the rules, we have to comply and there is a cost to us. Gary indicated that there are postage discounts made available to offset costs incurred by the industry. Those discounts apply to the mail generator, not the mail house, so our part in the value chain has meant we have been required as an industry to spend substantial money on re equipping our plant in order to meet the productivity targets of Australia Post and the gen mail generators are the people who have reaped the

benefits of the discounts and this is something that happens to mail houses all the time.

I mean, you could say why are mail houses here today? The postal increase will affect our clients. Well, yes, it does, but it will eventually affect us in terms of reduced volumes, in terms of additional capital equipment, expenditure to meet the lodgment requirements of Australia Post and that is a cycle that we seem to have been in over the last few years and I think it is fair to say we haven't seen any major benefits as mail houses to the productivity gains.

CMR MARTIN: Is it all one sided, though? Don't Australia Post consult when they are making these changes and try to do it in a way that works with the industry?

MS RAHER: Yes, no bar code, no discount.

MR DALY: In relation to future post issues, certainly the productivity and the new PIP project which we participated in 18 months ago came as a result of some productivity gains for both parties. It started off, it looked like a 50/50 deal where we would pick up 50 per cent of it and they would be picking up 50 per cent of it and the end result is I think Australia Post picked up 90, we picked up 10. We were very thankful for that 10 per cent, by the way, but there was certainly a lot more benefit to the Australia Post side of the equation.

CMR MARTIN: Colin or Richard, do you have anything you wanted to say?

MR HOME: I would just be interested in Australia Post's response to the future productivity gains, I guess, the extent of future post and this lodgment condition issue as well.

MR LEE: Certainly, and I will ask Jim to speak in detail on that as the general manager of mails, but just a couple of points. I would certainly like to acknowledge Sally-Anne Raher's comment that we wouldn't have achieved what we have achieved without industry co-operation. We do see this as a partnership and I think the industry would accept that there has been substantial consultation, co-operation, understanding, discussion, changes, through the processes that we have been undertaking in terms of determining an appropriate way that fits the industry as well.

I think that the Commission does need to take into account this issue of it is a generator saving, it is not a mail house saving and we, after all, put a price in the marketplace for the product. There is a discount for a series

of activities to take place in that product and then we allow the marketplace to determine how that discount is shared. If there is an issue in the mail house industry in competition that drives down their ability to share that, I don't think that is a function of our pricing of the product.

It then resides with the originator of the mail piece, rather than the thing and I think that that is an argument that I often hear, but I don't think it is germane to the issue about whether the price is appropriate or whether the discount is appropriate for the services that have been rendered. In asking Jim to now talk about future productivity in the context of the notification, I would like to put on record, though, my on behalf of Post's fairly strong objection to John's comment that indicated that we haven't treated future post with respect. It was an implication of a somewhat cavalier approach to \$500 million and I can assure you that Jim in addressing that will certainly leave you with no impression at all that we are cavalier in the way that we treat a project like this.

MR GILROY: Mr Commissioner, I don't think I used the word cavalier at all.

MR LEE: I used the word cavalier. You used the word lack of respect and for the record, it is lack of respect that I am talking about.

CMR MARTIN: We will check the transcript. I don't think we need to
- - -

MR GILROY: I need to say something here, Mr Commissioner, that there is a residual bitterness within the industry that goes back to Australia Post's unco-operative, secretive approach to the whole issue of future project which did not change until a meeting with the Managing Director and the Deputy Managing Director, or Deputy Chief Executive of the day and the Company Secretary at which we were asked what were our problems with Australia Post. Arising out of that, we like to feel that there was an appointment made and that appointment of a person at Australia Post level was given the task of pulling Australia Post's whole communication with the industry into line and with all - I hate to say this, but it was Gary Lee, and that did change the situation, but there is a bitterness in the industry that goes back to all those days of when Australia Post embarked on a \$500 million project and treated its major customers with disdain and I had thought what word would I use that is not a cavalier throwing on to - Australia Post approached its customers with total disdain in respect to the future post project, in terms of giving us information. There was a change, a sea change, several years ago and there has been a marked difference of approach, but it has to be recognised by Australia Post that it has left there a feeling within the industry that we have not been

given the proper story about future post and the productivity gains that were outlined to us in 1996 as being part of the project and the elements of the project have not been fulfilled and the arguments that post is putting up to you to justify the price increase are based largely on the fact that they believe they have run out of productivity gain potential, yet they haven't finished the project and that is our simple approach.

MR LEE: Mr Lee, I accept what John says. Let us address the specific issue which is the future post project.

CMR MARTIN: Okay, and the issue of productivity. Thank you.

MR MARSHALL: Commissioner, I am going to need to cover some considerable ground here, so this will take a little while.

CMR MARTIN: All right. Well, maybe given that it is 10 past 11, do we want to take a 10 or 15 minutes break and then recommence on that because I think it has been a very useful and lively discussion, but I think nature demands that we all stop for a little while, so we will reconvene at 25 past or just on half past 11.

SHORT ADJOURNMENT

RESUMED

CMR MARTIN: Well, we will recommence the forum and still aiming for around 1 o'clock closure but that doesn't necessarily need to confine anything and we can all maybe delay our lunch slightly, if needs be, and pass over to Jim who was going to talk to us about the productivity side.

MR MARSHALL: Thanks, Commissioner. Before I give you the detail perhaps I could respond to three issues that were raised. The first issue was an issue about the benefits to the customer of future post not having been delivered. All of the price reductions associated with future post were all delivered in the associated price reduction at the time and those elements of future post, it is true that future post has not been completed. All of the future benefits from future post that have not yet been implemented are included in the ak that you have.

So I just wanted to make that clear at the outset. There was a comment also about, I think, a misreading of what Gary Lee had said the notion that all about productivity improvement had come from volume increase. I just

want to correct that. That is certainly not the case, but certainly volume improvement in a network that has a substantial level of fixed costs both in assets and in labour certainly has contributed to the productivity improvement of the last 10 years.

In addition to that we have taken a lot of steps to reduce cost in the network unrelated to volume improvement. So with those remarks, Commissioner, I just want now to go through a process of first of all clarifying some of the issues relating to future post clarifying what future post was, clarifying what hasn't been done and addressing the issue of future productivity. First of all, let us dispense with a few misconceptions. The business case, the future post never encompassed freeing its sequencing.

And I think in the ALM submission there were some words that created some doubt around that issue, but I want to make that clear. So the investment that we made built the capability to move to sequencing with further investment but the investment we made did not encompass the implementation of sequencing and af. Automatic af and sequencing. The other think I want to point out at the outset is that as we have moved through the future post program we have already taken significant benefit from that segment of our cost structure.

How have we done that? We have done that by completely changing the processes that occur within our delivery centres and putting in different work equipment which combines the two process of af and sequencing into one process. So the candidate savings available for any sequencing program have been substantially diminished since the beginning of the future post program. The other think I just want to, I guess, add to that is that customer bar coding was introduced to facilitate the future post program as I have defined it, not specifically to implement a mechanical sequencing project.

So that should be fairly obvious from the previous things I have had to say. If I can move on to just briefly describe, perhaps what - for the benefit of everyone in the room, what future post was. It wasn't just by any means a bar coding program, it was a comprehensive restructuring of all of our processes and it encompassed three major areas of change. The first area of change that it encompassed was a relative centralisation of our processing network.

This was particularly so for Sydney and Melbourne where there were significant numbers of processing facilities distributed across the suburbs of both cities and where that process had got to the point where it was becoming dysfunctional, both from a quality of service point of view and

from the point of view of its inability to cope with any new technology of any great degree. So what we did in Sydney and Melbourne was reduce the number of processing facilities we had to three in each city. The second part of what we did was to acquire state of the art equipment capable of reading at address level.

