



POAAL

Post Office Agents Association Limited

Submission to the

Australian Competition and Consumer
Commission

Australia Post Draft Price Notification Issues Paper

Post Office Agents Association Limited

Mail: PO Box 190,
Carlton South Vic 3053
Email: poaal@poaal.com.au
Phone: 03 9654 4533
Fax: 03 9654 4577
Web: www.poaal.com.au
ACN: 006 382 314

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The ACCC seeks comments on the impact the proposal is expected to have on demand for Australia Post's reserved services. In particular:

- Do you think that the increase in the price of Off Peak letter services and the proposed price differentials with Regular (Pre-sort) letter services are appropriate?
- To what extent do you expect the proposal to result in users migrating mail volumes from Regular to Off Peak mail? Would the migration be due to:
 - a. the price differential
 - b. the product design changes or
 - c. both?
- Do you expect the proposed price changes to affect overall (i.e. aggregate) Pre-sort volumes?

POAAL agrees that the proposed price increases are justified and appropriate in quantum.

Together with improved standards of service delivery the pre-sort mail product in particular provides ample incentive for organisations to either use aggregators with the ability to prepare mail appropriately or for organisations to make their own investment in these processes.

There may be some further migration from regular pre-sort mail and this is to be encouraged given the productivity benefits are shared with Australia Post. For it to move to being nearly half of the pre-sort mail volume will take some time to achieve and the impact of the proposed price and service incentives can be adjusted as experience dictates.

Feedback from our members suggests that the lack of certainty around mail delivery timetables is a disincentive for the use of the current off-peak service, especially for organisations using the service for billing and marketing programs. This uncertainty impacts on cash flow with respect to account delivery and with ancillary programs associated with an organisation's marketing effort.

The impact of a narrower delivery window and the price structure of the services should address these issues. It will also make the use of this service more effective in managing the mail sorting and delivery operations of Australia Post. The new service standard for off-peak mail should be achieved without additional costs as it effectively reflects the usual practice. The commitment to a more certain delivery standard will be a good incentive for organisations to migrate to the new off-peak service.

The ACCC seeks comments on the impact the proposal is expected to have on Australia Post's costs.

- Do you expect Australia Post to benefit from cost savings as a result of its proposal?
- Do you expect the proposal (i.e. product design changes, migration of volumes from Regular to Off Peak) to impact Australia Post's costs structure over time?
- To what extent do you expect Australia Post to benefit from greater network flexibility as a result of the proposal?

If, as suggested, more mail can be sent by rail or road rather than using the sharply increasing airline cargo costs this will benefit Australia Post. The majority of costs occur in transportation and ultimate household and business delivery rather than acceptance.

Once mail has entered the mail sorting processes there are common operations for its management which effectively allow little additional flexibility in managing volumes around peak and off-peak periods.

The off-peak mail service is probably vulnerable to migration to electronic delivery formats rather than from pre-sort to off-peak.

In our view past increases have focussed more on reserved service mail rather than these business related categories. This proposal simply starts to share more effectively the burden of increasing costs with business operators and the need to recover those costs over declining mail volumes.

The ACCC seeks comment on the effects, including competition effects, of the changes to the structure of Australia Post's prices. In particular:

- Are the price differentials proposed by Australia Post between its Pre-sort and Other (e.g. Ordinary, Clean Mail) reserved letter prices appropriate?
- In particular, do the price differentials reflect the costs avoided by Australia Post (in other words, the work saved) due to the pre-processing services (e.g. barcoding, sorting and delivery of bulk mail to a specified post office) performed by customers?
- Do you expect the proposed prices to impact Australia Post's competitors in related markets for non-reserved services, including competition in the provision of mail pre-processing services?

These are challenging elements of the proposal on which to comment effectively and no doubt will only be resolved by experience. However, the nature of competitive elements in the mail market is constantly changing.

Some indication of this is to be seen in the USA where hard copy mail is a major element in the marketing efforts of thousands of organisations. In response to those demands software companies such as Microsoft provide the ability to add postcode and barcodes for addressing purposes. This provides an opportunity for even small businesses to use clean mail.

Costs avoided by Australia Post are part of the incentive for pre-sort mail but this is limited to initial acceptance and processing. The final delivery effort over the "last mile" remains a material cost to Australia Post's operations. There are limited economies of scale at this stage to reduce or avoid costs.

A wide range of factors will influence the competitive nature of the market but software developments as described above are just as likely to impact on commercial operators as factors influenced by Australia Post.

The ACCC seeks comment on whether the proposed price changes for Acquisition Mail, Charity Mail, Clean Mail and the Reply Paid annual fee are appropriate and justified.

Price changes for these categories are reasonable and reflect the need to share the impact of cost increases and volume declines being experienced by Australia Post.

The increase in the cost of the reply paid fee is not material for organisations that use this service.

The ACCC seeks comment on whether it is appropriate for Australia Post's proposal to result in additional reserved services revenue.

It is the experience of POAAL that the categories of mail for which Australia Post is seeking change are sufficiently different in nature and purpose for there to be no material impact on the reserved services revenue.

The price incentives for pre-sort mail remain sufficient for larger organisations and aggregators to prepare mail in a manner required by Australia Post.

As noted by the Commission, the proposed price increases will still not achieve full cost recovery of this service. However, it is an important initiative which must be useful in reducing the pressure for price increases for the BPR.

The ACCC seeks comment on Australia Post's return on capital and on whether Australia Post's proposed WACC parameters are appropriate?

Issues related to the WACC are not the prime expertise of POAAL. However, it would seem reasonable to follow earlier reviews by the Commission including the current parameters.