



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

Post Office Agents Association Limited
Mail: PO Box 645
CARLTON SOUTH VIC 3053
Email: membership@poaal.com.au
Phone: 03 96544533
Web: www.poaal.com.au
ACN: 006 382 314

September 2022

Preliminary Comments

1. POAAL, the Post Office Agents Association Limited, supports the proposal by Australia Post for a price increase in its reserved postal service.
2. POAAL offers its view in its role as the trusted, experienced, and professional industry body that protects, preserves and promotes the business interests of its members.
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 or by investing in equipment to service their mail contracts.
4. Australia Post continues to face significant challenges of delivering a universal postal service across a vast continent, especially so considering major structural changes occurring in the communications sector. These trends are reflected in postal and communications markets the world over, not just in Australia.
5. In the absence of volume growth or significant cost saving opportunities, it is difficult for Australia Post not to seek price increases to offset its growing costs. Other national postal operators have taken various approaches to reduce the costs of providing a national letters service, however some of those strategies aren't available to Australia Post.

Comments on Australia Post's Draft Price Notification

Access to the universal service

6. KPMG research conducted for Australia Post found that the average consumer sends about 15 letters per year¹, meaning the price increase will have a negligible effect on household costs.
7. Australia Post has noted in its Draft Price Notification that the concession stamp would continue to be frozen at 60 cents.² 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.
8. Australia Post has also noted that the seasonal greeting card rate will continue to be frozen at 65 cents.³
9. This continued price freeze means that Australians on lower incomes will be protected from the proposed increase.
10. Some community groups have previously expressed concern that the push for electronic communications by governments and corporations will marginalise members of society who have limited or no access to technology. While outside the scope of the ACCC's investigation into 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. No Australian should be penalised because he or she is obliged to or chooses to receive paper statements and pay in person.
11. 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 opt for electronic communications rather than being forced to accept electronic communications.

¹ KPMG, *Community Sentiment Research*, July 2022, p8

² Australia Post, *Draft Notification*, August 2022, p12

³ *Ibid*, p12

Community Service Obligations

12. Australia Post notes that its Community Service Obligations have traditionally been funded by an internal cross-subsidy from within Australia Post's reserved letter service, and that this has become increasingly difficult since letter volumes peaked.⁴
13. 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 and Australia Post's CSO and Performance Standards should be considered for review.
14. Australia Post notes 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.⁵

Cost recovery

15. 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."⁶
16. 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.

Cross-subsidy

17. There have been suggestions that Australia Post should use revenues from other parts of its operations (such as parcels) to subsidise the letters service. This would be unwise.
18. While revenues from parcels have grown, the parcel delivery sector is subject to intense and growing competition on price.
19. Unlike many other delivery companies, Australia Post delivers parcels to regional, rural and remote Australia.
20. If Australia Post were forced to permanently cross-subsidise the letters service using profits from other business streams such as parcels, then over time the prices of those other services would become uncompetitive.

⁴ Australia Post, *Draft Notification*, August 2022, p10

⁵ *Ibid*, p10

⁶ *Ibid*, p12

21. The *Postal Services Legislation Amendment Act 2004* introduced measures that allowed the ACCC to require Australia Post to keep records and to provide those records to the ACCC. The ACCC was granted these powers in response to complaints by some of Australia Post's competitors that it was cross-subsidising its competitive (non-reserved) services with revenues from its monopoly services.
22. The ACCC never found evidence of cross-subsidy within Australia Post of the kind alleged by Australia Post's competitors.
23. In its final report, in April 2016, the ACCC noted that in 2014-15 no reserved service groups were able to recover their fully distributed costs, or even their respective direct and attributable costs. The reserved services as a whole also did not recover their total direct and attributable costs and were therefore not a source of subsidy, but a potential recipient of a subsidy.⁷

Comparisons with other indices

24. In its submission, Australia Post compares its pricing since 1975 to CPI over the same period. It highlights the artificial price freeze imposed by the then Federal Government during the 1990s, which froze significant parts of post office Licensees' income during this period. It also destroyed any chance of small, justified increases to the BPR over an extended period.
25. 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.
26. 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 \$1.20.

⁷ ACCC, *Assessing cross-subsidy in Australia Post*, April 2016, p11

Impact on demand

27. 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.
28. 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”.⁸
29. 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.⁹ According to Australia Post, the boom in remote working triggered by the COVID-19 pandemic has also contributed to falling letter volumes.^{10 11}
30. 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?

