ACCC decision on Australia Post's price notification

June 2025

Acknowledgement of country

The ACCC acknowledges the traditional owners and custodians of Country throughout Australia and recognises their continuing connection to the land, sea and community. We pay our respects to them and their cultures; and to their Elders past, present and future.

Australian Competition and Consumer Commission
Land of the Ngunnawal people
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ACCC 06/25
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Executive summary

The ACCC does not object to Australia Post's proposed price increase for its reserved ordinary letter service,[1] as described in its price notification[2] provided to the ACCC on 3 June 2025. Subject to the Minister for Communications not disapproving the increase, Australia Post is expected to implement the proposed price increases on 17 July 2025.

Australia Post is proposing to increase the price for reserved ordinary small letters delivered to the regular timetable[3] by 13.3% (from $1.50 to $1.70) from mid-2025.[4] It is also proposing to increase the prices for the delivery of reserved ordinary large letters delivered to the regular timetable by 13.3% (from $3.00 to $3.40 for letters up to 125 grams, and from $4.50 to $5.10 for letters over 125 grams and up to 250 grams).

Australia Post's proposed price increase does not affect the price of concession stamps ($3 for 5). The price of stamps for seasonal greeting cards (65 cents) will also remain unchanged.

The proposed prices set out in Australia Post's formal price notification are consistent with the draft price notification submitted to the ACCC on 12 November 2024. The ACCC's preliminary view on the draft price notification was published on 10 April 2025 and is at **Attachment A**.

In considering Australia Post's proposed price increase, the ACCC carried out two public consultation processes. The majority of consumers and businesses who responded to these processes were opposed to the proposed price increase. We have carefully considered the responses, along with the mandatory considerations in the legal framework,[5] in making this final decision.

When assessing a price notification, the ACCC balances the interests of mail users with the financial sustainability of the basic postal service provided by Australia Post.

We take a cost-based approach to assessing a proposed price increase. That is, we assess the extent to which the prices proposed by Australia Post are commensurate with the efficient costs of providing those services. To do this, we examine Australia Post's costs in providing reserved services, its efficiency in incurring these costs, and its expected rate of return on its investment. We assess whether Australia Post is able to recover revenue from the reserved services sufficient to cover the efficient costs of providing them, without generating excessive profits.

Following an assessment of Australia Post's draft price notification, and consideration of the submissions received in response to our April 2025 preliminary view paper, the ACCC has decided to not object to the proposed price increase. This decision is based on our finding that Australia Post is not likely to recover revenue in excess of its costs for reserved letter

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1 Australia Post's reserved ordinary letter services are reserved letter services which do not involve the supply by Australia Post of a specified special service for which a special charge or additional fee is payable.

2 Referred to as a 'locality notice' in s 95Z(5) of the *Competition and Consumer Act 2010*.

3 Australia Post's regular timetable delivery speeds are currently up to 5 business days after the day of posting for same state delivery, and up to 8 business days after the day of posting for interstate delivery.

4 Australia Post, *Price Notification*, 3 June 2025, p. 5.

5 The legal framework for price notifications is set out in detail in Appendix A of the preliminary view, provided at Attachment A.

services over the period FY2025–26 to FY2027–28, even if the proposed 13.3% increase in the price of the notified letter services is implemented.

While Australia Post has made progress in implementing recommendations the ACCC made in its March 2024 decision, the ACCC's preliminary view paper highlights recommendations that have not yet been fully implemented and sets out expected timeframes for their full implementation. We also recommended that Australia Post increase its cap on concession stamps, amend its approach to depreciation, and improve transparency and stakeholder consultation.

For future price notifications, we expect Australia Post to continue improving the rigor of its cost allocation methodology, cost forecasting capabilities, and its information sharing practices. This is particularly important as Australia Post's half-year financial results for FY2024–25 suggest it may be moving toward a full year enterprise level profit for FY2024–25, for the first time since FY2021–22.

We acknowledge that the majority of consumers and businesses who responded to our consultation on the draft price notification and our preliminary view were opposed to the proposed price increase. While the price increases will have a relatively small impact for many households, we are conscious that some consumers and businesses will be more significantly impacted. We consider that Australia Post should explore ways to address the concerns identified by its customers, such as:

- methods to alleviate affordability issues for small to medium business customers impacted by price increases, as raised in our March 2024 decision
- methods to alleviate affordability issues for businesses and organisations subject to statutory requirements to send physical mail
- earlier and more thorough engagement with its customers on potential pricing changes, and
- increasing the annual limit on concession stamps.

As noted above, Australia Post's half-year financial results for 2024–25 suggest it may achieve an enterprise level profit for 2024–25. The ACCC considers that this puts a greater responsibility on Australia Post to minimise the impacts of price increases on small and medium businesses and vulnerable consumers. It also highlights the importance of ensuring Australia Post's cost allocation model is accurate and transparent for the avoidance of distortions to the competitive markets it operates in.

1. Introduction

1.1. Background

Formal price notification

On 3 June 2025, Australia Post submitted a locality notice to the ACCC in accordance with subsection 95Z(5) of the *Competition and Consumer Act 2010* (CCA). This locality notice sets out Australia Post's intention to increase the prices of its reserved notified ordinary letters delivered at the regular timetable by 13.3% from 17 July 2025.

Australia Post's stamp prices are proposed to increase by:

- 20 cents, from $1.50 to $1.70, for ordinary small letters (the basic postage rate)
- 40 cents, from $3.00 to $3.40, for ordinary large letters up to 125 grams
- 60 cents, from $4.50 to $5.10, for ordinary large letters between 125 and 250 grams.

Australia Post is also proposing to increase the prices of its other reserved letter services.

The ACCC notes that these other reserved services are not 'notified services' for the purposes of section 95Z of the CCA. They are therefore outside the scope of our price oversight role and not subject to this decision. Australia Post may choose to increase the prices of its reserved letters services that are not notified services without ACCC oversight. Reserved letter services that are not notified services include Priority letter services, Promo Post, Print Post, Reply Paid Post and Prepaid Post among others.

Draft price notification

The formal price notification submitted by Australia Post is consistent with the draft price notification provided to the ACCC in November 2024.

The ACCC published a survey seeking feedback on Australia Post's draft price notification from 22 November 2024 to 22 December 2024. We received 168 responses to our survey, as well as 7 written responses submitted via email. Of the 175 total respondents, 132 (75%) responded as individuals and 43 (25%) as representatives of businesses.

Most respondents (158, or 90%) opposed the proposed price increase. They consisted of 120 responding as individuals and 38 as representatives of businesses. A public summary of responses was published on our website.[6]

ACCC preliminary view and recommendations

The ACCC's preliminary view on the draft price notification was to not object to the proposed price increase. This decision was based on our finding that, even with the proposed price increase, Australia Post is unlikely to recover revenue in excess of its efficient costs for reserved letter services over the period FY2025–26 to FY2027–28.

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6 ACCC, *Consultation on Australia Post's draft price notification*. 15 January 2025.

With that said, we also acknowledged that the majority of consumers and businesses who responded to our consultation on the draft price notification were opposed to the proposed price increase.

In our preliminary view we made several recommendations to Australia Post to support any future price notification process.

We recommended that Australia Post should continue to work towards implementing the ACCC's March 2024 recommendations that have not been fully implemented. In addition, we recommended that Australia Post adjust its method for calculating the return on and return of capital, submit future draft price notifications with all supporting materials in a timely manner, and increase the cap on concession stamps. We also noted that Australia Post should explore ways to address the concerns identified by its customers, including methods to alleviate affordability concerns for small to medium business customers and businesses and organisations who are subject to statutory requirements to send physical mail.

In most cases, we expect Australia Post to implement these recommendations prior to submitting a future price notification. Further details on the required timing for these recommendations is set out in Chapter 10 of our preliminary view.

The ACCC consulted on its preliminary view from 10 April 2025 to 12 May 2025. The ACCC has had regard to submissions received through this consultation process in making this final decision.

1.2. Legislative framework

Under section 29 of the *Australian Postal Corporation Act 1989* (Cth) (the Postal Act), Australia Post has exclusive rights over the provision of 'reserved services' in Australia. These services include the domestic carriage of letters weighing no more than 250 grams and the issue of postage stamps.

The Declaration provides that, for the purposes of Part VIIA of the CCA, the provision of reserved letter services for ordinary letters are 'notified services' (the notified letter services).[7] This means that Australia Post cannot increase the price of the notified letter services without first notifying the ACCC of its intentions. The ACCC's role is to consider Australia Post's proposed price increase and decide to:

- not object to the price increase, or
- not object to a price increase that is less than the proposed increase, or
- object to the price increase.

Australia Post is not permitted to increase the price of the notified services until:

- 21 days have elapsed since the notification to the ACCC, or the ACCC has decided to not object to the proposed increase (or another lower proposed increase which Australia Post has agreed not to exceed),[8] and

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7 *Competition and Consumer (Price Notifications—Australia Post Letter Services) Declaration 2015*. Letter services which involve the supply by Australia Post of a special service for which a special charge or additional fee is payable (as described in the Declaration) or letter services under an incoming overseas mail service to which a convention applies are not notified services.

8 Subsection 95Z(4)-(8) of the CCA.

- 30 days have elapsed since the notification to the Minister, and the Minister does not disapprove the proposed increase.[9]

In considering its response to a proposed price increase for Australia Post's notified letter services, the ACCC must have particular regard to:[10]

- the need to maintain investment and employment, including the influence of profitability on investment and employment
- the need to discourage a person who is in a position to substantially influence a market for goods and services from taking advantage of that power in setting prices, and
- the need to discourage cost increases arising from increases in wages and changes in conditions of employment inconsistent with principles established by relevant industrial tribunals.[11]

The ACCC's approach to interpreting subsection 95G(7) of the CCA is set out in our *Statement of regulatory approach to assessing price notifications under Part VIIA of the CCA* (Statement of regulatory approach).[12]

Broadly, the ACCC considers that the matters in subsection 95G(7) require an assessment of the efficiency of a regulated firm's cost base and the rate of return that it is seeking. The proposed price increase is then assessed having regard to the firm's ability to recover revenue sufficient to cover the efficient cost of providing a service, including a rate of return commensurate with the risks faced by the firm, without generating excessive or monopoly profits.

The ACCC must also give special consideration to matters specified in any ministerial directions issued under section 95ZH of the CCA, which includes the functions and obligations of Australia Post as set out in sections 14–16, 25–26, 27(1), 27(3)–(5), and 28 of the Postal Act, and to directions or notifications given to Australia Post by the Minister under that Act.[13]

The ACCC may have regard to other matters it considers relevant on a case-by-case basis. The ACCC does not have the power to disapprove any proposed price increase under the Australia Post price notification framework; only the Minister for Communications can do so.

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9 Section 33 of the Postal Act.

10 Subsection 95G(7) of the CCA.

11 As set out in our statement of regulatory approach, the ACCC considers the third criterion is now less relevant to its consideration of price notifications given there has been a movement away from centralised wage fixing to agreements negotiated at the enterprise level. ACCC, *Statement of regulatory approach to assessing price notifications under Part VIIA of the CCA*, March 2017, p.12.

12 ACCC, *Statement of regulatory approach to assessing price notifications under Part VIIA of the CCA*, March 2017.

13 The relevant ministerial directions are General Direction 8 and Direction 11 made under section 20 of the *Prices Surveillance Act 1983*. The *Prices Surveillance Act 1983* is no longer in force, but the directions under apply as directions given under subsection 95ZH(1) of the CCA by virtue of Schedule 2, Part 2, Item 45(2) of the *Trade Practices Legislation Amendment Act 2003*. A number of sections of the *Australian Postal Corporation Act 1989* that are referred to in Direction 11 have been repealed or amended. The ACCC's *Statement of regulatory approach to assessing price notifications under Part VIIA of the CCA*, March 2017, sets out how the ACCC applies General Direction 8.

2. Consultation outcomes

The ACCC consulted on its proposal to not object to Australia Post's draft price notification from 10 April 2025 to 12 May 2025.

The ACCC received a total of 21 responses during the consultation period.[14] Of the submissions received, 18 responses were from members of the public, while 3 responses were from representatives of businesses.

Most of the submissions (90%) were opposed to the ACCC's proposal to not object to Australia Post's draft price notification.

We also considered a late submission on Australia Post's draft price notification from the Visual Media Association (VMA),[15] which opposed Australia Post's proposed price increase.

2.1. Consumer and business impacts

Among individual respondents, the most common themes raised include that the price increases are unaffordable or excessive, too soon after the last price increase, and may disproportionately impact consumers experiencing vulnerability. Some consumers also commented that the proposed price increases do not represent value for money, particularly when combined with the recent legislated reduction in Australia Post's service levels.

Overall, the themes raised by consumer and small business respondents were similar in nature to those received during the ACCC's November 2024 consultation on Australia Post's November 2024 draft price notification.

2.2. Operating efficiency

Both individual and business respondents expressed concern that the increase in letter price is inappropriate if it is being used to compensate for inefficient business practices.

The Australian Parcels Industry Forum (APIF) expressed concern that the Frontier Economics report produced for Australia Post[16] does not satisfy the requirements of an independent expenditure review.[17] VMA submitted that Australia Post's changes to its delivery timetable (the New Delivery Model) has not been accompanied by increased efficiencies within the reserved services cost base.[18]

2.3. Cost allocation

Another theme raised by some respondents concerned issues with Australia Post's cost allocation methodology and related concerns about cross-subsidisation. APIF expressed the

14 Public submissions have been published on the ACCC website.

15 Public submissions have been published on the ACCC website.

16 Frontier Economics, *Expenditure Review: Final Report for Australia Post*, January 2025

17 APIF, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, pp. 4-5.

18 VMA, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 2 April 2025, p. 2.

view that Australia Post's cost allocation methodology is not fit for purpose and that Australia Post has 'transformed into a parcels business rather than a letter business'.[19]

In our March 2024 decision, we recommended that Australia Post implement an ex-ante transfer price agreement with its fully owned subsidiary StarTrack to reduce the potential for competitive distortions in the parcels market. The Conference of Asia Pacific Express Carriers (CAPEC) and APIF note that Australia Post has not fully implemented this recommendation.[20] APIF also proposes that Australia Post's entire parcels business should be subject to transfer pricing arrangements.[21]

2.4. Other issues

A number of submissions noted that an increase in prices is likely to further exacerbate letter volume decline.[22] This will mean that the costs of the letter service will increasingly be borne by a smaller customer base. Several submitters questioned whether Australia Post's strategy to continually increase prices to recover the costs of its letter service is sustainable.

VMA, CAPEC and APIF commented on the current regulatory framework. CAPEC considers there is a need for stronger regulatory enforcement and independent validation of Australia Post's accounting and pricing practices.[23] APIF urge the ACCC to 'address the outdated legislative and regulatory constraints so that the growing market failures under the current policy settings can be urgently addressed.'[24] VMA notes the 'ACCC's role in maintaining a balanced and commercially realistic regulatory framework' but seeks 'a more structured and transparent consultation process.'[25]

APIF and CAPEC also raised concerns with the transparency around Australia Post's calculation of the costs required to meet its Community Service Obligations (CSOs), and the funding arrangements for these costs.[26]

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19 APIF, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, p. 8.

20 APIF, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, p. 8. CAPEC, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, p.1-2.

21 APIF, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, p. 8. CAPEC, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, p. 2.

22 VMA, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 2 April 2025, pp 1-2. APIF, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, p. 8. And three individuals.

23 CAPEC, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, p. 2.

24 APIF, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, p. 3.

25 VMA, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, p. 3.

26 CAPEC, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, p. 1. APIF, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, p. 7-8.

3. ACCC position following consultation

The ACCC has carefully considered stakeholder feedback. The issues raised by stakeholders in response to the preliminary view are similar to those raised in our initial consultation.

3.1. Consumer and business impacts

The ACCC acknowledges the strong opposition to the proposed price increase expressed during consultation on Australia Post's November 2024 draft price notification and the ACCC's April 2025 preliminary view to not object to the draft price notification. In both consultation processes around 90% of respondents opposed the price increase. The main reasons for these objections were that the price increases were excessive and would result in adverse outcomes for consumers and businesses.

As outlined in the ACCC's April 2025 view, our assessment of Australia Post's draft price notification found:

- small and medium businesses, along with entities that use the postal system to discharge legislative obligations, are likely to face challenges absorbing these costs and may pass them on to customers, and
- there were concerns from concessional stamp users about the long-standing yearly cap on the number of concessional stamps not being sufficient.

These findings were reiterated through feedback received from businesses and individuals during consultation on our preliminary view.

An anonymous business stakeholder submitted that 'Australia Post should recognise the importance of large-scale customers' and urged 'the Australian Government and Australia Post to offer favourable rates for high-volume mailings.'[27] It also noted that there should be 'a more transparent and inclusive pricing strategy that considers the needs of all businesses delivering to our diverse Australian community.'[28]

In our preliminary view we strongly encouraged Australia Post to engage with its stakeholders earlier and more thoroughly and explore methods to ameliorate affordability issues identified for small to medium business customers under the proposed price increase. In response to additional feedback, and discussions with stakeholders, instead of 'strongly encouraging' Australia Post to undertake this additional work we now 'recommend' this work be commenced prior to it submitting any future price notifications.

However, the ACCC notes that the majority of business mail, including Promo Post, Print Post, Reply Paid Post and Prepaid Post among others, are reserved services but not notified services. These letter services are outside the scope of our price oversight role and not subject to this decision. Australia Post may choose to increase the prices of its reserved letters services that are not notified services without ACCC oversight.

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27 Anonymous, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, p. 3.

28 Anonymous, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, p. 3.

The ACCC only has a price oversight role for a small number of reserved letter services called notified letter services, which are ordinary stamped small letters and large letters of no more than 250g sent at the regular delivery timetable.

Regarding concerns relating to the effect of the price increases on vulnerable customers, we have recommended Australia Post increase the yearly cap on concession stamps.

3.2. Operating efficiency

The ACCC's view, as outlined in our Statement of regulatory approach, is that when assessing price notifications, the criteria set out at subsection 95G(7) of the CCA will generally be met by economically efficient prices which reflect an efficient cost base and a reasonable rate of return on capital. As such, we have considered Australia Post's operating and maintenance costs as a building block component of its maximum allowable revenue, as set out in its post-tax revenue model.

In support of its price notification, Australia Post engaged Frontier Economics to conduct an expenditure review of Australia Post's operations at an enterprise level. While Frontier Economics found some small differences between its estimate of Australia Post's efficient costs and those forecast costs provided by Australia Post in its post-tax revenue model, Frontier Economics recommended the ACCC adopt Australia Post's forecast costs.

APIF considers that Frontier Economics' assessment is 'deficient in several aspects', notably due to its consideration of enterprise-level costs rather than only those incurred in the provision of the reserved services, and a lack of benchmarking to inform the base year estimates.[29] APIF's submission also posits that the Frontier Economics report overstates Australia Post's exposure to competition within its competitive services (such as parcels), and notes what it considers to be a conflict of interest, with Australia Post having commissioned and paid for the Frontier Economics report.[30]

As outlined in our preliminary view, we have considered the views expressed in the Frontier Economics report, and further tested its conclusions, particularly as they relate to the efficiency of the cost base of the reserved services.

As part of our cost-based assessment of Australia Post's draft price notification, we have considered a number of scenarios and undertaken sensitivity testing to inform our view of the likelihood of Australia Post recovering its efficiently incurred costs.

In undertaking our cost-based assessment, we also considered the cumulative effect of potential changes in actual outcomes when compared to regulatory estimates. Frontier Economics' report informed one such test, wherein we applied its estimate of the magnitude of the total enterprise-level inefficiency to only the reserved services, which do not face competitive pressure. Our finding was that even ascribing the entire estimate of enterprise-level inefficiency to the reserved services, to produce an estimate of efficient reserved services costs lower than estimated by Australia Post, was unlikely to result in a position of cost recovery through the proposed price increase.

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29 APIF, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, p. 5.

30 APIF, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, p. 5.

We note that while it is not uncommon for regulated businesses to commission consultant reports to support their regulatory submissions, these are ordinarily provided as material in support of the submission at the time of its lodgement. For example, Australia Post commissioned Diversified Specifics to forecast future letter volume demand, which informed Australia Post's estimates within its post-tax regulatory model and draft price notification.[31] This report was provided as part of Australia Post's draft price notification and published as part of the package of materials for consultation.

By contrast, Australia Post only provided the Frontier Economics report subsequent to its lodgement of the draft price notification, and the resulting findings were not reflected in Australia Post's post-tax revenue model, nor in its headline outputs within the draft price notification itself.

For future price notifications, we have recommended that Australia Post provides improved forecast data, with particular regard to the provision of cost forecasts based on efficient costs. This includes the provision of supporting material or independent reports alongside its draft price notification, and a post-tax revenue model that reflects the supporting material to the extent that Australia Post adopts it.

3.3. Cost allocation

Australia Post's network is characterised by a production process that produces a range of different products using similar inputs. That is, there are several joint and common costs within Australia Post's network, and these must be attributed in some way to each of the products being produced.

Australia Post prepares its regulatory accounts in accordance with an ACCC record keeping rule,[32] which specifies how its revenues and costs must be captured and allocates its costs using its cost allocation methodology. This methodology specifies how direct costs, attributable costs, and unattributable costs are allocated between Australia Post's individual products.

Ensuring that costs are allocated to services in a way that does not unfairly advantage certain products or categories of products (for example, Australia Post's parcel business) is important for ensuring that Australia Post's monopoly letters business is not a source of subsidy, and therefore providing advantage to its other competitive business segments.

Currently, Australia Post uses activity-based costing to attribute costs according to how intensely a product uses the resource in question. The major driver of cost allocation is then the relative usage or consumption of the resource in common, based on the activities required to provide a service. Activity-based costing is a commonly used methodology for pricing postal services and has been Australia Post's approach for many years.

For this price notification, we have assessed Australia Post's costs of providing the reserved services as calculated using the activity-based methodology set out in Australia Post's Regulatory Accounting Procedure Manual. As outlined throughout this decision, we have found that Australia Post is unlikely to recover the costs of providing the reserved services.

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31 Diversified Specifics, *Australia Post: Letter Volume Demand Update*, September 2024

32 ACCC, *Australia Post Record Keeping Rules*, 1 July 2016.

During consultation, some stakeholders expressed the view that Australia Post's cost allocation methodology is not fit for purpose. For example, APIF submitted its view that 'Australia Post's cost allocation model fails to distinguish between costs primarily driven by letters versus parcels, particularly for shared infrastructure like posties and post offices'.[33] APIF also submitted that it sees Australia Post as having 'transformed into a parcels business rather than a letter business'.[34]

In 2023, the ACCC engaged WIK Consult to review Australia Post's cost allocation model and methodology.[35] As a result of this review we made specific recommendations to Australia Post to improve its accuracy and transparency in cost allocation. Australia Post has made positive progress in implementing these recommendations. Where these recommendations have not been implemented, or fully implemented, we have remade them in this decision and applied specific timeframes for Australia Post's implementation.

In particular, we recommend that Australia Post provide the ACCC with short- and long-run incremental costs to assist us in assessing how the efficient costs of providing the reserved services compares to the revenues Australia Post expects to earn from their provision. We expect Australia Post to make progress in implementing this recommendation prior to submitting its next draft price notification.

We have outlined our cost allocation recommendations at 3.5.

Transfer pricing

In our March 2024 decision, we recommended that Australia Post implement an ex-ante transfer price agreement with its fully owned subsidiary StarTrack to reduce the risk of competitive distortions in the parcels market. At the time, we noted that the lack of an ex-ante contractual transfer price arrangement provided Australia Post with the potential to distort the cost allocation associated with its handling of StarTrack parcels on its parcel network in favour of StarTrack.[36]

CAPEC and APIF both submitted that Australia Post has not fully implemented this recommendation.[37] Although Australia Post has implemented an ex-ante transfer price arrangement with StarTrack, the ACCC would like to see further details on incremental costs associated with StarTrack's use of the Australia Post network for delivery parcels during periods of peak capacity. We expect these costs to reflect market based, arm's length costs.

A primary principle of regulatory transfer pricing is the principle of equivalence. It requires transfer prices to be determined, as far as possible, based on market or regulated prices for comparable services. As noted in our preliminary view, we expect this recommendation to be fully implemented prior to any future price notifications.

APIF also proposed that Australia Post's entire parcels business should be subject to transfer pricing arrangements.[38] Costs associated with Australia Post's parcel operations are allocated in accordance with its Regulatory Accounting Procedures Manual, which

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33 APIF, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, p. 5.

34 APIF, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, p. 8.

35 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023.

36 ACCC, *Final Decision*, 2024, p. 45.

37 APIF, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, p. 8. CAPEC, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, pp. 1-2.

38 APIF, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, p. 8. CAPEC, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, p. 2.

prescribes a fully allocated, activity-based costing approach.[39] This approach enables costs for service categories, such as reserved letters, non-reserved letters and parcels, to be fully allocated based on volume of resource usage. These costs include the fixed costs of maintaining its integrated letter and parcel network. The ACCC recognises the importance of accurate cost allocation between Australia Post's letters and parcels as part of Australia Post's regulatory accounting. We note the outstanding cost allocation recommendations in section 3.5.

3.4. Other issues

Impact of price increases on letter volume decline

The ACCC acknowledges concerns raised by some stakeholders that continued price increases by Australia Post may further exacerbate the decline in letter volumes. In response, we note research undertaken by Diversified Specifics' that indicates letter volumes are now relatively price inelastic. This means letter rate increases could potentially increase total revenue for Australia Post without 'drastically' accelerating letter volume decline.[40] Australia Post states that 'proposed pricing path will have a limited impact on volume reduction compared to the dominant influence of a shift towards digital communications.'[41]

However, this will mean the costs of the reserved letter service will be borne by a smaller customer base, particularly those customers who do not have other alternatives. The ACCC has recommended Australia Post increase the cap on concession stamps to assist vulnerable customers affected by rising stamp prices. We have also recommended Australia Post engage with its customers, including small and medium businesses, earlier and more thoroughly and genuinely examine methods to reduce affordability issues for these customers.

Decreasing letter volumes are a challenge faced by postal operators internationally. We note that many other postal operators are following a similar strategy of increased letter pricing and reduced service frequency as postal operators transition from being primarily letter delivery businesses to parcel delivery businesses. Notably, Denmark has progressed this strategy over the past few years before announcing that the letter service will cease from the end of 2025. While the Australian Government has been considering the future of letter services through its Postal Services Modernisation Review, we consider that challenges will remain for Australia Post if it continues to pursue a strategy of price increases to sustain its letter service.

Regulatory framework

In our April 2025 preliminary view, we noted several constraints in the current price notification framework, including:

- an outdated statutory framework that is no longer fit-for-purpose

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39 Part 4A of the *Australian Postal Corporation Act 1989* allows the ACCC to issue record keeping rules to Australia Post including regarding the financial relationship between parts of Australia Post's business that relate to reserved services and parts that do not.

40 Diversified Specifics, *Australia Post Letter Volume Demand Update*, September. 2024, p. 80.

41 Australia Post, *Draft price notification*, November 2024, p. 36.

- no ability for the ACCC to make binding decisions, set a binding long term price path or build enduring incentive based regulatory frameworks, and
- restricting the ACCC to assessing only the notified goods or services rather than the full suite of services from the Government Business Enterprise or private monopoly.

