



Submission to the  
Australian Competition and Consumer  
Commission  
Australia Post Draft Price Notification  
Ordinary Letter Service

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## **Preliminary Comments**

1. POAAL, the Post Office Agents Association Limited, does not object to Australia Post's proposal for a price increase to the basic postage rate (BPR).
2. POAAL offers its view in its role as the trusted, experienced, independent and professional industry body that protects, preserves and promotes the business interests of its members. POAAL was formed in 1939 to assist the owner/operators of privately owned post offices.
3. The small business people that own and operate Licensed Post Offices and those who hold mail contracts provide an important front-line insight into the operations of the Australian postal service in the diverse communities they serve. They have invested in the Australia Post business, either by purchasing a Licensed Post Office (LPO) or by investing in vehicles and equipment to service their mail contracts.
4. In the absence of volume growth or immediate cost saving measures, it would appear difficult for Australia Post not to seek price increases to offset its growing costs.

## Comments on Australia Post's Draft Price Notification

### Access to the universal service

5. KPMG research conducted for Australia Post found that the average consumer who sends letters sends about 15 letters per year<sup>1</sup>, meaning the price increase will have a negligible effect on household costs.
6. Australia Post has noted in its Draft Price Notification that the concession stamp would continue to be frozen at 60 cents.<sup>2</sup> Customers eligible for a MyPost Concession card can buy up to 50 concession stamps per year – more than the average of 15 letters posted per consumer per year.
7. Australia Post has also noted that the seasonal greeting card rate will continue to be frozen at 65 cents.<sup>3</sup>
8. This continued price freeze means that Australians on lower incomes will be protected from the proposed increase.
9. While outside the scope of the ACCC's consideration of the proposed stamp price increase, POAAL re-states its position that consumers must be free to choose the billing and payment methods that suit them best – without any financial penalty. No Australian should be penalised because he or she is obliged to or chooses to receive paper statements and pay in person.
10. Ensuring that all Australians, including the digitally disadvantaged, have fair and reasonable access to government services is a matter for policy makers. POAAL recommends that physical mail continue to be used for important government communications, and that Australians be allowed to choose their preferred method of communication rather than being forced to accept electronic communications.

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<sup>1</sup> KPMG, *Community Sentiment Research*, July 2022, p8

<sup>2</sup> Australia Post, *Draft Notification*, August 2023, p13

<sup>3</sup> *Ibid*, p13

## **Community Service Obligations**

11. Australia Post notes that revenue from the reserved services has not been sufficient to fund its Community Service Obligations since 2007/08.<sup>4</sup>
12. The fact that letter volumes continue to decline – in no small part due to e-substitution – suggests that the community’s need for postal services has changed.
13. Australia Post has previously noted it faces the triple challenge of:
  - a. Earning a commercial rate of return, working towards an agreed financial target and dividend policy;
  - b. Meeting the requirements of its CSO; and
  - c. Providing an affordable BPR.<sup>5</sup>

## **Cost recovery**

14. One of the principles of the basic postal rate is that the letters service is self-funding and not reliant on any other financial support, either from the Government or via internal cross-subsidy. In a previous draft notification, Australia Post noted that the “Regular letter service is a ‘safety net’ service priced to recover the efficient cost of providing the service.”<sup>6</sup>
15. Under the principle of cost recovery, Australia Post must set the price of the BPR such that the costs of delivering the basic letter service are covered.

## **Comparisons with other indices**

16. Australia Post makes comparisons with stamp pricing in other countries. National posts in these countries operate in significantly different environments, including factors such as:
  - a. Population density;
  - b. Delivery point density;
  - c. Ownership;
  - d. Competition;
  - e. Universal Service Obligation; and
  - f. Regulation.
17. While such comparisons are interesting, the most relevant information in assessing Australia Post’s application is whether or not Australia Post will recover its costs of delivering the reserved service if the price of the basic stamp increases to \$1.50.

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<sup>4</sup> Australia Post, *Draft Notification*, August 2023, p7

<sup>5</sup> Australia Post, *Draft Notification*, August 2022, p10

<sup>6</sup> *Ibid*, p12

## Impact on demand

18. E-substitution of letters has been occurring for some years, at the current price point and at previous price points. The downward trend in letter volumes is clear.
19. In previous price notifications, Australia Post has noted that ordinary stamped letter volumes have been subject to considerable e-substitution pressures over the years. When the BPR was 60c (June 2010 to March 2014), ordinary small letter volumes were subject to “unprecedented year on year declines”.<sup>7</sup>
20. These substitution pressures often come from outside the postal sector. Australia Post previously noted the increase in direct debit payments and the corresponding rapid decline in cheque volumes.<sup>8</sup> According to Australia Post, the boom in remote working triggered by the COVID-19 pandemic also contributed to falling letter volumes.<sup>9 10</sup>
21. Digital is the first choice of communications channel for a growing number of Australians. Digital natives don’t choose to communicate digitally – they demand it.