In other words, what we call multi-line OCRs backed up by what we call bar code sorters, which are capable of reading bar codes both customer created and post created bar codes that identify specifically the address to which the letter is going. The key features of that network were fewer processing delivery sites, an altered mix of capital and labour, that is pretty obvious, new mail traffic flows throughout the network, new technology uniquely configured for Australia, I will talk about that in a minute, bar coding that enabled deeper sorting for delivery which has now been achieved - I will talk to that - a more highly skilled workforce and a platform for further automation should that be warranted.

The third element in summary that future post involved was what people had referred here to round sorting. Round sorting simply means that the machinery is capable of using those bar codes generated either by post or by customers to sort mail down to postman's round level and prevent a whole process occurring at the delivery centre in front of the postman actually getting the mail. What we implemented was a solution that, while it had some elements that are common to most developed postal organisations also had elements that were uniquely designed for Australia and I want to discuss some of that in the context of the process we went through.

In defining what shape the network would have, we had regard to obviously the geography and demographics of each of the cities, the property available, the infrastructure that we currently held and the capacity to house the new equipment, the capacity to provide sustainable quality. What we ended up with out of all of that consideration was to retain the two most appropriate mail centres that we had and to create a dominant mail centre in each of Sydney and Melbourne. In Melbourne that is at Dandenong, in Sydney that is at Strathfield.

In terms of the equipment, we went to the market for three different types of equipment. Firstly, the multi-line OCRs which we went to the market to fulfil our particular needs and that equipment is, in our opinion, superior to any other for our solution in that it created the capacity for us to perform a function we call video coding on line for 90 per cent of the mail going through it, so 90 per cent of the mail that the machine itself could not read could be corrected by a linked computer and operator while the letter was still going through the machine.

The bar code sorters also had some distinctive features in their design, and that was primarily in its ergonomics. It is a four level, double-sided machine, it has the most efficient footprint per stacker for any like functioning machine in the world. In Dandenong and Strathfield we backed all of that technology up with an automatic tray management system. Again, we searched the world for an appropriate piece of equipment. The piece of equipment that we chose, we chose for its future adaptability and its performance capacity.

All of the equipment acquisition programs were performance based programs. In terms of performance outcomes, I want to make it very clear that the future post business case has been fulfilled. The labour reductions that were placed in that business case against that investment have already occurred. I want to put an overhead up which only covers New South Wales and Victoria but New South Wales and Victoria were the two states where most of the savings were predicted and you can see, I hope you can see, yes - my glasses make it a little bit better - you can see the level of reduction that has occurred in those two states in the letters business since July '99.

And you can see at the tail end of that the budget that we are committed to for the coming year. And if I bothered to put the next year in, it wouldn't look that much different. Those numbers you have, Commissioner, in your financials. In terms of network design outcomes, the network design was to provide the capability for 60 per cent of small letters to be sorted to round. At last count the score was 59. The MLOCR machines were designed to give us a throughput of 29,000 an hour. At last count 37,000.

The read rate to round sort coding for machine addressed mail was 65 per cent as a design level. At last count 81 per cent. The bar code sort machine throughput rates, the design level was 30,000 per hour, at last count 34,000. And our video coding image coding rates were designed at 1500 images per hour and we are processing 2500 images per hour per operator. We have also been addressing the service quality issue while all that has been going on and I have an overhead which shows again the performance improvement as measured by KPMG in our external monitoring program for basic letters from September '99 through to March 2002 where for the first time we pipped the 96 per cent mark. And we expect this year we will come in at the high 95s. Our target is 94 on an ongoing basis. So, Commissioner, that encompasses what we have done.

CMR MARTIN: Can you just explain what that is actually measuring?

MR MARSHALL: That is measuring - sorry, that is measuring the letters - the percentage of letters delivered on time against our schedule.

CMR MARTIN: Okay.

MR GILROY: That is domestic letters - - -

MR MARSHALL: Correct.

MR GILROY: - - - not bulk mail.

MR MARSHALL: That is correct.

MR GILROY: It is not bulk mail.

MR MARSHALL: If I can move to the issue of large letters, some comments were made about the lag in implementing the large letter improvement program and the associated technology. This technology is without any question leading edge technology and we have been looking for the benefits of that. When we looked around the world at what was available to us, what we found was a level of technology in the mid-'90s that essentially you would find very difficult to build a business case out of, and we have gone through a process of re-specifying working with the contractor to get a world class outcome which completely automates the back end of the machine.

There is no manual clearance function off that machine at all, and we have got some robotics at the end of the machine that transfer automatically that product into our network. I think you would find it difficult to find a similar machine with those attributes anywhere else in the world because I know there isn't one. So that is why we have been working through this process that has taken a little longer while having already put the pricing for bar coding in the market place.

The savings for the large letter program again are in the financials that you have over the coming two years. Over the coming two years let us talk about future opportunities for productivity. And I want to get rid of a misconception that there is somehow at this point in time, some magic switch that is being flicked that says there is no further productivity improvement available to Australia Post. We have at the same time as implementing the larger letter equipment a program to further consolidate our network.

Over the coming two years we will be going through a process of closing down our Melbourne City Mail Centre and the State Mail Centre in Port

Melbourne and consolidating the product from those two centres into a combination of Dandenong Mail Centre for letters and a property that we are developing at Ardeer for our parcel product. At the moment we have some mixture of those two products in the two centres. So, come two and a half years time there will be one letter centre in Melbourne.

We are also going through a process in Sydney of taking the mail processing function out of our Sydney North letter facility and distributing that between our Alexandria site and our Strathfield site and that is delivering some of the productivity improvement that you see in the numbers that you have over the next two-and-a-half years. And that, combined with a large letter project, is quite a challenge for the coming three years, for Australia Post. We also see some opportunity for some sequencing, but it needs to be targeted and it needs to be carefully implemented and it certainly won't be a full sequencing program, because that would require another \$100,000,000, which isn't a business case we could build off the back of our current bonding predictions.

In terms of future technology potential, around the world, over the last couple of years, probably three years, there has been a general backing out of R and D, by suppliers and by the post administrations themselves. A lot of this technology, you would understand, has been generated from funds contributed to, I guess, the global development of postal technology, by people like US Postal Service, Deutsche Post in Germany, Insignia or in the UK Royal Mail and a couple of others. These people are making the same predictions as we are, about the future of volumes, they are not putting large lumps of money into R and D for their letter business.

Consequently, suppliers are not committing R and D to this either, although what I would say to you is that we would expect that there would still be some gains to be made out of improved reading software. Those sorts of things which, you know, we could see being incremental, but certainly not anything like the order of savings we have made out of the equipment and rationalisation changes we have made. And of course, we won't be stopping our efforts at ongoing process improvement but, once again, these are not large chunk changes that produce the sort of outcomes that we have seen in the past.

Against that, one of the challenges that, I think, all postal administrations face and certainly we do, is that despite a levelling out of volume and possibly out there somewhere, a decrease in volume, is a reality that delivery points continue to grow and they continue to grow at somewhere in the two to two and a half per cent range every year. For us that creates something of a one per cent productivity liability, which we have to recover if we are going to keep a level playing field even at zero.

Over the last period, since '92 '93, as you can see up there, delivery points have increased 29 per cent. Now, that creates an ongoing pressure on our delivery infrastructure, which is of the order of 250 full time equivalents per annum, that we need to cover with other initiatives that we make, in order to just to stay square, if you like. Commissioner, I think that probably covered the issues that have been raised. Just by way of comment, I made the comment that we have delivered on the savings that we project in Future Post. We conducted, with the assistance of an independent organisation, a post implementation review, which validated that and in fact that was a little while ago and since that time, we have made some further savings. Thank you.

CMR MARTIN: Thank you. Would you like to respond?

MR GILROY: I don't wish to respond, but could I just clarify a point. The nine million delivery points, but PAF has 10 million. Can I just clarify what the difference is?

MR WOODS: Yes, I might respond to that, Greg Woods, Australia Post. What was put on the chart there were physical delivery points, what the PAF contains, for example, floors within buildings that we don't physically deliver to, so that explains the discrepancy.

MR GILROY: That is fine, yes, thank you.