The ACCC considers improvements to these aspects of the regulatory framework (which would require legislative amendment), as well as other procedural improvements, would likely see better outcomes for the broader postal services industry and consumers overall. We also note that APIF has expressed a need for broader reform, including consideration of whether Australia Post's exemption from Part IIIA of the CCA should be amended.[42] While outside the scope of this decision, we understand Government and relevant stakeholders are considering appropriate changes to the regulatory framework.

Australia Post's Community Service Obligations

Both CAPEC and APIF raised concerns regarding the costs Australia Post allocates to meeting its Community Service Obligations (CSOs) and how these costs are funded.[43]

Australia Post's CSOs are its commitments under the Postal Act to supply a letter service and ensure these services are reasonably accessible to all people in Australia on an equitable basis. Australia Post must also meet regulated performance standards in connection with its CSOs, which are designed to reasonably meet the social, industrial and commercial needs of the Australian community.[44]

In FY2023–24 Australia Post estimated the cost of providing the CSO at $447.0 million, of which $232.8 million accrued from providing the CSO in areas outside major cities.[45] Australia Post does not currently receive external funding from government to cover its losses in performing its CSOs. This means the costs of the CSOs must be met internally by Australia Post. Australia Post has a statutory monopoly over certain letter services, its reserved letter services, to assist it in meeting the costs associated with its CSOs.

CAPEC and APIF both note concerns on the funding approach for Australia Post's CSOs, and highlight findings from a report of the Australian Government Competitive Neutrality Complaints Office (AGCNCO). The report investigates a complaint made by CAPEC that Australia Post is not complying with its competitive neutrality obligations, including in regard to funding its CSOs.[46]

While the AGCNCO stated that Australia Post's obligation to deliver and fund its CSOs puts it at a competitive disadvantage,[47] it also found that the mandated internal funding of its CSOs contradicts the Government's competitive neutrality policy and has the potential to distort competitive markets and cause perverse incentives.

The AGCNCO recommended that the costs of Australia Post's CSOs be funded directly from the Budget to eliminate the potential for perverse incentives and to introduce increased

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42 APIF, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, p. 9.

43 APIF, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, pp. 7-8. CAPEC, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, pp. 1-2.

44 Section 27 of the Postal Act.

45 Australia Post, *Annual report 2023-24*, p. 162.

46 Productivity Commission, *Australia Post competitive neutrality report*, October 2024.

47 Productivity Commission, *Australia Post competitive neutrality report*, October 2024, p. 55.

transparency and accountability.[48] While the ACCC acknowledges this recommendation, funding of CSOs is a matter of Government policy.

CAPEC and APIF also raised concerns regarding transparency around CSOs costs.[49]

In 2017, the Australia National Audit Office (ANAO) published a report that considered Australia Post's approach to costing its CSOs.[50] The ANAO report stated that due to the fact CSOs are internally funded by Australia Post, their true cost is hard to recognise, and that 'transparent and complete costing of the CSO is critical to assess the overall performance of Australia Post'.[51]

The ANAO recommended that Shareholder Departments work with Australia Post to improve transparency and reporting on the cost and benefits of Australia Post's CSOs and update the method by which the cost of the CSOs is calculated.[52] The ACCC understands that Australia Post has updated the method by which it calculates the cost of meeting the CSOs in consultation with the Shareholder Departments.

In our cost-based assessment we review the cost to Australia Post of providing its reserved letter services. These include the cost to Australia Post of meeting its CSOs related to the provision of its reserved letter services, but do not include other costs related to the CSOs such as those required to meet Australia Post's Universal Postal Union obligations.

3.5. ACCC decision and recommendations

Following our assessment of the submissions received in response to the ACCC's April 2025 preliminary view to not object to the draft price notification we consider that no new issues have been raised that materially impact on the ACCC's preliminary view to not object to Australia Post's draft price notification.

Consequently, the ACCC's final decision is consistent with its preliminary view – that is, to not object to Australia Post's proposed price increase for reserved ordinary letters. As well as carefully considering stakeholder feedback, in making this decision, the ACCC has had particular regard to the matters in subsection 95G(7) of the CCA and given special consideration to the matters in General Direction 8[53] and Direction 11.

In particular, the ACCC's decision to not object to Australia Post's proposed price increase is based on our finding that Australia Post is not likely to recover revenue in excess of its costs for reserved letter services over the period FY2025–26 to FY2027–28, even if the proposed 13.3% increase in the price of the notified letter services is implemented.

In forming this final decision, we have made two changes to the recommendations to Australia Post we set out Chapter 10 in our preliminary view contained at Attachment A.

We have attached a timeframe to our recommendations that Australia Post quantify costs associated with meeting Government policy obligations as part of providing cost forecasts

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48 Productivity Commission, *Australia Post competitive neutrality report*, October 2024, p. 62.

49 APIF, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, pp. 7-8. CAPEC, *Submission to the ACCC – Consultation on Australia Post's Draft Price Notification*, 12 May 2025, pp. 1-2.

50 ANAO Report No.11 2017–18. *Australia Post's Efficiency in Delivering Reserved Letter Services*, p. 57

51 ANAO Report No.11 2017–18. *Australia Post's Efficiency in Delivering Reserved Letter Services*, p. 57.

52 ANAO Report No.11 2017–18. *Australia Post's Efficiency in Delivering Reserved Letter Services*, p. 65.

53 Our approach to which is set out in the Statement of regulatory approach to assessing price notifications under Part VIIA of the CCA, March 2017, as explained in section 1.2 above.

based on efficient costs. We expect Australia Post to provide an estimate of these costs with its next draft price notification.

In our preliminary view, we 'strongly encouraged' Australia Post to engage with its stakeholders earlier and more thoroughly and explore methods to ameliorate affordability issues identified for small to medium business customers under the proposed price increase. In this final decision we now 'recommend' this work be commenced prior to it submitting any future price notifications.

These recommendations are intended to improve the quality of information Australia Post provides in support of its price notifications, and therefore improve the robustness of the assessment process the ACCC takes in any future price notification processes.

In summary, the ACCC recommends that in future price notifications:

- Australia Post provides improved forecast data, with particular regard to:
  - The provision of cost forecasts based on efficient costs in its next draft price notification.
  - Improving the transparency around any adjustments it makes to Diversified Specifics letter volume forecasts in its next draft price notification.
  - The provision of forecast data which contains a decomposition of cost changes related to input price changes, volume changes, economies of scale, economies of scope, and any changes in the production process. We expect Australia Post to make progress in implementing this recommendation prior to submitting its next draft price notification.
- Australia Post further improves its cost allocation model, with particular regard to:
  - A new delivery time standard update. Australia Post has stated it will undertake this update in late 2025 and we expect any price notifications submitted after this date to include consequential adjustments to Australia Post's enterprise profit model.
  - Short-run and long-run incremental costing of individual services and products. We expect Australia Post to make progress in implementing this recommendation prior to submitting its next draft price notification.
  - Additional information regarding its ex-ante contractual transfer pricing arrangement with StarTrack in its next price notification.
- Australia Post to work with the ACCC to adjust its post-tax revenue model regarding its treatment of the regulated asset base and depreciation for consistency with the approach used in previous price notifications, in its next price notification.
- Australia Post submit future draft price notifications and all supporting materials as a package to ensure sufficient time for consultation and analysis. This should include a public update on its progress in terms of addressing the ACCC's recommendations.
- Australia Post increase the cap on the number of concessional stamps available to eligible concession card holders prior to submitting its next price notification.
- Australia Post engage with its customers, earlier and more thoroughly on potential pricing changes. It must genuinely examine methods to reduce affordability issues identified by business customers under the proposed price increase prior to submitting its next price notification.

Attachment A: ACCC preliminary view on Australia Post's 2024 draft price notification

ACCC preliminary view on Australia Post 2024 draft price notification

April 2025

Acknowledgement of country

The ACCC acknowledges the traditional owners and custodians of Country throughout Australia and recognises their continuing connection to the land, sea and community. We pay our respects to them and their cultures; and to their Elders past, present and future.

Australian Competition and Consumer Commission
Land of the Ngunnawal people
23 Marcus Clarke Street, Canberra, Australian Capital Territory, 2601

ACCC 04/25
www.accc.gov.au

Contents

Executive summary

The Australian Competition and Consumer Commission (ACCC) is seeking feedback on its preliminary view that it will not object to Australia Post's draft price notification.

Australia Post has submitted a draft price notification proposing to increase the price for reserved ordinary small letters delivered to the regular timetable (the basic postage rate) by 13.3% (from $1.50 to $1.70) from mid-2025.[1] It also proposes to increase the prices for the delivery of reserved ordinary large letters delivered to the regular timetable by 13.3%, (from $3.00 to $3.40 for letters up to 125 grams, and from $4.50 to $5.10 for letters over 125 grams and up to 250 grams).

Australia Post cannot increase the prices of these letter services without notifying the ACCC and the Minister for Communications of its intentions. The ACCC must consider whether to object to the proposed price increase, to not object to the proposed price increase, or to not object to a specified price increase which is lower than the proposed increase. Australia Post may still increase its prices for reserved services, regardless of whether the ACCC objects to the proposed price increase. Only the Minister can disapprove the price increase.

The ACCC's preliminary view on the draft price notification is to not object to the proposed price increase. This decision is based on our finding that, even with the proposed price increase, Australia Post is unlikely to recover revenue in excess of its efficient costs for reserved letter services over the period 2025–26 to 2027–28.

Why is Australia Post seeking to increase letter service prices?

Australia Post provides a range of services that are highly valued by the Australian community, including its letter service. Australia Post is required by law to provide a service that is reasonably accessible to all people across Australia (which is referred to as Australia Post's community service obligation).[2]

Australia Post has a statutory monopoly over certain letter services, known as reserved services.[3] The statutory monopoly was introduced to support Australia Post in meeting its community service obligations, because Australia Post does not receive direct funding from the Government to provide its services.

Australia Post's letter services, including its reserved services, have made significant losses in recent years. Reserved services letter revenue has continuously declined by an average of 5% per annum between 2018–19 and 2023–24, which has been driven by a decline in letter volumes. The volume of reserved services letters is expected to decrease by around 10.6% annually from 2023–24 to 2027–28.[4] At the same time, the number of premises needing to be served continues to grow every year. The increased costs of delivery combined with reduced revenue puts pressure on the financial sustainability of Australia Post's letter services.

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1 Australia Post, *Draft Price Notification*, November 2024, p. 12.

2 Section 27, *Australian Postal Corporation Act 1989* (Cth).

3 Section 29, *Australian Postal Corporation Act 1989* (Cth).

4 Australia Post, *Draft Price Notification*, November 2024, p. 45.

Australia Post is now seeking to increase the prices of its reserved ordinary letter services. Australia Post considers that implementing the proposed price increase will contribute to achieving a pricing structure that better aligns stamp prices with Australia Post's efficient costs and enable it to reach a more financially sustainable position in its letter business.

The Government is also taking steps to reduce Australia Post's operating costs through changes to Australia Post's prescribed performance standards. These changes have allowed Australia Post to implement a New Delivery Model whereby non-priority reserved letters are delivered every second business day rather than every business day.

Australia Post's half-year 2024-25 financial results

In recent years, the profits earned in Australia Post's other services have not been high enough to cover the losses of the reserved services. As a result, Australia Post made successive overall enterprise level losses in the 2022–23 and 2023–24 financial years.[5]

However, Australia Post's recently released half-year 2025 financial results included an interim enterprise level profit of $249.1 million.[6] The ACCC notes that historical trend data indicates that Australia Post is likely to record a second half loss in 2024–2025. This means that while it is likely Australia Post will achieve an enterprise level profit for the full financial year, the profit will be less than its half-year results.

Although these enterprise level financial results are positive, Australia Post still recorded a half-year $83.7 million loss in its letters business. Based on forecasts updated from the half-year results, a material under-recovery on the provision of its reserved letter services is still expected for the full financial year 2024–25.

The effect on our assessment of these half-year financial results is outlined in Chapter 8.

The ACCC has assessed the price notification within the constraints of our regulatory role

When assessing a price notification, the ACCC must balance the interests of mail users with the financial sustainability of the basic postal service provided by Australia Post.

We take a cost-based approach to assessing a proposed price increase. That is, we assess the extent to which the prices proposed by Australia Post are commensurate with the efficient costs of providing those services. To do this, we examine Australia Post's costs in providing reserved services, its efficiency in incurring these costs, and its expected rate of return on its investment. We assess whether Australia Post is able to recover revenue from the reserved services sufficient to cover the efficient costs in providing them, without generating excessive profits.

The below steps describe this process for Australia Post:

- Step 1: Australia Post submits its current actual costs and cost forecasts.
- Step 2: We consider the efficiency of Australia Post's operations. Only efficient costs should be included in the revenue model.

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6 Australia Post, *Improved performance driven by record Peak and Post26 strategy, with challenging second half ahead*, 28 February 2025.

- Step 3: The ACCC uses a 'dual till' approach where we assess the efficient costs allocated to reserved letter services. We do not consider the costs allocated to non-reserved services in this assessment. We consider the efficient costs for the reserved letter services should exclude inefficient costs related to government policy constraints.
- Step 4: We compare the efficient costs for the reserved letter services with the revenue Australia Post is expected to earn from the reserved letter services.

In undertaking this review, the ACCC received Australia Post's current actual costs as well as its cost forecasts. These cost forecasts were estimated across several different scenarios reflecting changes to significant variables. The modelled scenarios demonstrated the effect these changes may have on Australia Post's forecast under-recovery for its reserved letters business.

In assessing Australia Post's efficiency, we have considered the Frontier Economics report, which tested Australia Post's expenditure and identified minimal inefficiencies. Holding all else equal, ACCC analysis based on the Frontier Economics report indicates a potential difference of around 1.2% (or approximately $17 million) between Australia Post's estimate of reserved services operating expenditure and efficient operating expenditure in 2025–26, in the context of reserved services operating expenditure of $1,479 million.

As identified in Step 3, the ACCC's preliminary view is that customers should only pay for the efficient costs of providing the reserved letter services. The ACCC does not consider it appropriate for expenditures to be treated as prudent or efficient only because they relate to achieving government policy imperatives. As such, to estimate efficient costs, Australia Post should typically identify and remove from its efficient cost base all costs that arise due to obligations imposed by policy constraints, such as its Statement of Expectations.

These costs have not been identified for this price notification process. However, we do not consider that including these cost savings would reduce Australia Post's forecast under-recovery to a degree that would influence our assessment of the proposed price increase.

For future price notifications, we would expect to receive an estimate of efficient reserved services operating expenditure and an estimate of the magnitude of costs faced by Australia Post due to its policy related obligations.

In undertaking our cost-based assessment, we have tested the sensitivity of changes to individual building blocks where appropriate and have also considered the cumulative effect of potential changes in actual outcomes when compared to regulatory estimates. In some instances, the different scenarios tested by the ACCC reduce the under-recovery of Australia Post's reserved letter services and bring it closer to a cost recovery position. This increases the importance of accuracy in Australia Post cost allocation methodology and the value in its transparency on this topic.

Overall, we have come to the preliminary view that Australia Post is not likely to recover revenue in excess of its costs for the reserved services for the period 2025–26 to 2027–28 even if the proposed price increase is implemented.

With that said, we acknowledge that the vast majority of consumers and businesses who responded to our consultation on the draft price notification were opposed to the proposed price increase.

As detailed in this report, consumers and businesses were particularly concerned about another material price increase coming after the 25% increase in stamp prices in April 2024.

Some stakeholders noted that this additional price increase would have to be passed on to their customers, while others noted it would likely affect the viability of their business.

While the ACCC has considered this feedback throughout our assessment process, we note the limitations of our regulatory role, with a cost-based approach being the primary metric for assessing price notifications for reserved services. Nevertheless, the ACCC considers Australia Post should explore ways to address the concerns identified by its customers, such as:

- methods to alleviate affordability issues for small to medium business customers impacted by price increases, as raised in our March 2024 decision
- methods to alleviate affordability issues for businesses and organisations subject to statutory requirements to send physical mail, and
- increasing the annual limit on concession stamps.

As noted above Australia Post's half-year financial results for 2024–25 suggest it may be moving toward a full year enterprise level profit for 2024–25, for the first time since 2021–22.

The ACCC also considers that this puts a greater responsibility on Australia Post to minimise the impacts of price increases on small and medium business and vulnerable consumers.

The ACCC's recommendations

In our March 2024 decision, we made several recommendations to Australia Post to improve its future price notifications. These included changes to Australia Post's financial modelling, improvements to its cost and demand forecasts, and the provision of further information to the ACCC to assist with its cost-based assessments.

The ACCC expected Australia Post to implement the recommendations before submitting its next draft price notification. We also stated that we would be concerned if Australia Post did not implement the recommendations and that we may not be in a position to not object to any future proposed price increase.[7]

In general, Australia Post has engaged constructively with the ACCC to progress implementation of the recommendations. Overall, the majority of recommendations have been implemented. Appendix B contains a summary table of our recommendations and Australia Post's response.

To continue enhancing the robustness of the economic regulation process, we have made further recommendations for Australia Post to implement. We expect Australia Post to continue improving the rigor of its cost allocation methodology, cost forecasting capabilities, and its information sharing practices. This is particularly important as Australia Post is forecast to earn an enterprise-level profit.

As noted in the recommendations in this preliminary view, the ACCC will require Australia Post to submit future draft price notifications and all supporting materials, including progress implementing our recommendations, as a package to ensure sufficient time for consultation and analysis to support our decision making.

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7 ACCC, *Decision on Australia Post price notification*, March 2024, pp. 3-4.

Process

Australia Post's reserved ordinary letter services are services that Australia Post has a statutory monopoly over and are declared as 'notified services' for the purposes of section 95X of Part VIIA of the *Competition and Consumer Act 2010* (CCA). The current declaration, the *Price Notification Declaration (Australia Post Letter Services) (No. 2) 2015* (the Declaration), expires on 30 June 2025.

Australia Post cannot increase the prices of reserved ordinary letter services without notifying the ACCC and the Minister for Communications of its intentions.

Australia Post's obligation to notify the ACCC relates only to its notified services. Australia Post is not required to notify the ACCC of a decision to increase the price of any service that is not a 'notified service', such as parcel services.

The ACCC must consider Australia Post's proposal to increase the price of the notified services and decide to:

- not object to the price increase, or
- not object to a price that is less than the proposed increase, or
- object to the price increase.

The decision set out in this ACCC preliminary view paper relates to Australia Post's draft price notification only. Following consultation on this preliminary view, we will invite Australia Post to submit a formal price notification.

Australia Post is not permitted to increase the price of the notified services until:

- 21 days have elapsed since the formal notification to the ACCC, or the ACCC has decided to not object to the proposed increase (or another lower proposed increase which Australia Post has agreed not to exceed), and
- 30 days have elapsed since the notification to the Minister, and the Minister does not disapprove the proposed increase.

Australia Post intends to implement the proposed price increase in mid–2025, subject to the ACCC's consultation on this preliminary view paper, Australia Post's formal notification of the price increase to the ACCC, and the Minister not disapproving the increase.

Constraints of the price notification framework

As explained in Chapter 9, the ACCC has identified constraints in the current price notification framework within which this cost-based assessment has been undertaken.

We note the statutory framework and criteria for assessing price notifications has remained broadly the same for over 40 years. The ACCC considers section 95G(7) of the CCA is no longer fit for purpose, nor is it reflective of the current and likely future pricing principles that should be applied to monopoly infrastructure under widely-accepted economic theory, and as seen in other regulatory settings.[8]

[8] See for example, the pricing principles contained in section 44ZZCA of the CCA or the revenue and pricing principles contained in section 7A of the *National Electricity (South Australia) Act 1996* and section 24 of the *National Gas (South Australia) Act 2008*.

Further, price notifications do not allow the ACCC to make binding decisions. This includes not having the ability to set a binding long-term price path or to build enduring, incentive-based regulatory frameworks. Lodgement of a price notification is the decision of the regulated firm, which can be ad hoc and create uncertainty for industry.

Additionally, the ACCC can only assess the notified goods or services, which does not necessarily represent the appropriate economic regulation of the full suite of services from the Government Business Enterprise or private monopoly.

The ACCC considers improvements to these aspects of the regulatory framework (which would require legislative amendment), as well as other procedural improvements, would likely see better outcomes for industry and consumers overall.

Findings and recommendations

Findings

The ACCC's preliminary view, based on the draft price notification, is that it proposes to not object to Australia Post's proposed price increase for its notified services.

In making this assessment, the ACCC has observed that:

- even with the proposed price increase, Australia Post is expected to under-recover on reserved letter services by 10% of its maximum allowable revenue, or approximately $148 million, in 2025–26
- Australia Post is expected to continue to under-recover its efficient costs for its reserved letter segment under scenarios where alternative values for key inputs, such as optimistic letter volumes, are adopted
- Australia Post's recently reported half-year results identified a loss on letters of $83.7 million, but suggest that it may make an enterprise level profit for this financial year, for the first time since 2021–22
- the number of new delivery addresses that Australia Post is expected to service continues to grow, while the volume of domestic addressed letters delivered by Australia Post continues to decline
- the unit cost of domestic reserved letters has continued to increase with the decline in volume and will continue to do so as letter volumes decline further
- while Australia Post has not improved its operating efficiency as much as the ACCC expected as a result of its New Delivery Model, it is becoming more efficient within the constraints of its operating environment
- Australia Post faces policy constraints that may mean it is less efficient than it otherwise could be. We recommend Australia Post quantify these inefficient costs in any future price notification
- while Australia Post's ordinary letter prices have increased significantly over the past decade, the proposed 2025–26 basic postage rate of $1.70 would be lower than the average among other OECD countries
- there is strong opposition to the proposed stamp price increase from stakeholders, with over 90% of respondents to the ACCC's survey on the draft price notification opposed
- small and medium businesses, along with entities that use the postal system to discharge legislative obligations, are likely to face challenges absorbing these costs and may pass them on to customers
- concessional stamp users raised concerns about the long-standing yearly cap on the number of concessional stamps.

Recommendations

We recommend that Australia Post continue to work towards implementing the March 2024 recommendations that have not been fully implemented. In addition, we recommend that Australia Post adjust its method for calculating the return on and return of capital, submit

future draft price notifications with all supporting materials in a timely manner, and increase the cap on concession stamps. In most cases, we expect Australia Post to implement these recommendations prior to submitting a future price notification. Further details on the required timing for these recommendations is set out in Chapter 10.

In summary, the ACCC recommends that in future price notifications:

- Australia Post provides improved forecast data, with particular regard to:
  - the provision of cost forecasts based on efficient costs
  - improving the transparency around any adjustments it makes to Diversified Specifics letter volume forecasts
  - the provision of forecast data which contains a decomposition of cost changes related to input price changes, volume changes, economies of scale, economies of scope, and any changes in the production process.
- Australia Post further improves its cost allocation model, with particular regard to:
  - a new delivery time standard update
  - short-run and long-run incremental costing of individual services and products
  - additional information regarding its ex-ante contractual transfer pricing arrangement with StarTrack.
- Australia Post to work with the ACCC to adjust its post tax revenue model (PTRM) regarding its treatment of the regulated asset base and depreciation for consistency with the approach used in previous price notifications.
- Australia Post submit future draft price notifications and all supporting materials as package to ensure sufficient time for consultation and analysis.
- Australia Post increase the cap on the number of concessional stamps available to eligible concession card holders.

We also strongly encourage Australia Post to engage with its stakeholders earlier and more thoroughly on potential pricing changes, and to continue to explore methods to ameliorate affordability issues identified for small to medium business customers under the proposed price increase.

1. Introduction

Key points

- Australia Post has lodged a draft price notification with the ACCC, proposing to increase the price of its reserved ordinary letters service.
- These services have been declared as a notified service, and the ACCC must consider the proposal when formally notified.
- This preliminary view sets out the ACCC's position on Australia Post's draft price notification, and invites submissions on this view.

Australia Post's draft price notification

In November 2024, Australia Post provided the ACCC with a draft price notification outlining a proposed 13.3% increase to the price of reserved ordinary letters delivered at the regular timetable, to take effect from mid–2025.

Australia Post's proposal would result in stamp price increases of:

- 20 cents, from $1.50 to $1.70, for ordinary small letters (the basic postage rate)
- 40 cents, from $3.00 to $3.40, for ordinary large letters up to 125 grams
- 60 cents, from $4.50 to $5.10, for ordinary large letters between 125 and 250 grams.

Australia Post's legislative obligations

Reserved and notified services

Under section 29 of the *Australian Postal Corporation Act 1989* (Cth) (the Postal Act), Australia Post has exclusive rights over the provision of 'reserved services' in Australia. These services include the domestic carriage of letters weighing no more than 250 grams and the issue of postage stamps.

The Declaration provides that, for the purposes of Part VIIA of the *Competition and Consumer Act 2010* (CCA), the provision of reserved letter services for ordinary letters are 'notified services' (the notified letter services).[9] This means that Australia Post cannot increase the price of its notified services without first notifying the ACCC of its intentions. The ACCC's role is to consider Australia Post's proposed price increase and decide to:

- not object to the price increase, or
- not object to a price increase that is less than the proposed increase, or
- object to the price increase.

[9] *Price Notification Declaration (Australia Post Letter Services) (No. 2) 2015*. Letter services which involve the supply by Australia Post of a special service for which a special charge or additional fee is payable (as described in the Price Notification Declaration) or letter services under an incoming overseas mail service to which a convention applies are not notified services.

The legislative framework and the ACCC's assessment approach is set out in further detail in Appendix A.

As set out in Table 1 below, Australia Post's notified letter services are a subset of Australia Post's broader reserved letter services monopoly. The notified letter service includes the domestic carriage of letters weighing no more than 250 grams, while the broader reserved letter service also includes small and large letters up to 250 grams which incorporate special services, such as seasonal greeting cards, and certain business letter services. Australia Post also provides non-reserved letter services, for which Australia Post does not have the exclusive right to carry. These include Express Post and Registered Post services.

Table 1: Categorisation of Australia Post product groups

Reserved letter services		**Non-reserved services**	
Declared (notified) letter services	**Other reserved letter services**	**Non-reserved letter services**	**Parcels and other non-reserved services**
Ordinary (stamped) letters ▪ Small letters (up to 250g) ▪ Large letters up to 125g ▪ Large letters over 125g up to 250g	Small and large letters up to 250g that incorporate a special service, including: ▪ Concession stamps ▪ Seasonal greeting cards ▪ Prepaid envelopes and cards Business letter services: ▪ Metered/Imprint ▪ PreSort (incl Charity Mail, Promo Post) ▪ Clean Mail ▪ Local Country ▪ Reply Paid ▪ Print Post ▪ Priority letters	▪ Letters (large ordinary and Print Post) over 250g ▪ Letters charged at more than four times the basic postage rate (e.g. Express Post, Registered Post) ▪ Unaddressed mail ▪ International outward letters ▪ International inward letters and packets up to 2kg	Parcel: ▪ Delivery of parcels ▪ Freight forwarding ▪ International parcels ▪ Courier Mail related products and services including: ▪ PO boxes ▪ Digital communications ▪ Sale of stationery and merchandise ▪ Financial and agency services

Only the notified letter services are subject to ACCC review when a price increase is proposed. However, when assessing the appropriateness of the proposed price increase for the notified letter services, the ACCC also considers the forecast costs and revenues of all reserved letter services.[10] This is necessary as the notified letter services share most of the same processing and delivery facilities as other reserved letter services. Consequently, Australia Post's cost recovery for the notified letter services is affected by the amount of shared and direct costs allocated across reserved services.

