

3 June 2011

Mr Graeme Samuel
Chairman
Australian Competition and Consumer Commission
GPO Box 520
MELBOURNE VIC 3001

Dear Graeme

Notification of changes to Australia Post's domestic reserved letter service

Consistent with our obligations under the Competition and Consumer Act, 2010, the purpose of this correspondence is to formally notify the Australian Competition and Consumer Commission (ACCC), of changes (price and product design) within Australia Post's domestic reserved letter service effective 4 July 2011. The changes that are the subject of this notification are the same as those to which the ACCC did not object to in its Preliminary View of 27 May 2011.

The major elements of the changes are:

- an average increase to PreSort letter prices as follows:
 - Regular letter prices increasing by an average of 2.8 cents (GST exclusive); and
 - Off Peak letter prices increasing by an average of 0.9 cents (GST exclusive).
- price changes to Other letter services:
 - an average increase to Clean Mail prices of 2.3 cents (GST exclusive); and
 - an increase to the Reply Paid annual fee (from \$65 to \$80).
- introduction of a specific Off Peak delivery timetable that provides delivery over a two day window (as opposed to the current four days) and thereby providing our customers with a more certain delivery window.

As noted in previous correspondence we have undertaken a fundamental review of our business model to ensure that letters can become a sustainable business that can continue to meet its Community Service Obligations. As part of this review we also considered our strategic objectives and identified a key corporate strategy of restoring the letters business to be self-sustaining.

Changes that are the subject of this notification support this strategy as:

- the product design changes will allow us to provide a service that will enable greater flexibility over time; and
- the price changes will reduce the loss generated from the domestic reserved letter service.

As discussed with the ACCC, we have made some downward revision to the prices we originally proposed to take account of customer feedback. We are very conscious of the fact that the proposed prices do not fully recover the sum of the efficient costs of providing the domestic reserved letter service plus an appropriate rate of return and as such the domestic reserved letter service will incur a loss of around \$112m in 2011/12. While this is not a satisfactory long term position we believe the pricing reflects current market realities.

Australia Post's formal notification is provided at Attachment 1. Supporting information to the formal notification is at Attachment 2.

Australia Post wishes to assist the ACCC in its consideration of this notification and toward prompt resolution of any issues that may arise during the course of those considerations. Accordingly, please do not hesitate to contact Mark Pollock, Manager Regulatory Affairs, on 9106 7578 if you have any questions.

Yours sincerely



Jim Marshall
Acting Managing Director and Chief Executive Officer

Attachment 1

NOTIFICATION AND DETAILS OF CHANGES PROPOSED BY THE AUSTRALIAN POSTAL CORPORATION FOR ITS
DOMESTIC RESERVED LETTER SERVICE

Notification of changes pursuant to section 95Z of the Competition and Consumer Act, 2010

Name of Declared Person: Australian Postal Corporation (Australia Post)

whose address is: 111 Bourke Street, MELBOURNE VIC 3000

(Postal address: GPO Box 1777, MELBOURNE VIC 3001)

hereby gives notice that it proposes to supply the goods or services described below at the prices and terms and conditions indicated, effective from 4 July 2011.

Description	Locality, Proposed Prices, Terms and Conditions
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The services, which are the subject of this notification, provide for the carriage by post, within Australia, of PreSort Letters (including Charity Mail and Acquisition Mail) and Clean Mail, and the Reply Paid Annual fee at prices as detailed in Schedule 1 of this Attachment.

Reasons for the changes:

The domestic reserved letter service operates in an environment of ongoing volume decline, continued growth in delivery points and likely increases in input costs. This environment (which is similar for postal operators worldwide) presents a long term challenge for Australia Post in providing a sustainable letter service (of which the domestic reserved letter service is a substantial part) while continuing to meet its Community Service Obligations.

In July 2010 Australia Post launched Future Ready; a corporate wide transformation program. Future Ready included a review of Australia Post's strategic objectives and identified three key strategies, one of which is to restore the letters business to self-sustaining.

The need to restore the business to self-sustaining is essential as indefinitely continuing a service that does not generate a reasonable rate of return is inherently inefficient for Australia Post.

The changes (price and product design) that are the subject of this notification will address revenue and cost simultaneously. For PreSort:

- customers who choose to remain with Regular will provide more revenue towards covering the efficient costs of providing the domestic reserved letter service plus an appropriate rate of return; and
- customers who migrate to Off Peak will provide Australia Post with the opportunity to explore alternatives or variations to the current network (which is largely built around the need to perform to the Ordinary letter delivery standard).

Consideration having regard to section 95G(7) of the Competition and Consumer Act, 2010

Australia Post asserts that the proposed price changes do not result in revenues in excess of revenues based on efficient costs and a reasonable rate of return and are consistent with the requirements of section 95G(7) of the Competition and Consumer Act, 2010.