CMR MARTIN: Okay, thanks John. Well, if we don't have any further comments from - on the efficiency side - - -

MR MILLAR: Well, now could I clarify a few things. My understanding is that the statement has been made that there are no future pricing benefits to come to the market place, out of the Future Post project. I may be misinterpreting the phrase, but what you said was, "all future benefits of Future Post, have been included in the pricing given".

MR LEE: What Jim was meaning is that we have implemented the bar coding prices, at a period past.

MR MILLAR: Right.

MR LEE: And those prices recognised, at that time, all of the benefits coming out of the Future Post project.

MR MARSHALL: Perhaps a further comment, in a broader context, can I make it clear that Australia Post has an absolute focus on whatever productivity improvements are available to it, that it can make. It is not

our ambition to take a first course to price increase or anything of that nature, so we are looking to every productivity benefit we can make in the network, I guess without interfering with the integrity of the quality of our service.

MR MILLAR: Yes, so I am hearing that in the context of this draft notification, the response really is answering MMUA's claim that the project is not yet finished, therefore, how can you say that there are no productivity gains to be made, in terms of its affecting the price structure, and that is where we are doing - - -

MR LEE: And what we are saying is, clearly, that all of the gains from the Future Post project, are included in all of the financials that underpin the notification.

MR MILLAR: Which we are not privy to, they were the ones that were removed from the - - -

: I think the Commission, though, will make the appropriate review of those financials.

CMR MARTIN: Can I clarify something here. You talk about sorting to street level and number and that some changes to the sorting had been made, as part of Future Post.

MR MARSHALL: So, two things, mechanically sorting to round. Second thing, beyond that process we have changed, fundamentally changed the process that happens to mail inside the delivery centre, to combine the streeting and sequencing process into one process, with some significant productivity gain that we have enjoyed out of doing that.

CMR MARTIN: And previously they were separate.

MR MARSHALL: They were.

CMR MARTIN: Do you have a comment?

MR SMITH: Commissioner, Gary Smith from Gomail and Ausdoc. Just on this whole question of the return on the investment and the productivity issues from the Future Post program, because it is such a fundamental part of the issues that are before us today. I don't think - well I certainly don't doubt the fact that the productivity performances that Jim outlined, have in fact been achieved. I question and I question whether it is a relevant criteria for the Commission to consider, is addressing the starting point. Because if the starting point is wrong and you get to a point below the

starting point, then, yes, achievements have been made, but the question is, is that benchmarked against best practice, is it benchmarked against internal criteria that you have with your shareholder? How does that relate to the sort of demands that are placed on other organisations?

Terry made reference to the fact that over the last eight years, there has been a 34 per cent price change because they are the reflections of the competitive market. The question is, what, given that Australia Post aren't subjected to competition, in that sense, I think the question behoves on Australia Post and the burden of proof sits with Australia Post to demonstrate that the productivity achievements that it has attained are best practice and the question is, if you were subjected to more competitive pressures, would the reduction in staff numbers, from 20,500 to 17,000, being a figure south of that, because you would have been responding to a different objective? Thank you.

MR MARSHALL: Can I respond to that, Commissioner? The way in which we have constructed the business case for Future Post, was a bottom up process, to design a network that was a best practice network and to place within it the resources that it required to be best practice. It wasn't a process of taking savings off the top of whatever was there. So, I just want to make that point, in, I guess, clarifying what base we came from when we set the basic benchmark for what we expected to gain from Future Post. Now, as I have already said, we do have some distance to go and that distance will cover the next couple of years, but so far, with what we are committed to do, putting the large letter exercise aside, we have achieved what we set out to do, in that initial business case.

CMR MARTIN: But if you still have distance to go, which is what you seem to be saying about - you have identified some of the things such as sequencing and consolidation, what gains do you expect to make out of them?

MR MARSHALL: The gains we expect to make are those which we have included in our projections, the projections that you have.

CMR MARTIN: And is that the end of it or is this something that you continually will find more of - - -

MR MARSHALL: I guess - well look, there is never an end and I think someone else made the comment, today, there is never an end. The issue we face is that there are no more large chunk changes out there that will suddenly cause the productivity change to make a transformational jump. And with the other offsets that are occurring, like delivery point increases and if there are no volume increases occurring, then those process changes

that are available to us, are going to be fairly marginal and incremental, in terms of their overall impact on productivity improvement for the future, once we get out beyond the program I have described.

CMR MARTIN: And you see the approach to R and D as reflecting that. You say that both Australia Post and your counterparts are tending to back off on R and D and the technology hikes are not there.

MR MARSHALL: Can I - well, can I perhaps put a background to this. Australia Post does not have any great capacity to influence the fundamental international R and D program for postal equipment. Yes, we can change things at the edges and we have, in order to make happen what we have made happen. The equipment is not exactly the same, as is the case in the US or the UK or anywhere else you want to go and have a look, however in making fundamental changes from any large worldwide R and D program, Australia doesn't have the capacity to influence that terribly much at all. And that is really what I was referring to.

MR LEE: Mr Commissioner, Gary's point, I guess, is where do you start from, is the way I interpret that and that is obviously a difficult question, which I am sure the Commission will examine. But if I could draw your attention to a couple of ways that this might be done. We have examined or Australia Post total factor productivity has been examined, back some period. For the period '75 to '81, our annual percentage total factor productivity growth was 3 per cent, against a national average of 1.1, '81 through '88 2.4 against a national average of .6, '90 to '99 the total factor productivity growth is 5.5 versus 1.3. Those measures are available and I think that does give some background to it.

The other measure and I understand this is far from a perfect measure, is to look at where our pricing sits in a global pricing framework. And, as we have already submitted to you, after this price increase, we will be number four in the OCD, in terms of the cheapest in the OCD on a purchasing power parity basis, which I think is the most appropriate way to rank these. And that is for our basic rate. Many of the discount rates that we offer are substantially greater than some of the other countries within that particular field as well.

The countries that are cheaper are Spain, New Zealand and Turkey and then Australia ranks fourth, in that particular table. And I think, while, you know, I accept that that is not the most perfect benchmark, it is certainly one that we do operate in the postal world and we do need to go to that benchmark, at least, as a reference.

CMR MARTIN: I would like to move on to the last session.

MR GILROY: I am sorry, there is a very important element, Mr Commissioner, if I may, and that is flats and that is a major element. And flats, as defined by Australia Post, itself, in a press release it made in October 1999, referred to at paragraph 16.2 of our submission - well let me put it into context, if I may, just quickly - - -

CMR MARTIN: Yes.

MR GILROY: - - - because I would like to ask a question of Australia Post. What is, I suppose colloquially referred to as the flats business, is really referring to items such as plastic wrapped flats, magazines, newspapers, direct mail brochures, foolscap size envelopes, etcetera. They do not go through the machinery that we have been referring to in the letter context. They were told - they were part of the original business plan that was advised in 1996 and that is referred to - the quote we have made is from a presentation made by the manager of operations engineer of Australia Post, on 28 February 1996, paragraph 9 of our submission and specifically paragraph 9.3.

We refer then to a statement made by Australia Post, there is a progress report on that, about where they are at, at paragraph 16 of our submission and it was envisaged that all of this would be in place by now. Now I don't wish to take issue with the incredible technical problems, undoubtedly, or all the issues associated with it. I just want to raise the question, in the context of item 3.1 on the agenda, which is the overlap of non-reserved services to assessing price and reserved services.

That part of the Future Post project related to this non reserved price element, which has not yet been reviewed by Post, because it hasn't yet got in place the machinery to handle it. We have no complaint with the delay, I don't wish to be raising that, at this point, just the relevance of the non reserved element that is within the proposal before us. And our argument in this, is, that until that is settled, until it has been worked out, it is relevant for the Commission to take it into account, in the price increase notification.