[10] Reserved services include all of Australia Post's statutory monopoly letter services under section 29 of the Postal Act, including business mail services that are not notified services but are provided at a discount to notified 'ordinary' letter services prices.

Consultation and review process

On 22 November 2024, the ACCC commenced an initial round of consultation on Australia Post's draft price notification. We published Australia Post's draft price notification and supporting materials on the ACCC website and conducted a public survey via the ACCC's Consultation Hub. Some stakeholders also contacted the ACCC directly to provide their written submission via email.

During the consultation period, the ACCC received 168 survey responses, as well as 7 responses submitted via email. A summary of the survey responses and the public versions of written submissions are available on the ACCC's website.[11]

Making submissions on this ACCC preliminary view

The ACCC encourages industry participants, stakeholders and the general public to make submissions on this ACCC preliminary view on Australia Post's draft price notification. The ACCC prefers to receive submissions in electronic form, either in PDF or Microsoft Word format. Any submissions made to the ACCC will be treated in accordance with the 'Confidentiality' section set out below.

Please email submissions by 5pm on 12 May 2025 to postalservices@accc.gov.au and copy to:

Kim Hollis
Director
Mobiles, Transmission and Consumer Branch
ACCC
kim.hollis@accc.gov.au

Confidentiality

The ACCC considers that it is necessary for the consultation process to be as public and transparent as possible. This is to enable effective participation by all stakeholders. Public consultation is particularly important in this regard given the potential impact on Australian consumers.

To foster an informed and consultative process, all submissions will be considered as public submissions and will be posted on the ACCC's website. If interested parties wish to make any claim of confidentiality over material provided to the ACCC during this consultation, they should follow the process below:

Please submit two versions of the submission:

(a) a **public** submission that can be published on the ACCC's website, in which all confidential material has been removed and replaced with 'c-i-c'. Please ensure that redacted information is not searchable or otherwise able to be viewed.

(b) a **confidential** version that clearly identifies the information over which confidentiality is claimed by bookending the confidential material with a marking of 'c-i-c'. Please also highlight for ease of reference the material over which confidentiality is claimed.

[11] ACCC, *Consultation on Australia Post's draft price notification*, November 2024, accessed 13 February 2025.

Information over which a party claims confidentiality must be limited to ensure full consultation on all relevant material. Please provide a supporting submission that specifically substantiates the confidentiality claim for each item of information over which confidentiality is claimed. Confidentiality claims need to detail why the information is competitively sensitive or otherwise confidential, or why disclosure of the information would be likely to cause significant commercial harm to the person to whom the information is confidential. 'Blanket' claims of confidentiality will not be accepted. The ACCC will notify parties of any additional information required to assess a confidentiality claim.

The ACCC will consider each claim of confidentiality on a case-by-case basis. Where the ACCC proposes to publish the information that is the subject of a confidentiality claim, it will provide a right to be heard and to amend or withdraw the information before proceeding to publication with redactions removed.

Where the ACCC proposes to not publish information the subject of a confidentiality claim and publishes a redacted submission, it may reconsider that claim at a future date if it becomes evident that the redacted information is important to the ACCC's consultation and needs to be tested with third parties. The ACCC will notify the relevant party and engage with them in relation to how this information can be disclosed.

The ACCC-AER information policy: the collection, use and disclosure of information sets out the general policy of the ACCC and the Australian Energy Regulator (AER) on the collection, use and disclosure of information.

Next steps

Subject to the outcomes of the consultation process on this preliminary view, we will liaise with Australia Post regarding the lodgement of a formal price notification. We will publish the ACCC's final decision within 21 days of Australia Post lodging a formal price notification. Our anticipated timeline is outlined in Table 2.

Table 2. Timeline for assessing Australia post's Price notification

Date	Event
April 2025	ACCC preliminary view on draft price notification released for consultation
May 2025	Consultation on ACCC preliminary view closes
May 2025	ACCC consideration of consultation responses
May 2025	Possible date for Australia Post to lodge formal price notification
June 2025	ACCC final decision

2. Australia Post's proposed price increase

Key points

- Australia Post proposes to increase the price for ordinary letters by increasing the basic postage rate by 20 cents, from $1.50 to $1.70, from mid–2025.
- Australia Post's draft price notification sets out its intention to increase the price of a range of other reserved letter services.
- The price of concession stamps and seasonal greeting card stamps will not increase.

Australia Post's proposal

Notified letter services

Australia Post proposes to increase the prices charged for its notified letter services delivered according to the regular timetable from mid–2025.[12] Table 3 summarises the proposed price changes for the affected letter services.

Table 3. Prices of ordinary letter services ($ nominal)

Letter service	Current price	Proposed price	Increase
Small letters	1.50	1.70	13.3%
Large letters up to 125 grams	3.00	3.40	13.3%
Large letters >125 grams <250 grams	4.50	5.10	13.3%

Source: Australia Post, *Draft price notification*, November 2024, p. 12.

The draft price notification also includes an indicative price path for future years, encompassing additional proposed increases to the basic postage rate of 15 cents in both mid–2026 and mid–2027, resulting in a 2027–28 basic postage rate of $2.00.

These future indicative price increases have been included to provide context regarding Australia Post's forecast cost and revenue data, but will not be assessed in this process.

Other reserved letter services

In its draft price notification, Australia Post outlined its intention to increase the prices for a range of its other reserved letter services from mid–2025. These are set out in Appendix 1 of Australia Post's draft price notification.

[12] Australia Post, *Draft price notification*, November 2024, p. 12.

Under section 29 of the Postal Act, these are services for which Australia Post holds an exclusive right to carry within Australia. Unlike ordinary stamped letters under 250 grams, these reserved letter services are not 'notified' under section 95X of the CCA and are thus not subject to the ACCC's price notification decision. However, as part of the assessment process, the ACCC considers the costs and revenues related to all reserved letter products in order to estimate Australia Post's level of cost recovery for reserved letter services as a whole.

Australia Post does not propose to increase the prices of its concession stamps, which are currently priced at $3.00 for a booklet of 5, equating to 60 cents per stamp. Eligible customers with a free MyPost Concession account are able to purchase up to 50 concession stamps per year.[13]

Australia Post also intends to maintain the current price of 65 cents for its seasonal greeting card stamps. The price of concession stamps and seasonal greeting card stamps have remained unchanged by Australia Post since their introduction in 2014.[14]

Priority labels

Australia Post also intends to increase the price of its priority label product by 30 cents, from $0.70 to $1.00, from mid–2025. Combined with the proposed regular stamp price increase, priority ordinary small letters are proposed to increase by 50 cents, from $2.20 to $2.70.[15]

During previous price notification processes, and in accordance with the Declaration, the ACCC was required to assess priority letters as a notified service if Australia Post supplied the priority service at a rate exceeding 150% of the ordinary rate. Australia Post's proposed mid–2025 price of $2.70 for a priority ordinary small letter would amount to a rate 159% of the proposed ordinary small letter price of $1.70.

However, recent amendments to the *Australian Postal Corporation (Performance Standards) Regulations 2019* (Postal Regulations) have had the effect of removing priority letters as a notified service under the Declaration (see Appendix A). Accordingly, the ACCC will not be making a decision on Australia Post's proposed pricing changes for priority letters as part of the forthcoming price notification decision.

Context for the proposed price increase

Modernisation review

In 2023, the Department of Infrastructure, Transport, Regional Development, Communications and the Arts undertook a review into postal services modernisation.[16] On 6 December 2023, the Australian Government announced the initial outcomes of its Postal Services Modernisation Review, which included:

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13 Australia Post, *Concession stamps – conditions of use*, n.d., accessed 22 November 2024.

14 Australia Post, *Proposed stamp price increase as letters losses mount* [media release], Australia Post, 22 November 2024, accessed 22 November 2024.

15 To send a letter as priority, a priority label must be affixed to the letter. An ordinary letter with a priority label becomes a priority letter. More information on priority labels is available on the Australia Post website.

16 Department of Infrastructure, Transport, Regional Development, Communications, and the Arts, *Postal Services Modernisation*, 2023, accessed 23 January 2025.

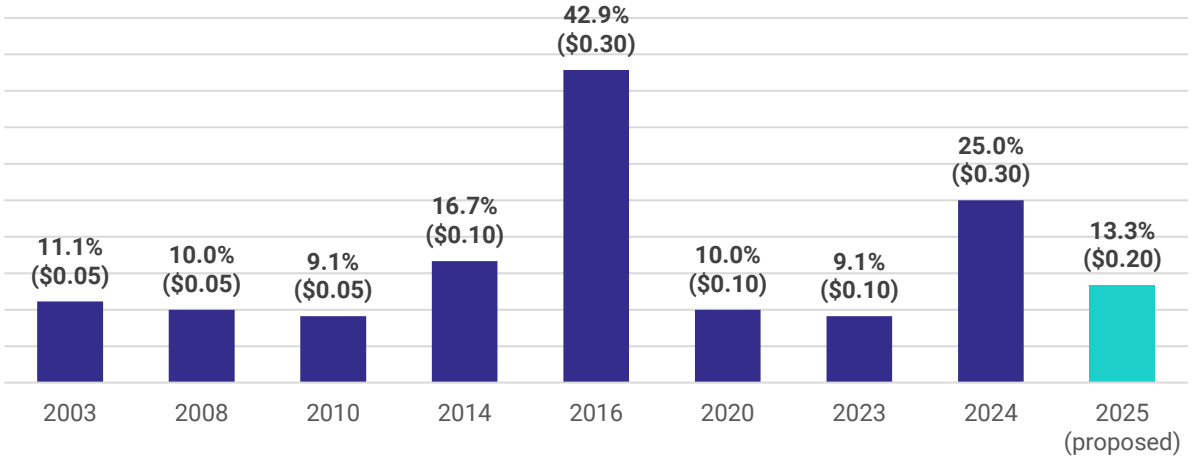
- reducing letter delivery frequency to every-second business-day for 98% of locations, with delivery rounds divided into 'heavy' (all items) and 'light' (parcels and priority mail) sections
- extending the regular delivery timetable by one business day for all locations across Australia
- changing priority mail regulations to allow Australia Post to charge a more commercial rate for its priority service
- updating the geographic classification assigned to Australia Post retail outlets, while maintaining minimum post office requirements (4,000 total and 2,500 in rural or remote areas)
- developing a pricing mechanism that will give Australia Post and its customers more certainty, in the form of a longer-term price path for basic postage.[17]

Amendments to the Postal Regulations to facilitate these changes (except for the price path mechanism) took effect from 15 April 2024.

Previous price increases

Figure 1 shows Australia Post's increases to the basic postage rate since 2003. The proposed 2025–26 basic postage rate increase from $1.50 to $1.70 would be the third increase in 4 financial years, which is a 55% increase from the 2021–22 rate of $1.10.

Figure 1. Basic postage rate increases since 2003 (% change from previous rate, nominal)



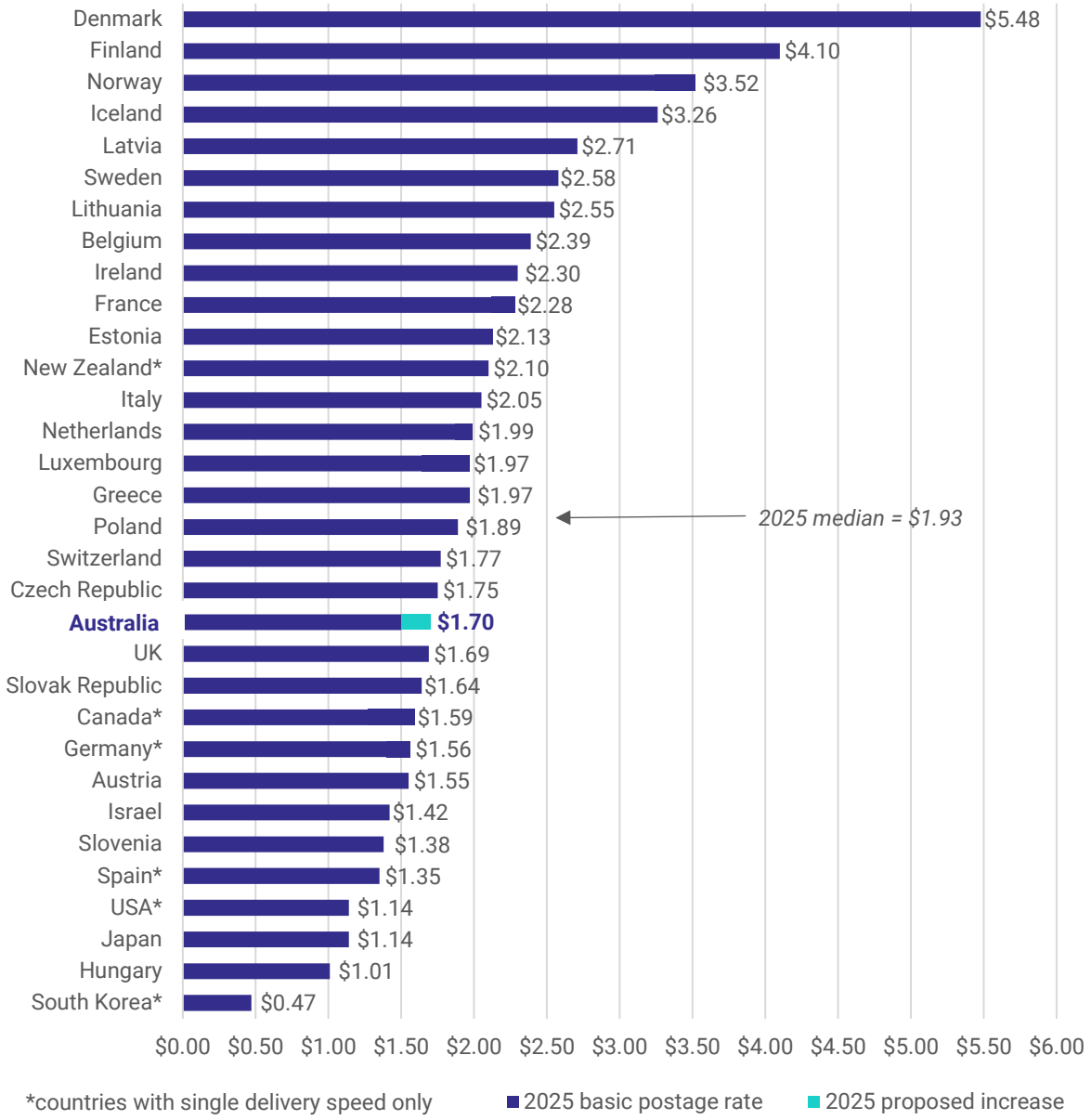
Source: *Australia Post price notifications* 2002–2024.

Price increase in an international context

Figure 2 shows that Australia's Post's proposed 2025–26 basic postage rate of $1.70 would be lower than the average among other OECD countries. The proposed rate of $1.70 would rank 13th most affordable of the 32 OECD countries for which data was available. The proposed rate of $1.70 would be below the average price for OECD basic postage of $2.08 for 2025, as well as the 10% trimmed mean of $1.95 (which excludes the 10% highest and lowest postage rates in these countries).

[17] Department of Infrastructure, Transport, Regional Development, Communications, and the Arts, *Australia Post*, accessed 23 January 2025.

Figure 2. Basic postage rates in OECD countries for 2025 ($AUD, nominal)



Sources: Respective operator and regulator websites, media releases, annual reports.

Notes: For the purposes of the chart, basic postage rate refers to the base price of the cheapest available domestic letter product sent at the regular (non-priority, if applicable) timetable. Prices listed are for unregistered single stamped letters delivered to the recipient's home address. The ordinary letter products offered vary between countries in terms of other characteristics such as maximum weight, dimensions and delivery speed, and thus this price data should be treated as an indicative guide only. The chart compares OECD nations with publicly available pricing information at the time of writing. Prices accurate as of 6 December 2024 and include all publicly reported price increases for 2025. Local prices have been converted into $AUD using currency exchange rates published by the Reserve Bank of Australia as of 6 December 2024. Prices listed are nominal.

Australia Post's cumulative stamp price growth

Australia Post's primary justification for recent price increases – a significant and ongoing decline in letter volumes – is a trend common among other developed nations over the past

10 to 15 years. According to the European Commission, average annual letter volumes across European countries declined by 47% between 2012 and 2022.[18]

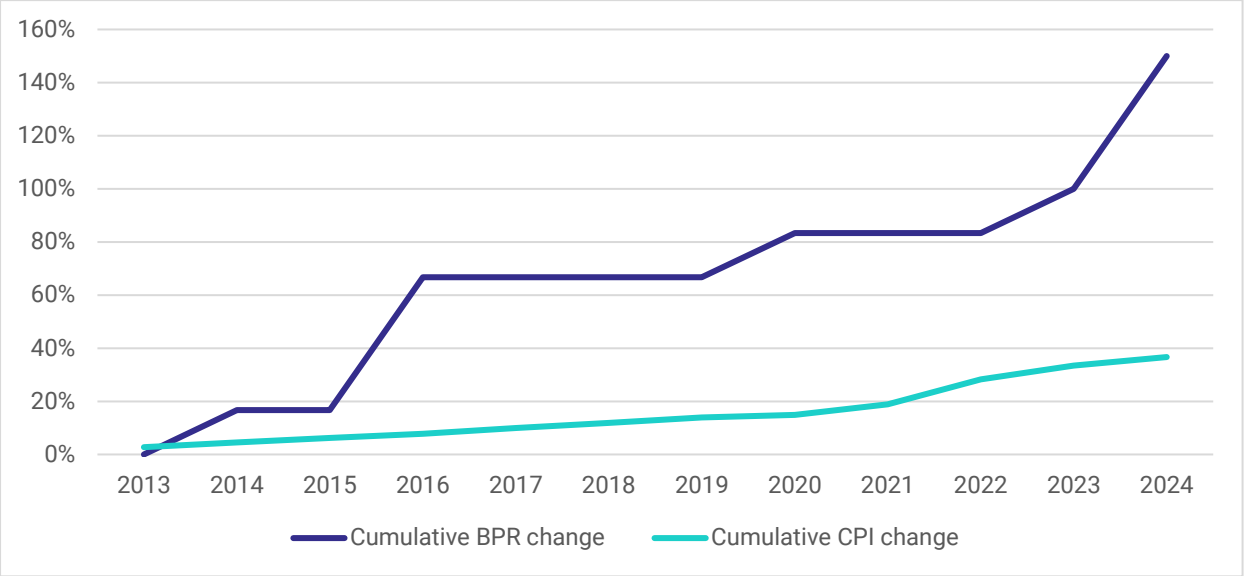
This has led to significant cumulative price growth for basic postage in many countries over recent years. Since we published our preliminary view on Australia Post's 2023 price increase, the following countries have increased the price of their basic postage rates: Belgium, Canada, Czech Republic, Denmark, Finland, France, Ireland, Japan, Netherlands, New Zealand, Switzerland, the United Kingdom, and the United States of America.

Australia's basic postage rate (including the proposed 2025 increase) has grown by 183% since 2013. While Australia's stamp price growth for this period appears relatively high, this level of growth has occurred off a comparatively low base price.

Broader economic environment

Australia Post's proposed price increase comes amid a range of cost-of-living pressures for consumers. Over the 12 months to December 2024 as a reference period, the Consumer Price Index (CPI) as tracked by the Australian Bureau of Statistics (which measures household inflation) rose 2.4%.[19] The proposed 13.3% stamp price increase in mid–2025, coming on top of a 25% increase in April 2024, is well above this average growth in consumer costs. As shown in Figure 3, basic postage rate growth has also outpaced inflation significantly over the past decade.

Figure 3. Cumulative percentage change to Basic Postage Rate (BPR) and Consumer Price Index (CPI) – December 2013 to December 2024



Sources: *Australia Post price notifications* 2014–2023; Australian Bureau of Statistics, *Consumer Price Index, Australia*.

Note: Figures based on December quarter for given year.

[18] European Commission, *Domestic letter mail services, total volumes* [data set], webgate.ec.europa.eu, 2022, accessed 12 December 2024.

[19] Australian Bureau of Statistics, *Consumer Price Index, Australia*, accessed 12 February 2025.

While postal services account for a small share of the goods and services that make up the CPI basket[20] and are often considered a small expense on an annual basis, in light of the current economic climate, we have considered the affordability impacts of the proposed price increase on consumers and small businesses in Chapter 3.

[20] Postal services account for 0.12% of the 'all group' CPI basket. Australian Bureau of Statistics, *Annual weight update of the CPI and Living Cost Indexes*, April 2024, accessed 12 February 2025.

3. Consumer and business impacts

Key points

- We consulted on Australia Post's draft price notification in late 2024 and received 175 responses in total.
- The majority of individual respondents (120 out of 132, or 91%) were either somewhat or strongly opposed to the proposed price increase.
- A similar proportion of business respondents (38 out of 43, or 88%) were also either somewhat or strongly opposed to the proposed increases.

Draft price notification

Consumer impacts

In its draft price notification, Australia Post estimates that the impact of the proposed 20 cent stamp price increase for the average household will be $1.20 per year.[21] This estimate is based on October 2023 research conducted by Australia Post indicating that the average adult household purchases approximately 6 ordinary stamps per year.[22]

The November 2024 Australia Post study found that of the 42% of adult respondents who did purchase stamps at the basic postage rate, an average of 7.2 stamps were purchased per person, per year.[23] This is a significant decline from the results of a 2022 KPMG study commissioned by Australia Post, which reported that 57% of respondents at the time sent letters at an average of approximately 15 letters per year.[24]

Australia Post also provided the results of a recent survey which showed that 31% of household consumers would send fewer letters and cards following the proposed 20 cent increase to the basic postage rate.[25]

Business impacts

In its draft price notification, Australia Post provided a forecast for how the proposed price increase would impact small to medium businesses with an annual postal spend of up to

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21 Australia Post, *Draft Price Notification*, November 2024, p. 5.

22 Australia Post, *Stamp Purchasing and Letter Sending – Understanding stamp purchasing and letter sending habits*, October 2023.

23 Australia Post, *Stamp Purchasing and Letter Sending – Understanding stamp purchasing and letter sending habits*, November 2024.

24 KMPG, *Community Sentiment Research - Exploring reactions to a potential stamp price increase*, July 2022, p. 8, accessed 10 January 2025.

25 Australia Post, *Stamp Prices: Understanding the impact on letter/card sending of a potential stamp price increase*, November 2024, p. 3.

$50,000. Australia Post grouped these business customers into annual spending tiers to estimate the following bracketed cost impacts:

- 79% of small to medium business customers (spending up to $1,000 per year) would incur an average annual impact of $25
- 14% of small to medium business customers (spending from $1,001 up to $5,000 per year) would incur an average annual impact of $393
- 7% of small to medium business customers (spending from $5,001 up to $50,000 per year) would incur an average annual impact of $2,361.[26]

While we understand the number of small to medium businesses spending over $50,000 with Australia Post to be relatively small, the above breakdown does not include this segment of businesses. For reference, a hypothetical business spending $60,000 per year solely on small ordinary letters would incur an annual increased cost of $8,000.

Facing the additional expenses outlined above, some small to medium businesses may elect to use electronic forms of communication instead of post, as indicated by a number of business respondents to the ACCC's Consultation Hub survey. Australia Post's recent survey on the impacts of potential stamp price increases also suggested that 23% of businesses would send fewer letters following the proposed mid–2025 increase.[27]

Submissions received

Survey responses

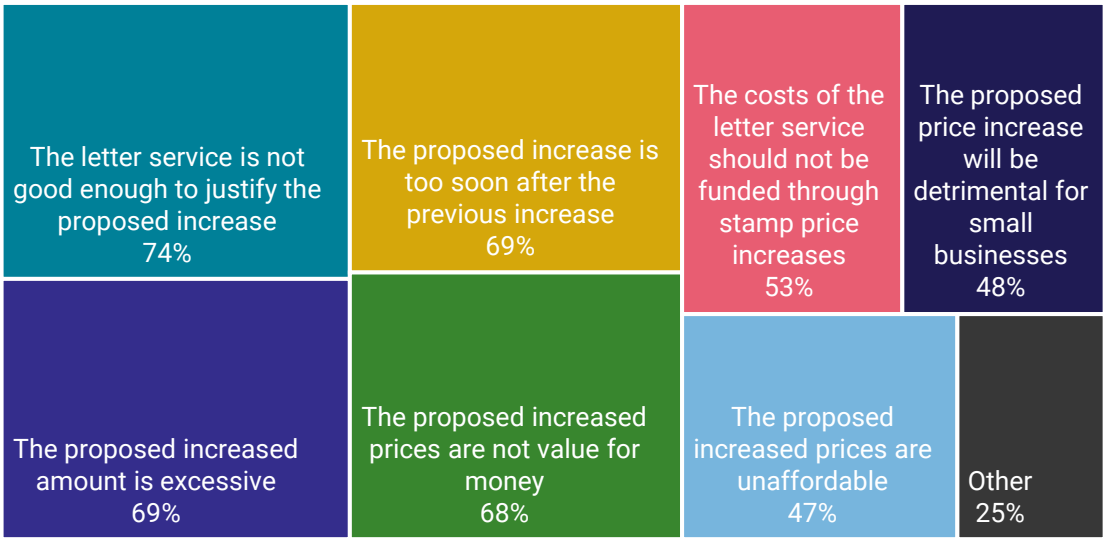
Individual respondents

Of the 168 responses received as part of the ACCC's Consultation Hub survey on Australia Post's draft price notification, 129 (77%) were made by individual consumers. The majority of individual respondents (118, or 91%) were either somewhat or strongly opposed to the proposed stamp price increase.

[26] Australia Post, *Draft Price Notification*, November 2024, p. 42.

[27] Australia Post, *Stamp Prices: Understanding the impact on letter/card sending of a potential stamp price increase*, November 2024, p. 4.

Figure 4. Reasons for opposition to proposed stamp price increase – individual respondents



The most common reason individual respondents provided for their opposition to the increase was that the letter service is not good enough to justify the proposed increase. The next most common reason given for individual opposition to the price increase was that the proposed magnitude of the increase is excessive. Below are some examples of respondent comments expressing dissatisfaction with the relationship between stamp prices and Australia Post's service standards.[28]

Why should we be subjected to increased rates if the service itself is decreased in quality?[29]

…This is on top of decreasing the frequency of delivery, so they're expecting us to pay more for a worse service.[30]

AP continuous price rises have corresponded with significantly reduced service.[31]

Australia Post should be expected to offer a reliable and efficient service before they be allowed to increase their prices.[32]

Survey respondents were also asked if they expect the number of letters they send to increase or decrease over the next 12 months. Of the 129 individual respondents, 60% expected their letter sending to decrease during the following year, with 78% of these

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28 The ACCC notes that Australia Post is required to meet performance standards prescribed by the *Australian Postal Corporation (Performance Standards) Regulations 2019*, which are made under section 28C of the *Australian Postal Corporation Act 1989*. Its compliance with these standards is audited annually by the Australian National Audit Office. The Auditor-General's Report on Australia Post's performance in 2023–24 can be found at Page 163 of Australia Post's Annual Report 2024. Australia Post's explanation for not meeting the performance standards identified in the Auditor General's report can be found at page 161 of its Annual Report 2024.

