

31 January 2014

Mr Rod Sims
Chairman
Australian Competition and Consumer Commission
GPO Box 520
MELBOURNE VIC 3001

AHMED FAHOUR
Managing Director and
Chief Executive Officer

GPO Box 1777
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Dear Mr Sims

Notification of changes to Australia Post's reserved ordinary letter service

I am writing to formally notify the Australian Competition and Consumer Commission (ACCC) of proposed price changes within Australia Post's reserved ordinary letter service.

The key change is a 10-cent increase to the Ordinary Small Letter (the Basic Postage Rate or BPR) from 60 to 70 cents. Large letter prices will continue to be set relative to the BPR (i.e. they are expressed in multiples of the BPR) to ensure the pricing structure remains consistent and simple to understand.

As you would be aware, I'm very conscious of the need to maintain an accessible and affordable letters service for all Australians. As such, we have been considering ways of insulating vulnerable Australians (including pensioners and low income earners) from the potential cost of living impact of these proposed changes.

I'm pleased to advise that aligned with these changes, Australia Post will introduce a concessional stamp rate that will allow around 5.7m eligible Australians to continue to have access to 60 cent postage for small letters until 2017.

We are planning to make these price changes effective from 31 March 2014.

As you are aware, the combination of volume decline and the fixed-cost nature of our letter-sorting and delivery operations (largely flowing from our CSO-related Prescribed Performance Standards) are leading to Australia Post incurring growing losses on the delivery of the Reserved Service.

Over the past three years, this loss has grown as follows:

- FY2010/11: (\$66.5m)
- FY2011/12: (\$114.4m)
- FY2012/13: (\$147.4m)

Given this trend and the real prospect of accelerating letter volume decline, the proposed 10-cent BPR increase will help to temporarily reduce the size of the loss that we incur in providing the nation's letters service.

Our projections show that even with this price increase, Australia Post will lose approximately \$246 million on the delivery of the domestic reserved letters service in 2014/15.

Our formal notification is provided at [Attachment 1](#). Supporting information to the formal notification is at [Attachment 2](#).

Australia Post wishes to assist the ACCC in its consideration of this notification and to promptly resolve any issues that may arise during the course of those considerations. Accordingly, please do not hesitate to contact Mark Pollock, General Manager, Mail Business Unit on (03) 9106 7578 if you have any questions.

Yours sincerely

A handwritten signature in blue ink that reads "Ahmed".

AHMED FAHOUR

cc Cristina Cifuentes, ACCC

NOTIFICATION AND DETAILS OF CHANGES PROPOSED BY THE AUSTRALIAN
POSTAL CORPORATION FOR ITS RESERVED ORDINARY LETTER SERVICE

Notification of changes pursuant to section 95Z of the Competition and
Consumer Act, 2010

Name of Declared Person: Australian Postal Corporation (Australia Post)
Whose address is: 111 Bourke Street, MELBOURNE VIC 3000
(Postal address:
GPO Box 1777, MELBOURNE VIC 3001)

Hereby gives notice that it proposes to supply the goods or services
described below at the prices and terms and conditions indicated, effective
from 31 March 2014.

Description: Locality, Proposed Prices, Terms and Conditions

The services, which are the subject of this notification, are detailed in
Schedule 1 of this Attachment.

Reasons for the changes:

The domestic reserved letter service operates in an environment of ongoing volume decline, continued growth in delivery points and likely increases in input costs.

This environment (which is similar for postal operators worldwide) presents a long-term challenge for Australia Post in terms of providing both a financially self-sustaining letters service while also meeting its Community Service Obligations.

Australia's reserved letter volumes have declined by over 23% in the past five years with accelerated rates of decline in the past two years. Ongoing acceleration in the rate of letter volume decline is now forecast as continued fixed line broadband growth leads to greater levels of digital substitution for bill payment and presentment.

Globally, many postal peers have increased prices substantially as a result of this to cover the cost of maintaining a largely fixed-cost service. As a result, Australia now has the second lowest basic postage rate of the OECD nations.

Increases to the Australian BPR have lagged considerably behind CPI for over 20 years, with the BPR only increasing 33% (from 45 to 60 cents) since 1992, whereas CPI has increased by more than 70% over the same period.

So, this proposed increase is also necessary to recover the inflationary impact of input costs.

Consideration having regard to section 95G(7) of the Competition and Consumer Act, 2010

Australia Post asserts that the proposed price changes do not result in revenues in excess of revenues based on efficient costs and a reasonable rate of return and are consistent with the requirements of section 95G(7) of the Competition and Consumer Act, 2010.

Signature:



Ahmed Fahour
Managing Director and Chief Executive Officer

Date: 31 January 2014

Schedule 1

| Product | Current Price | Proposed Price | Increase |
|----------------------------------|----------------------|-----------------------|-----------------|
| Ordinary Small | 60c | 70c | 16.7% |
| Concession Stamp (small letters) | N/A | 60c | N/A |
| Ordinary Large Letters | | | |
| Up to 125 grams | \$1.20 | \$1.40 | 16.7% |
| Over 125 grams up to 250 grams | \$1.80 | \$2.10 | 16.7% |