CMR MARTIN: Well, we were going to move on to this area, so do you want to really raise it - - -

MR GILROY: Yes, but it is actually part of Jim's concept of where he sits with the introduction of the world's best machinery etcetera. Because it is not there and Post has not yet - - -

CMR MARTIN: Well maybe we can pick it up then, under this, because we are going to come back to the whole picture when we sum up and so

we had a few people listed to speak under that issue of costs and cross subsidies, starting with that 311. Can we commence that now? John, do you want to say - - -

MR GILROY: I don't want to say very much more than what we have said in our submission, I think paragraph 57, of our submission, which talks about the leveraging process, we believe is relevant for the Commission to pick up and look at. These are issues which are very hard to identify, put into finite terms, but they are there. Australia Post gains much from its monopoly of the letter and it rolls over into the non reserved services. Just the simple comment that Gary made this morning, about the unaddressed mail going into the mail box. It is delivered by the postman who is paid for, essentially, in terms of the national spread of the network by the monopoly.

So these are issues which we haven't seen developed in the Australia Post submission, but we think they are relevant for the Commission. And given the time frames that we have got this morning, we haven't much more to say on that, from our point of view. But, Terry Daly has some comments to make about the overlap here, in some areas, out in the market place.

MR DALY: I don't want to labour much on it, Commissioner, but over many years we have come across competitive intelligence, competitive quoting from Australia Post that when you dig into the pricing of it and some of it is taken up directly with Australia Post, they can't possibly do the work for that price; it is impossible, right? And I can quote one that was an example up in Queensland where the tenders are opened up to the public so you can see when the tender goes in at ten past nine the pricing comes up.

There was an example when they moved into the EDI post system when one of their pricing - the actual labour component they would have had to pay was less than the price that they actually quoted. And I took that up with Bob Ludlow at the time and he said: Oh, we have made a mistake. Now, you know, that is a nice answer but we didn't win it, nor did they, by the way, they didn't win it. But the issue is, every now and again we come across these sorts of incidences where there are discounts given and I mentioned two to Gary about three months ago that I found in South Australia where there was seen to be some form of reserve service subsidies or something, it seemed to be in the system.

And I understand and I appreciate that Australia Post does have to go somewhere with their businesses and they have got some good ideas in there, I think we have got to give Australia Post some good raps for some of the things they are doing provided they do it by cross-subsidisation and

all - I think the next thing is, is the accountability and transparency to make sure that that doesn't happen. And once that gets into the system - - -

CMR MARTIN: From your business point of view you are aware that there are other aspects of the Trade Practices Act that you can bring complaints against Australia Post in these - - -

MR DALY: I understand that but I would prefer - and I go back to - prior to Gary's arrival here - I wouldn't have liked to have taken Australia Post on in any sort of form or anything. It is just not a healthy working environment where you are submitting heaps of mail into the system each day. You just prefer to work with Australia Post and these things can just be brushed under the carpet and you go to the next challenge.

CMR MARTIN: Well, we do address a couple of elements as to how Australia Post has to account for the separation of these things but I would indicate a major part of the ACCC's role is to make sure that anyone in business with significant market power doesn't abuse it and certainly if there was a complaint, and I don't think we have had major complaints - or a major complaint against Australia Post, but, look, at the moment this is an issue that has been brought up in this context. Does anyone else want to say any more about the - assessing how the non-reserve services relate to the reserve service area, or on the accountability and transparency issues side? John, I think you were going to - - -

MR GILROY: Yes, Mr Chairman. Without labouring the point too much we have always held that the level of reporting - segment reporting in the Australia Post financial statement is not appropriate for a government business enterprise with a monopoly. And I don't wish to argue the monopoly or anything of that nature but to deal with it in terms of an accounting exercise. I have here a statement from the CA Charter, the magazine for Australian chartered accountants, which talks about new and revised accounting standards which affect all Australian public companies for the year ended 30 June 2002.

And the basic principle of the new standard, AASB1005 - I will make this available to Richard. The basis approach is, and I quote:

The idea is to let external users see the financial position and financial performance of the components of an organisation through management's eyes.

Now, that is not the case in the segment reporting of Australia Post, to wit page 74 of the financial report for FY2001, is the latest example. Our contention is that there should be full accountability and transparency of the

use of all moneys that come out of the monopoly. We accept a basic argument that Australia Post puts up that it does not want to go down into the nth degree of some of its commercial activities such as EDI posed and I-Print and Post E-Bill and all the other things that are added there.

We commend Australia Post for moving into E-Commerce. Our argument is based on the use of the monopoly moneys and we believe, very strongly, that the Commission should not make a decision on the draft notification until these new accounting standards, segment accounting and reporting are imposed on the draft notification. And that is essentially our - - -

CMR MARTIN: Just to clarify. Is this the Australian Accounting Standards or?

MR GILROY: The Chartered Accountants Institute, whatever their correct title is.

CMR MARTIN: Is this in the Australian Accounting Standards Board?

MR GILROY: Yes, yes.

CMR MARTIN: Is that who has brought this out?

MR GILROY: Sorry?

CMR MARTIN: Is it the Accounting Standards Board?

MR GILROY: It is not an accounting standard required on Australia Post. They are not part of that. But it is what public companies in Australia - here is a public company report. It happens to be HBAs. But they are required in their report for segment - I am giving this to you so you can see - on how they deal with their revenue and where it goes, etcetera. And this sort of thing that people like Peter Meehan could argue the toss non stop for the rest of the day, Mr Chairman, and - you let the accountants loose in this and we will all be in trouble.

CMR MARTIN: So we stop at dinner time.

MR GILROY: But I think what we ought to do is flag it that we would like it taken up and - - -

: Mr Commissioner, is it appropriate to respond now?

CMR MARTIN: Well, just so that we are managing the issues here. I think those two issues probably come together pretty well. It is whether there are any comments from users further on the accountability side.

MR MEEHAN: Can I make a comment please?

MR COWLEY: It is Peter Cowley from the Newsagents Association. We are down to make a comment on retail later on, but just on cross subsidy, I tend to agree with the MMWU with the cross subsidy with - MMUA, sorry, goes the wrong way.

MR GILROY: Can I just get your address so we can - - -

MR COWLEY: Not quite tough enough. With Australia Post activities being cross subsidised at a general retailing level we feel that the reserved activities - and I say we feel; we have got no proof whatsoever either that they are subsidising the distribution. We understand that Australia Post have central purchasing for their retail products and they distribute it via the retail areas. But they also distribute it and put it in with their reserved practices. We are also concerned about another aspect that was made before with promotional brochures to households.

In a normal competitive environment these would be at a full retail rate being charged to the consumer, the person who is the customer so - and we don't feel that this is happening with Australia Post, or if it is there is a subsidy there. So we would like to know whether - and I guess this comes back to the accounting methods - whether the operating overheads and costs and how they are apportioned between both sides of the business.

CMR MARTIN: Well, I will pass back to Australia Post to respond and without sort of boring us with figures.

MR LEE: Thanks, Commissioner. I think John said the appropriate thing, if we let Peter go on this issue we would be here for a long time. But I think it is, you know - in context of this particular forum the issue really is not what accounting standards happen to be being applied at the time; the issue is whether Australia Post is practising appropriate accounting separation between reserve services and other services and I believe that that is a key role which the Commission undertakes in reviewing such a notification as this one to ensure that they are.

So I think for the public that is the umpire's role and at the moment the standards of disclosure might change with time and I have no doubt that Australia Post, along with every other company, will fall in line with

whatever the standards are appropriate at the time. So the Commission certainly will have a great deal of detail on which to make those judgments. Peter I think will talk in an overview of the processes that we go through to ensure and I would like to ask him to do so.

MR MEEHAN: Thanks, Gavin. Commissioner, I will try not to talk like an accountant. But what I would like to say first off, that we are actually required to adhere to all the accounting standards and our books are audited on that basis. There are certain requirements that we actually - in our annual report they are additional to accounting standards. We do break up our profit and income between reserved and non-reserved service.

We already give that additional information in our annual report but certainly the process that we are looking at with accountability is high on my list of things that we are doing this year and there may be some adjustments to what we have shown in the past. But I can assure you, Commissioner, that what we have done in the past and what we will continue with is in accordance with accounting standards because that is part of our mandate. The main issue here looking at cross subsidy between reserved and non-reserved service, clearly as far as we are concerned there is no subsidy.