29 ACCC, *ACCC Consultation Hub survey – Australia Post proposed stamp price increase – Public summary of responses* (Public summary of responses)(respondent 160), January 2025, p. 35.

30 ACCC, *Public summary of responses* (respondent 61), January 2025, p. 17.

31 ACCC, *Public summary of responses* (respondent 12), January 2025, p. 3.

32 ACCC, *Public summary of responses* (respondent 90), January 2025, p. 26.

respondents citing the proposed stamp price increase as a main reason for sending fewer letters.[33]

The ACCC's consultation survey found that the median consumer respondent sent between 21 and 50 letters over the previous 12 months. This result is caveated by the fact that respondents to this survey were not a representative sample of the population and may have skewed towards consumers who send more letters than the average.[34]

While Australia Post's November 2024 study suggests that the impact of the proposed price rise would be small for the average consumer, 43% of consumer respondents to the ACCC's survey characterised the proposed price increase as unaffordable.[35] Many respondents were concerned about the increased cost of stamps in the context of current cost of living pressures, and the impact for those on lower incomes.

Some respondents to the ACCC's consultation survey also highlighted the potential non-financial impacts of higher stamp prices. These respondents cited concerns about the impact on connectivity for individuals lacking in digital communication options, or those living in remote locations underserved by telecommunications networks.

> *Increasing stamp prices only hurts people that can't afford it like the elderly who don't use technology like email.*[36]
>
> *Not everyone wants the impersonal electronic way of communicating, and many don't have computers and aren't able to afford internet costs.*[37]
>
> *Rural and regional people sometimes have no other way of receiving information. Particularly if their internet is woeful, which it often is.*[38]

As illustrated below, some respondents to the ACCC's consultation survey expressed concerns about the availability and limitations of Australia Post's concessional pricing – particularly the cap of 50 concession stamps per person each year. Of the survey respondents over the age of 50, 41% reported sending more than 50 letters over the prior 12 months.[39] Additionally, of the 26 concession card holders who responded to our survey, 91% were either strongly opposed or somewhat opposed to the proposed stamp price increase.[40] The proposed stamp price increase will affect concession card holders for each additional letter sent over 50 letters.

> *As it is getting harder and harder to keep up with the general cost of living…they should at least accept the fact that there are a lot of people who do not do stuff electronically and give any pension card holder who is a postal concession card holder at least double if not triple the amount of concession stamps allowed each year.*[41]

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33 ACCC, *Consultation on Australia Post draft price notification*, January 2025, accessed 17 January 2025.

34 ACCC, *Consultation on Australia Post draft price notification*, January 2025, accessed 17 January 2025.

35 ACCC, *Consultation on Australia Post draft price notification*, January 2025, accessed 17 January 2025.

36 ACCC, *Public summary of responses* (respondent 8), January 2025, p. 2.

37 ACCC, *Public summary of responses* (respondent 10), January 2025, p. 2.

38 ACCC, *Public summary of responses* (respondent 161), January 2025, p. 35.

39 ACCC, *Consultation on Australia Post draft price notification*, January 2025, accessed 17 January 2025.

40 ACCC, *Consultation on Australia Post draft price notification*, January 2025, accessed 17 January 2025.

41 ACCC, *Public summary of responses* (respondent 35), January 2025, p. 10.

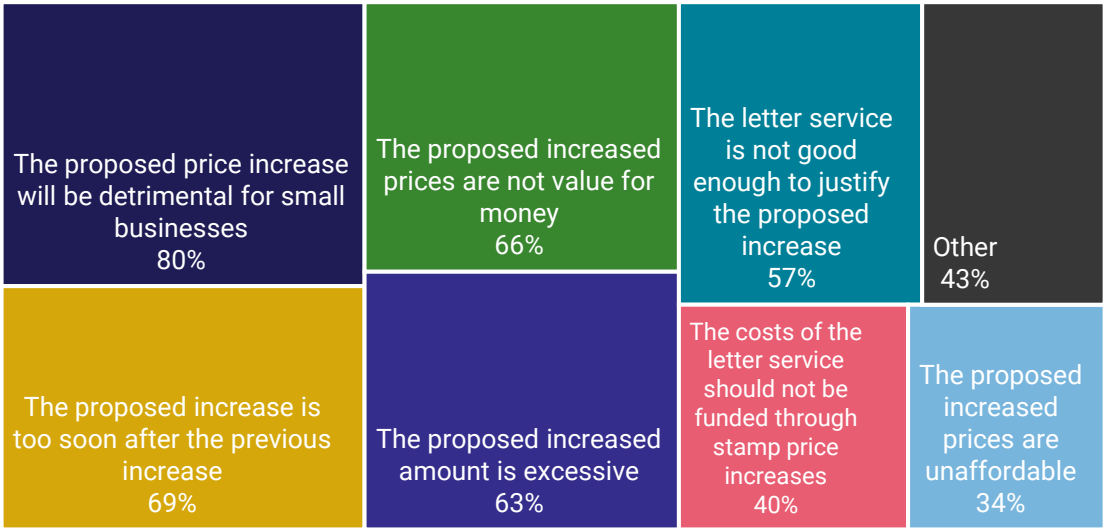
I get 10 stamps per year at 60c. No other products or services are discounted so that retired and elderly people can afford them.[42]

Of the 129 individuals responding to the ACCC's Consultation Hub survey, 9 respondents (7%) supported the proposed price increase. The most common reasons individual respondents provided for supporting the increase were that the proposed increase is reasonable (89%), affordable (44%) and represents value for money (33%).

Small and medium sized business respondents

Of the 168 responses received as part of the ACCC's Consultation Hub survey on Australia Post's draft price notification, 39 (23%) were made by representatives of businesses. The majority of business respondents (35, or 90%) were either somewhat or strongly opposed to the proposed stamp price increase.

Figure 5. Reasons for opposition to proposed stamp price increase – business respondents



The most common reason business respondents provided for their opposition to the increase was that the proposed prices would be detrimental for small businesses. As demonstrated by the examples below, respondents argued that many small businesses are unable to absorb postal price increases and would need to pass these costs on to customers.

Following the last price hike, I observed a noticeable decrease in product sales…Many customers now seek alternatives from international suppliers, where shipping rates are lower and the overall costs are more appealing. Another postage increase would place an even greater strain on my ability to operate competitively.[43]

[A] small business who cannot afford to absorb these unreasonable increases but relies on this service will suffer significantly as it will have a flow on effect to their customer[s] and cause a decrease in sales due to the postage cost they would have to charge.[44]

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42 ACCC, *Public summary of responses* (respondent 18), January 2025, p. 5.

43 ACCC, *Public summary of responses* (respondent 7), January 2025, p. 2.

44 ACCC, *Public summary of responses* (respondent 41), January 2025, p. 11.

With the cost of living and inflation it is hard enough to compete selling products via an online platform. To aim to keep costs low we offer free postage on some of our items, but we cannot sustain this if another increase is put through.[45]

Business has greatly decreased over the last 12 months due to postage increases. Customers state they cannot afford the postage now.[46]

It is unacceptable for small businesses to have to continually deal with such large increases on a service that we rely on heavily.[47]

Business respondents to the survey also felt that the proposed mid–2025 stamp price increase would be too soon after the previous April 2024 increase, that the proposed increased prices do not represent value for money, and that the magnitude of the proposed increase is excessive. In addition, some small to medium businesses may elect to use electronic forms of communication instead of post due to the increasing postage costs.

Of the 39 representatives of businesses responding to the ACCC's Consultation Hub survey on Australia Post's draft price notification, 2 respondents (5%) supported the proposed price increase. These respondents regarded the proposed stamp price increase as reasonable and affordable, and stated that the resulting increased revenue would assist the financial sustainability of Licensed Post Office businesses.

Written submissions

In addition to the survey responses, the ACCC received 9 written submissions, 6 of which were from businesses, public organisations or industry groups. In total, 6 written submissions were opposed to the proposed price increase, 2 were in support and one neither supported nor opposed the price increase.

As shown in the examples below, some of these businesses raised similar concerns to survey respondents regarding the magnitude of the proposed increase and the impact on businesses and customers.

Any postage price increase above CPI will have a direct impact on our price submission as these costs are passed onto customers and can significantly impact their ability to pay.[48]

The proposed price increases in the notification are significant and excessive. They reflect AP's position to substantially influence the market for postal services and it taking advantage of that power through significant price increases rather than engage in reasonable commercial conduct.[49]

AP's previous cost increase in 2024 has already had a significant and adverse impact on Are Media's operations. It contributed to Are Media having to close 9% of its print titles due

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45 ACCC, *Public summary of responses* (respondent 50), January 2025, p. 13.

46 ACCC, *Public summary of responses* (respondent 157), January 2025, p. 33.

47 ACCC, *Public summary of responses* (respondent 85), January 2025, p. 24.

48 Sydney Water, *Sydney Water submission to ACCC's consultation on Australia Post's draft price notification*, (Sydney Water submission), December 2024, p. 2.

49 Are Media, *Are Media submission to ACCC's consultation on Australia Post's draft price notification*, (Are Media submission), December 2024, p. 3.

to them no longer being economically viable. These closures led [to] a number of Are Media staff losing their jobs.[50]

Some businesses responding to the survey also highlighted that they will be subject to significant impacts from the proposed price increase, due to the fact that they are unable to switch from mail to alternative forms of communication. Such organisations may include electoral commissions (which are subject to statutory obligations to send letters) and utility companies (which must send physical mail to customers on request).

There were also several business respondents which raised concerns about Australia Post's level of transparency and customer engagement regarding the proposed price changes. These respondents noted that a greater commitment to consultation by Australia Post would allow them to better prepare their businesses and customers for any potential price increase.

There was no customer consultation with Sydney Water (a large organisation) ahead of Australia Post's submission to the ACCC. We believe it is essential to seek feedback on customers' willingness to pay and the service standards expected with these increases.[51]

Are Media considers that AP should provide at least 12 months' notice in advance of any proposed price increases.[52]

Submissions provided by parcel and express delivery industry groups also raised concerns regarding Australia Post's cost transparency and cost allocation between the reserved and non-reserved segments of its business. The submissions argued that stamp price increases may be exacerbating competitive distortions in the parcels market. These issues are referenced in Chapter 9 of this report.

The submission made by Post Office Agents Association Limited (POAAL) argued that the proposed price increase would help support the viability of Licensed Post Office branches. However, POAAL also raised concerns from its Licensees about how the proposed stamp price increase would affect their business.

… the BPR increase may accelerate the decline stamp purchases at LPOs. A continuing decline in stamp sales means reduced income to the Licensees and can have an impact on the viability of the business and its ability to provide postal services to the local community.[53]

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50 Are Media, *Are Media submission*, December 2024, p. 9.

51 Sydney Water, *Sydney Water submission*, December 2024, p. 1.

52 Are Media, *Are Media submission*, December 2024, p. 4.

53 Post Office Agents Association Limited, *POAAL submission to ACCC's consultation on Australia Post's draft price notification,* (POAAL submission), December 2024, p. 3.

ACCC preliminary view

The proposed price increase will impact different consumers by varying amounts

Australia Post's proposed stamp price increase is likely to affect consumers differently, depending on the number, size and type of letters they send.

While Australia Post's November 2024 research indicated the price rise for an ordinary small letter would have an average annual impact of $1.20 on households, we note that there are some consumers who send significantly more mail than the average and would thus be impacted to a much higher degree. Further, the average annual impact calculated by Australia Post would be greater for consumers who also send larger letters. For example, a household sending 15 large letters up to 125 grams would incur an additional cost of $2.40 per year, while a household sending 15 large letters between 125 and 250 grams would have to pay $3.60 extra per year.

Affordability issues for older Australians and concession card holders are somewhat ameliorated by Australia Post's retention of current concession and seasonal greeting card prices. These are set to remain at $3 for a booklet of 5 concession stamps (equating to 60 cents per stamp), and 65 cents for seasonal greeting card stamps. However, some respondents to the ACCC's consultation survey noted that they send more than the allotted 50 concession stamps per year, and we acknowledge that such concession card holders will be impacted by the proposed price increase for additional letters sent. As suggested by some survey respondents, the ACCC considers Australia Post should explore increasing the annual limit on concession stamps in order to provide price relief for customers on limited or fixed incomes. The ACCC notes that the number of concession stamps available to eligible customers each year has not changed since 2014 when the stamp price rose from 60 cents to 70 cents and concession stamps first became available. Stakeholders raised concerns regarding the cap on concession stamps during the ACCC's consultation on Australia Post's draft price notifications in 2022, 2023 and 2024. We consider that Australia Post should increase the cap on concession stamps in response to stakeholder concerns.

Consumers could also see increased direct and indirect costs of receiving mail. For instance, the increased cost of postage may be passed on to consumers who elect to receive utility bills by mail rather than by email. More broadly, for mail that consumers cannot opt out of (for example, electoral commission mail) the higher cost of postage may be borne by consumers through the additional costs of delivering public services.[54]

Ordinary letter prices may present challenges for some small and medium businesses

A 2022 KPMG study commissioned by Australia Post found that the average small business sent 68 letters per year at the time.[55] At this level of volume, the proposed 20 cent stamp price increase would have an average annual impact of $13.60 on small businesses sending

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[54] For example, increased rates for rate payers. See the Electoral Commission of Queensland, *ECQ submission to ACCC's consultation on Australia Post's draft price notification*, (ECQ submission), December 2024, p. 2.

[55] KMPG, *Community Sentiment Research - Exploring reactions to a potential stamp price increase*, July 2022, p. 8, accessed 10 January 2025. No updated research on the number of letters sent by small business could be provided by Australia Post.

only small letters. For a business sending 68 large letters up to 125 grams the annual impact would be $27.20, while a business sending 68 large letters between 125 and 250 grams would have to pay an extra $40.80 per year. Importantly, an average small business sending 68 letters per year would not be eligible to access Australia Post's bulk business rates, which are only available for businesses sending at least 300 letters at a time.[56]

While the ACCC's pricing oversight role only extends to ordinary letters, Australia Post generally increases the prices of its other business products alongside adjustments to the basic postage rate. As such, we acknowledge that Australia Post's mid–2025 suite of proposed price increases will have a greater impact on businesses than just those being considered within our assessment and decision framework.

We also recognise that there are many small businesses that are reliant on sending physical letters in order to operate – for instance, businesses which sell paper-based or small items which meet the weight and dimension restrictions of Australia Post's ordinary letter categories. Furthermore, there are a range of businesses and public organisations which are subject to statutory obligations to send certain correspondence via physical mail. These businesses and organisations may not have the option to choose alternative forms of communication, and thus would have no recourse to alleviate the cost impacts of the proposed stamp price increase.

As part of its draft price notification, Australia Post has proposed to increase the price of its reserved priority label product by 30 cents, from $0.70 to $1.00. Combined with the proposed regular stamp price increase, priority ordinary small letters are proposed to increase by 50 cents, from $2.20 to $2.70. For businesses which send a high volume of mail using the priority service, the price impacts of the proposed changes will be higher than for those which send letters primarily at the regular timetable.

As part of the ACCC's price oversight role, we are subject to a Ministerial direction to give special consideration to section 27(4) of the Postal Act, which requires that Australia Post ensures the letter service is reasonably accessible to all people in Australia on an equitable basis, wherever they reside or carry on business. In the context of this direction, we highlight that the proposed price increase may disproportionately affect Australia Post's small to medium business customers spending over $1,000 per year who will be subject to an average annual impact of $393 to $2,361 (or more) as a result of the increase – particularly those who are not able to resort to electronic communication as an alternative to post.

In our January 2024 preliminary view paper, we suggested Australia Post should explore methods to ameliorate affordability issues for this segment of its small to medium business customers.[57] In response, Australia Post has maintained that its current approach to pricing provides incentives for businesses to prepare and lodge pre-sorted mail, and that the associated discounts for sending bulk business mail are appropriate.

Australia Post should undertake meaningful engagement and consultation

The ACCC strongly encourages Australia Post to engage with its stakeholders earlier and more thoroughly. The ACCC notes that Australia Post's Statement of Expectations states:

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56 Australia Post, *Bulk Mail Options*, n.d., accessed 13 January 2025.

57 ACCC, *ACCC view on Australia Post's draft price notification*, January 2024, pp. 23–24.

If Australia Post makes decisions that it anticipates will materially impact the community or its customers, the Government expects that Australia Post will notify affected parties in a timely manner and, where practical, undertake meaningful engagement or consultation.[58]

In its draft price notification, Australia Post noted that it was committed to hearing from its stakeholders on the proposed price increase, and that it would undertake a customer survey in October 2024. Australia Post wrote that a revised chapter on the impact on customers would be provided to the ACCC when the survey results became available.

Instead of a revised chapter, Australia Post provided the ACCC with a public document containing the results from its survey on a range of potential stamp price increases, which sampled approximately 2000 household consumers and 700 businesses.[59] We note that the businesses sampled were not from Australia Post's customer lists, which may have affected the quality of the sampling given 30% of the businesses surveyed responded that they do not usually send letters or cards.[60] We also note that Australia Post's survey related only to the impacts of potential stamp price increases on letter volume demand, and not also on the actual impacts of higher letter costs on consumers and businesses.

Some stakeholder submissions also raised concerns about the timing of the proposed price increase. [61] The ACCC considers that improved consultation from Australia Post and a longer notification period for proposed price increases would be helpful for these customers.

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58 Department of Infrastructure, Transport, Regional Development, Communications and the Arts, *Statement of Expectations for Australia Post*, July 2024, p. 4, accessed 30 January 2025.

59 Australia Post, *Stamp Prices: Understanding the impact on letter/card sending of a potential stamp price increase*, November 2024.

60 Australia Post, *Stamp Prices: Understanding the impact on letter/card sending of a potential stamp price increase*, November 2024, p. 4.

61 Are Media, *Are Media submission to ACCC's consultation on Australia Post's draft price notification*, December 2024, p. 9; Sydney Water, *Sydney Water submission to ACCC's consultation on Australia Post's draft price notification*, December 2024, p. 2.

4. Letter volumes

Key points

- Letter volumes in Australia have been declining for several years, driven by the shift to digital methods of communication and away from traditional letters.
- Australia Post's draft price notification forecasts a further decline in reserved letter volumes of 36% between 2023–24 and 2027–28.
- Australia Post has engaged a consultant, Diversified Specifics, to perform econometric modelling to inform Australia Post's letter volume forecasts. The ACCC has carefully considered this work, and its preliminary view is that it is satisfied that Australia Post's forecasts are appropriate for this price notification.

Australia Post's letter volume demand forecasts are used by Australia Post to estimate a proposed price increase which will achieve sufficient revenue to recover efficient costs, without providing excessive returns. We assess these demand forecasts as the volume of letters sent is directly related to Australia Post's estimated future revenue and operational costs.

Draft price notification

In the draft price notification, Australia Post has noted that letter volumes have been declining in Australia and internationally for several years. This has largely been driven by e-substitution, which has resulted in a migration away from traditional letters to digital communication platforms. Australia Post expects that this trend of declining letter volumes will continue for the duration of the assessment period of this draft price notification.

In its 2023 draft price notification,[62] Australia Post expressed its intention to develop a longer-term price path for stamp price increases. The ACCC recommended this price path be included in future price notifications, with clearly identified impacts on demand, revenue and cost forecasts. This information would allow the ACCC to conduct sensitivity testing, with and without each of the proposed price increases, and provides greater transparency on future pricing for stakeholders.[63]

These planned price increases have been incorporated into the assumptions underpinning the demand, revenue and cost forecasts provided in Australia Post's 2024 draft price notification.

Letter volume forecasts

In its draft price notification, Australia Post forecasts a decline in reserved letter volumes of 36% between 2023–24 and 2027–28, from 1,269 million letters in 2023–24 to 810 million letters in 2027–28.[64] These volume forecasts are based on its proposed price path of a 20-

62 Australia Post, *Draft price notification,* December 2023, pp. 5, 10.

63 ACCC, *Decision on Australia Post's price notification,* March 2024, p. 60.

64 Australia Post, *Draft Price Notification,* November 2024, p. 36.

cent increase in mid–2025, a 15-cent increase in mid–2026 and a 15-cent increase in mid–2027.

Australia Post's forecasts are based on an econometric model developed by Diversified Specifics to forecast Australia Post's letter volumes based on the proposed price path. Table 4 compares the two forecasts and highlights the small difference between the two.

Table 4: Reserved services volume (million)

	Current 2024–25	Forecast 2025–26	2026–27	2027–28	Average yearly decline
Australia Post forecast	1,116.5	997.2	895.1	810.2	10.6%
Diversified Specifics forecast	1,121.7	997.6	896.4	811.9	10.6%
Difference	-5.20	-0.40	-1.30	-1.70	

Table 5 compares the volume decline rates under the different forecasts. Australia Post's forecast annual volume decline is similar, but slightly different to Diversified Specifics' forecast. However, over the period 2024–25 to 2027–28 both Australia Post and Diversified Specifics have estimated a yearly volume decline of 10.6%.

Australia Post and Diversified Specifics also modelled letter volume decline in a scenario without any price increases. Both forecasts estimate a lower average yearly letter volume decline of 8.9% over the period 2024–25 to 2027–28.

Table 5: Forecast reserved services letter volume decline

	2024–25 (f)	2025–26 (f)	2026–27 (f)	2027–28 (f)	Avg. yearly decline
Australia Post % decline year-on-year with price increase	-12.0%*	-10.7%	-10.2%	-9.5%	-10.6%
Australia Post % decline year-on-year with no price increase	-12.0%	-8.9%	-7.7%	-7.2%	-8.9%
Diversified Specifics % decline year-on-year with price increase	-11.8%*	-11.1%	-10.1%	-9.3%	-10.6%
Diversified Specifics % decline year-on-year with no price increase	-11.8%	-9.3%	-7.5%	-7.0%	-8.9%

** Price increases expected to start in 2025–26, so there is no price effect in 2024–25.*

Sources: Australia Post, *Draft price notification*, November 2024, Table 19: Reserved services volume, p.36; Diversified Specifics, *Australia Post: Letter Volume Demand Update*, September 2024, Table 6.2.2.1, Table 6.2.2.2, p. 66; ACCC analysis.

Australia Post's forecasting method

As in previous price notifications, Australia Post has engaged Diversified Specifics to construct letter volume forecasts for each of its key letter volume segments. In this report,

Diversified Specifics uses econometric models to forecast domestic letter volumes across eight letter segments for 2024–25 to 2027–28 period.

The econometric methods used vary by letter segment given econometric testing of the actual data. Vector error correction modelling (VECM) and dynamic ordinary least squares (DOLS) are the primary modelling techniques. The VECM framework nests the structural and cyclical components of letter volume trends into a methodology that allows an examination of short and long-run fluctuations in letter volumes and their relevant drivers.[65] DOLS techniques are also employed to improve the precision of the long-run parameter estimates for some letter segments because of data availability or the presence of structural breaks.[66]

The econometric model accounts for long-run and short-run movements in key drivers and their effect on letter volumes. Diversified Specifics' econometric analysis involves testing scenarios to project future trends in letter volume demand for each letter segment. Scenarios combine historical trends in identified variables as well as their assumed future patterns. The future patterns incorporate proposed letter price increases and projections on consumer price movements from the International Monetary Fund and the Australia Bureau of Statistics.[67]

Diversified Specifics' modelling informs Australia Post's own letter volume forecasts. As noted in Table 6, the forecasts are similar. Australia Post explains that most of the variance between the forecasts is due to minor variations in the products modelled. There is a small variance between the forecasts that remains unaccounted for.

Price elasticity of demand

The price elasticity of letter demand measures the change in domestic letter volume in response to a change in price when all other factors are held constant. This is a measure of the sensitivity of letter volumes to letter price increases. This relationship is a critical element of the scenario-based forecasts that estimate future revenue outcomes for Australia Post's reserved letter services.

The results of price elasticity modelling undertaken by Diversified Specifics indicate that letter volume demand is price inelastic. This means that a 1% increase in price leads to less than a 1% decrease in letter volume and suggests future price increases will not have a significant effect on letter volumes. As Table 6 above indicates, price increases are forecast to have a minor impact on letter volume decline. There is a 1.7 percentage point difference between average yearly volume decline with Australia Post's proposed price increases and with no price increases.

For its 2024 report on volume demand, Diversified Specifics has repeated its modelling on price elasticity for letter segments and compared its results to estimates it produced in its September 2023 report. However, in its 2024 letter volume demand report Diversified Specifics has disaggregated the PreSort Small letter segment, which constitutes 65% of total letter volume, into four sub-segments. The disaggregation of the PreSort Small letters into specific letter type segments enabled a more granular analysis of PreSort Small letters subsegments, which revealed differences in price sensitivity within these segments.

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65 Diversified Specifics, *Australia Post Letter Volume Demand Update,* November 2024, p. 18.

66 Diversified Specifics, *Australia Post Letter Volume Demand Update,* November 2024, p. 9.

67 Diversified Specifics, *Australia Post Letter Volume Demand Update,* November 2024, p. 121.

Table 6: Price elasticity estimates by letter segment

Segment	2023	2024
PreSort Small	-0.45	
PreSort Small Transactional (Regular)*		-0.34
PreSort Small Transactional (Priority)*		-0.74^
Charity Mail*		-0.82
Promo Post*		-0.54
PreSort Large	-0.65^	-0.65^
Other Small	-0.38	-0.48
Other Large	-0.38^	-0.34
Print Post	-0.65^	-0.74

** denotes PreSort Small letter sub-segment; ^ indicates statistical significance*

Diversified Specifics, *Australia Post Letter Volume Demand Update*, November 2024, Table 5.1, p. 57.

This analysis indicated that overall letter demand remains price inelastic. This means price increases to reserved letters will increase Australia Post's revenue from these services.

