



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, 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 and experienced 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 hold mail contracts provide an important front-line insight into the operations of the postal service in the diverse communities they serve.
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 it is difficult for Australia Post not to seek price increases to offset its growing costs. Other national postal operators have taken different routes to reduce delivery costs, 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. Australia Post has estimated that the average household sends 10 to 20 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 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 10 to 20 letters posted per household per year.
8. Australia Post has also noted that the seasonal greeting card rate will be frozen at 65 cents.³
9. This 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 Australians 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 Australia Post, *Draft Notification*, August 2019, p13

² Ibid, p13

³ Ibid, p13

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 have declined thanks to e-substitution suggests that the community's need for postal services has changed and Australia Post's CSO and Performance Standards should be reviewed.
14. Australia Post notes 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. Australia Post notes 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, the BPR must be priced 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 be inflated and become uncompetitive. This would be to the detriment of rural customers in particular, living in areas where Australia Post is the only parcel carrier.

⁴ Australia Post, *Draft Notification*, August 2019, 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 compared its pricing since 1975 to CPI over the same period – an odd choice of date, considering that the time of corporatisation would have been far more appropriate. It does highlight the artificial prize freeze imposed by the Federal Government during the 1990s, which froze significant parts of Licensees' income during this period. It also destroyed any chance of small, justified increases to the BPR over an extended period.
25. Australia Post also 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. Nonetheless, such comparisons are interesting but ultimately irrelevant. Australia Post does not compete against other posts in the domestic market. The price of the stamp is not determined by CPI, and it would be highly undesirable for postage rate increases to be capped by CPI, similar to the pricing oversight in other jurisdictions. Ultimately, 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 \$1.10.

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 noted the increase in direct debit payments and the corresponding rapid decline in cheque volumes.⁹
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 where possible. Australia Post may yet be able to gain further efficiencies from greater use of deep sorting, but again, these savings will be incremental and insufficient to offset plummeting letter revenues and the continuing growth in delivery points.
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.
33. Other postal operators, especially those subject to commercial demands, have explored means of more cost effective delivery.
34. Canada Post expanded its community mailbox concept to more urban communities. Over one third of all Canadian addresses were already served by community mailboxes prior to this latest expansion. Mail is delivered to a group of letterboxes at the end of the street rather than to every individual household. Canada is worthy of comparison with Australia due to its size and population density. This project has been scuppered by political intervention, lumbering Canada Post with increasing costs and denying the post a sensible method to reduce costs without changing delivery frequency.

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

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

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 has sought to integrate its letter and parcel delivery networks, reporting increased network efficiency and savings.¹⁰ It has been common for letters and parcels to be delivered by the same Mail Contractor in rural and remote towns and farm areas. As noted by Australia Post, in recent years it has sought to deliver small parcels (typically under 2kg) with letters in suburban areas. New electric delivery vehicles will further enable the delivery of small parcels with letters.
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 typically owner/drivers. In rural areas, many 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 should 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 ignored, rather that they would be insufficient to justify the delaying or diminution of the quantum of Australia Post's proposed letter pricing.

¹⁰ Australia Post, *Draft Notification*, August 2019, pp 46-47, 49

Examples of new Australia Post delivery vehicles



Above: Electric tricycle, capable of carrying up to 100 small parcels and 1200 letters



Above: electric-assisted pushbike, with same carrying capacity as petrol-powered delivery motorbike

Licensed Post Offices

43. There has been some discussion in the Licensee community about what effect the price rise might have on stamp sales at LPOs.
44. The continuing fall in addressed letter volumes means that Australia Post must find new income streams for its post office network without delay.
45. In its draft notification, Australia Post notes the changes to some LPO mail and delivery payments that have come into effect since the last BPR increase. Australia Post estimates that the new LPO Payment Scheme “provides for an increase in payment to LPOs of circa \$34m.”¹¹ 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 point-of-sale technology free of charge to all Licensees.¹²
46. The changes to part of the LPO Payment Scheme shift the focus of payments from letters to parcels. There is still uncertainty to what extent growth in parcels will compensate Licensees for continuing declines in stamp sales at LPOs.

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 now, rather than allowing Australia Post to wither on the vine. If a community visits the post office less frequently or sends and receives less mail, then it is inevitable that postal services in that community will be reduced. Protests after the fact will be hollow.
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.

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.¹³

¹¹ Australia Post, *Draft Notification*, August 2019, p31

¹² 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.

¹³ *Australian Postal Corporation Act 1989*, section 50

51. Nevertheless, some Federal and State politicians have tended to view the provision of postal services as a political football. On many occasions, politicians and municipal councils have intervened when Australia Post has attempted to reconfigure its network of street posting boxes, or rebalance the post office network.
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. There is no clear strategy for growth or for balancing the post office network.
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, perhaps even optimistic given trends in overseas postal markets.
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. Electronic substitutes, for example, are exponentially less expensive than the postal service.
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. This is especially the case for companies using the letters service for marketing purposes, which may wish to time marketing campaigns via other media (such as radio, television or email) with the arrival of mail marketing pieces. 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.
59. While letter volumes are predicted to continue to decline, parcel volumes are forecast to increase as the domestic e-commerce market grows.
60. Inbound cross-border parcels are also likely to increase as Australians buy more products from international e-commerce sites and as direct-to-consumer grows. Australia Post currently loses money on the delivery of inbound international parcels via the postal stream. The discussions at the Universal Postal Union's Extraordinary Congress in late September may result in some relief for Australia Post.

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.
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.

Conclusion

63. POAAL supports Australia Post's proposal for a price increase in its reserved postal service.
64. The letters service must be self-funding, and not subsidised by revenues from other parts of Australia Post's business.
65. 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.
66. 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.
67. Australia Post must review its postal network with a view to implementing a sustainable delivery and post office network prior to any future applications for letters price increases.
68. 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.