We go to great lengths to ensure that we allocate costs and revenue particularly across the different aspects of our business. We have a very efficient activity-based costing system and we use that to actually allocate those expenditures and revenues as I have suggested. The system has been reviewed on a number of occasions and the most recent was in 1999 to make sure that it is robust and it does allocate the costs accordingly and it is reviewed externally.

It is important for us to do that because we have to make that delineation because of our requirement to break up reserved and non-reserved services as part of the process for annual report. But the most important part about cost allocation is nothing to do with setting prices; it is about how we manage our business internally. It is all about that we have managers like Gary that are responsible for letters and we have other aspects of the business responsible for retail, for banking services and for a range of other things.

And we need that information to make sure that we can allocate profits to the right areas of the business so people can be rewarded accordingly. And I can assure you that there is quite a bit of interest in the cost allocation methodology within Post to make sure that individuals are rewarded in accordance with the way the expenses and revenues have been derived in Post. And it is also the basis of our quarterly reporting to shareholders.

We also need that to accurately measure the performance of our products and the product groups, as I said, and our respective product group managers.

It is also the basis of our reporting to the board and our reporting to the board is quite sophisticated as you can imagine for an organisation like ourselves. And our reporting to the Ministers' departments who are here present could suggest that our reporting to them is quite sophisticated as well. So it is very important for us to make sure that that cost allocation is important for both our internal reporting, our reporting to our shareholder and the reporting that we actually come up with in our annual report each year. And that is all, as I said, subject to complete audit.

I suggested that the cost allocation has been subject to a number of reviews. The first major review was requested by the Senate, the Auditor General in 1993 and we have had two external reviews since that, the first in 1996 by Coopers and Lybrand and in 1999 we had Tropege Consulting come through and do a full analysis of our product costing system to make sure that the apportionment was in fact correct. Each of these have determined that the criteria and issues that we have used is a fair approach for the performance of each unit of Australia Post and the apportionment is correct.

So I think we go to a great deal of lengths internally to make sure that this cost allocation is correct. We are providing all that information to the ACCC and looking at the models that we have presented. We have a manual which goes through the whole issues of cost allocation, which I certainly won't bore you with because I have got a couple of pages of the philosophies behind that, similar to the philosophies that we have with our pricing.

But I think one of the examples that is raised is retail and I think there is a good example some of the concepts that we go through in determining what the costs allocation should be for retail. When we apportion the retail expenditure we take into account the number of transactions, the standard times for each type of transaction within a retail unit, the floor space that is occupied by the various products and also the use of the slat walls by the various products, so we clearly identify through surveys and statistics that we put through our system exactly what is reserved versus non-reserved products so that we can allocate the costs accordingly.

We determine labour by a whole lot of factors including the number of transactions that go through our EPOS system and the standard times that are determined by external consultants using - to recognise industrial engineering techniques. Accommodation and fit-out and depreciation are

all determined on the basis of the space that is used within each of those units for the type of products that are sold through the areas, so we are very comfortable that the allocation processes that we use give a fair - a very fair representation of the costs apportionment between reserved and non-reserved, and as I said, that information has all been provided to the ACCC.

MR DALY: Can I ask a comment?

MR MEEHAN: Certainly.

MR DALY: For instance, Gary Lee is responsible for EDI post as well as the letters. He is responsible for a non-reserved service and a reserved services. How is Gary's salary cost allocated to EDI post - - -

MR MEEHAN: Yes, there are certain overhead costs. Mine is one of them and Gary's would be another one that don't specifically work on certain parts of the business. They are in a pool that gets allocated according to total costs that are specifically allocated throughout the business.

MR DALY: Total costs or total revenue?

MR MEEHAN: Costs.

MR DALY: Of a unit.

MR MEEHAN: It is my understanding it is costs.

MR STEPHENS: Well, in actual fact, Gary's costs - whereas Peter's costs would be allocated across the business because he is a business entity, Gary's costs are limited to only the products that he services, or maintains, so the majority of Gary's costs would end up getting letters and a small portion based on actually his assessment of the time he spends representing EDP post versus what he spends on a bloody good letters business.

MR DALY: And you spend in the same context.

MR STEPHENS: Yes, well, into the business and that we undertake that exercise annually and that interview takes place to determine that split.

MR MEEHAN: It is quite a - I think his words were draconian process, but we do go right down to whatever level that we can to make sure that we do apportion costs at the right level.

MR DALY: I just think - that is probably just not transparent right out through - - -

MR MEEHAN: Sure, yes.

MR DALY: - - - as this new accounting standard says in the eyes of the management.

MR MEEHAN: Well, the thing that we - and I think it was mentioned about the complexity of some of the issues that we don't necessarily want split up and that is more in our non-reserved side than it would be in our reserved, but the clear message that we are trying to get across in this particular session is that there is no cross-subsidy. How we actually get through the issues and the minefield of how we split up our non-reserved is probably far more important for us on a competitive basis going forward than the issue of breaking up between reserved and non-reserved.

MR : This is the point, Commissioner. This is the crux of it. It is not - it is the transparency of the exercise, because the quote that I have given here is:

That the external users should see the financial position -

etcetera, and it has only been given to the ACCC, and we are saying that the monopoly - - -

CMR MARTIN: I think the submission is on our - - -

MR : Sorry?

CMR MARTIN: The submission is available for everybody.

MR : Yes, but not these commercial details of it.

MR MEEHAN: No, not the individual details of how we allocate costs, no.

MR : So that what we are saying is until that is stated, the draft notification shouldn't go through because those of us who have an interest in the monopoly element of the revenue wish to be assured. And the last time the community service obligation costing came into the public arena, the industry commission challenged the way Australia Post made the calculations. So, you know, a body such as your own has challenged Australia Post. Now, I don't doubt that Peter's comment that it is very fair and reasonable; I am not doubting that at all, I am just saying it is not the

transparency that there should be. And the last time it was in the public domain for examination the commission of the day didn't agree with the methodology.

MR MEEHAN: I am not sure that that is correct. I think he may have questioned it, and we had a review and it was proved correct. I think that is more the issue.

MR : Well, then I stand to be corrected.

MR LEE: Mr Commissioner, I think that - - -

MR : I am happy to be corrected on that, Mr Commissioner.

MR LEE: I think, as I said in the introduction a moment earlier, that the levels of disclosure and transparency, the accounting standards and so on are a process to which we obviously comply at all times. But in this instance in this notification the Commission is quite clearly making that review of the separation of our accounting and the appropriate allocation of costs, you will have to do that and I would certainly suggest that there is no argument to delay it on the basis that the accounting standards might change in the future. You have all the access to our data to make the - to provide your opinion of whether or not we are appropriately accounting separating.

CMR MARTIN: Yes, I must say, having done - been round doing the forums one of the issues - and I think the newsagents were one of the ones that raised it, that this lack of transparency or perhaps a misunderstanding, say, in the distribution side of where - you know, how does a man that goes to different Australia Post outlets, how is its costs broken up that there was a belief by the newsagents that there is a bit of cross-subsidy that went on there that they were getting products for the unreserved area on a subsidised basis. So that is the type of question I think it is certainly in Australia Post's interest to clarify as part of this. Presumably what you are saying a truck, a van gets allocated according to what its load is.

MR DALY: Commissioner, just one think I wasn't - it is just this community service obligation and the cost of that going up continually. I have always believed that that obligation, the way the process worked has never been put out to tender. Therefore, Australia Post can be as uncompetitive as it likes in that particular area and have a 92 or a 67 million dollar community service obligation. To put that out to tender may be a real way to found out what that cost of is in the distribution system within the country areas.

CMR MARTIN: Yes, we have got a sort of a similar debate I think in some of the Telstra services outside the metropolitan areas or services Telstra is involved in.