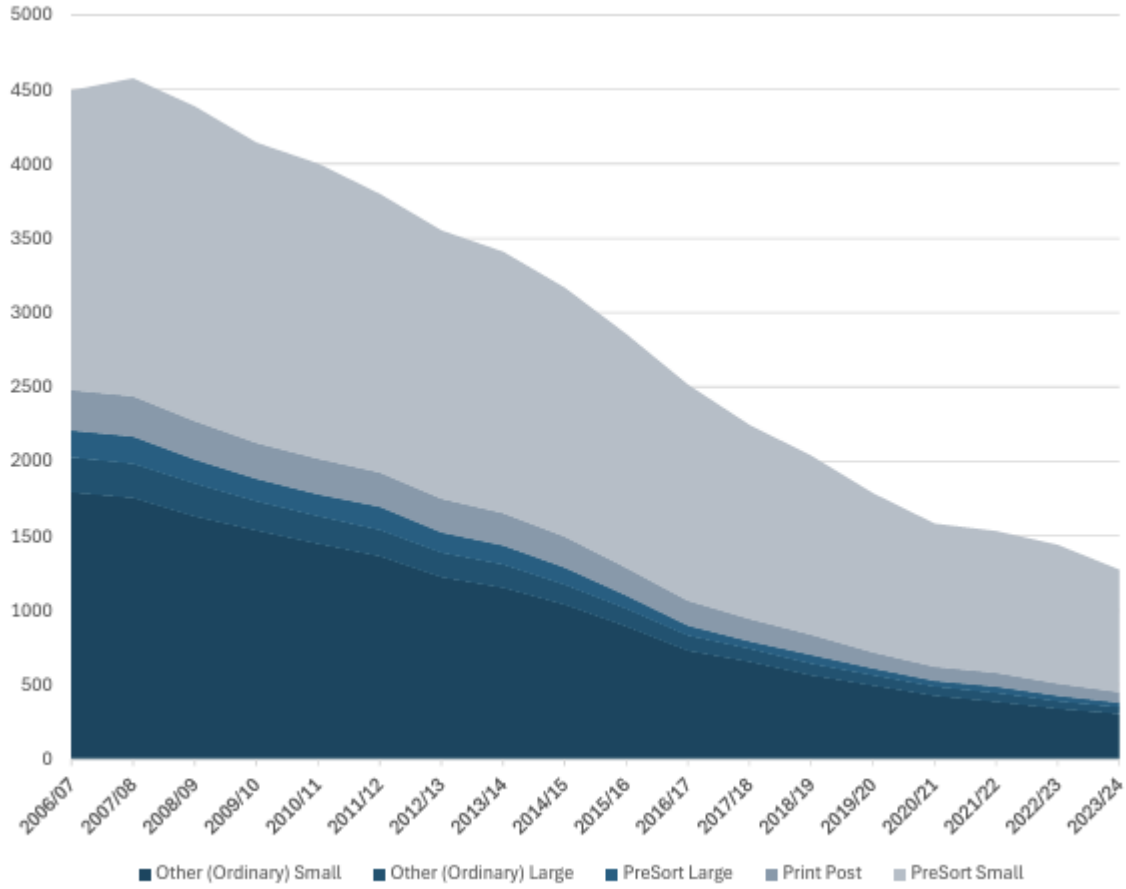
As with previous research on the erosion of letter volumes, in Australia and overseas, Diversified Specifics continue to identify the primary driver of decreasing letter volumes as e-substitution.

Historical trends

Letter volume decline reflects the continuation of an ongoing trend in addressed letter volume erosion. Since the peak of addressed letter volumes in 2006–07, volumes have decreased 72%.[68]

[68] Diversified Specifics, *Australia Post Letter Volume Demand Update,* November 2024, pp. 39-40.

Figure 6: Domestic addressed letter volumes by segment (annual, millions)

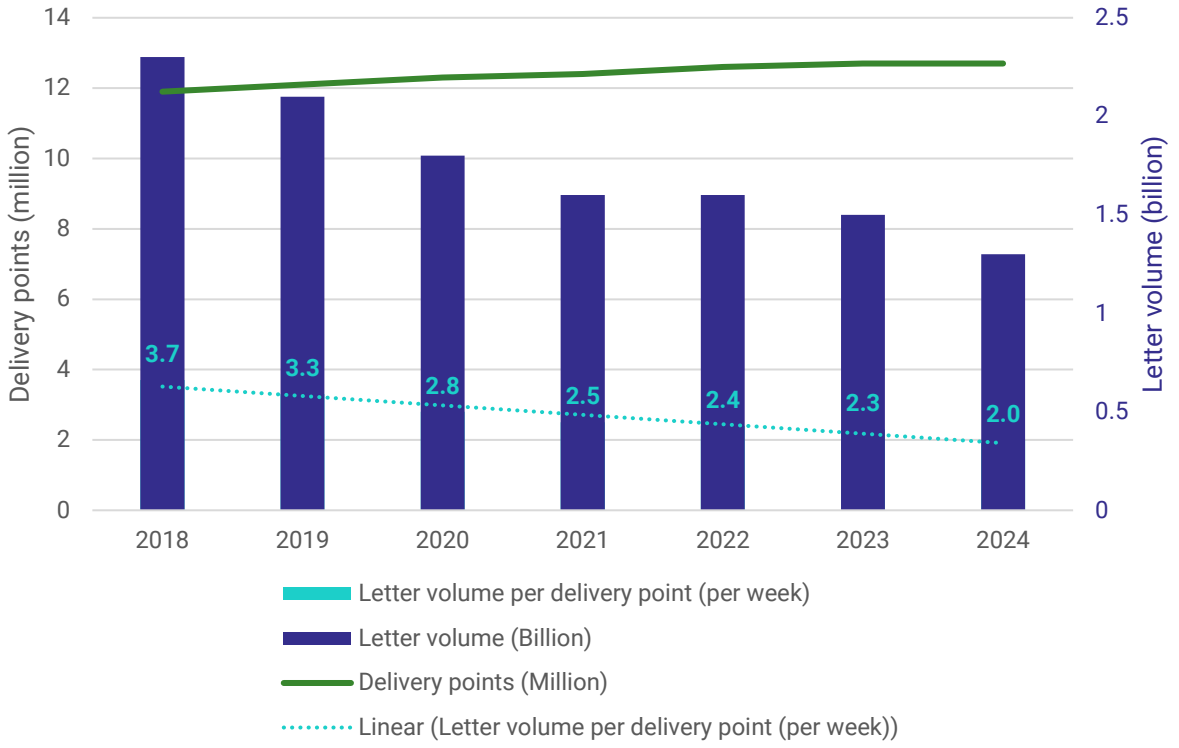


Diversified Specifics, Australia Post Letter Volume Demand Update, November 2024, Chart 3.3.1, p. 41.

While letter volumes are forecast to decline, the number of delivery points Australia Post must service increase each year. This means that since peak addressed letter volumes were reached in 2006-07, Australia Post is delivering less than one-quarter of the number of addressed letters to a growing number of delivery points. This results in a decrease from 8.5 letters per week in 2006-07 to 2.0 letters per week in 2023–24. By 2032, addressed letter volumes are expected to fall below 500 million annually, meaning the average household will receive less than one letter each week.[69]

[69] Australia Post, *Draft Price Notification*, December 2023, p. 21.

Figure 7: Addressed letters per week per delivery point



Sources: Australia Post, *Annual Report 2024*, p. 74; ACCC analysis.

Submissions received

We did not receive any specific comments in relation to Australia Post's letter volume forecasts. However, POAAL and Are Media noted that an increase in letter prices may exacerbate future declines in demand.

POAAL noted that e-substitution of letters has been occurring for some years, and that digital is the first choice of communications channel for a growing number of Australians. However, POAAL stated that:

> *Licensee members have voiced concerns that the proposed BPR price increase may accelerate the decline in stamp purchases. A continuing decline in stamp sales means reduced income to the Licensee, and can have an impact on the viability of the business and its ability to provide postal services to the local community.*[70]

POAAL also noted that its Licensees are concerned about the public perception of a 20-cent price increase coming so soon after the 2024 price increase of 30 cents, which increased stamp prices from $1.20 to $1.50.[71]

[70] Post Office Agents Association Limited, *POAAL submission to ACCC's consultation on Australia Post's draft price notification,* December 2024, p. 3.

[71] Post Office Agents Association Limited, *POAAL submission to ACCC's consultation on Australia Post's draft price notification,* December 2024, p. 3.

Are Media, which distributes approximately 4 million subscription magazines per year via Print Post and Print Post Linehaul services provided by Australia Post, submitted that increased priority mail price and expanded delivery timeframes will lead to a large number of customers no longer acquiring subscriptions from it.[72]

> *This will result in lower volumes of competition entries and accordingly lower volumes of magazine subscriptions.*[73]

These examples may highlight the heightened price sensitivity of consumers to changes in the price of priority mail and Print Post. Diversified Specifics claims that intensifying price sensitivity in Print Post '*… may reflect the ongoing challenges faced by the print media industry and increased competition from digital platforms and social media.*'[74]

ACCC preliminary view

Assessment of Diversified Specifics' forecasts

The econometric modelling approach adopted by Diversified Specifics to generate the demand forecasts is similar to its previous approaches for the 2022 and 2023 price notifications.

Diversified Specifics made refinements to its approach in 2023 and has continued this process of refinement in 2024. In its 2024 report, Diversified Specifics describe two key enhancements it has incorporated into its econometric models used since its previous report in 2023.

1. The expansion from a 5-way to an 8-way letter segment model.

As shown in Figure 8, Diversified Specifics has disaggregated the PreSort Small letter segment into four components. Diversified Specifics considered that this disaggregation was necessary as the PreSort Small letter segment had grown proportionally to account for 65% of total letters, up from 45% in 2006-07.

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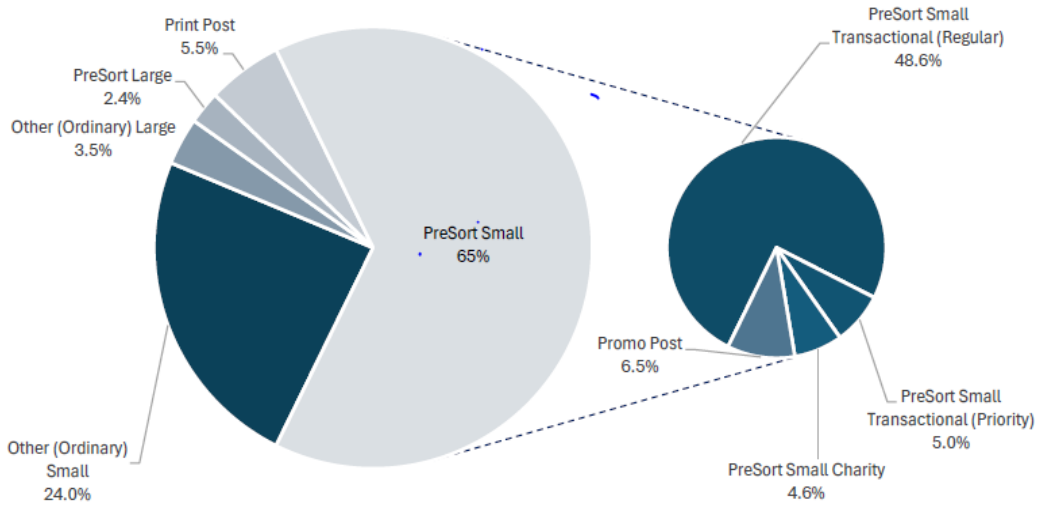
72 Are Media, *Are Media submission to ACCC's consultation on Australia Post's draft price notification,* December 2024, p. 9.

73 Are Media, *Are Media submission to ACCC's consultation on Australia Post's draft price notification*, December 2024, p. 9.

74 Diversified Specifics, *Australia Post Letter Volume Demand Update,* November 2024, p. 58.

Figure 8: 2023–24 total domestic addressed letter segment by volume proportion



Diversified Specifics, *Australia Post Letter Volume Demand Update*, November 2024, Chart 3.3.2, p. 42.

The breakdown of PreSort Small letters into its smaller components enabled Diversified Specifics to undertake a more detailed examination of volume trends, e-substitution tendencies, and price sensitivities within the PreSort Small category.

The ACCC considers that this change is appropriate and helps to improve Diversified Specifics' model. Increased segmentation offers the opportunity for new insights, such as the main drivers in letter volume trends and forecasts, and for considering product specific drivers and effects.

2. Refined e-substitution variables and improved transparency on underlying data

E-substitution is the main driver of letter volume decline in the postal sector and therefore must be carefully estimated when determining volume forecasts and any future under recovery on reserved letter services. However, due to the various forms and methods that e-substitution can take, developing one variable that encompasses this effect is difficult.

Diversified Specifics uses principal component analysis to address this issue. This approach involves combining different data series to create a variable that acts as a single summary measure of e-substitution. Each of the data sources serve as a proxy for technological advancement and digital adoption, with the combined variable capturing the underlying trends and effects of various technological and behavioural indicators that are common across methods of e-substitution. This is a modelling approach that focuses on the drivers of change as opposed to estimating the magnitude of specific sources of the change.

The ACCC noted in its March 2024 decision on Australia Post's 2023 draft price notification that it had concerns… *'about Diversified Specifics' use of principal component analysis to construct an electronic substitution variable, particularly in relation to the source data used*.'[75] These concerns focused on the lack of transparency over the effects of individual proxies on the summary measure, and whether the source data accurately represents alternative e-communications options.

[75] ACCC, *Decision on Australia Post's price notification,* March 2024, p. 30.

For the 2024 report, Diversified Specifics has delineated the principal component variable into three e-substitution measures, which is one more than was estimated in the 2023 report. Each measure of e-substitution contains a slightly different combination of proxies that better reflect the e-substitution drivers of the different letter segment. The addition of a third measure is designed to allow for a more detailed representation of e-substitution trends as they pertain to similar letter segments.

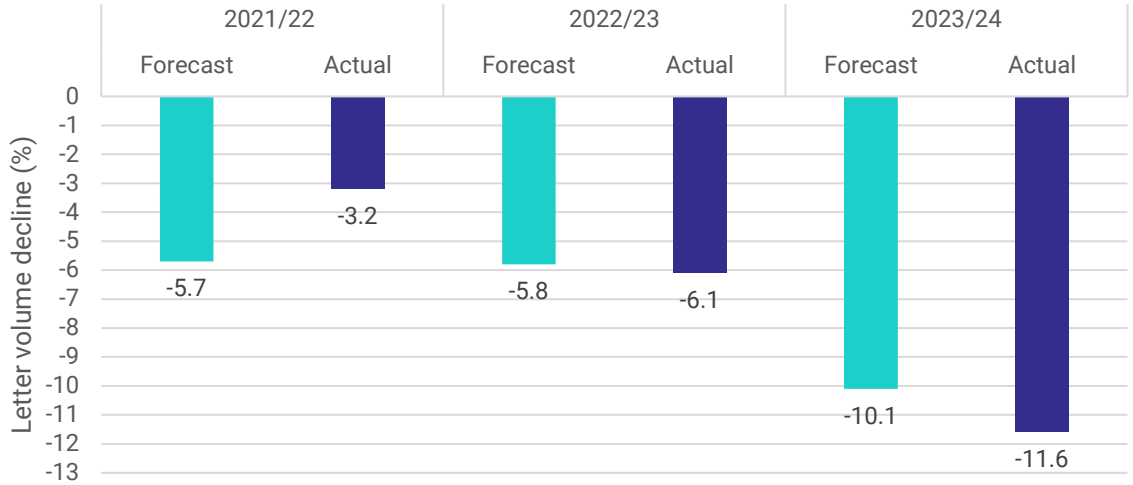
Diversified Specifics has also provided detailed statistical information to support the use of its method. This includes evidence that the e-substitution variables are highly representative of the underlying source data[76] and that individual factors contribute meaningfully to the e-substitution measure.[77]

Based on this additional information, ACCC's preliminary view is that it is satisfied that a reasonable approach to estimating e-substitution has been used to inform letter volume forecasts.

Comparison of historical forecasts against actual demand

A comparison of Diversified Specifics volume forecasts in its 2022, 2023 and 2024 reports alongside actual volume declines in reserved letter services indicate that Diversified Specifics forecasts are relatively close to actual demand.[78] As Figure 9 below demonstrates, Diversified Specifics' letter volume demand projection errors were an underestimate of volumes by 2.5 percentage points in 2021–22, and overestimates of 0.3 percentage points in 2022–23 and 1.5 percentage points in 2023–24.

Figure 9: Comparison of Diversified Specifics forecasts and actuals



Generally, forecasts become less accurate the more years removed the forecast year is from the current year. This means it is likely that Diversified Specific' volume demand forecasts for the out-years (2025–26 to 2027–28) are less reliable than its forecasts for the first year in the forecast (2024–25). As such, we would expect an update on demand forecasts to be submitted in future price notifications to provide a current forecast of demand for that year.

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76 Diversified Specifics, *Australia Post Letter Volume Demand Update,* November 2024, p. 28.

77 Diversified Specifics, *Australia Post Letter Volume Demand Update,* November 2024, p. 28.

78 Diversified Specifics, *Australia Post Letter Volume Demand,* 2022; 2023; 2024.

Diversified Specifics has made refinements to its forecasting model in its 2024 volume demand report. These include the disaggregation of the PreSort Small letter segment into four smaller segments and the addition of a third e-substitution measure to better capture e-substitution drivers for the unique characteristics of each letter segment. These refinements provided Diversified Specifics with additional model complexity and may enable it to forecast letter volume demand with greater reliability.

While it is difficult to forecast letter volume demand due to the sensitivity of forecasts to changes in underlying assumptions, Diversified Specifics' forecasts have relatively accurately predicted the decline rates experienced in letter volumes. Diversified Specifics forecasts are more accurate in the short-term and less accurate in the long-term. As Australia Post is expected to return to the ACCC with future price notifications alongside continued volume decline, the immediate year in the forecast is the most important. We consider that Diversified Specifics' forecasts present a reasonable estimation of future letter volume demand for this price notification.

Assessment of Australia Post's forecasts

In its previous price notifications, Australia Post undertook in-house augmentation of forecasts developed by Diversified Specifics to derive final letter volume demand forecasts. The ACCC raised concerns with Australia Post about the justification and consistency of these augmentations and encouraged greater transparency on any post-modelling adjustments in future price notifications.[79]

For this price notification, Australia Post explains that most of the variance between the forecasts it uses in its price notification and Diversified Specifics' forecasts is due to minor variations in the products modelled. There is a small variance (less than 0.01% to -0.3%) between the forecasts that remains unaccounted for. This variance has an insignificant effect on estimates of reserved services revenue.

It is possible that the remaining variance reflects the disaggregation of letter volume forecasts in Australia Post's Enterprise Profit Model, which includes volume forecasts for all reserved and non-reserved services. We have not assessed this disaggregation further as Australia Post's forecasts are immaterially different from Diversified Specifics' forecasts, which in the ACCC's preliminary view is considered reasonable, and the magnitude of the difference would not be influential on our decision in this price notification.

Additional demand forecast scenarios

In the ACCC's 2024 decision we recommended that Australia Post provide the ACCC with optimistic and pessimistic volume demand scenarios to account for potential variation between forecast and actual letter volume demand. In response, Diversified Specifics incorporated 95% confidence intervals around its mean demand forecasts to capture uncertainty and better account for the sensitivity of volume forecasts.[80] Australia Post has provided optimistic and pessimistic revenue scenarios based on the higher and lower bounds of the 95% confidence interval of volume demand projections. These scenarios have been considered by the ACCC in its analysis of Australia Post's forecast cost recovery.

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79 ACCC, *Decision on Australia Post's price notification,* March 2024, p. 31.

80 Diversified Specifics, *Australia Post Letter Volume Demand Update,* November 2024, pp. 77-78.

Table 7: Optimistic and pessimistic volume demand projections[81]

	Pessimistic scenario	Projection (mean)	Optimistic scenario
2024–25	1,030	1,122	1,213
2025–26	910	998	1,085
2026–27	813	897	980
2027–28	733	812	891

Source: Diversified Specifics, *Australia Post Letter Volume Demand Update*, November 2024, Table 6.3.1, p. 78.

Diversified Specifics has also provided letter volume forecasts under two pricing scenarios: the proposed price path and the base case (no price change). These scenarios help us understand the effect of the proposed price increase on demand.

Table 8: Volume demand projections with and without 2025 price change (% change)

	With proposed price rise	Without proposed price rise	Price effect
2025–26	-11.1	-9.3	-1.8
2026–27	-10.1	-7.5	-2.6
2027–28	-9.3	-7.0	-2.3

Source: Diversified Specifics, *Australia Post Letter Volume Demand Update*, November 2024, Table 6.2.3.1, p. 71.

The provision of forecasts including confidence intervals and different pricing scenario enables the ACCC to conduct:

- sensitivity analysis on optimistic letter volume and revenue assumptions
- analysis of underlying assumptions in the modelling, such as price, and the resulting effect on letter volumes.

That is, we have been able to consider whether under-recovery is still likely to occur after considering changes to underlying assumptions including letter volume and price. The ACCC has undertaken this sensitivity analysis as part of its assessment of Australia Post's cost recovery forecasts.

The ACCC's preliminary view is that it is satisfied that the letter demand volume provided in Australia Post's forecasts are appropriate for this price notification. This is based on their similarity to Diversified Specifics' forecasts, which use extensive and thorough econometrics modelling and have been shown to be relatively accurate over time. In future price notifications, the ACCC recommends that Australia Post continues to improve the transparency around any adjustments they make to Diversified Specifics letter volume forecasts.

[81] 'Optimistic' and 'pessimistic' demand scenarios relate to the higher and lower bound of 95% confidence interval, respectively. Diversified Specifics calls these 'best' and 'worse' case scenarios.

5. Costs and operational efficiency

Key points

- As part of its draft price notification, Australia Post has provided its actual, and forecast actual, costs rather than its efficient costs, when setting out the cost of providing its reserved services.
- Australia Post engaged a consultant, Frontier Economics, to assess its efficient costs. While Frontier Economics found a minor variance between its estimate of Australia Post's enterprise-level efficient costs and those provided by Australia Post itself, it recommends the ACCC adopt Australia Post's forecast reserved services costs.
- We consider it appropriate to adopt Australia Post's operating expenditure forecasts for providing the reserved services, but recommend Australia Post make some changes to how it presents its costs for future price notifications.

The ACCC undertakes a cost-based approach to assessing whether Australia Post's proposed price increases for its notified letter services are justified.

Under this approach, the ACCC seeks to compare the revenue earned by Australia Post through the proposed price increase with an efficient cost base. An efficient cost base in this context reflects those costs that would be incurred by a hypothetical efficient operator supplying letter services and operating to maximum efficiency in line with world's best practice.

In our March 2024 decision on Australia Post's 2023 price notification, we noted that Australia Post's cost forecasts were based on actual incurred costs rather than efficient costs. We recommended that in future Australia Post ensure operating costs in its revenue model are based on the costs that would be expected to be incurred in providing reserved letter services in a prudent and efficient manner.

Efficient costs are not necessarily the same as the actual costs. In the absence of competitive constraints, there is the potential for actual costs to be higher than efficient costs. As such, where actual costs are used in Australia Post's revenue model a forecast under-recovery may be overstated.

In its 2024 draft price notification Australia Post has used actual costs in its calculation of the total costs of providing reserved letter services. In support of its use of actual costs, Australia Post commissioned Frontier Economics to conduct an expenditure review. Frontier Economics found that Australia Post's forecast enterprise-level operating costs were similar to their own estimates of efficient operating costs and recommended the adoption of Australia Post's forecasts in the price notification as efficient costs. Frontier Economics also noted that Australia Post had implemented appropriate systems and controls to produce efficient estimates of enterprise-level capital expenditure.

Draft price notification

Australia Post's forecast costs

Australia Post's draft price notification sets out Australia Post's operating costs by major cost driver, as shown in Table 9.

Table 9: Reserved services operating expenditure ($m, nominal)

	2023–24 (a)	2024–25	2025–26	2026–27	2027–28
Labour (including contract services)	1,036.63	998.46	975.38	970.08	957.13
Carriage of mail	202.84	198.43	205.28	191.63	183.92
Licensees	115.08	118.64	120.50	119.91	116.94
Accommodation	54.58	50.89	53.03	54.15	54.45
Motor Vehicle	45.54	41.00	41.55	41.60	42.70
Other Costs	95.13	88.76	83.24	81.04	78.02
Total	**1,549.80**	**1,496.18**	**1,478.99**	**1,458.41**	**1,433.17**

Source: Australia Post, *Draft Price Notification*, November 2024, Table 11: Operating expenditure ($m, nominal), p. 26.

Over the forecast period, operating and maintenance costs (operating expenditure) represents the vast majority (91%) of Australia Post's maximum allowable revenue for reserved letter services and 94% of its total costs.

As identified in Table 9, Australia Post forecast a reduction in operating expenditure from $1,549.80 million to $1,433.17 million between 2023–24 and 2027–28. This reduction represents a nominal $116.63 million, or 7.5% decrease in nominal costs over this period. This reduction is led by lower labour expenditure (down by $79.5 million over the forecast period) and savings on the carriage of mail ($18.9 million).

Australia Post's forecast decrease in reserved letter services costs is largely driven by enterprise level operating expenditure efficiency measures and changes to its letter delivery model following the Postal Services Modernisation Review.[82]

Australia Post's efficiency measures

Australia Post's New Delivery Model

While letter volumes are declining, and less letters are being delivered, Australia Post's geographical delivery footprint, and the number of individual delivery points, are growing. Australia Post delivered only 2.0 letters per delivery point per week in 2024, a decrease from 3.7 in 2018.[83]

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82 See Department of Infrastructure, Transport, Regional Development, Communications and the Arts, project page: https://www.infrastructure.gov.au/media-communications-arts/post/australia-post

83 Australia Post, *Annual Report 2023*, p. 15; ACCC analysis.

This decrease of volume-to-delivery point ratio has implications for Australia Post's ability to reduce overall costs, considering delivery accounts for more than half (58%) of reserved letter services expenditure.

The Government undertook the Postal Services Modernisation Review in 2023, which considered potential changes to Australia Post's operations to improve productivity and revenue in delivery, while managing costs to support both sustainability objectives and benefits from modernisation.[84] A key outcome of this review was changes to Australia Post's delivery performance standards contained in the Postal Regulations. On 15 April 2024, Australia Post's regulated performance standards were amended to require it to deliver regular letters every second business day for 98% of delivery points rather that every business day.

Australia Post explains that '*the New Delivery Model splits delivery rounds into two halves allowing a 'heavy' half where all product is delivered, and a 'light' half where only parcels, Express Post, and priority letters are delivered*.'[85]

Australia Post indicates that productivity benefits of the New Delivery Model include:

- reducing the total number of delivery rounds and increasing the number of delivery points per round
- decreasing delivery stops per article on heavy delivery halves through increased volume density, and
- increasing delivery travel speed on light delivery halves, by reducing the overall number of stops.[86]

And that efficiencies from the New Delivery Model include:

- natural attrition (and by utilising postal delivery officers for other work), due to a reduction in the total number of rounds, and
- better use of postal delivery officers, due to a more efficient approach to round completion.[87]

In its 2024 Annual Report, Australia Post states:

> *The Federal Government's modernisation reforms will: allow stamp prices to gradually increase, to better reflect the actual cost of delivering a letter; and, will allow letters to be delivered every second day rather than every day.*[88]

Australia Post also notes that the New Delivery Model will benefit other aspects of its business, including parcels:

> *The New Delivery Model (NDM), developed in conjunction with our union partners, allows our Posties to deliver more parcels more regularly, which is what our customers want.*[89]

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84 Department of Infrastructure, Transport, Regional Development, Communication and the Arts, *Postal Services Modernisation*, 2023, accessed 23 January 2025.

85 Australia Post, *Draft Price Notification*, November 2024, p. 14.

86 Australia Post, *Draft Price Notification*, November 2024, p. 14.

87 Australia Post, *Draft Price Notification*, November 2024, p. 14.

88 Australia Post. *Annual Report 2024*, p. 9.

89 Australia Post. *Annual Report 2024*, p. 11.

The New Delivery Model is currently being rolled out by Australia Post. On 30 June 2024, 36 sites had implemented the new model with the remaining approximately 250 sites due to roll-out the new model by December 2025.[90]

Enterprise-wide efficiency measures

Along-side changes to its delivery model, Australia Post is also undertaking a range of enterprise-wide business simplification processes to reduce costs.