## Can Australia Post further reduce costs?

22. One of Australia Post’s cost drivers is the growing number of delivery points. While the majority of delivery points are in urban areas, reflecting the population’s move from regional areas to the more densely populated areas on the coast, there remain significant costs associated with regional and rural mail delivery. Road infrastructure problems and low population densities in these areas create an expensive service format. Delivery point density also has a material impact on productivity. While delivery point density continues to be low, fuel costs continue to rise, which in turn increases delivery costs.
23. Other postal operators, especially those subject to commercial demands, have explored means of more cost effective delivery.
24. Canada is worthy of comparison with Australia due to its size and population density. At the end of 2021, in the face of growing losses, the Canadian Government polled Canadians on making changes to Canada Post, including ending home delivery in favour of delivery to community mailboxes, or reducing mail delivery to three days a week. Canada Post had previously implemented a programme to expand its already significant community mailbox network to more urban communities. With community mailboxes, mail is delivered to a group of letterboxes at the end of the street rather than to every individual household. This project was scuppered by political intervention, lumbering Canada Post with increasing letter delivery costs.

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<sup>7</sup> Diversified Specifics, *Domestic Letter Volume Demand Update*, August 2015, p8

<sup>8</sup> Australia Post, *Draft Notification*, August 2019, pp21 - 22

<sup>9</sup> Australia Post, *Draft Notification*, August 2022, p16

<sup>10</sup> Diversified Specifics, *Letter Volume Demand Update*, August 2022, p6

25. Other postal administrations have examined means of varying delivery schedules where mail volumes don't merit every day delivery (either permanently or seasonally).
26. Denmark is the most extreme example, where ordinary letters are delivered one day per week. In Denmark, it is mandatory for public institutions to communicate digitally, meaning that letter volumes from public authorities have been slashed. Letter volumes in Denmark declined on average by 19% annually between 2013 and 2017.<sup>11</sup>
27. Implementation of such reforms is to some extent dependent on managing the community's current service expectations and the conservative attitudes of the community around changes to postal delivery and access to postal services. This is especially the case in regional and rural areas where Australia Post's service obligations are greatest and where changes driven by financial considerations alone would have the most deleterious effect.
28. Australia Post previously noted that efforts to integrate its letter and parcel delivery networks resulted in increased network efficiency and savings.<sup>12</sup> It has been common for letters and parcels to be delivered by the same Mail Contractor in rural and remote towns and farm areas.
29. Australia Post may be able to drive efficiencies in its post office network by converting corporate post offices to LPO operations. These benefits would be reaped across the entire Australia Post range of products and services.
30. There are opportunities for Australia Post to further outsource its mail carriage operations, including mail pickup, line haul, and delivery. Australia Post has used Mail Contractors to perform letter and parcel delivery for decades. Mail Contractors are usually owner/drivers. In rural areas, many post office Licensees also hold the local mail contract. Contracts are awarded following a competitive tender process. Urban and suburban delivery in major metropolitan and regional centres could also be outsourced to Contractors.
31. In rural and remote areas, it is common for the Contractor to gain only part of their income from Australia Post, effectively cross-subsidising Australia Post's CSOs by carrying newspapers, groceries, and other goods to rural customers.
32. Australia Post's "new delivery model" may result in some savings in Australia Post's letter delivery operations.<sup>13</sup> POAAL notes that Australia Post is expanding the trial, and that the Federal Government's current "Postal Services Modernisation" process will consider letter delivery standards.<sup>14</sup>

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<sup>11</sup> European Commission / Copenhagen Economics, *Main developments in the postal sector (2017-2021)*, p38, p44

<sup>12</sup> Australia Post, *Draft Notification*, August 2019, pp 46-47, 49

<sup>13</sup> Australia Post, *Draft Notification*, August 2023, p22

<sup>14</sup> Department of Infrastructure, Transport, Regional Development, Communications and the Arts, *Postal Services Modernisation Discussion Paper*, March 2023, p17