MR LEE: Could I suggest, Mr Commissioner, that surely these sorts of things are really subject to debate at an NCC forum. There was flagged that there would be a further review by the National Competition Commission in 2003. The issues we operate underneath the regulations as they stand today, we are required to deliver the CSO. It would make a very interesting debate but I don't believe it is part of this notification.

CMR MARTIN: Well, we certainly hear what the question is and we can look at that. I wouldn't write it off at this stage but we will look at the issue and, clearly from a user's point of view, they are entitled to raise it. So we do we have any more comments? Peter, did you have any further comments to make on the sort of cost allocation issues?

MR MEEHAN: No, Commissioner. It is obviously very complex. There is well over a million different combinations of different processes in our costing system. We have put together documentation for the ACCC to go through and our view would - the ACCC give all here present comfort that the process that we go through does allocate those costs accordingly.

CMR MARTIN: Yes, and I hope these questions that John and others have raised, as part of our process this is what we are trying to identify; that you may be reassured or otherwise, depending upon what the ACCC's comments are at the end of the day on some of these issues. We have an item, e-commerce issues, I am not sure what people want to raise on that but, Chris, you were - - -

MR SMITH: I think we saw that rolled into the transparency issue and I think it has been fairly well out there. There was a request by the Commission that we should all comment on it.

CMR MARTIN: Yes, but do people wish to make a comment?

MR DALY: From the MMUA's point of view, we are only responding to the request by the ACCC and I think probably we have probably raised the issues. Brian from the Commonwealth Bank commented earlier about notwithstanding e-commerce, there is still a need for a piece of paper so we don't have anything in particular to raise in respect to it. Well, Keith does.

MR MILLAR: Just one small issue and this relates back to what we were talking about before, the non-promotion of the reserved service and a possibly decreasing reserve - letter service and non-promotion of that; however, a strong promotion of the alternatives. So whether or not that is eating into the reserve service itself by Australia Post promoting its e-business; just a comment.

MR MEEHAN: May I comment on that, Mr Commissioner?

CMR MARTIN: Yes, yes. I mean, there were other issues raised in the forums around the country on - they are not specifically just e-commerce but there was - so perhaps if Australia Post could respond.

MR MEEHAN: I would propose that it is probably a sense of appearance as much as anything else, and it might seem that we are promoting here e commerce services way outside of our promotion from our primary service. I mean, the best assurance I can certainly give on the leaders business is it is still carried, it still gets all of the share - equal share, appropriate share of our promotional activities. In the terms of the e commerce service and the alternative service though, I mean, we do have a clear strategic position that we take in this area and that is to participate in potential substitute bargains. And we do it on the basis that if we are not there, someone else will take that market. That market will take our leader's business and we would prefer to compete in an open market in that particular area. So the level of promotion that is taking place is appropriate for that segment of the market at that time.

CMR MARTIN: Just in terms of this area of costs and cross-subsidies, obviously I think as we see it is a very complex area but is there anything else? Colin, did you want to have any comments? Well, we - it is people's chance now on any overview issues.

MR COWLEY: Excuse me, Commissioner.

CMR MARTIN: Yes.

MR COWLEY: Could I just talk on the retail issues?

CMR MARTIN: Sorry. Yes, yes. Sorry. I was forgetting because we didn't - - -

MR COWLEY: That is all right. We have been sitting there for a while. It was a - - -

CMR MARTIN: Retail was - was one of the great issues while we travelled round. Let us hear about retail.

MR COWLEY: Knowing it is the last cab off the rank, I won't - - -

CMR MARTIN: Yes.

MR COWLEY: I won't be going on for half an hour. Two or three minutes will do fine. But the - - -

CMR MARTIN: Well, I want to hear another time about you not getting any margin on your stamps.

MR COWLEY: Well, that is about what I want to talk about. But I do I do think that that probably changed because we have - we have got some support from Australia Post, I think. But we represent newsagents in Victoria. About 980 newsagents in Victoria and about 650, is it, are selling stamps. And in the main these are purchased at full retail value and they are sold without margin. And the reason they are sold without margin and the reason we sell them is to service the customers. And the newsagents provide this service as there is a demand by the consumer. And if there wasn't a demand we wouldn't provide it.

Australia Post say they have an obligation, and a social obligation - that is part of their thought processes earlier on - to provide a service. And we believe that the newsagents play a large part in helping provide this service. Demand is created for newsagents and other places by the limited trading hours of the post office. As you know, post offices open 8.30 to 9 o'clock in the morning, shut at five - most of them - on Monday to Friday, some of them opening Saturday morning. Also, if you try to go into a post office and buy a stamp - you want a 45 cent stamp quickly, you may have to stand in quite a long queue because of the other types of services such as bill paying and that, that cause the queues in the post office.

Newsagents are sort out alternatives for this stamp and their customers come to the newsagent, I think, because the newsagents provide a different retailing culture to the post office. If you try to whip into a newsagent and buy a newspaper and if you have got to wait for 25 minutes or stand in a queue, you are out, so the newsagents have a retailing culture of getting people in, serving them; serving them quickly and getting them out and I think customers like that. Customers believe that they - and they recognise their local newsagent as a focal point in their area and they understand that the spread of hours a newsagent provides, some of them from 3 and 4 o'clock in the morning til 7, 7.30 at night, seven days a week.

So if you a person working 8.30 til 5 and you want to buy a stamp, you have got to go to the post office near where you work or if you want to go near home, you have got to go to somebody such as a newsagent and many people find it inconvenient near work so they go near home and the newsagent is open. As I said, Australia Post is suggesting a high level of customer service as part of this justification as the increase and part of the ability of Australia Post to offer this high level of customer service in the retail environment is through their retailers, mainly newsagents, they are extending this retail hour.

There is - if newsagents don't offer this service and Australia Post was to provide an alternative service, I guess say from stamp machines or extended post office hours, then I feel probably the cost to Australia Post could be quite considerable. There is an opportunity for some retailing outlets to, if they are approved by Australia Post, and normally that means is that they are not near an Australia Post retail outlet as a competitor, that they can buy a post - or merchandiser and I think the cost of these at the moment is around about \$500.

If you look at the return that you get from a margin from that you would have to held about 250,000 stamps to recoup your cost so it is quite a large amount of stamps to sell just to recoup the \$500 cost. If newsagents don't offer this service then what does Australia Post do about providing the service? Now, we agree with what Peter said before and I think it is true, "people need to be rewarded accordingly" I think the quote was so if newsagents are providing the service to consumers and Australia Post feel that these services and the standards are high therefore the newsagents feel that they should be rewarded for their part in this retail chain. Thank you.

CMR MARTIN: Did you want to say anything more about the role of the shops in the unreserved areas? That would also seem to be - - -

MR COWLEY: Well, I think I said that previously before.

CMR MARTIN: You may have made some mention on that.

MR COWLEY: Yes, when I mentioned it before, that was the part - I was going to but I sort of jumped in a bit early on that one.

CMR MARTIN: Okay. Thank you.

MR LEE: May I respond, Mr Commissioner? Peter, was it 660 newsagents selling stamps in Victoria, was that the number you had? Is that correct?

MR COWLEY: We estimated, Commissioner.

MR LEE: You estimate 660.

MR COWLEY: These are estimates, yes.

MR LEE: I think as a starting point to my statement, it is probably worth also noting that 133 of those newsagents are also licensed post offices in conjunction who have all of the full LPO arrangement with Australia Post so that is quite a high proportion of that group are already enjoying a margin on their stamp sales and other postal product sales. Mr Commissioner, we have through our corporate outlets, through our licensed post offices, through our community postal agencies, through our post points, through our licensed stamp vendors, some 6720 outlets across the country and those outlets cover a whole range of services with a whole range of different times.

It think really importantly, in the context, I want to say we have got nearly 3000 licensed postal offices in our network; 2975 at the moment and we have a retail network through which we offer these services and we have in particularly in the licensed postal offices a number of people who have invested on those businesses and whose livelihood is placed in those businesses and so we manage that retail network in terms of the way that we provide people with the ability to sell stamps. The post points that Peter referred to, there are nearly 1000 of those and they are again managed in maintaining a even network across the country but they are available, as Peter said, I think the licence is \$500.