These efficiency measures include streamlining support services and the adoption of more flexible digital solutions to protect the workforce and deliver more security, capacity and service performance throughout the network.[91]

In 2023–24, Australia Post achieved $268.9 million in enterprise-wide efficiencies, $57.4 million of this was attributable to reserved letter services.[92] This is higher than the $200 million Australia Post forecast in its 2023 draft price notification and reflects the introduction of the New Delivery Model on enterprise efficiency, which were not included the 2023 draft price notification efficiency forecasts.

For the period 2024–25 to 2027–28, Australia Post forecasts further enterprise efficiency gains of $673.7 million.[93] These productivity gains include incremental savings from the implementation of its New Delivery Model year-on-year through to financial year 2027–28.[94]

Table 10: Realised and expected efficiencies including modernisation savings ($m, nominal)

	2023–24 (a)	2024–25	2025–26	2026–27	2027–28
Enterprise-wide	268.9	145	222.1	182.7	123.9
Reserved letter services	57.4	29	*	*	*

** Forecast numbers not available.*
Source: Australia Post, *Draft Price Notification*, November 2024, pp. 16, 18.

The forecast efficiency benefits, and modernisation savings from the New Delivery Model, are reflected in Australia Post's cost forecasts.

Impact of efficiency measures on labour costs

As shown in Table 11, labour costs account for around two-thirds of Australia Post's reserved services operating expenditure, with most of these costs associated with delivery (as the function representing the highest share of reserved services expenditure). Accordingly, there is scope for reductions in labour costs to drive reductions in operating expenditure.

90 Australia Post, *Draft Price Notification*, November 2024, p. 14.
91 Australia Post, *Draft Price Notification*, November 2024, pp. 17-18.
92 Australia Post, *Draft Price Notification*, November 2024, p. 16.
93 Australia Post, *Draft Price Notification*, November 2024, pp. 16-18.
94 Australia Post, *Draft Price Notification*, November 2024, p. 18.

Table 11: Labour as a percentage of operating expenditure ($m, nominal)

	2023–24 (a)	2024–25	2025–26	2026–27	2027–28
Labour (% of opex)	1036.6 (66.9%)	998.5 (66.7%)	975.4 (65.9%)	970.1 (66.5%)	957.1 (66.8%)
Total operating expenditure	1549.8	1496.2	1479.0	1458.4	1433.2

Source: Australia Post, *Draft Price Notification*, November 2024, Table 11: Operating expenditure, p. 26.

Australia Post has realised savings from the introduction of the New Delivery Model, largely attributed to a reduction in postal delivery officers due to reduced delivery round frequency.[95] In accordance with Government's Statement of Expectations that there will be no forced redundancies through modernisation of services,[96] Australia Post notes that its reduced headcount is a result of natural attrition.[97]

Australia Post has identified a reduction in reserved letter services full-time equivalent (FTE) employee numbers from 9,808 to 9,100, between 2023–24 and 2024–25.[98] This reduction in FTE's is forecast to deliver Australia Post savings of $38 million in labour costs over this period.

Australia Post notes that total labour related savings for reserved letter services between 2023–24 to 2025–26 are $127.4 million, which is partially offset by $66.2 million in wage increases resulting from the Enterprise Agreement.[99]

Consequently, over the period 2023–24 to 2027–28, Australia Post forecasts $79.5 million of savings in reserved services labour costs. As illustrated in Table 12, this represents a nominal 7.7% decrease in labour costs for reserved letter services.

Table 12: Forecast reserved services labour cost reductions ($m, nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28	Total
Labour	1,036.6	998.5	975.4	970.1	957.1	
Change		-38.2	-23.1	-5.3	-13.0	-79.5
%		-3.7%	-2.3%	-0.5%	-1.3%	-7.7%

Source: Australia Post, *Draft Price Notification*, November 2024, Table 8: Enterprise level operating expenditure and depreciation costs, p. 21.

95 Australia Post, *Draft Price Notification*. November 2024, p. 16.

96 Department of Infrastructure, Transport, Regional Development, Communications and the Arts, *Statement of Expectations for Australia Post*, July 2024.

97 Australia Post, *Draft Price Notification*. November 2024, p. 17.

98 Australia Post, *Draft Price Notification*. November 2024, p 52.

99 Australia Post, *Draft Price Notification*. November 2024, p 27.

Fixed and variable costs

In our March 2024 decision, we recommended that Australia Post provide the ACCC with short-run and long-run incremental costs of individual services and products, including loss-making reserved services for its future price notifications.[100]

Australia Post noted that it does not collect cost data in this format and has instead provided the ACCC with its fixed and variable cost data.[101]

The ACCC has considered two key cost components from Australia Post's fixed and variable cost data, delivery costs and processing costs. Where the key driver for costs in delivery is frequency the key driver for processing costs is letter volume.

Delivery costs

Australia Post's delivery costs do not vary substantially as letter volumes change due to legislated community service obligations and regulated performance standards that govern its letter delivery timeframes and its geographical operating footprint.[102] In other words, there is a substantial share of delivery costs which are fixed despite changes in letter volume. Postal delivery officers must travel past each delivery point in the network regardless of declining letter volumes. This means delivery costs are underpinned by a set of fixed costs where daily delivery rounds are required.

Australia Post forecasts delivery costs for reserved letter services to decrease by $59.5 million, or 6.2%, over the period 2023–24 to 2027–28.

Table 13: Reserved letter services delivery costs ($m, nominal)

	2023–24 (a)	2024–25	2025–26	2026–27	2027–28	Total
Delivery costs	958.93	927.01	923.44	914.66	899.46	
Change		-31.92	-3.57	-8.78	-15.2	-59.5
%		-3.3%	-0.4%	-1.0%	-1.7%	-6.2%

Source: Australia Post, *Draft Price Notification*, November 2024, Table 4.2: Reserved letter services costs by function, p. 53.

The declines in delivery costs for reserved letter services are driven by the implementation of the New Delivery Model that shifts costs from reserved letter services, which now require delivery every other day, to other services that continue to require daily delivery. This means a greater proportion of fixed delivery costs will be allocated to other Australia Post services such as express post and parcels.

This is reflected in Australia Post's cost forecasts. As a proportion of fixed delivery costs at an enterprise level, fixed delivery costs for reserved letter services are forecast to decline over the period 2023–24 to 2027–28. However, the decline in these fixed delivery costs is minimal as they are largely driven by wage levels which are anticipated to increase over 2024–2028.

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100 ACCC, *Decision on Australia Post draft price notification.* March 2024, p. 44.

101 Australia Post, *Draft Price Notification*, November 2024. p. 22.

102 Australia Post, *Draft Price Notification*, November 2024. p. 16.

Letter processing costs

While fixed costs make up most of Australia Post's operational costs related to delivery, processing costs are primarily a volume-driven variable cost. This means that decreasing letter volumes should lead to lower processing costs.

Australia Post forecasts a slight decrease in its reserved letter services processing costs over the period 2023–24 to 2027–28. Table 14 indicates a forecast nominal $9.36 million, or 5%, reduction in processing costs.

Table 14: Reserved letter services processing costs ($m, nominal)

	2023–24 (a)	2024–25	2025–26	2026–27	2027–28	Total
Processing costs	194.69	194.98	195.12	193.70	185.33	
Change		0.29	0.14	-1.42	-8.37	-9.36 (5%)

Source: Australia Post, *Draft Price Notification*, November 2024, Table 4.2: Reserved letter services costs by function, p. 53.

The decline in these fixed delivery costs is minimal as they are largely driven by wage levels, which are anticipated to increase over 2024–2028.

Submissions received

The ACCC received 3 written submissions that commented on Australia Post's costs and operating efficiency. The key themes raised were the desire to see Australia Post increase its focus on improving efficiency to keep its reserved letter services costs down and whether efficiencies from its New Delivery Model have been accurately reflected.

In its submission, the Post Office Agents Associated Limited (POAAL) states that Australia Post's costs are driven by the growing number of delivery points. POAAL considers that while most delivery points are in urban areas, there remain significant costs associated with regional and rural mail delivery where delivery point density is low, and fuel and labour costs continue to rise, meaning ongoing increases to delivery costs.[103]

POAAL's submission also addressed Australia Post's operational efficiency. POAAL argued that Australia Post may be able to drive efficiencies in its post office network by converting corporate post offices to LPO operations. POAAL also considers there are opportunities for Australia Post to further outsource its mail carriage operations, including mail pickup, line haul, and delivery. In this context, POAAL noted that Australia Post has used mail contractors to perform letter and parcel delivery for decades. In rural areas, many post office licensees also hold the local mail contract. Contracts are awarded following a competitive tender process. POAAL considers that urban and suburban delivery in major metropolitan and regional centres could also be outsourced to contractors to drive further efficiencies.[104]

POAAL identified potential areas for improved efficiencies in Australia Post's delivery operations, including:

- reducing the volume of mis-sorted letters

[103] Post Office Agents Association Limited, *POAAL submission,* December 2024, p. 3.

[104] Post Office Agents Association Limited, *POAAL submission,* December 2024, pp. 4-5.

- improved policing of re-used stamps and underpaid mail
- promoting PO Boxes for businesses and private customers, and
- streamlining Australia Post management.

It notes that potential savings from these efficiencies would not obviate the need for a stamp price increase.[105]

Sydney Water suggested efficiency improvements as an alternative to the proposed stamp price increase.

> *Australia Post should explore opportunities to improve operational efficiency and reduce costs without passing the burden onto consumers and businesses. This could include investing in technology and streamlining processes.*[106]

In its submission, the Australian Parcels Industry Forum (APIF)[107] argued that Australia Post is treating more costs as fixed than should be the case.

> *Posties can now be considered primarily as Parcels delivery people, so the fixed costs to cover the geographical dispersion of delivery points could be considered as fixed costs for the Parcels business, or, over the longer term a variable cost for the Letters business as delivery innovations are pursued and costs adjusted to accommodate the shrinking letters volumes.*
>
> *The cost forecast for Reserved Letters does not reflect this. It shows unit costs for Reserved Letters growing at 9.5% p.a. over the coming years, much higher than inflation. In fact, the unit cost growth forecast for Reserved Letters is an acceleration over the trend of the past 10 years, during which unit costs for Reserved Letters grew at an average of 7.6% p.a. Despite the new service delivery model, designed to improve the flexibility and efficiency of the Letters business, there is no evidence that, in terms of unit costs, efficiency is improving.* [108]

APIF also noted concerns with Australia Post's operational efficiency in its letters business. It argued there is little evidence Australia Post is pursuing the most efficient operating model for the delivery of letters but rather optimising its model for parcel delivery.[109]

Frontier Economics' findings on Australia Post's operational efficiency

In response to our March 2024 recommendation regarding the use of efficient rather than actual costs in Australia Post's cost forecasts, Australia Post commissioned Frontier Economics to forecast the efficient costs of providing its services between 2024–25 and

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105 Post Office Agents Association Limited, *POAAL submission,* December 2024, pp. 4-5.

106 Sydney Water, *Sydney Water submission*, December 2024, p. 2.

107 APIF represents the following parcel carriers: Aramex, FedEx Express, Sendle, and Team Global Express.

108 Australian Parcels Industry Forum, *APIF submission to ACCC's consultation on Australia Post's draft price notification*, (APIF submission), December 2024, p. 8.

109 Australian Parcels Industry Forum, *APIF submission*, December 2024, p. 10.

2027–28. Frontier Economics' analysis focussed on the assessment of enterprise-level costs.

As operating expenditure accounts for 91% of Australia Post's maximum allowable revenue in its PTRM, this was the primary focus of Frontier Economics' analysis. Over the four-year period, Frontier Economics' estimates of efficient operating cost were similar to Australia Post's estimates, as shown in Table 15.

Table 15: Forecast efficient opex and Australia Post forecast opex (real $2023–24, billion)

	2024–25	2025–26	2026–27	2027–28	Total
Frontier Economics	8.36	8.18	8.12	8.24	32.90
Australia Post forecast	8.37	8.16	8.15	8.29	32.96
Difference ($)	-0.01	0.03	-0.03	-0.05	-0.06
Difference (%)	-0.2%	0.3%	-0.3%	-0.6%	-0.2%

Source: Frontier Economics, Expenditure Review: Final Report for Australia Post, January 2025, p. 11.

Frontier Economics noted that reasons for the difference between their forecasts and Australia Post's included:

- application of a productivity growth factor of 0.2% compared with Australia Post's forecasts of specific efficiency initiatives
- differences between estimates of labour price growth and Australia Post's enterprise bargaining agreement
- differences between the estimated output growth factor and Australia Post's own assumptions.[110]

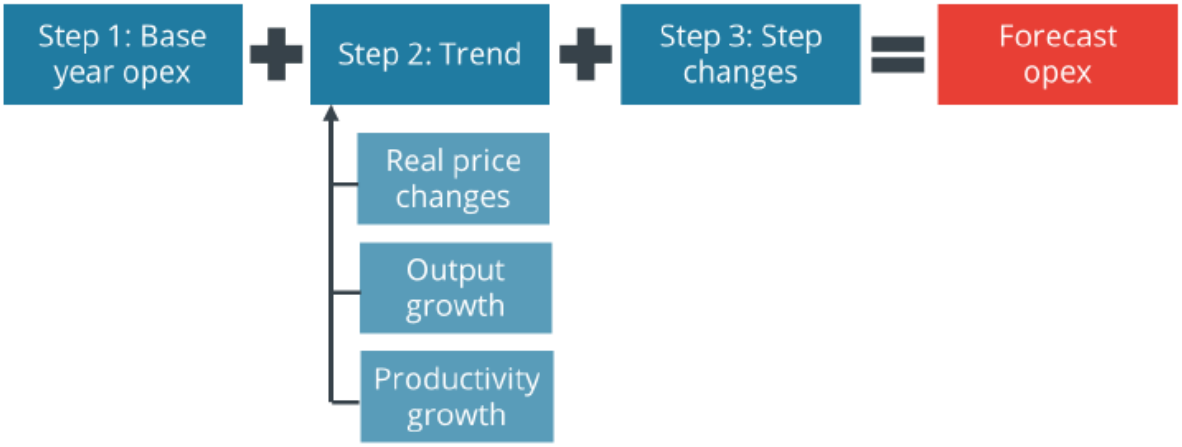
Frontier Economics considered that there was no material difference between its estimates and Australia Post's, and recommended that the ACCC adopt Australia Post's operational cost forecasts for the purposes of assessing the price notification.

Operational expenditure efficiency

Frontier Economics applied a base-step-trend approach to estimating enterprise-level efficient operating costs.

[110] Frontier Economics, *Expenditure Review: Final Report for Australia Post*, January 2025, p. 57.

Figure 10: Base-step-trend forecasting approach



Source: Frontier Economics, *Expenditure Review: Final Report for Australia Post*, January 2025, p. 30.

Frontier Economics utilised a 'revealed cost' approach to estimating base year operating expenditure, which assesses recent actual expenditure for use as a base year value. Under this approach, if the actual expenditure is not found to be materially inefficient, it is considered appropriate for use as an efficient base year value. If there is convincing evidence of material inefficiency, an efficiency adjustment is applied to the revealed expenditure.

Frontier Economics assessed Australia Post's enterprise-level operational expenditure in 2023–24, and found no evidence that this base-year operating expenditure was inefficient, based on:

- evidence of productivity gains – Frontier Economics replicated 2023 Quantonomics analysis of total factor productivity for Australia Post, finding that total factor productivity remained stable despite substantial decline in letter volumes from 2008 to 2023
- accuracy of short-term forecasts – Australia Post's actual expenditure was close to, and slightly lower than, forecast
- evidence of implemented or planned cost-saving initiatives, including the New Delivery Model.

Frontier Economics also noted that as most of Australia Post's revenue came from non-reserved services, it had a strong incentive to operate efficiently to remain competitive. Frontier Economics highlighted that Australia Post operates under a Statement of Expectations issued by the Australian Government, which affects its ability to reduce its expenditure. Frontier Economics suggests this affects Australia Post's ability to reduce its overall costs and improve efficiency in response to declining letter volumes.[111]

Economic benchmarking of Australia Post's operating expenditure was not conducted as part of this analysis, with Frontier Economics citing a lack of reliable data for comparable domestic or international firms.

Frontier Economics removed non-recurrent expenditure relating to voluntary redundancies and asset write offs and revaluations to adjust base operating expenditure to $8.39 billion.

[111] Frontier Economics, Expenditure Review: Final Report for Australia Post, January 2025, p. 7.

Trend factors were then estimated to account for forecast growth in prices, output and productivity. These factors accounted for:

- real input price growth, with labour and non-labour costs adjusted over time in line with the wage price index (WPI) and consumer price index (CPI) respectively
- output growth, updating Quantonomics 2023 analysis based on output categories and volumes to construct a weighted output index
- an ambitious productivity growth rate of 0.2% reflecting efficiency initiatives and the share of Australia Post's revenue from competitive parcel services.

Finally, Frontier Economics accounted for two step changes accounting for cost savings from the implementation of the New Delivery Model over the forecast period, and a voluntary redundancy cost adjustment for 2024–25 (that is, maintaining the earlier adjustment for non-recurrent expenditure in all forecast years except for 2024–25).

Capital expenditure efficiency

Frontier Economics also considered that Australia Post's forecast enterprise-level capital expenditure was likely to be efficient, based on evidence of appropriate systems and controls being in place to support decision making on capital expenditure.

Submissions received

The ACCC received 2 written supplementary submissions, one from the Australia Parcels Industry Forum (APIF)[112] and one from the Conference of Asia Pacific Express Carriers (CAPEC),[113] which commented on the Frontier Economics report on Australia Post's expenditure. The supplementary submissions raised concerns regarding the fact Frontier Economics considered the efficiency of Australia Post's costs at an enterprise level rather than the efficient costs of its reserved letter services, the reliability of the report considering it was commissioned by Australia Post, the lack of benchmarking included in the report, and the overstating of competitive pressures faced by Australia Post in the parcels sector.

ACCC preliminary view

Australia Post's efficiency measures

Australia Post's forecast reduction in reserved letter services costs is largely driven by enterprise level operating expenditure efficiency measures and changes to Australia Post's letter delivery model following the postal services modernisation review.

In 2023–24, reserved letter service savings and efficiencies resulting from enterprise level efficiency programs and the implementation of the New Delivery Model were $57.4 million. For 2024–25, Australia Post forecasts savings of $29.0 million.

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112 Australia Parcels Industry Forum, *APIF supplementary submission to ACCC's consultation on Australia Post's draft price notification*, (CAPEC supplementary submission) March 2025.

113 Conference of Asia Pacific Express Carriers, *CAPEC supplementary submission to ACCC's consultation on Australia Post's draft price notification*, (CAPEC supplementary submission) March 2025.

Australia Post has not provided a further breakdown of enterprise efficiencies allocated to reserved letter services between 2025–26 to 2027–28. Over this period, it forecasts a further $528.7 million in enterprise level efficiencies including modernisation savings.

However, Australia Post states that its current prescribed performance standards limit its ability to optimise delivery efficiencies as letter volumes decline and the number and geographical dispersion of delivery points increase.[114] As such, it anticipates future incremental efficiencies from the New Delivery Model will be harder to achieve beyond 2027–28 without further reform.

The ACCC notes that Australia Post's forecast efficiencies driven by enterprise productivity measures have varied substantially between its 2023 draft price notification and its 2024 draft price notification. However, the reasons for these variations are not clear. This is because enterprise efficiency forecasts outlined in its 2023 draft price notification excluded modernisation savings,[115] while the enterprise efficiency forecasts in its 2024 draft price notification include them.[116]

It is also difficult to see how enterprise efficiencies and savings related to the New Delivery Model flow through to Australia Post's cost forecasts. This is particularly evident in labour related savings for reserved letter services resulting from the New Delivery Model. Australia Post forecast reserved services FTE employee numbers to fall by 708 between 2023–24 and 2024–25 resulting in $38 million of labour related savings after wage increases. However, in 2024–25 reserved letter services were allocated a total enterprise efficiency benefit, including modernisation related savings, of $29 million. It is unclear to what degree these decreases in FTE numbers can be attributed to improvements in enterprise efficiencies and modernisation related activities.

We note there is a lack of clarity around how enterprise efficiencies and modernisation savings are allocated to reserved letter services, and how forecasts for these savings have changed between Australia Post's 2023 and 2024 draft price notifications.

Fixed and variable cost forecasts

A key issue for Australia Post in its reserved letter business is its inability to reduce costs at the same rate as letter volumes decline.

For reserved letter services, the largest cost by function is delivery. Most of Australia Post's delivery costs are fixed as its prescribed performance standards mean it must service a geographically dispersed letter network on a regular timetable. These regulated performance measures mean it is limited in its ability to reduce these fixed delivery costs. It also means that decreases in letter volumes have not been proportionally reflected in declining delivery costs.

In its 2023 assessment of Australia Post's costs, WIK Consult noted that delivery costs had increased in relative importance as a cost component for reserved services between 2019 and 2023, despite decreasing letter volumes.[117] WIK Consult also noted that this had major

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114 Australia Post, *Draft Price Notification*, November 2024. p.16.

115 Australia Post, *Draft Price Notification*, November 2023. p.20.

116 Australia Post, *Draft Price Notification*, November 2024. pp.16-18.

117 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023, p. iix.

implications for Australia Post's cost structure, as delivery costs are characterised more as fixed costs and are less volume driven than the costs of other functions.[118]

Australia Post's cost forecasts suggest that the trend in increasing fixed delivery costs as a proportion of reserved letter costs is continuing. This means that delivery costs are decreasing at a rate that is slower than the rate of letter volume decline, which leads to an ongoing increase in unit cost.

The New Delivery Model has amended Australia Post's prescribed performance standards to reduce the required frequency of delivery for reserved letters. This change should shift fixed delivery costs from reserved services to other products that continue requiring daily delivery. However, the ACCC notes the trend of increasing fixed delivery costs in reserved letter services continues, regardless of the implementation of the New Delivery Model. These increasing fixed delivery costs are driven by rising labour costs over the period between 2027–28 and 2027–28.

Across both fixed and variable delivery costs, Australia Post has forecast a nominal reduction in reserved letter services delivery costs over the 2023–24 to 2027–28 period of $59.47 million, or 6.2%.

Letter processing costs are generally variable costs in that they are largely driven by volume. This means letter volume decline should result in lower processing costs.

Australia Post has forecast a nominal $9.36 million, or 5%, reduction in processing costs from 2023–24 to 2027–28. This is a relatively low decrease considering letter volumes are forecast to fall from 1,269 million to 810 million, or 36%, over this period.

However, the ACCC notes that almost one quarter of Australia Post's processing costs are fixed costs, which are forecast to increase between 2023–24 and 2027–28. Again, these fixed costs are related to labour and are subject to wage price increases during this time.

The ACCC considers that labour costs are not decreasing at the expected rate given the roll-out of the New Delivery Model and the expected labour related efficiencies that this operating model should deliver. We have addressed the effect of these operating inefficiencies on Australia Post's cost forecasts below.

Operating expenditure efficiency

Australia Post's operating expenditure forecasts

Australia Post forecasts a reduction in enterprise level operating expenditure from $1,496 million to $1,433 million between 2024–25 and 2027–28. To assess the efficiency of Australia Post's forecasts, Frontier Economics applied a base-step-trend approach to estimating efficient operating costs at the enterprise level.

The base-step-trend approach to estimating efficient costs is widely used by economic regulators to forecast efficient operating costs over a regulatory period. However, we note that it is generally applied in regulated industries where the regulated base year operating expenditure is well established and there is a high degree of confidence that it is efficient.

This approach presents challenges when applied to the current assessment of Australia Post's operating expenditure, where the efficiency of base year operating expenditure firstly

[118] WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023, p. iix.

needs to be established. In this case, demonstrating that recent actual operating expenditure is *not* materially inefficient may not be sufficient to demonstrate efficiency.

We also note the importance of appropriate cost allocation between reserved and non-reserved services in determining efficient reserved services operating expenditure. Our previous recommendations on cost allocation and Australia Post's progress on this are further discussed in Chapter 6. Economic benchmarking, when conducted carefully and with appropriate caution regarding its findings, can also provide relevant insights into the efficiency of Australia Post's operating expenditure, but was not included in Frontier Economics' analysis.

Despite this, we consider that Frontier Economics' analysis provides pragmatic justification for use of the revealed operating expenditure in 2023–24 as a base year starting point. In particular, as its report notes, around 83% of Australia Post's revenue derives from unregulated services. These services compete with other delivery and retail businesses, giving Australia Post a strong incentive to operate efficiently in order to remain competitive.

Frontier Economics' TFP analysis also found efficiency improvements despite a material decline in letter volumes over the last decade, and the analysis noted evidence of productivity initiatives in the Corporate Plan. While Frontier Economics also cited the similarity between actual reserved services operating expenditure for 2023–24 and Australia Post's forecasts as an indicator of efficiency, we consider that this is an imperfect measure of efficiency, as there may be an incentive for actual expenditure to approach forecast expenditure in a market that is not constrained by competition.

We consider the application of trend factors to account for real input price growth, output growth and productivity growth are appropriate.

In applying a step adjustment regarding the New Delivery Model, Frontier Economics notes that Australia Post's Statement of Expectations represents a significant constraint on Australia Post's ability to reduce its expenditure in response to declining letter volumes.[119] The Statement of Expectations outlines that there will be no forced redundancies of frontline team members directly impacted by changes to the New Delivery Model and retail network. We acknowledge that the Statement of Expectations guides Australia Post's operations, however, we generally consider that the costs associated with policy positions should be excluded from estimates of efficient cost for the purposes of regulatory assessments.

Frontier Economics' estimate of efficient enterprise-level operating expenditure cannot be directly applied to an assessment of reserved services efficiency and we have not replicated the analysis specific to reserved services. However, we consider that Frontier Economics' finding that it found no evidence that base year enterprise level operating expenditure is inefficient, provides some comfort that Australia Post's estimate of reserved services operating expenditure for 2024–25 may be similar to efficient costs, for the purposes of assessing this draft price notification, based on the degree to which resources within Australia Post are shared between reserved and non-reserved services.

As Frontier Economics' analysis does not provide an estimate of efficient reserved services operating expenditure, we have conducted high-level analysis to consider the implications of its findings for the assessment of this draft price notification.

To do this, we make an initial simplifying assumption that Australia Post's operating costs associated with its non-reserved services are fully efficient, to isolate the impact on reserved

[119] Frontier Economics, *Expenditure Review: Final Report for Australia Post*, January 2025, p. 7.

services. By doing this, we assume that all inefficiencies arise from reserved services. This assumption reflects the fact that Australia Post is incentivised, by competitive pressure, to reduce the costs of its non-reserved services. We can then apply the difference between Frontier Economics' estimate of efficient costs and Australia Post's forecast to reserved services only. Holding all else equal, this indicates a potential difference of around 1.2% (or approximately $17 million) between Australia Post's estimate of reserved services operating expenditure and efficient operating expenditure in 2025–26, in the context of reserved services operating expenditure of $1,479.0 million. The ACCC's preliminary view is that this demonstrates that the estimate of inefficiency has an immaterial impact on Australia Post's under-recovery.

