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1 November 2001

Professor Alan Fels
Chairman
Australian Competition and Consumer Commission
Level 35, 360 Elizabeth Street
MELBOURNE VIC 3000

Dear Professor Fels,

Draft Notification of Change in Pricing – Adpost Service

The purpose of this letter is to notify the ACCC of changes proposed within the declared Postal Services, in accordance with the Prices Surveillance Act 1983 and following procedural advice from the ACCC.

The changes relate to the AdPOST service, the reduced rate service for advertising mail. The Draft Notification is at Attachment 1, with the proposed new pricing in Schedule 1.

The reason for the Draft Notification is the proposal to phase out the current content-based AdPOST discount, for all customers except charities, and in two stages through:

- a 10% increase in AdPOST prices from 1 July 2002; and
- the discontinuation of the AdPOST service on 1 January 2003, resulting in a further 9% increase as customers migrate to the equivalent Barcode Pre-sort service.

The following points are noted:

- A separate mailing category is to be created for Registered Charities, at current AdPOST rates. Charities currently account for some 15% of AdPOST volumes.
- While AdPOST is a reserved service of Australia Post, as promotional mail it competes vigorously for market share of advertising expenditure. Recent research shows that direct mail accounts for approximately 8% of all direct marketing expenditure and 4% of total media spend in Australia.

- AdPOST prices have not changed substantially since 1992, with the exception of the April 2000 removal of the higher discount (26.5% as opposed to 20%) for items that prompted a mailed response. During this 10 year period the consumer price index will have increased by some 23% nett of estimated GST effects.

As always we will continue to work closely with the ACCC in its consideration of this Draft Notification and toward prompt resolution of any issues which may arise.

Assuming there are no unforeseen difficulties with this Draft Notification we will provide the ACCC with a formal notification of the proposed changes in pricing for the AdPOST service at a date to be advised.

Yours sincerely

Peter Meehan
Chief Finance Officer

DRAFT

**DRAFT NOTIFICATION AND DETAILS OF CHARGES PROPOSED BY
THE AUSTRALIAN POSTAL CORPORATION**

Prices Surveillance Act 1983

Notification of prices pursuant to Section 22 (2) (a)

Australian Postal Corporation
(Name of Declared Person)

whose address is: 321 Exhibition Street
MELBOURNE VIC 3000

(postal address): GPO Box 1777Q
MELBOURNE VIC 3000

Hereby give notice that it proposes:

- to supply the goods or services described below at the prices and terms and conditions indicated in two stages effective from 1 July 2002 and 1 January 2003 respectively; and,
- to insulate charities from the proposed increase in prices described below by introducing a new advertising mail service for Registered Charities at the current prices.

The services that are the subject of this notification provide for the carriage by post within Australia of Small, Medium and Large Letters containing approved advertising material.

Reasons for the Proposed Prices

Australia Post currently has a reduced rate service for advertising mail called AdPOST. The price is only available where the mail piece meets certain content requirements. AdPOST pricing is approximately 20% below the equivalent PreSort product.

The reason for this Draft Notification is the proposal to phase out this content based price discount in two stages, over a six month period, ending in January 2003, when the AdPOST service will be discontinued.

A separate mailing category is to be created for Registered Charities, at current ADPOST rates.

The justification for the effective price increase for advertising mail is two fold:

- the service has incurred substantial losses for many years;
- the discount, being based on content, bears no relationship at all to costs. The processing and delivery costs are the same for all addressed mail regardless of content. However, the costs of acceptance of AdPOST mail are higher than for other mail due to the need for submission by the customer and approval by Australia Post. This is an administrative burden for both customers and Post and is to be removed under this proposal.

Product History

The AdPOST service commenced in 1976 as a discounted price incentive for advertising mail. Its original purpose was to foster the use of direct mail advertising, then a relatively new marketing medium. Direct mail is now a mature medium representing \$1.3 billion of expenditure in Australia in 2000¹.

AdPOST prices have not changed substantially since 1992, with the exception of the April 2000 removal of the higher discount (26.5% as opposed to 20%) for items that prompted a mailed response. During this 10 year period the consumer price index will have increased by some 23% nett of estimated GST effects.

The AdPOST service represents 12.7% of all Letters revenue.

