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

Dear Anthony :

**COMMENTS ON ACCC ISSUES PAPER
Draft Price Notification of Australia Post dated 25 January 2011**

The main focus of our members in this Draft Notification has been the proposed changes to Off-Peak Mail and discussions this month with Australia Post seem to have resolved the questions in our members minds about their proposed changes.

Given the sad history of the formal Australia Post *portcullis* mentality and negotiating policy and practice of the past 5 or 6 years, MMUA found this Off-Peak exercise a welcome change.

THE SHIFT FROM PAPER-MAIL

In previous submissions to the ACCC over the past 3-years, we have made strong representations regarding what our Mail Generators and Mailing House members consider will be the detrimental effect on paper-mail useage of price increases in the light of the fast-emerging option of e-communication alternatives to the time-honoured, traditional paper-mail. Clearly, as the ACCC will be well aware from its own briefings by AP, paper-mail volumes are being increasingly affected by adaptation of the e-alternatives on offer.

Our members hold that whilst postage price is of major importance – and any increase detrimental - it is not the only factor at play at this time of shift in communications methodologies.

Many of our Mail Generator members who are bound by legal requirements to use paper-mail for certain financial etc reporting have indicated that they see moves in other quarters to have such requirements lifted in favour of either e-alternatives in replacement of paper-mail altogether, or consumer choice for the e-alternative over paper-mail, as hastening the move away from their current high-volume use of paper-mail.

This is not to suggest that for paper-mail “the end is nigh” but rather to set the scene for our comment that member interest in this particular Price Increase Matter, the fourth in as many years, is minimal to say the least.

As we have pointed out in the last three submissions on Postage Price Notifications, the cost of paper-mail as opposed to the price of e-communication systems is still of major importance and the overriding attitude of our members seems to be that Australia Post is pricing itself in such a way that the high-volume end of the mail industry will migrate substantially to e-communications as soon as time and circumstances permit. The cost of the postage stamp is but one item in the costs of using paper-mail and the e-communication pathway is attractively much less expensive.

INFORMATION PROVIDED BY AUSTRALIA POST

We are pleased to note that we have had working sessions with AP (1) to hear (December) their views; (2) (December) to make our initial comments in response thereto and (3) (March) review and discuss their amended proposals as a result of considering (1) and (2) above.

As would be expected, as consumers, our members are not happy with any postage price increase but the [amended] changes to Off-Peak delivery times, connections and pricing have been fully discussed with AP and **MMUA does not propose to object to the Draft Notification.**

There are stated concepts within the Off-Peak proposals relating to performance times but our members feel that the excellent Performance Standard results being reported by the quarterly Research International reports for non-Off-Peak reserved services mail show good results for companies heavily dependant on time-sensitive mail delivery performances and we have no reason to suspect that AP would be driven by anything less than seeking to improve the Off-Peak service in this non-time-sensitive area.

We have suggested to AP that the Bulk Mail Monitor program should be changed so as to monitor Off-Peak mail performances once the new arrangements come into place.

SOME GENERALISED RESPONSES TO YOUR SPECIFIC QUESTIONS

Given that the “technical” matters of concern to and impact upon our members in the original proposals (*an example was the suggestion that Off-Peak lodgements cut-off should be at noon but subsequently left at the current 6pm*) have been discussed with AP and either amended or explained to members’ satisfaction, and given that our members do not wish to object to the proposed changes of the Draft Notification, the following answers are of a general nature only. We would be happy to provide the ACCC with elaboration where needed.

ISSUES PAPER CHAPTER 5

Will Australia Post’s proposal encourage more efficient useage of Australia Post’s services?

5.1.1 - Australia Post contends that, while the price changes will reduce the effective discount provided to users of the PreSort service, it is not expected to reduce the incentive for customers to access the PreSort letter service.

Australia Post has forecast no change to overall (i.e. aggregate) PreSort mail volumes as a result of the proposed prices and product design changes.?

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 (PreSort) letter services are appropriate?	<p>We have no objection to the proposals.</p> <p>We do, however, hold the view that any increases in postage prices – for whatever paper-mail product it might be – will work to further drive AP's high-volume mail customers across to the e-communications now available.</p> <p>We are also of the opinion that technical, production line opportunities to make AP's own operations and AP's interface with its Bulk Mail Partner accredited mailing houses remain untapped and of no interest to the powers-that-be within AP responsible for such matters.</p> <p>Rewarding AP with yet another price increase under such circumstances is not good business practice in a shrinking market.</p>
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?	Members report that price is an important factor but time-sensitive mail is destined for Regular Mail as the over-riding deciding factor.
_ Do you expect the proposed price changes to affect overall (i.e. aggregate) PreSort volumes?	No
<p>5.1.2 Expected costs impact of PreSort proposal</p> <p>The volume effects of Australia Post's proposal (i.e. migration) will impact the extent to which Australia Post will be able to generate its forecast cost efficiencies.</p> <p>In this regard, Australia Post submits that, in itself, the migration from Regular to Off Peak will not provide a significant cost saving opportunity, but contends that there will be a longer term benefit of greater network flexibility as a result of encouraging this migration.</p> <p>Nonetheless, Australia Post submits that there will be some cost savings in the short term as Australia Post realises savings as a result of the change in mode of transport used for interstate carriage (e.g. from air transport to road/surface transport).</p>	
Do you expect Australia Post to benefit from cost savings as a result of its proposal?	In submissions we have made for the last three Postage Price Increase Notifications, we have outlined in great detail various elements where cost savings might be achieved. The inability – or unwillingness – of AP itself to enter into proper "technical"