Well, I would say to the Commission that they don't only sell stamps and, yes, it would take 295,000 stamps but they also sell a whole range of postal products from there. They are positioned in a way, and we have a locating principle, that we position them so that they are not a post office per se, they are a point from which postal products, which could be express envelopes, which can be post box packs, etcetera, which are also stamps, but they need to be close to a posting point such as a letter box so that they can in fact then inject those items into the postal systems.

So I would submit two things: one is with 6000-odd outlets we have a wide range of bases on which the service is provided. We have a major obligation to the people involved in the network, particularly our licensed post offices, and I think I would probably also like to take - make comment I guess, Peter, that in referring to the retail culture, our licensed post office themselves are of course very much engaged in the retail culture and I think Marie would certainly comment that she would consider them to be

what is the right word, very much evidence of the culture that you are speaking about.

But I would also comment that our own postal outlets have undergone a major - our own corporate outlets have undergone a major transformation through recent years and that transformation has really been about developing a retail culture in our corporate outlets. I think most people, and I hear this time and time and time again, who attend one of our corporate outlets today, comment very, very favourable (a) on the change and (b) on the service that they get and the enormous difference that has taken place in visiting Australia Post corporate outlets.

MR DALY: Can I just make one comment?

MR LEE: Yes, sure.

MR DALY: I agree with Gary. I very rarely use a post office. I don't have to. I have had occasion to use one twice in the last couple of weeks. When I finally got the counter, the people were magnificent, I couldn't believe the service, but getting there was the issue.

MR COWLEY: Can I just make more comment, just on the numbers. I was giving numbers of Victoria. I think you were talking - - -

MR LEE: Yes, my 133 was Victoria actually, Peter, so 133 out of the 600 odd.

MR COWLEY: Okay. And the 6000, is that Australia, is it?

MR LEE: Yes, it 6720 points of access counting all of those ranges of access points.

MR COWLEY: Yes, okay. All right. I was just trying to make comparisons are the same and that - we have over 5000 newsagents Australia wide, I was only giving Victoria of which the majority of those I think would be selling stamps but my just final point on it: if there wasn't a consumer demand for the newsagents to provide this service to the customer at no profit to the newsagents, why would the newsagent to it and why are all the customers coming into the newsagents to buy the product, that is the point I am making.

MR LEE: Well, I imagine they do it at no profit, Peter, because, yes, it is good service but it is probably also a very good traffic generator through to the newsagent and enhances the service that the newsagent is providing in that way. I don't have any more to add there.

CMR MARTIN: Well, we have certainly had plenty of information on that subject.

MR DE PROPERTIS: Could I just add one thing to that? Frank De Propertis, also from Victoria Newsagents. I would just like to pick up on one point that Gary made earlier on in his address when I think, Gary, you said something along the lines, you took pride in the fact that Australia Post have been demonstrated as acting in a non-monopolistic way and I don't doubt that for a moment. I would ask the question of the Commission here, I guess, from a retail sense, retailers generally retail for a range of products for a reason.

Yes, those reasons are for a service and they are for profit. I personally am not aware of any other products that retail as retail other than postage stamps for no profit. Is it a coincidence that that is a monopolistic product or is that just a coincidence? That is my question.

MR LEE: Mr Commissioner, I didn't make this comment at the outset because this is a very good of information but I would question the relativity of this particular issue directly to the notification that we have and I am sure you will view it in that particular way. I think there are many products that aren't available to everyone around the country and I don't think you would consider those distributors of products to be monopolies either. There aren't - it is fairly difficult for a lot of people actually to get access to newspapers to distribute them as well so it is - should I say, you know, for newsagents to make the claim that we are limiting their the distribution of our products, I would suggest is perhaps not fair.

CMR MARTIN: Okay. Well, we are getting close to time. I want to give people an opportunity if there is anything that is sort of there still burning on their mind to raise it now otherwise I will very briefly sum up on the discussion.

MR SMITH: Commissioner, Gary Smith again. I would - because it wasn't an agenda item and because there are a number of questions that have remained outstanding, I would like to pose a couple of questions in respect to one of the product and service offers in the draft price notification, that is to do with clean mail. I want to ask the question and it is really centred around the issue of the duty of care that a monopoly has in terms of determining market conduct; market signals. The industry and we, an aggregation investment within that context, invested behind future post because of the signals that have been sent over a number of years.

We have heard the comments before, one of the signals was, no bar coding, no discount. Right through a number of publications from Australia Post, most recently the Barcoding Way of Life, made it very, very clear to the industry, confirming the existence of a 90/10 or of an 80/20 to a 90/10 to 100 per cent, back to 90/10, the removal of the ad post discounts, July and January, the removal of the NSP from July, so it was very clear telegraphed, premeditated direction of Australia Post for the industry to respond to, to make its requisite investments behind equivalent technology to support that future post direction.

Then, without consultation, without any contact, and I am talking about to one of the parties that was directly involved and therefore implicated in the decision, to read through that draft price notification the release of a product that had the effect of basically contradicting the outcomes of future post in that it announced for the first time a price for unlimited volumes of unbarcoded mail provided you meet a couple of pre-determining criteria.

I question under the heading of "Duty of Care" where is Australia Post's responsibilities to the industry in respect of that matter. Thank you.

CMR MARTIN: Does Australia Post want to - - -

MR LEE: Yes, certainly, Mr Commissioner, sorry I was just - if I could perhaps use - I think at the core of this issue there are two - I wouldn't say they are core; there are two key issues here, one is a discount for a non barcoded product and the second one is the issue of pricing relativities for aggregated products which is the business is which GOMAIL was engaged. Let me put a slide up first of all, if I could please just to draw attention to these relativities.

I am sorry if that is a little hard to read but there is a time line across the bottom and if we start back here, what I have used in here is pre sort barcoded weighted average price so that is a weighted average of what a barcode price would be. The essence of aggregation as it was intended was that mail would be collected from a large number of people who couldn't access pre sort prices, aggregated together. In the GOMAIL it was then put through a multi line optical character reader so that the barcode could be applied externally by reading the envelope. It then accessed the barcode price. Do you agree, Gary, that that is the basic model that existed?

So at the outset, if you like, the pricing incentive for that to occur and this is - this again I say is a weighted average price of that barcoded product and we use a weighted average based on the number of pieces of mail that would go into a direct tray, the number of pieces going into a residue tray and I think the industry would basically accept that is a fair number so

there was seven point; 7 cents arbitrage, if you like, between our full rate price and the weighted average barcode price.

At the point of implementation of GST we absorbed the GST in the basic postage rate, the effect then was that, for businesses using mail, they were in fact able to access the basic postage rate at 40.9 cents and one of the things that we did at the time that certainly wasn't an intended consequence of absorbing the GST to maintain that margin we did drop that barcode price by approximately 2 cents. Within this price application with the basic postage rate at 50 cents there will be 8.2 cents between the basic postage rate, that is people not able to access the discount for GST and the new price and I would like you to note also the price we are talking about going to is the price we were at back here which was approved by the ACCC when we applied for the barcoded pre sort prices.

So there is effectively a constant price across there. Clean mail comes in here at 45 cents and clean mail is meant to provide an effective discount for businesses who aren't barcoded their mail. Within the structure that we had back at this point in time it wasn't appropriate that we would offer this price. Now, what we have done with clean mail is kept it at the same price as - at the same 45 cent rate as exists today so it is appropriate to note that the 3.6 cents which is the gap now between a business who can access clean mail and get the input of GST, that is the gap to encourage them to use a barcoding service.

Someone who can't access that or can't lodge in quantities; minimum quantities of 300 group would still be looking at a gap of 8.2 cents which could be aggregated customers so that the model we have got there and one of the principles of this model was to try and maintain the same position pre and post GST and hence the pricing of the clean mail at 45 cents and that chart of course will also be available.