Extrapolating this analysis, reserved services inefficiency would need to be around 10% in 2025–26 to completely erode the forecast under-recovery. For this reason, we did not request Australia Post update its PTRM to reflect Frontier Economics' analysis, however, for future price notifications, Australia Post should make the appropriate adjustments in its PTRM to reflect efficient costs.

We consider that trend adjustments applied by Frontier Economics at the enterprise level are likely also applicable to reserved services.

Similarly, we consider that the application of step adjustments for savings related to the New Delivery Model and a voluntary redundancy cost adjustment for 2024–25 would likely also be appropriate. However, the ACCC does not consider it appropriate for expenditures to be treated as prudent or efficient only because they relate to achieving government policy imperatives, such as the Statement of Expectations, that are not legally binding on Australia Post. As such, to estimate efficient costs, the step adjustment for the New Delivery Model should also account for cost savings that would arise in the absence of constraints imposed by the Statement of Expectations.[120]

Hence, based on high-level application of Frontier Economics' approach and findings, we consider it appropriate to assess Australia Post's forecasts of reserved services operating expenditure for this draft price notification. However, for future price notifications, we would expect to receive a breakdown of enterprise-level operating expenditure into efficient reserved and non-reserved services components. Australia Post should allow sufficient time in its preparation of future draft price notifications to incorporate estimates of efficient reserved services operating expenditure into its PTRM.

Capital expenditure efficiency

The ACCC's preliminary view is that Frontier Economics' high-level analysis of the efficiency of Australia Post's enterprise-level capital expenditure forecasts is reasonable. We consider that the systems and controls in place at an enterprise level are likely to also support efficiency at the reserved services level.

It is important that estimates of capital expenditure are efficient as they are used to estimate the return on capital and the regulatory asset base. Australia Post's forecasts of reserved services capital expenditure are shown in Table 16. Most of this reserved services capital expenditure is incurred for asset replacement (including postie motor vehicles and IT) and risk and compliance costs.

[120] While Frontier Economics makes the NDM adjustment in the 'step' stage of its analysis, an adjustment for the Statement of Expectations would most correctly be made in the estimation of the efficient 'base'. However, we note that these two approaches are mathematically equivalent when considering the results of the base, step trend analysis.

Table 16: Capital expenditure ($m, nominal)

	2023–24 (a)	2024–25	2025–26	2026–27	2027–28
Capital expenditure	49.81	55.80	48.42	48.17	39.42

Source: Australia Post, *Draft Price Notification*, November 2024, Table 13: Capital expenditure ($m, nominal), p .31.

6. Cost allocation

Key points

- Australia Post's reserved letter services share resources with other non-reserved services, such as parcels.
- It is important that the way the cost of these resources is shared between different services is prudent and transparent. Australia Post uses an activity-based-costing methodology to fully allocate the costs of its business to activities, such as delivering a letter, or delivering a parcel.
- Australia Post has implemented some of the recommendations regarding cost allocation we made during the last price notification process, and has indicated it will continue to work on the implementation of the outstanding recommendations.

Australia Post's draft price notification relates to its notified services (i.e. reserved ordinary letters delivered to the regular timetable). These, as noted above, are the only letter services that are declared and therefore subject to ACCC review of price increase.

In assessing Australia Post's justification for the proposed price increase, the ACCC has regard to the revenue required to support Australia Post's notified letter services. However, the notified letter services are a subset of the wider segment of reserved letter monopoly services. This means that when assessing the appropriateness of the proposed price increase for the notified letter services, the ACCC also considers the forecast costs and revenues of all reserved letter services.[121] This is necessary as the notified letter services share most of the same processing and delivery facilities as other reserved letter services. Consequently, Australia Post's cost recovery for the notified letter services is affected by the amount of shared and direct costs allocated across reserved services.

The reserved letter services also share the use of some resources (for example, post offices and postal delivery officers) with non-reserved services such as parcels. Growth in the parcel delivery segment and e-commerce have been key contributors to revenue for Australia Post in recent years. The way in which shared costs are allocated between the various product groups and segments is important for analysis of how Australia Post is recovering the costs of supplying monopoly notified and reserved letter services.

Previous assessments of Australia Post's cost allocation model

In 2019 and 2023, the ACCC engaged WIK Consult to undertake a comprehensive review of Australia Post's cost allocation model. In its 2023 review, WIK Consult found that the model retains the strengths it previously identified in 2019, including:

- consistency with the ACCC's Record Keeping Rules for Australia Post
- consistency with Australia Post's financial accounts, General Ledger and externally audited accounts

[121] Reserved services include all of Australia Post's statutory monopoly letter services under section 29 of the Postal Act, including business mail services that are not notified services but are provided at a discount to notified 'ordinary' letter services prices.

- fully allocated costing, ensuring costs are fully accounted for
- its use as an internal management tool as well as for regulatory reporting.[122]

WIK Consult also found that the relative proportional development of revenues and costs indicates, from a high-level top-down view, that Australia Post's cost allocation model broadly generates a relatively fair allocation of costs to services.[123]

However, WIK Consult also identified several weaknesses in Australia Post's cost allocation model, including:[124]

- **It is based on actual and not (necessarily) efficient costs.**

  Actual costs are the historical costs Australia Post incurred in providing its products and services. These costs are generally different to efficient costs, particularly where a corporation intends to change its production and/or delivery processes. The ACCC is more interested in Australia Post's economically efficient costs as these reflect the lowest cost to Australia Post of providing its products and services.

- **It does not generate forward-looking cost forecasts and is not integrated into a forecast model**.

  The cost allocation model does not contain a forecast model. Rather, the model is used to allocate Australia Post's cost forecast, undertaken for each business unit in fully separated models, to products and services.[125]

  Due to the model's nature as an ex post actual cost allocation tool, the model does not generate efficient cost forecasts.

- **It does not provide the short or long-run incremental cost of a service.**

  The model does not provide Australia Post, or the ACCC, with all the appropriate information needed to fully understand the profitability of its products.[126]

- **It is not an integrated tool, so it does not allow an external user to calculate the impact of parameter changes and scenario calculations.**

  Due to the importance of Australia Post's cost forecasts in the price notification process, the reliability, prudency and transparency of Australia Post's forecast data and its underlying assumptions are critical.

  WIK Consult identified that to better assess Australia Post's cost forecasts, the ACCC requires additional scenarios. These scenarios should include a scenario where Australia Post's prices do not change, and the resulting cost impact of letter volumes based on stable prices are revealed.[127]

WIK Consult also identified several areas where it doubted the reasonableness of Australia Post's cost allocation approach:

- **The allocation of unattributable costs.**

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122 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023, p. x.

123 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023, p. vii.

124 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023, p. x-xi.

125 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023, p. xi.

126 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023, p. xiii.

127 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023, p. xi.

Australia Post is restructuring its business operations, but no restructuring costs were specifically identified by Australia Post in its November 2023 draft price notification. WIK Consult identified some costs it believed to be restructuring costs that were treated as attributable costs without an appropriate allocation mechanism.[128] It considered that Australia Post should allocate these costs at a high level according to an equi-proportionate mark-up rule to products or service groups.[129]

- **The allocation of LPO subsidies are only applied to reserved services.**

  This allocation would only be correct under the assumption that non-reserved services do not benefit, either directly or indirectly, from having the larger number of LPO outlets that are supported by subsidisation.[130]

- **The delivery time standard update.**[131]

  WIK Consult found that Australia Post's 2019 update to its delivery time standards resulted in a structural shift from variable to fixed costs, which was reinforced for the domestic letter services due to the decline in letter volumes.[132] This resulted in a significant increase in activity costs for domestic letters, while the reduction in letter volume correspondingly reduced the variable cost allocated to domestic letters.

  Concurrent increases in the share of fixed costs allocated to parcel and express services were not sufficient to compensate for the structural shift in fixed costs to domestic letters due to the delivery time standard update.[133]

  WIK Consult considered that this discrepancy was due to a shortcoming in the implementation of the delivery time standard update within the cost allocation model, specifically the research that Australia Post had undertaken to understand the effects of the delivery time standard update on the business.[134] It noted that the changes flowing from the delivery time standard update may not be representative of the delivery cost structure today for the business and corresponding allocation of delivery costs to services.[135]

- **The transfer prices StarTrack pays for using Australia Post's network.**

  WIK Consult stated that the current pricing arrangement between Australia Post and StarTrack creates flexibility to distort cost allocations in favour of StarTrack to support its position in the parcel market.[136] Although it did not argue that there were distortions, WIK Consult recommended a contractually specified ex ante transfer price system to better enable the ACCC to control for potential competitive distortions.[137]

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128 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023, p. xiii.

129 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023, p. xiii.

130 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023, p. xiv.

131 The delivery time standard provides the delivery cost structure for the allocation of delivery costs to services. In the update, Australia Post undertook a field-based review of the time standards associated with the indoor and outdoor activities performed by postal delivery officers. For example, it considered travel, stop and delivery times across a sample of delivery addresses and modes (e.g. motorbikes, eDVs, electric bicycles) for different products.

132 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023, p. ix.

133 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023, p. x.

134 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023, p. xiv.

135 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023, p. xiv.

136 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023, p. xiii.

137 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023, p. xiii-xiv.

Based on Australia Post's approach to the allocation of costs related to these activities, WIK Consult considered it likely that reserved letter services were allocated more common costs than would be appropriate under efficient cost causation principles.[138]

WIK Consult also stated that it doubted that correcting these possible cost distortions would make reserved services profitable in the absence of Australia Post's proposed price changes.[139]

We recognise the importance of Australia Post addressing these cost allocation concerns as its business changes from focusing primarily on letters to parcel delivery. This is relevant because the proposed price increase for the reserved letter services should be commensurate with the costs associated with those services only, and should not be used to cross-subsidise other services that are provided by Australia Post in competitive markets.

In our March 2024 decision, we made several recommendations for Australia Post to address these concerns and improve its cost allocation model to more accurately separate the costs attributable to its reserved and non-reserved services.[140] The implementation of these recommendations would improve confidence in the way Australia Post incurs and accounts for the costs of these services. This will help to ensure that consumers do not pay more than they need to, and that Australia Post is appropriately allocating costs between its reserved services and activities in competitive markets.

Draft price notification

Australia Post uses an Enterprise Profit Model (EPM) to allocate costs, assess profitability and support commercial pricing decisions. This incorporates a cost allocation model that allocates operating and capital costs across the business between the various products and services. Consistent with previous price notifications, this cost allocation methodology also reflects a 'dual till' approach. Under this approach, Australia Post separates costs and revenues of its reserved services from its non-reserved services.

To fully allocate its costs, Australia Post uses an activity-based-costing (ABC) methodology. This approach identifies resource costs from the general ledger and assigns them to activities via 'fit for purpose' drivers.[141] Costs associated with each activity are then assigned to the products and services driving that activity.[142]

Australia Post's cost allocation model is primarily driven by product volume. Using volume as a key driver means Australia Post allocates increasing costs for products experiencing volume growth and less costs for products in decline.

However, under this model it is important that the underlying allocation of costs to different products is accurate.

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138 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023, p. xv.

139 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023, p. xv.

140 ACCC, *ACCC decision on Australia Post's price notification*, March 2024, pp. 60-61.

141 Australia Post, *Draft price notification*, November 2024, p. 22.

142 Australia Post, *Draft price notification*, November 2024, p. 22.

Implementation of the ACCC's recommendations

In our March 2024 decision on Australia Post's 2023 price notification, the ACCC made several recommendations based on its own analysis and WIK Consult's assessment of Australia Post's cost allocation model.[143] The ACCC stated that it expected these recommendations to be implemented prior to Australia Post submitting any further price notifications.[144]

These key recommendations, and Australia Post's response, are as follows.

1. Australia Post should provide the ACCC with improved forecast data including multiple forecast scenarios and use efficient costs rather than actual costs.

This recommendation required Australia Post to provide a range of scenarios to the ACCC to support its forecasts. These additional scenarios enable the ACCC to undertake sensitivity testing to understand the incremental effects of individual cost change factors. Australia Post implemented this recommendation and provided 6 price and volume-based scenarios. These scenarios are discussed in Chapter 4.

Australia Post to provide forecasts using efficient costs rather than actual costs.

As discussed in Chapter 5, Australia Post did not implement this recommendation prior to submitting its draft price notification in November 2024. Its cost forecasts in its draft price notification are based on actual incurred costs. Instead, Australia Post engaged Frontier Economics to undertake a base, step, trend forecast of its enterprise-level operating expenditure, with a light touch approach taken to assessing the efficiency of its capital expenditure.

Frontier Economics did not find any evidence that Australia Post's base year enterprise level operating expenditure is materially inefficient.[145] Frontier Economics did not identify any material difference between its operating cost forecasts and Australia Post's forecasts. As explained in Chapter 5, the ACCC is of the preliminary view that the Frontier Economics methodology and estimates are satisfactory for this price notification process.

However, for future price notifications, we would expect to receive a breakdown of enterprise-level operating expenditure into efficient reserved and non-reserved services components. Australia Post should allow sufficient time in its preparation of future draft price notifications to incorporate estimates of efficient reserved services operating expenditure into its Post Tax Revenue Model.

Forecast data which contains a decomposition of cost changes related to input price changes, volume changes, economies of scale, economies of scope, and any changes in the production process.

Australia Post stated that upgrades to its systems, and the requisition of specialist advice, would be required to meet this recommendation. Instead, Australia Post has provided the ACCC with fixed, semi variable, and variable costs data at an EPM level.

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143 ACCC, *ACCC decision on Australia Post's price notification*, March 2024, p. 8.

144 ACCC, *ACCC decision on Australia Post's price notification*, March 2024, p. 3-4.

145 Frontier Economics, Expenditure Review: Final Report for Australia Post, January 2025, p. 8.

The underlying assumptions employed in its forecasts.

Australia Post has confidentially provided the ACCC with its Corporate Plan 2024/25 – 2027/28. The Corporate Plan includes Australia Post's underlying business strategy and decision making that drive the assumptions employed in its revenue and letter volume forecasts as well as broader enterprise level forecasts.

Disaggregation of Australia Post's financial reporting by geographic region between urban and rural areas in recognition of the importance of postal services for regional and remote Australia.

Australia Post has confidentially provided this data to the ACCC as part of the draft price notification process.

2. Conduct a new delivery time standard survey using a larger sample size and more geographical diversity.

Australia Post did not implement this recommendation prior to submitting its 2024 draft price notification. Australia Post notes that it plans to conduct a new delivery time standard survey after it has completed rolling out its new delivery model.[146] It also states that it does not consider that new survey results will differ greatly from the previous survey results.[147]

Australia Post has provided additional, public information to the ACCC on its proposed new delivery time standard survey and the integration of the New Delivery Model into its EPM.[148] In this additional information, Australia Post states that its EPM was updated in July 2024 to reflect structural changes to reserved letter services resulting from every second day letter delivery and a reduction in rounds. It also states that resulting changes to reserved letter services costs are reflected in its draft price notification.

3. Australia Post to provide short-run and long-run incremental costs of individual services and products, including loss-making reserved services.

As discussed in Chapter 5, Australia Post indicated that it does not collect this cost data in this format, and instead provided the ACCC with fixed and variable costs. It notes that it is '… *continuing discussions with the ACCC to support full implementation of this recommendation.'*[149]

Information on incremental long and short-term costs is an important source of data for the ACCC's assessment on the profitability of reserved letter services. The ACCC expects Australia Post to undertake the system changes required to provide this data in the future and welcomes discussions with Australia Post on how it can fully implement this recommendation.

4. Review the allocation of licenced post office subsidy costs, electric delivery vehicle costs, restructuring costs and other unattributable costs.

Licensed post office subsidy costs.

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146 Australia Post, *Draft price notification*, November 2024, p. 17.

147 Australia Post, *Draft price notification*, November 2024, p. 17.

148 Australia Post, *Delivery time standard survey and the integration of the New Delivery Model into our Enterprise Profit Model*, November 2024.

149 Australia Post, *Draft price notification*, November 2024, p. 22.

Australia Post informed the ACCC that from March 2024, LPO subsidies are now being allocated to all products and services commensurate with the amount of network consumption for each group. This change to cost allocation methodology ameliorates the concern raised by WIK Consult that Australia Post's EPM allocates all subsidies paid by Australia Post to LPOs to reserved services only.

Electric delivery vehicle costs.

WIK Consult identified that Australia Post has increased the use of electric delivery vehicles (eDVs) for delivering parcels and letters. eDVs cause higher fixed costs for delivery than motorcycles, but Australia Post's EPM spreads this increase in fixed cost to letter and to parcel delivery although the increase is caused by parcels (only).[150]

In its 2024 draft price notification, Australia Post stated that its decision to invest in eDVs was primarily driven by safety. [151] It notes the provision of additional evidence to the ACCC to support this and provides further details on its relevant cost allocation methodology in its draft price notification.

Australia Post states that the costs associated with eDVs are distributed across all products delivered by posties,

> *As EDVs were purchased to ensure the safety of posties, delivering both letters and parcels, the costs related to these vehicles (including purchase, maintenance, fuel, insurance, and registration) are distributed across all products delivered by posties.*
>
> *This is reflected in our cost allocation model which is designed to ensure that the costs associated with EDVs are not disproportionately burdened by any one product. It reflects the operational realities of delivery, where both parcels and letters contribute to the use of EDVs.*[152]

Australia Post has also provided the ACCC with confidential material that outlines the underlying business case for replacing motorcycles with eDVs.

After considering this evidence, the ACCC preliminary view is to accept that a key driver of Australia Post's decision to replace motorcycles with eDVs was the safety of its employees. On this basis, the current volume driven, activity-based approach for cost allocation resulting from the introduction of eDVs is likely appropriate.

Operating costs associated with motor vehicles, including those related to eDVs, amounted to $45.5 million in 2023-24 or 3% of total operating expenditure for reserved letter services. As such, changes to Australia Post's cost allocation methodology for eDVs would not have a material effect on reducing its under recovery. However, as Australia Post continues to roll-out its New Delivery Model and letter volume continue to decline, the ACCC anticipates a general reduction in the proportion of eDV costs allocated to reserved letters.

Restructuring costs and other unattributable costs.

This recommendation required Australia Post to separately identify restructuring costs as unattributable costs and allocate these costs at a high level according to an equi-

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150 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023, p. xiv.

151 Australia Post, *Draft price notification*, November 2024, p. 29.

152 Australia Post, *Allocation of postie motor vehicle costs*, November 2024.

proportionate mark-up rule to products or service groups. Australia Post implemented this recommendation in its draft price notification in a manner reflective of its obligations under its Record Keeping Rules.[153]

5. Establish an ex-ante contractual transfer pricing arrangement with StarTrack.

In its draft price notification, Australia Post notes this recommendation and its purpose in preventing the possibility of competitive distortions and improving transparency.[154]

Australia Post did not implement this recommendation prior to submitting its draft price notification. However, it has now provided the ACCC with a confidential Intercompany Services Agreement between Australia Post and StarTrack. The agreement contains an ex-ante schedule of service fees and is executed by StarTrack's Director and Australia Post's CFO.

A key concern raised by WIK Consult underlying this recommendation was that Australia Post should implement more incremental cost elements to determine the appropriate transfer price for StarTrack in order to better reflect the price effects of using Australia Post's network in peak conditions.[155]

Although the agreement does set out some costs related to Australia Post's parcel delivery, we note that these costs are not transparent, and we are not fully satisfied that they reflect incremental costs associated with delivery of StarTrack parcels during peak demand periods. We consider that one reason for this may be that these incremental costs may be difficult for Australia Post to differentiate from its average costs.

The ACCC will seek additional information from Australia Post to ensure our concerns are addressed prior to Australia Post submitting its next draft price notification.

Submissions received

In response to consultation on Australia Post's draft price notification, the ACCC received 175 responses, of which 158 (90%) opposed the proposed price increase.

Few submissions from individual respondents commented on issues relating to Australia Post's cost allocation, while a small number of submissions from businesses and industry groups provided comment on this subject.

Are Media, the Conference of Asia Pacific Express Carriers (CAPEC) and APIF noted that it appeared the ACCC's recommendations to Australia Post on its cost allocation model had not been implemented.

> *Contrary to the ACCC's expectations, it is clear AP has either failed to, or outrightly refused to, implement various ACCC recommendations before submitting its notification.*[156]
>
> *The ACCC recommended that Australia Post ensure the classifications of services align with the Postal Act, and that revenues and costs are attributed accordingly. This*

153 ACCC, *Australia Post Record Keeping Rules*, July 2016.

154 Australia Post, *Draft price notification*, November 2024, p. 40.

155 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, 2023, p. XV.

156 Are Media, *Are Media submission*, December 2024, p. 11.

recommendation further underscores the need for transparency and accurate cost allocation in future requests for increases to pricing for reserved services. Despite these clear recommendations by the ACCC, Australia Post has not yet addressed the concerns. As a result, the ACCC's position on the current request by Australia Post for increases to pricing for reserved services should remain firm: any further price increases for reserved services should only be approved once Australia Post has resolved these transparency and classification issues.[157]

Based on a review of Australia Post's current Draft Price Notification, APIF notes that the recommendations have been largely unmet, despite the strength and urgency of the ACCC's comments ...[158]

The submission from APIF also highlighted the potential that Australia Post's cost allocation methodologies may be overstating the costs for reserved letter services.

…the Letters business should only be required to cover costs that are uniquely required for the Letters business and the incremental costs directly caused by the Letters business for shared activities, rather than an allocation of full costs, as the costs for these shared activities are largely being incurred and driven by Non-Reserved Services. The current EPM and cost allocation model does not ensure that the cost pools are optimised so that they are not larger than required for the Letters business, and then that fair allocations are applied against the right-sized cost pools.[159]

CAPEC noted the difficulty in evaluating Australia Post's cost recovery claims due to a lack of transparency around its cost allocation methodologies.

A key issue highlighted was that the WIK Consult report was unable to determine whether the price increase would resolve Australia Post's losses in the letter division due to the lack of transparency in calculating the full extent of the costs associated with the Community Service Obligation (CSO) to deliver reserved services.[160]

The APIF submission particularly questioned Australia Post's allocation of delivery costs to letters in the context of the New Delivery Model rollout.

60% of delivery resources, on an FTE basis, are allocated to the domestic letters business. This seems high, especially with the new delivery model, where the Posties' daily rounds have been configured so that regular letters only make up a portion of one of two parts that make up the daily rounds. This suggests that 60-75% of Postie costs could be allocated to Parcels, as under the New Delivery Model, Posties spend almost 100% of their time handling parcels for (the light) half of their daily delivery round and approximately 20-50% handling parcels for the other (heavy) half of their daily round.[161]

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157 Conference of Asia Pacific Express Carriers, *CAPEC submission to ACCC's consultation on Australia Post's draft price notification*, (CAPEC submission) December 2024, p. 1.

158 Australian Parcels Industry Forum, *APIF submission*, December 2024, p. 6.

159 Australian Parcels Industry Forum, *APIF submission*, December 2024, p. 8.

160 Conference of Asia Pacific Express Carriers, *CAPEC submission*, December 2024, p. 1.

161 Australian Parcels Industry Forum, *APIF submission*, December 2024, p. 9.

ACCC preliminary view

The ACCC acknowledges stakeholder concerns regarding Australia Post's transparency around its implementation of the ACCC's recommendations. This chapter, and the summary of Australia Post's progress in implementing the recommendations at Appendix B, is designed to address these concerns.

We have outlined our expectations for Australia Post to complete its implementation of the remaining cost allocation recommendations prior to submitting any further price notifications in Chapter 10.

We welcome feedback from stakeholders on Australia Post's progress implementing these recommendations.

In its draft price notification Australia Post acknowledges the importance of an accurate cost allocation methodology in mitigating cross-subsidisation risks, stating:

> *Following the latest ACCC recommendations, we have undertaken further refinements to our cost allocation methodology to ensure even greater accuracy and fairness. By continually refining our cost allocation methodology, we ensure that our pricing remains fair, transparent, and reflective of actual resource usage, mitigating the potential for cross subsidisation between the reserved letter services and non-reserved services.*[162]

The ACCC recognises the work Australia Post has done to progress implementation of the ACCC's cost allocation recommendations in the relatively short period since they were made. However, the ACCC considers that there are still improvements to Australia Post's cost allocation methodology that can be made.

The ACCC notes that Australia Post has implemented recommendations made in 2019 in relation to its cost allocation model. We recognise that Australia Post has made several significant updates to its cost allocation methodology to reflect the various changes to its business since 2019, including the roll-out of the New Delivery Model.

We also reiterate that when it identified the cost allocation issues, WIK Consult also stated that Australia Post's cost allocation model broadly generates a relatively fair allocation of costs to services, and that correcting the cost allocation was not likely to make Australia Post's reserved services profitable in the absence of the proposed stamp price increases.[163]

We consider that Australia Post's ongoing work to continually update its cost allocation model to reflect current conditions is positive and that system changes required by some recommendations will take time to implement. Australia Post has indicated that it intends to submit another price notification next year. We expect significant ongoing improvements in Australia Post's cost allocation model as these system level changes are implemented. We consider that it is particularly important that these cost allocation issues are addressed as Australia Post is now forecast to achieve enterprise level profits.

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162 Australia Post, *Draft price notification*, November 2024, p. 23.

163 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023, p. xv.

7. Cost of capital

Key points

- The ACCC has applied the same methodology used in the 2023 price notification process to estimate a weighted average cost of capital, as part of determining the return on capital building block for Australia Post's reserved services.
- Our preliminary view is to apply a nominal vanilla weighted average cost of capital of 7.94%, having updated our individual parameter estimates where appropriate to 31 December 2024.

In assessing Australia Post's draft price notification, the ACCC has had regard to whether the estimated revenue generated is required to recover the efficient costs of providing Australia Post's reserved services[164], including a return on capital.

The weighted average cost of capital (WACC) is a commonly used approach for calculating the return on capital. It reflects the opportunity cost to investors and lenders of choosing to finance a firm's operations. It estimates the expected rate of return on assets by combining the return on debt and equity weighted by the amount of debt and equity held by the firm.

To attract capital to fund activities, investors and lenders expect a business to earn at least a sufficient profit or cash flow to meet a required return in proportion to the risk of the business, while preserving the base capital provided.

Any assessment of WACC needs to consider the assumptions underlying the choice of values for key parameters, as they will impact the WACC calculation.

Draft price notification

In its draft price notification, Australia Post proposed to use the WACC presented by the ACCC in the final decision for the 2023 price notification, acknowledging that some of the parameters may need to be updated due to market changes since the last price notification.

Australia Post made this change to its approach to the calculation of the WACC in response to the ACCC recommendation in the March 2024 decision to amend its estimates of gamma, the gearing ratio, asset and equity betas and cost of debt.

Submissions received

We did not receive any submissions that specifically commented on the cost of capital calculations.

[164] The ACCC considers Australia Post's cost recovery for all reserved services, as the notified letter services share most of the same processing and delivery facilities as other reserved letter services.