31. POAAL supports the principle of reducing costs in delivery by using automation in sorting centres where possible. Australia Post may yet be able to gain further efficiencies from greater use of deep sorting (that is, sorting letters into delivery sequence), but these savings might be incremental and insufficient to offset plummeting letter revenues and the costs of delivering to Australia’s growing number of households.
32. 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 has a major impact on delivery costs.
33. Other postal operators, especially those subject to commercial demands, have explored means of more cost effective delivery.
34. 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

⁸ Diversified Specifics, *Domestic Letter Volume Demand Update*, August 2015, p8

⁹ Australia Post, *Draft Notification*, August 2019, pp21 - 22

¹⁰ Australia Post, *Draft Notification*, August 2022, p16

¹¹ Diversified Specifics, *Letter Volume Demand Update*, August 2022, p6

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.

35. Other postal administrations have examined means of varying delivery schedules where mail volumes don't merit every day delivery (either permanently or seasonally).
36. Denmark is the most extreme example, where ordinary letters are delivered one day per week.
37. 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.
38. Australia Post previously noted that efforts to integrate its letter and parcel delivery networks resulted in increased network efficiency and savings.¹² It has been common for letters and parcels to be delivered by the same Mail Contractor in rural and remote towns and farm areas. The decline in smaller (typically under 2kg) inbound international parcels has "significantly reduced the volume of small parcels suitable for delivery by motorcycle, pushbike and walker postal delivery officers."¹³
39. 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.
40. 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.
41. 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.
42. There are a number of other cost reduction strategies open to Australia Post, but again, these would result in relatively small savings compared to the mounting losses in letters. This is not to say that small cost-saving measures should be

¹² Australia Post, *Draft Notification*, August 2019, pp 46-47, 49

¹³ Australia Post, *Draft Notification*, August 2022, p50

ignored, rather that they would be insufficient to justify the delaying or diminution of the quantum of Australia Post's proposed letter pricing.

Licensed Post Offices

43. Licensees invest financially in the Australia Post network by purchasing a Licensed Post Office. There are almost 3000 LPOs across Australia. The LPO network is complemented by several hundred Community Postal Agencies, which provide mainly mail services – including delivery.
44. 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.
45. In its draft notification, Australia Post notes the changes to some LPO mail and delivery payments that came into effect in 2019. Australia Post estimates that the new LPO Payment Scheme “provided an increase in payment to LPOs of circa \$34m.”¹⁴ This is an overall increase, and fails to mention that some Licensees are worse off under the new scheme. POAAL secured Australia Post's agreement to fund the difference for Licensees whose payments decrease under the new scheme for the next three years and to provide Australia Post's point-of-sale technology free of charge to all Licensees.¹⁵
46. 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

47. 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.
48. 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.

¹⁴ Australia Post, *Draft Notification*, August 2022, p33

¹⁵ Australia Post now provides the first EPOS terminal and all associated peripherals free of charge at every LPO. Licensees pay a rental fee for any additional EPOS terminals.

Network planning

49. 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. Some parts of Australia have a high and unsustainable density of post offices.
50. 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.¹⁶
51. From time to time local community groups call for an expansion of postal services in their area, for example demanding a new post office. 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.
52. More pressing is the need for Australia Post to implement a clear strategy for the future of the postal network – a strategy focused on creating a sustainable postal network.
53. POAAL has repeatedly raised the issue of network planning with current and previous senior Australia Post representatives.
54. Australia Post must start making serious plans for the future of the post office network. As populations shift, the complexion of the post office network must also change to meet demand.
55. 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

56. Australia Post's forecast rate of letter volume decline is realistic.
57. It has been the experience of POAAL, and the Commission has previously noted, that the delivery efficiency of hard copy mail is a significant determining factor in exercising choice about the use of alternatives.
58. 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.
59. 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.
60. Australia Post has suffered various service interruptions due to the COVID-19 pandemic, and indeed received regulatory relief for a period. Now, with

¹⁶ *Australian Postal Corporation Act 1989*, section 50

widespread vaccinations, Australia Post must turn its focus to balancing its delivery network to continue to deliver letters efficiently while accommodating the dynamic nature of the B2C parcels business.

61. As mentioned above under “Cross-subsidy”, 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.
62. 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.
63. 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.
64. 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, easy access to lobbies to deliver parcels, and indeed secure areas for parcel delivery,

Conclusion

65. POAAL supports Australia Post's proposal for a price increase in its reserved postal service.
66. The letters service must be self-funding, and not subsidised by revenues from other parts of Australia Post's business.
67. Australia Post may be able to generate further efficiencies in its delivery network, but most of these will be incremental or relatively minor, and in any case insufficient to be used as a basis for arguing against the proposed price increase.
68. 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.
69. Australia Post must review its postal network with a view to implementing a sustainable delivery and post office network.
70. 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, or other factors, are unable to use or access information technology. POAAL 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.