CMR MARTIN: Gary, did you want to say anything? I mean we are going to have to stop in a minute but let us at least finish the game if not the set.

MR SMITH: At the risk of this turning into - missing out on lunch and ending up at dinner, with all due respect, I mean mathematically that might be correct but I think it misses the point completely. The issue is that Australia Post as the only provider of monopoly services has a duty of care to an industry in terms of the signals it sends to an industry in terms of its investment direction. \$500 million on the table was all about mail automation, the fundamental premise of which was around the issue of barcoding. The responsible industry participants who say that signal invested in technology consistent with that direction.

There were others who chose, for whatever reasons, through lack of investment, lack of foresight or whatever had not had the need to make that investment up until now knowing that this tidal wave was coming towards them if they wanted to participate in discounted postage rates. All of a sudden for those people who have made that investment and saw the future going down a particular path is one thing. Those people - those organisations who were faced with a decision to enjoy ongoing postage benefits, they would have to do something and that something meant they would have to have barcoded.

Up until the draft price notification and before the introduction of clean mail, organisations that were taking advantage of NSP discounts which are unbarcoded pricing discounts would have been removed from July 1, they would then had to have turned to another solution and that other solution would have been either doing internally barcoding, going to an aggregator or paying full rate postage rates. What we are now saying is that if they were going to go to full rate postage rates from July 1 which was 45 cents, that on January 1, 45 cents still remains therefore where is the incentive, where is the signal to those industry participants to get onto the technology bandwagon and actually automate your process and use barcoding as the basic premise.

From an aggregation point of view the introduction of clean mail was a very known consequence by Australia Post and I would like to hear a comment to contrary, knowing that those economics would have deemed that business to be totally unviable. Our argument has been all the way the along that it was always Australia Post's intention that aggregation was not there to play in the commercial barcode mail volumes. It was, as Gary just said, the aggregation of multiple mail users using aggregation to access discounts that they would otherwise not have the volumes to access.

Unfortunately that defies the economic basis upon which aggregation was trying to position itself in the market and as I said with the clean mail direction certainly had its own economic consequences on that particular industry sector. That being as it may and GOMAIL, it is on the public record, in no longer and that is fine. The question I ask is the duty of care in terms of the signals behind a future post investment strategy which the industry has picked up on, is the introduction of that product consistent with that industry direction? End of story.

CMR MARTIN: Thank you, well, I don't think we any final answers on that. We hear your comment and - - -

MR GILROY: Commissioner, when you say we are not going to get a final answer on that, you mean today, because we have asked the same question in our submission. We would like - - -

CMR MARTIN: Yes, today.

MR GILROY: Yes.

CMR MARTIN: We are going to have to wrap it up.

MR LEE: Mr Commissioner, I can actually fix the problem. We will put clean up to 47 cents. I am sure industry and the customers would - - -

CMR MARTIN: Well, let us have some bilateral discussions to - - -

MR GILROY: Well, we would like to multilateral if he going to do that sort of thing.

CMR MARTIN: Well, I meant between you and him; not us. Okay, any other matters before we - - -

MR DALY: Excuse me, Commissioner, there was one thing that we sort of danced around on was the industry. I represent HPA but also am President of the Mail House Chapter of the MMUA talking about the, you know, our largest clients, the decrease in our pricing by 34 per cent over eight years and that fact we have had to adjust with productivity, with innovation, complying at the same time with all of Australia Post's demands and we represent 87 per cent of that business mail and yet Australia Post, you know, I would love them to say, look, we want to go down 5 cents, not up 5 cents to meet the industry; what is happening in the industry.

Now can an industry which is very, very competitive take a 34 per cent decrease and at the same time stay competitive when Australia Post, being the monopoly who receives the mail and no matter what you have got to do in that process, the technical side of it and the laser imaging or whatever you do to put it down into paper and then an envelope and into the system, compared to taking the envelope, putting into a channel and then out the other end seems to be out of proportion to the price that we get compared to them and I just think that the 45 cents is right at the top limit of what they should get now.

CMR MARTIN: Well, look, I think we have heard quite clearly what you saying on that and that is the purpose of today and you have just reinforced it. Maybe, to be fair to Australia Post, given that I want to finish up, is

let them have one more word and then I was going to sum up but I will do it very briefly.

MR LEE: I think I should sum up with three points, Mr Commissioner. I understand Terry's point about 37 and a half per cent but I would strongly challenge that that is representative of the decreases across the total industry, that is one very large customer who perhaps exercise their own monopoly deals. Secondly, a reminder that Australia Post in absorbing the GST did absorb some \$90 million in cost which in effect is a major price decrease and thirdly, we are talking about by January 2003 an 11 year period including that absorption of the GST.

CMR MARTIN: Well, thank you for that and John did you have any final comment on behalf of the - - -

MR GILROY: Just like the attendance register, it had my name with two Ls and not one, please Mr Chairman, otherwise we have said enough, thank you.

MR LEE: If he wants that, Mr Commissioner, can I have two Es in Lee please?

CMR MARTIN: Okay. All right. That sounds like a - anyone got any more requests.

MR GILROY: No, really, we have finished.

CMR MARTIN: Well, look, I was going to do a summing up but I think certainly from the Commission's point of view, it has been a very useful exercise today. We have managed to explore a range of issues and flush out some additional information. I think, based on the structure of our discussion today, demand for postal services, there was questioning about where demand is going to go. I think we heard some very useful comments about the fact that, from the user's side, there maybe some potential growth that mightn't being recognised in both the essential and the discretionary area.

There was some emphasis on promotion of the product and whether that could be done better. I don't think it was a criticism of Australia Post, just that perhaps there was scope there. Certainly the bulk mail people have indicated what a significant part of the operation that they are and as Terry has just emphasised the impact and the competition that they have had to undergo and that is an issue. He says he would like a price rise very much but is unlikely to get it in the foreseeable future.

I think there was also a comment to some extent from the printing industry seeming to want a little bit more flexibility in terms of some of the products and on many of these issues, Australia Post have responded; given us some effective comments. We will take all those into account rather than sort of opening them up to debate again now. In terms of the efficiency of Australia Post, I think there was good discussion about where the process has gone so far. I think there is some recognition that improving productivity never finishes however that they are probably is a lot of complexity about this and how you measure it and then we went on to the specific issue of costs and cross-subsidies.

It seemed to me the importance of transparency was raised by the industry and we did discuss several issues relating to the role of the reserved and non-reserved areas. Australia Post put some important points that I think perhaps those in the industry weren't aware. We will having them on the table to look at in terms of our review of notification.

While we are continuing to work towards a draft decision, there is certainly scope - one point I would make is all the information that has come on the table today, some of which as John Gilroy has pointed out people perhaps weren't aware of before, we will try to facilitate that being as widely available as possible and that was certainly something that today's forum has helped flush in the flushing out process. As we work towards a draft decision, there is scope for additional submissions to be made, however, you wish to make them, both Australia Post and other parties, we are happy if appropriate to have meetings to help facilitate that.

If you wish to clarify some of these things I would certainly encourage you to either by writing to us, e-mailing us or contacting us by phone to raise this after the meeting, but however recognising that there is a certain finiteness of the time here and a rather tight time scale. I would note also that you will have further opportunities after we have made our draft decision available, so it is certainly not the end of the world if you need to go away and chase things up and do research and it does take a few weeks and our draft report comes out.

So we are wanting to get the maximum sort of output from this process and we will be available to help facilitate that. I would like to thank all of you who have come nad been frank and open with us and to Australia Post for responding frankly, and I am sure that we can continue the process in that manner. So I don't think there is anything else. Is there any housekeeping matters? We will be having the transcript up on the web as soon as possible. We will see how efficient we can make it from our side. It is not all totally in our control. But thank you all for coming and certainly

don't hesitate to, at the end of the session, to line up arrangements in terms of any information you want or other suggestions that you have. Thanks very much.

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.aupost 11.7.02 P-72
Auscript Pty Ltd 2002

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