Date: 3 June 2011



Signature: Jim Marshall

Acting Managing Director and Chief Executive Officer

Schedule 1

PreSort Letters

Regular Delivery	Same State BDT			Other State BDT			Residue			Unbarcoded Residue		
	Current	Proposed Price		Current	Proposed Price		Current	Proposed Price		Current	Proposed Price	
		Amount	% Var		Amount	% Var		Amount	% Var		Amount	% Var
Small Letters												
Up to 125g	\$ 0.427	\$ 0.457	7.0%	\$ 0.438	\$ 0.473	8.0%	\$ 0.477	\$ 0.506	6.1%	\$ 0.510	\$ 0.535	4.9%
Charity Mail	\$ 0.372	\$ 0.402	8.1%	\$ 0.383	\$ 0.418	9.1%	\$ 0.422	\$ 0.451	6.9%	\$ 0.510	\$ 0.535	4.9%
Small Plus												
Up to 125g	\$ 0.550	\$ 0.578	5.1%	\$ 0.572	\$ 0.605	5.8%	\$ 0.660	\$ 0.688	4.2%	\$ 0.800	\$ 0.840	5.0%
Medium												
Up to 125g	\$ 0.693	\$ 0.732	5.6%	\$ 0.737	\$ 0.776	5.3%	\$ 0.831	\$ 0.869	4.6%	\$ 0.968	\$ 1.018	5.2%
Over 125 up to 250g	\$ 0.913	\$ 0.952	4.3%	\$ 1.001	\$ 1.040	3.9%	\$ 1.106	\$ 1.144	3.4%	\$ 1.249	\$ 1.287	3.0%
Large												
Up to 125g	\$ 0.825	\$ 0.853	3.4%	\$ 0.869	\$ 0.897	3.2%	\$ 0.990	\$ 1.018	2.8%	\$ 1.034	\$ 1.062	2.7%
Over 125 up to 250g	\$ 1.155	\$ 1.183	2.4%	\$ 1.243	\$ 1.271	2.3%	\$ 1.375	\$ 1.403	2.0%	\$ 1.485	\$ 1.513	1.9%
Over 250 up to 500g	\$ 1.595	\$ 1.623	1.8%	\$ 1.727	\$ 1.755	1.6%	\$ 1.815	\$ 1.843	1.5%	\$ 2.035	\$ 2.063	1.4%
Off Peak Delivery												
Small Letters												
Up to 125g	\$ 0.416	\$ 0.419	0.7%	\$ 0.427	\$ 0.430	0.7%	\$ 0.465	\$ 0.506	8.8%	\$ 0.505	\$ 0.535	5.9%
Charity Mail	\$ 0.356	\$ 0.359	0.8%	\$ 0.367	\$ 0.370	0.8%	\$ 0.405	\$ 0.429	5.9%	\$ 0.505	\$ 0.535	5.9%
Small Plus												
Up to 125g	\$ 0.539	\$ 0.540	0.2%	\$ 0.561	\$ 0.562	0.2%	\$ 0.649	\$ 0.688	6.0%	\$ 0.795	\$ 0.840	5.7%
Medium												
Up to 125g	\$ 0.671	\$ 0.683	1.8%	\$ 0.704	\$ 0.716	1.7%	\$ 0.820	\$ 0.869	6.0%	\$ 0.963	\$ 1.018	5.7%
Over 125 up to 250g	\$ 0.875	\$ 0.887	1.4%	\$ 0.919	\$ 0.931	1.3%	\$ 1.084	\$ 1.144	5.5%	\$ 1.236	\$ 1.287	4.0%
Large												
Up to 125g	\$ 0.803	\$ 0.804	0.1%	\$ 0.836	\$ 0.837	0.1%	\$ 0.979	\$ 1.018	4.0%	\$ 1.029	\$ 1.062	3.2%
Over 125 up to 250g	\$ 1.089	\$ 1.090	0.1%	\$ 1.155	\$ 1.156	0.1%	\$ 1.331	\$ 1.403	5.4%	\$ 1.474	\$ 1.513	2.6%
Over 250 up to 500g	\$ 1.375	\$ 1.376	0.1%	\$ 1.463	\$ 1.464	0.1%	\$ 1.650	\$ 1.843	11.7%	\$ 1.925	\$ 2.063	7.2%

Acquisition Mail	Same State BDT			Other State BDT			Residue			Unbarcoded Residue		
	Current	Proposed Price		Current	Proposed Price		Current	Proposed Price		Current	Proposed Price	
		Amount	% Var		Amount	% Var		Amount	% Var		Amount	% Var
Off Peak Delivery												
Small - up to 125g	\$ 0.300	\$ 0.310	3.3%	\$ 0.320	\$ 0.330	3.1%	\$ 0.465	\$ 0.506	8.8%	\$ 0.505	\$ 0.535	5.9%
Small Plus - up to 125g	\$ 0.415	\$ 0.430	3.6%	\$ 0.435	\$ 0.450	3.4%	\$ 0.649	\$ 0.688	6.0%	\$ 0.795	\$ 0.840	5.7%

Other Letter Prices	Proposed Price		
	Current	Amount	% Var
Clean Mail			
Small	\$ 0.510	\$ 0.535	4.9%
Small Plus	\$ 0.800	\$ 0.840	5.0%
Reply Paid			
Annual Fee	\$ 65.00	\$ 80.00	23.1%

Notes/Comments

All prices are GST Inclusive, except for External Territories where they are as stated but GST free.

Non-reserved products (over 250g or more than four times the BPR) are shaded