	exploration of these matters suggests to MMUA an entrenched “we know best and don’t need your help” attitude that permeates the organisation – and so, to answer this question we can only say not on the basis of the post-BMP Launch experiences we have had with AP.
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?	Ditto
To what extent do you expect Australia Post to benefit from greater network flexibility as a result of the proposal?	Ditto
<p>5.2.1 Structure of Australia Post’s proposed PreSort prices</p> <p>As part of its assessment of Australia Post’s draft proposal, the ACCC is interested in the impact of the proposed PreSort price changes on competition. One way of assessing this impact is by examining the changes in relative prices (i.e. price differentials).</p> <p>For example, Australia Post is proposing the following overall price structure:</p> <ul style="list-style-type: none"> • Ordinary letter prices are unchanged at 60 cents • small Clean Mail letter prices increase from 51 cents to 53.5 cents (4.9 per cent) • small (PreSort) Regular letter (delivered in the state of lodgement) prices increase from 42.7 cents to 45.7 cents (7.0 per cent) • small (PreSort) Off Peak letter (delivered in the state of lodgement) prices increase from 41.6 cents to 42.4 cents (1.9 per cent). <p>The key difference between the above products is the level of costs saved by the customer for Australia Post.</p> <p>The ACCC seeks comment on the effects, including competition effects, of the changes to the structure of Australia Post’s prices. In particular:</p>	
Are the price differentials proposed by Australia Post between its PreSort and Other (e.g. Ordinary, Clean Mail) reserved letter prices appropriate?	We have no comment to make at this time.
In particular, do the price differentials reflect the costs	Unrealised opportunities to improve the “technical” aspects of mail and data preparation and lodgement seem to be beyond

<p>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?</p>	<p>the ability of AP personnel to recognise, let alone, discuss at appropriate technical and professional levels. With that in mind, our answer to this question is NO.</p>
<p>_ 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?</p>	<p>See earlier comments regarding our members' belief that all postage price increases merely hasten the migration from paper-mail to e-communication wherever possible.</p>

<p>5.2.2 Other proposed price changes Australia Post submits that the changes to the PreSort product design and price structure will also affect Acquisition Mail and Charity Mail.</p> <p>In addition to special eligibility conditions, access to these services requires the same presentation requirements as 'general' PreSort letters.</p> <p>In respect of the proposed increases to Clean Mail, Australia Post submits that as the Clean Mail price is aligned to the Regular Unbarcoded Residue price, an increase to that price results in a change in the Clean Mail price. Thus, it submits that maintaining the same price between (Regular) Unbarcoded Residue and Clean Mail ensures the price incentive for PreSort is not diminished.</p> <p>Australia Post is also proposing to increase the Reply Paid annual fee from \$65 to \$80. The Reply Paid service is a marketing tool offered to business to encourage responses, or provide a return service, where return postage is offered free. Australia Post submits that the proposed change in the annual fee provides a more appropriate contribution towards covering the administration and maintenance costs of the Reply Paid service (a recent review by Australia Post of the service highlighted that 5 per cent of the Reply Paid service accounts generated over 75 per cent of the Reply Paid revenue)</p>	
<p>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.</p>	<p>We do not wish to comment.</p>
<p>5.3.1 Australia Post's proposed revenue The proposed changes in Australia Post's PreSort pricing structure, whereby the prices of both</p>	

<p>Regular and Off Peak services are increasing, and the resultant changes in the mix of Regular/Off Peak is expected by Australia Post to generate additional \$33.2 million in PreSort reserved services revenue, or an average increase of 3.8 per cent, in 2011-12.</p> <p>The primary component of this increase is the increase in prices, but the impact on total revenue depends importantly on the resultant changes in the PreSort volume mix. Australia Post's estimate assumes a change in the Regular/Off Peak mix from 83:17 to 51:49. As the Off Peak service is cheaper, the change in mix alone would reduce the aggregate revenue.</p> <p>If the existing volumes and mix continued, on the other hand, the average revenue increase is estimated to be 6.3 per cent. This issue has a significant effect on Australia Post's overall cost recovery.</p> <p>Australia Post expects to generate an additional \$3.3 million as a result of the changes to its other letter services (i.e. those not relating to PreSort) in 2011-12.</p>	
<p>The ACCC seeks comment on whether it is appropriate for Australia Post's proposal to result in additional reserved services revenue.</p>	<p>Our position is that the reserved services pricing should be a matter for the Federal Budget rather than the current system. As paper-mail usage drops, population and residential spread grows, AP's Community Service Obligations will be harder and harder to meet within the constraints of the current system that requires reserved services to fund itself. The spiral of price increase inducing loss of paper-mail volume will hasten the transfer to e-communications.</p> <p>We see this as a matter that is for parliamentary resolution.</p>
<p>5.3.2 Australia Post's cost of capital</p> <p>In assessing Australia Post's proposed price increases, the ACCC has regard to whether the revenue generated by its reserved services is sufficient to cover the efficient costs of providing its reserved services, including a return on capital.</p> <p>See Issues Paper for further ACCC comments on this area</p>	
<p>The ACCC seeks comment on Australia Post's return on capital and on whether Australia Post's proposed WACC parameters are appropriate?</p>	<p>No comment</p>

We should be pleased to elaborate on any points.

Yours sincerely
 John Gillroy
 Chief executive officer