Details of Price Increase

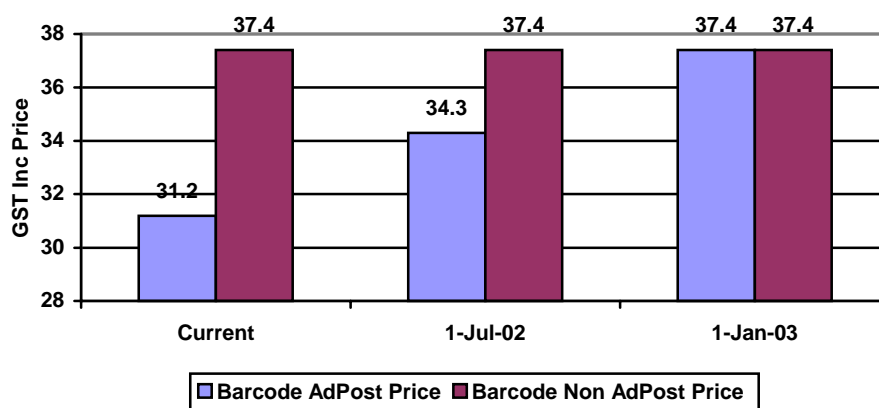
The current price structure will not change. It is proposed to make the change in two stages, to give customers an extended period of time to

¹ The CEASA Report, 2000

adjust to the removal of the discount. Accordingly, all prices will be increased by 10% in July 2002.

In January 2003 AdPOST will be discontinued and customers will use the equivalent Barcode PreSort service. This will result in a further price increase of approximately 9%.

Figure 2 - Aligning AdPost to PreSort Barcode Prices



The changes to individual price points resulting from the first 10% price increase on 1 July 2002 are shown in Schedule 1.

Registered Charities

Charities, representing 15% of AdPOST volumes rely on direct mail for donor acquisition. Typically, their overall mail piece cost is lower and consequently the postage component is proportionally higher. Accordingly, and consistent with Post's Community Service Obligations and Corporate Citizenship responsibilities, it is proposed to insulate charities from the effect of the removal of AdPOST discounts. This will be achieved by creating a separate mailing category for Registered Charities, at current AdPOST rates. Further, to realise the overhead savings associated with the elimination of content-based pricing, the new mail category is to extend to all small letter, PreSort barcoded mail sent by Registered Charities.

It is proposed that the eligibility of Registered Charities for AdPOST price discounts be determined in accordance with the changed arrangements for income tax exemption for charities under The New Tax System. Thus, only charities endorsed by the ATO as Income Tax Exempt Charities would be able to register as charities for AdPOST discounts. This approach is consistent with Government policy concerning charities and avoids the requirement of Australia Post to decide the status of organisations claiming to be charities. Charities endorsed by the ATO would only be required to provide evidence of their ATO status to qualify as a Registered Charity with Australia Post. The detail of the new

arrangements is the subject of consultation and discussion with charities and their representative bodies.

Implementation

Customers will be advised from the outset that the initial 10% increase will progress to the removal of the full discount by January 2003. The time line for the implementation of this proposal is as follows:

Approved by Board (subject to ACCC consideration)	October 2001
ACCC consultation	October 2001
ACCC Draft Notification	November 2001
Staff advised	December 2001
Customers advised	December 2001
First price increase	1 July 2002
Final price increase and removal of service (except Registered Charities)	1 January 2003

Date: 1 November 2001

Signed:

Peter Meehan
Chief Finance Officer

Schedule 1 : Proposed AdPOST Prices at 1 July 2002

AdPost Prices - PreSort (Prices Include GST).

Service	Size	Weight	PreSort Barcoded					
			Barcode Direct Tray				Residue Trays	
			Same State		Other State		Current cents	Proposed cents
			Current cents	Proposed cents	Current cents	Proposed cents		
Ad Post Regular PreSort	Small	0-125g	31.2	34.3	32.3	35.5	35.6	39.2
	Medium	0-50g	35.1	38.6	36.8	40.5	50.4	55.4
		50-125g	45.5	50.1	48.8	53.7	61.4	67.5
		125-250g	61.4	67.5	66.8	73.5	77.8	85.6
	Large	0-50g	51.5	56.7	57.0	62.7	67.9	74.7
		50-125g	57.0	62.7	62.5	68.8	73.4	80.7
125-250g		89.9	98.9	100.8	110.9	111.8	123.0	
		250-500g	131.5	144.7	142.4	156.6	153.4	168.7
Ad Post Off Peak PreSort	Small	0-125g	29.6	32.6	30.1	33.1	34.0	37.4
	Medium	0-50g	32.4	35.6	33.4	36.7	47.6	52.4
		50-125g	40.6	44.7	42.2	46.4	56.4	62.0
		125-250g	54.2	59.6	55.8	61.4	70.6	77.7
	Large	0-50g	49.3	54.2	53.7	59.1	65.7	72.3
		50-125g	54.8	60.3	60.2	66.2	70.1	77.1
125-250g		82.7	91.0	89.8	98.8	104.6	115.1	
		250-500g	102.4	112.6	109.5	120.5	129.2	142.1

Note: The PreSort Unbarcoded service will no longer be available from 1 July 2002