## **Licensed Post Offices**

33. Licensees invest financially in the Australia Post network by purchasing a Licensed Post Office. There are around 2900 LPOs across Australia. In addition, there are about 780 Community Postal Agents and about 50 Community Mail Agents operating agencies in small mostly rural and remote communities.
34. The continuing fall in addressed letter volumes is reflected in declining stamp sales at LPOs. Parcel volumes, both inbound parcels for delivery over the post office counter and outbound parcels being lodged at the counter, have grown compared to pre-pandemic levels.
35. Licensees have adjusted their business plans to take into account the decline in stamp sales, the reduction in bulk mail volumes, and variations in foot traffic.
36. LPOs are a key part of the Australia Post network. Licensees are proud to play their part in providing Australia Post services to their communities. As the only truly national delivery company – and 100% Australian owned – it is vital that Australia Post continues to invest in its delivery and retail networks, and that it realises the benefit (on behalf of Australia Post’s owners, the Australian people) of those investments, either in the form of improved service or dividends to the Federal Government.

## **Access to postal services vs usage of postal services**

37. Australian communities must demonstrate their commitment to their local post office and local postal services. Licensees encourage local private and business customers to support their local post office business, to ensure ongoing community access to postal services.
38. Licensees invest not just financially but also emotionally in their communities – especially in rural and isolated areas. It is in these areas that we see Licensees persevere in operating their businesses despite their advanced age, such is their community spirit. This commitment needs to be backed up by local communities doing business at their local LPO, and by governments (local, state, and federal) awarding business to the post office network.

## **Network planning**

39. In order to have a sustainable postal service, Australia Post needs to have a delivery and post office network that meets the needs of its customers.
40. Australia Post is a Government Business Enterprise, supposed to run along commercial lines while meeting its Community Service Obligations. It should, in theory, be free from political interference and meddling.<sup>15</sup>
41. From time to time, local community groups call for an expansion of postal services in their area, for example demanding a new post office, or lobbying for an extension

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<sup>15</sup> *Australian Postal Corporation Act 1989*, section 50

of residential delivery. It can be difficult to satisfy this perceived need when in reality there isn't sufficient demand to justify opening a new Australia Post outlet. Similarly, extending letter delivery to more households when letter volumes are declining places a strain on Australia Post's delivery network.

42. The structure and reach of the Australia Post postal network (including delivery and post offices) will affect Australia Post's costs of delivering its Community Service Obligations, and will in turn influence future applications by Australia Post for increases to the basic rate of postage.

### **Forecast letter volume declines**

43. Australia Post's forecast rate of letter volume decline seems realistic.
44. Australians demand reliability from their postal service. They need to be able to accurately anticipate how long it will take for their letters to reach their recipients.
45. A reliable postal service, that can be depended on to deliver the mail accurately and on time, will help maintain faith in the letter as a reliable communications medium.
46. The parcel delivery sector is increasingly competitive, with global giants and local start-ups striving to gain market share. This puts significant downward pressure on prices and therefore margins, while customers' demands for fast delivery continue to grow.
47. The profitability of parcel delivery is also put under pressure by overweight and oversize parcels that must be processed manually by Australia Post. These parcels – which could be considered freight – cause considerable difficulties for Mail and Parcel Contractors who are ordered to deliver these parcels, as well as at LPOs that handle undelivered overweight and oversize parcels awaiting customer collection.
48. Successful first-time delivery is crucial to reducing costs and improving customer satisfaction. That is, parcels are delivered to the customer's preferred address on the first attempt.
49. As growing numbers of Australians move into high-rise apartment blocks, infrastructure surrounding those residences needs to be improved to facilitate delivery. These improvements include loading zones for delivery vehicles (especially for multi-residence buildings located on clearways or in areas with scarce on-street parking), easy access to lobbies to deliver parcels, and indeed secure areas or even parcel lockers for parcel delivery.



## **Conclusion**

50. POAAL does not object to Australia Post's proposal for a price increase in its reserved postal service.
51. The letters service must be self-funding, and not subsidised by revenues from other parts of Australia Post's business.
52. An increase in price may accelerate the pace of e-substitution, however the downward trend in letter volumes is clear, pre-dates Australia Post's current price notification, and will continue regardless of any increase to letter prices.
53. Governments and businesses must not discriminate against people who do not have access to technology. Some regions of Australia suffer from poor internet connectivity. Some people, due to age, disability, personal financial circumstances, or other factors, are unable to use or access information technology. POAAL strongly recommends that physical mail continue to be used for important government communications, and that Australians be allowed to opt for electronic communications rather than being forced to communicate electronically.