ACCC preliminary view

The ACCC has applied the same methodology used for the assessment of the 2023 price notification to update the WACC estimate for this price notification. To capture changes in market conditions, the ACCC updated the parameter estimates using Bloomberg data up to 31 December 2024. The ACCC methodology is discussed in greater detail in Appendix C.

Table 17 compares the WACC input parameters in Australia Post's draft price notification, which are the parameters proposed by the ACCC in the assessment of the WACC in the 2023 price notification, to the ACCC's updated parameters.

Table 17. Australia Post's weighted average cost of capital

WACC parameter	2024 draft price notification estimates	ACCC updated estimates
Risk free rate	4.71%	4.38%
Market risk premium	6.20%	6.20%
Corporate tax rate	30.00%	30.00%
Gamma (imputation factor)	0.57	0.57
Asset beta (β_a)	0.54	0.48
Equity beta (β_e)	0.90	0.82
Debt beta (β_d)	0	0
Gearing ratio (D/V)	40.60%	41.92%
Cost of equity	10.32%	9.46%
Cost of debt	6.68%	5.83%
Nominal vanilla WACC	**8.84%**	**7.94%**

Source: Australia Post; ACCC analysis.

The updated parameter estimates indicate that a nominal vanilla WACC of 7.94% is appropriate for the 2024 price notification. The decrease in the WACC has largely been driven by decreases in the risk-free rate and the cost of debt, proxied by the 10-year Australia Government Securities and 10-year A-rated Corporate bond yields.

The impact on the maximum allowable revenue (discussed in Chapter 8 of this report) when the ACCC's updated parameters are used is a reduction of approximately $5 million, $4 million and $4 million for reserved services in 2025–26, 2026–27 and 2027–28 respectively[165].

The effect of this reduction in the maximum allowable revenue is relatively small and would not materially reduce Australia Post's under-recovery for reserved services. This is because the return on capital accounts for approximately 3% of Australia Post's total required revenue for reserved services. The ACCC notes that it sets the cost of capital in reference to an efficient comparable firm operating in Australia rather than the regulated business' actual financial statements. The ACCC considers that this approach balances the need for a firm to earn a comparable rate of return to other investment options, but not lead to monopolistic pricing, while also providing an incentive to improve overall performance.

[165] Based on Australia Post's financial data modelling the impacts of a single price increase on 1 July 2025.

8. Cost recovery

Key points

- Our preliminary view on Australia Post's draft price notification is to not object to the price increases, primarily on a cost recovery basis.
- Australia Post's draft price notification sets out a building block model that outlines the maximum allowable revenue for the provision of the reserved services. By comparing this with Australia Post's forecast revenues for the reserved services, we have determined that Australia Post is likely to continue to under-recover the efficient costs of providing the reserved services.
- Operating and maintenance expenditure makes up over 90% of Australia Post's maximum allowable revenue. This is because most of the costs associated with reserved services are related to the labour-intensive delivery network.

The ACCC's preliminary view is to not object to Australia Post's proposed price increase to the basic postage rate in mid–2025. This is primarily because Australia Post is expected to under-recover the cost of providing its reserved letters services in financial year 2025–26 even with the proposed mid–2025 price increase. The ACCC is also mindful that Australia Post's ability to earn revenue sufficient to cover its efficient costs is necessary to maintain investment and employment.

The ACCC's approach to cost recovery

When assessing price notifications tendered under Part VIIA of the CCA, the ACCC considers that the legislative criteria will generally be met by economically efficient prices, which reflect:

- an efficient cost base, and
- a reasonable rate of return on capital.

In assessing proposed price increases for notified services, the ACCC will generally consider whether the prices being proposed by a declared firm are commensurate with the efficient costs of providing the relevant services. This approach is outlined in the ACCC's *Statement of regulatory approach to assessing price notifications under Part VIIA of the Competition and Consumer Act 2010* (the Statement of regulatory approach).[166]

The ACCC's key consideration in assessing Australia Post's proposed increases is the degree to which the revenues generated under the new prices will be sufficient to cover Australia Post's efficient costs. As outlined in the Statement of regulatory approach, Australia Post's ability to earn revenue sufficient to cover its efficient costs also impacts its ability to maintain both investment and employment – key considerations for the ACCC under the relevant legislative criteria.

[166] ACCC, *Statement of regulatory approach to assessing price notifications under Part VIIA of the Competition and Consumer Act 2010*, March 2017, p. 13.

Our approach seeks to understand how Australia Post's forecast revenue compares with the maximum allowable revenue for the monopoly reserved services, as calculated under Australia Post's building block model.

This building block model estimates the maximum allowable revenue for the reserved service, based on four building blocks:

- operating and maintenance costs,
- return of capital, representing the depreciation of fixed assets,
- return on capital, representing the required rate of return on the asset base,[167] and
- tax allowances.

The sum of these represents the revenue that an efficient firm in an otherwise competitive market would require to provide the relevant services. In this way, the maximum allowable revenue is an estimate, allowing the ACCC to assess whether the proposed price increases are likely to result in Australia Post earning excess profits from its statutory monopoly.

Australia Post's building block model is a post-tax revenue model, incorporating the full economic costs of providing the reserved service, including a return *on* and *of* invested capital, as well as an allowance for corporate tax.

Based on the information provided to us, our assessment is that Australia Post will not recover the full economic costs of providing its reserved services, even under the proposed price increases. The revenues it earns in providing the reserved services are likely to be less than the cost of providing them, and as such Australia Post will not earn excessive or monopoly profits as a result of its statutory monopoly on these services.

How Australia Post finances these services is, in the short term, a matter for Australia Post. However, we note the continuing importance of the letters service to the community, and the widespread interest in its continuing viability – as well as Australia Post's statutory obligations to provide it.

In addition to continued losses in providing the reserved services, Australia Post has also made losses at the enterprise level for two consecutive years, in FY2022–23 and FY2023–24, raising questions about Australia Post's funding model for its community service obligations, as well as more broadly. This issue is discussed further in Chapter 9.

Draft price notification

In its 2024 draft price notification, Australia Post highlighted this statement from our March 2024, decision:[168]

> *'While the ACCC considers that the new delivery model and other business reforms should enable Australia Post to achieve further cost savings over the next 3 years, which could potentially reduce Australia Post's efficient costs, it is likely that Australia Post will continue to under-recover the costs of providing reserved services over the coming years. This is due to the ongoing predicted letter volume decline and concurrent continued increase in delivery points across Australia*.'[169]

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167 The required rate of return is intended to allow Australia Post a large enough revenue to incentivise investment.

168 Australia Post, *Draft Price Notification*, November 2024, p. 15.

169 ACCC, *Decision on Australia Post price notification*, March 2024, p. 38.

This ACCC statement on the likelihood of Australia Post's ongoing under-recovery of costs was made in response to Australia Post's 2023 price notification, in which it proposed a single 2024 price increase. In this draft price notification, Australia Post notes that its experience in rolling out the New Delivery Model confirms this continuing under recovery, and reiterates the pressures on sustainability of the reserved services.

In support of its draft price notification, Australia Post has provided its post-tax revenue model (PTRM) to the ACCC. This model sets out each of the building blocks noted above, building up an estimate of the revenue required to provide the reserved letter services.

It also estimates the revenue Australia Post expects to earn from its provision of the reserved services. Simply, Australia Post models expected revenues based on expected demand for its services at a given level of price. These revenue forecasts, essentially the sum of expected demand for each of its products at a proposed price, is informed by Diversified Specifics' volume forecasts, discussed in Chapter 4.

Australia Post has modelled several scenarios in its PTRM to support its assertion that the reserved services will continue to under-recover their cost of provision. These additional scenarios are listed in Australia Post's Draft price notification.[170]

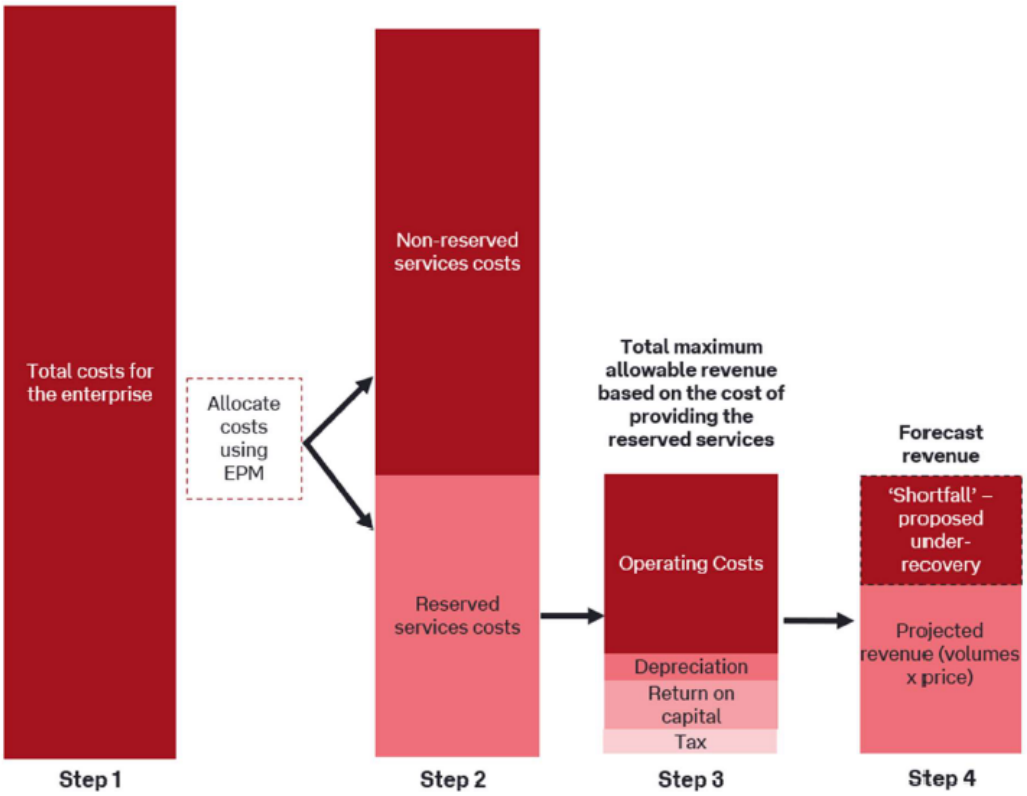
A key issue for this price notification is the extent to which Australia Post is under-recovering its efficient costs. Generally, in assessing proposed price increases the ACCC will consider whether the revenue generated by the proposed prices would exceed the maximum allowable revenue, considering the level and efficiency of the firm's cost base.

Where the application of proposed prices in its PTRM produce estimates of significant under-recovery relative to the efficient costs of provision, it is unlikely that the proposed prices would lead to the earning of monopoly rents. Conversely, prices that lead to a large over-recovery of a firm's efficient costs may reflect monopoly pricing power, which in turn may lead to consumers paying more than they need to for the service in question.

Australia Post's approach to 'building up' its maximum allowable revenue and forecast shortfall is outlined in Figure 11.

[170] Australia Post, *Draft Price Notification*, November 2024, p. 46.

Figure 11: Australia Post's Building Block Model



Source: Australia Post, *Draft price notification*, November 2024, Figure 4: Pricing approach steps, p. 20.

Australia Post's headline under-recovery as set out in the draft price notification is set out in Table 18.

Table 18: Headline revenue shortfall for the reserved services, 2023–24 – 2027–28 ($m, nominal)

	2023–24 (a)	2024–25	2025–26	2026–27	2027–28
Total allowable revenue	1,713.98	1,643.09	1,625.10	1,599.10	1,562.73
Proposed revenue	1,445.66	1,459.18	1,477.03	1,446.44	1,413.61
Revenue shortfall	**268.32**	**183.91**	**148.07**	**152.66**	**149.13**

Source: Australia Post, *Draft price notification*, November 2024, Table 10: Revenue shortfall, p. 24.

As Table 18 demonstrates, over the three forecast years, even with three proposed price increases, Australia Post expects it will face a revenue shortfall of approximately $150 million per year in delivering the reserved letter services. This shortfall represents approximately 9 to 10% of its maximum allowable revenue per year.

The draft price notification sets out a revenue shortfall of:

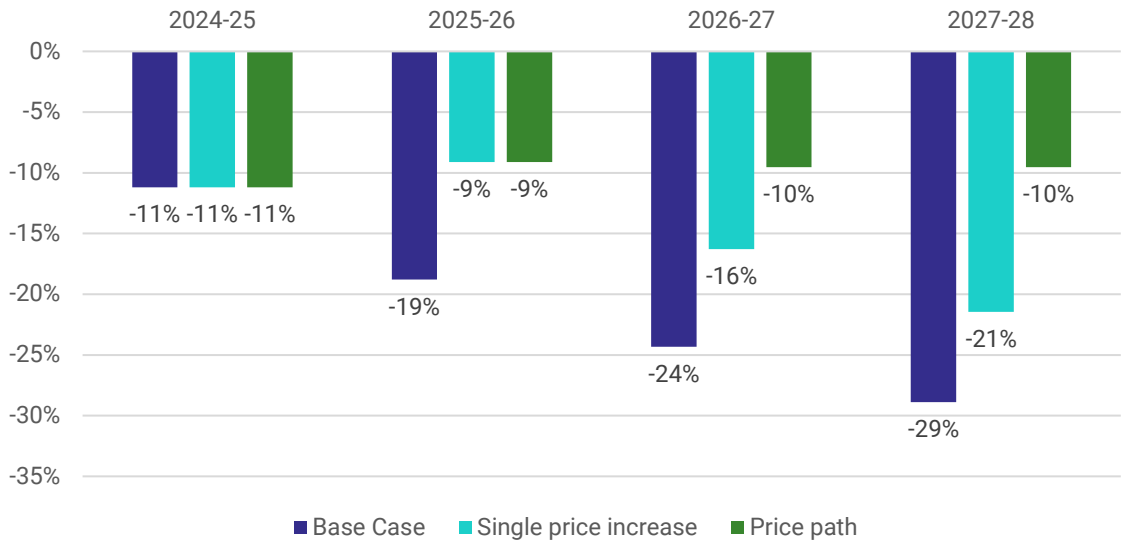
- $148.07 million in 2025–26 (at a basic postage rate of $1.70),

- $152.66 million in 2026–27 (at $1.85), and
- $149.13 million in 2027–28 (at $2.00).

In aggregate, this represents a total shortfall of almost $500 million dollars in nominal terms over the 3 forecast years. This includes not only the proposed price increase covered in this price notification, but a further two increases of 15 cents each in 2026–27 and 2027–28.

As would be expected, Australia Post projects these losses would be larger in the two out-years should the basic postage rate be maintained at $1.70 – i.e. under a 'single increase' scenario. This is illustrated in Figure 12.

Figure 12: Under-recovery as a percentage of maximum allowable revenue, 2024–25 – 2027–28, under various scenarios



Source: ACCC analysis of Australia Post PTRM.

Figure 12 demonstrates the difference in under-recovery under three scenarios:

- the 'price path' scenario, as proposed in the draft price notification,
- a 'one-off' increase to $1.70 in 2024–25, and
- a base case, showing the under-recovery without any price increases out to 2027–28.

Australia Post's proposal as set out in the draft price notification is for the price path scenario, represented in Figure 12 as the series in green. As noted above, this scenario posits an ongoing under-recovery of 9-10% of the maximum allowable revenue in each of the forecast years between 2025–26 and 2027–28.

A single price increase (in cyan) posits that same under-recovery for 2025–26, before increasing to a 16% under-recovery in 2026–27, and a 21% under-recovery of the maximum allowable revenue in 2027–28. Finally, the base case (in blue) illustrates the magnitude of the under-recovery of the costs of the reserved services out to 2027–28 should the basic postage rate remain unchanged at $1.50.

Australia Post's building blocks

As outlined above, Australia Post estimates its maximum allowable revenue for the reserved services by summing estimates for four components:

- operating and maintenance costs,
- depreciation,
- a return on assets (capital), and
- an allowance for corporate tax.

These building block components are set out in Table 19.

Table 19: Building block components, 2023–24 to 2027–28 ($m, nominal)

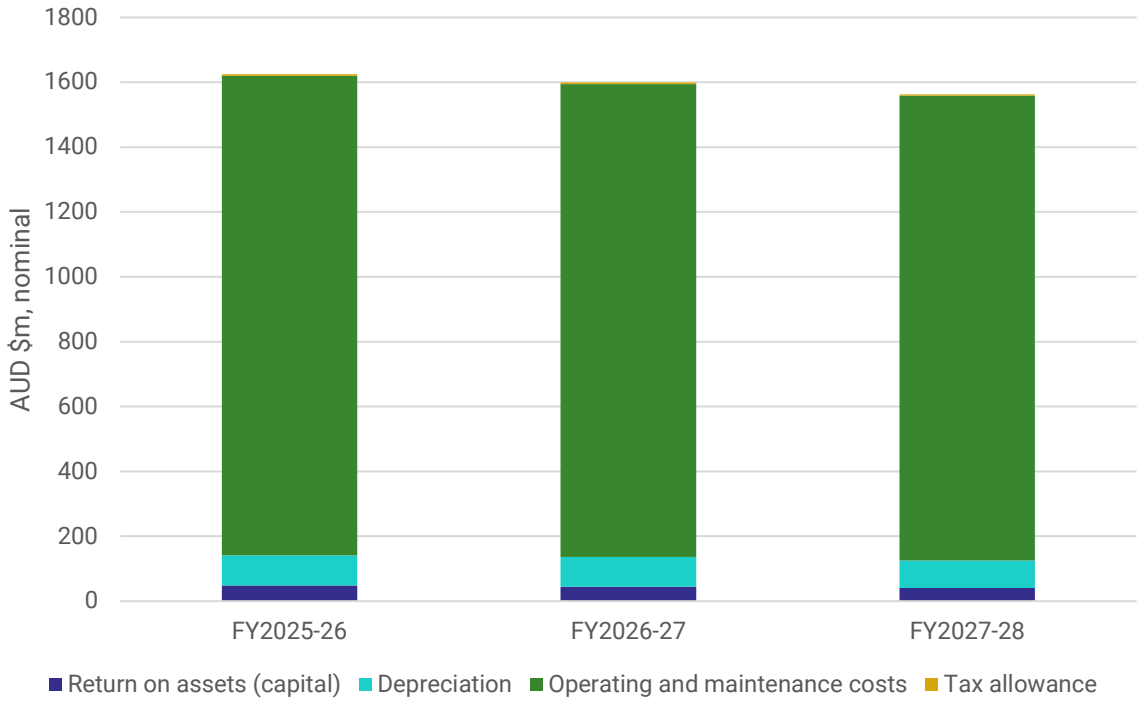
	2023–24	2024–25	2025–26	2026–27	2027–28
Operating and maintenance costs (Opex)	1,549.80	1,496.18	1,478.99	1,458.41	1,433.17
Depreciation	102.7	89.66	92.67	91.52	84.71
Return on assets	55.76	51.92	48.47	44.6	40.68
Tax allowance	5.72	5.33	4.98	4.58	4.18
Maximum allowable revenue	**1,713.98**	**1,643.09**	**1,625.10**	**1,599.10**	**1,562.73**
Opex % of maximum allowable revenue	90%	91%	91%	91%	92%

Source: Australia Post, *Draft price notification*, November 2024, p. 24.

Unlike some firms regulated under a building block framework, operating and maintenance costs make up the vast bulk of Australia Post's maximum allowable revenue. This reflects the nature of the reserved letter services as a labour-intensive delivery business, compared to a capital-intensive energy or telecommunications firm.

As a result, the maximum allowable revenue – and by implication the size of any under- or over-recovery – is relatively insensitive to even large changes to the magnitude of 3 of the 4 building block components. The relative sizes of each of the building blocks for the 3 years to 2027–28 is demonstrated in Figure 13.

Figure 13: Building block components, 2025–26 to 2027–28 ($m, nominal)



Source: Australia Post, *Draft price notification*, November 2024, p. 24.

As can be seen in Table 20 and Figure 13, operating and maintenance costs make up more than 91% of Australia Post's maximum allowable revenue in each year under the price path scenario. Australia Post's operating expenditures are discussed in more detail in chapter 5.

As a result of the relative size of the operating expenditure component, the other three building block components have a much smaller effect on the overall size of Australia Post's cost recovery.

Australia Post has also modelled a scenario in its PTRM based on the optimistic letter demand projection forecast by Diversified Specifics. This scenario indicates that even where actual demand exceeds forecast demand the additional revenue at the higher prices is not sufficient to overcome Australia Post's under-recovery on its reserved letter services.

Submissions received

In response to consultation on Australia Post's draft price notification, the ACCC received 168 survey responses, and 7 written submissions via email. Most respondents opposed the increase.

Few submissions commented specifically on the cost recovery basis of Australia Post's draft price notification.

Sydney Water noted the need for Australia Post to recover its efficient costs, but submitted that the ACCC should strike a balance between 'financial sustainability and the accessibility and affordability of postal services for Australians':[171]

[171] Sydney Water, *Sydney Water submission*, December 2024, p. 2.

While I understand the need for Australia Post to recover efficient costs and ensure a reasonable rate of return, I believe this proposed increase will have several negative impacts on both consumers and businesses.[172]

In its submission, POAAL noted Australia Post's expected under-recovery, and that Australia Post will be required to cross-subsidise the provision of the reserved services:

Australia Post says its proposed letter pricing will continue to result in an [under-recovery] of around $150 million each year. This would indicate that Australia Post will continue to cross-subsidise the letters service from its other business, all of which is completely open to competition from commercial players.[173]

Are Media suggested instead that the under-recovery (framed as Australia Post's continuing requirement for investment in postal services) should instead be directly funded, citing other OECD nations such as New Zealand and the UK:

The ACCC should recommend that the Federal Government provide financial support to [Australia Post] as other countries have done with their postal services.[174]

…

There is already some precedent for Governments providing financial support to national postal services in other countries in recent times and Are Media considers the same should happen in Australia. In NZ, the Government made $130 million available over 3 years to NZ Post to cover its projected financial losses resulting from a volume decline in mail. In the UK, the Post Office network receives a subsidy from the Government of £50 million a year (and is expected to do so until 2025) which has helped the network to combat rising operating costs services.[175]

APIF by contrast re-stated its view that the current regulatory framework and cost allocation methodology implies an existing cross-subsidy from the letters business to the unregulated, competitively-exposed parcels business:

Given the strong interrelationship between Letters losses and [Community Service Obligations] costs it is clear that income from any price increase in Letters will be used to subsidise the parcels business thereby making the playing field for parcels even more uneven.[176]

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172 Sydney Water, *Sydney Water submission*, December 2024, p. 1.

173 Post Office Agents Association Limited, *POAAL submission*, December 2024, p. 2.

174 Are Media, *Are Media submission*, December 2024, p. 13.

175 Are Media, *Are Media submission*, December 2024, p. 14.

176 Australian Parcels Industry Forum, *APIF submission*, December 2024, p. 12.

ACCC preliminary view

Under-recovery will likely continue with the proposed price increase

The ACCC's preliminary view is that based on past trends, the letter segment of Australia Post is likely to continue to incur losses in the next 3 years. In forming this view, the ACCC considers:

- actual letter volumes in the future years are unlikely to be substantially higher than Australia Post's forecasts
- revenue forecasts in the future years are unlikely to be substantially higher than Australia Post's forecasts (incorporating Australia Post's proposed price path)
- any reduction in actual costs in future years, in comparison with Australia Post's forecasts, is unlikely to be sufficiently large to close the forecast revenue shortfall, even after considering potential efficiency measures introduced by the New Delivery Model
- the under-recovery of costs will likely continue during the assessment period, mainly due to declining letter volume.

In light of these factors, the ACCC considers that a break-even of costs and revenue is unlikely to arise for reserved services.[177] This is the case even if Australia Post increases its prices as it has proposed. The ACCC has conducted high-level modelling of the combined impact of adjustments to operating expenditure efficiency, depreciation (including indexation of the regulated asset base) and return on capital as presented in its preliminary view. Noting that there are several assumptions underpinning these adjustments, the combined impacts reduce the magnitude of the estimated under-recovery in Australia Post's single-price-increase scenario from 9% to a value in the order of 7%. However, we note that under a more optimistic letter volume scenario, accounting for a series of price increases and the potential for further efficiency adjustments to reserved services operating costs could reduce this under-recovery further.

Forecast revenue

Our assessment of Australia Post's under-recovery compares the revenues that Australia Post expects to earn from the provision of the reserved services to the maximum allowable revenue as calculated in Australia Post's building block revenue.

When calculating the forecast revenues, Australia Post considers its expected demand for each of its products at a given price, informed by the econometric modelling performed by Diversified Specifics. By summing these product revenues, Australia Post can forecast a total revenue figure for its reserved services – providing a benchmark against which the maximum allowable revenue can be compared.

As discussed in Chapter 4, the ACCC considers Australia Post's volume forecasts (informed by Diversified Specifics' econometric modelling) to be a generally reasonable estimation of volume demand.

[177] Any future price increases for notified services are subject to assessment in accordance Part VIIA of *the Competition and Consumer Act 2010*.

Australia Post has provided a number of versions of its PTRM, each demonstrating a different scenario or set of forecast revenues (and costs). The ACCC has assessed both the case outlined in the draft price notification, as well as these additional scenarios.

Australia Post has forecast revenues below its maximum allowable revenue (detailed further below), forecasting an under-recovery of the cost associated with providing the reserved services.

Maximum allowable revenue

As outlined above, Australia Post estimates its maximum allowable revenue for the reserved services by summing estimates for four components:

- operating and maintenance costs
- depreciation
- a return on assets (capital), and
- an allowance for corporate tax.

Operating and maintenance costs

Our assessment of costs and operational efficiency is set out in Chapter 5. Based on Frontier Economics' approach and findings we consider it appropriate in this instance to adopt Australia Post's forecasts for reserved services operating expenditure. Our recommendations with regard to future operating expenditure forecasts are set out in Chapter 10.

Operating and maintenance costs make up more than 90% of Australia Post's maximum allowable revenue, reflecting its position as a labour-intensive delivery network. As a result, it is this building block that has the greatest impact on the magnitude of Australia Post's under- or over-recovery of the efficient costs of the provision of the reserved services.

In this case, the ACCC's preliminary view is that reserved services inefficiency would need to be around 10% in FY2025–26 to completely erode the forecast under-recovery. We consider this magnitude is sufficient to avoid the proposed price increase resulting in over-recovery by Australia Post even after accounting for the issues discussed in Chapter 5.

Depreciation

Depreciation takes into account the value and the life of an asset. It is a building block for the purposes of assessing Australia Post's maximum allowable revenue and represents the return of capital invested over time. Over the forecast period, depreciation is the second largest component of the maximum allowable revenue. Even so, it makes up a relatively small proportion of the total compared to operating expenditure, at approximately 5 to 6%.

Australia Post uses a 'straight-line method' to calculate depreciation, based on asset classes that align to standard accounting principles and applicable financial reporting standards. The depreciation of these assets is then calculated based on pre-determined rates consistent with the applicable accounting treatment. As the RAB is not indexed for inflation, this method reflects a 'historical cost account' of depreciation.

Australia Post's current approach to estimating depreciation appears to differ from its approach in previous price notifications, which involved converting the RAB and depreciation values to 'current cost account' metrics by accounting for inflation and using a real rate of

return on capital. Australia Post's previous approach to estimating depreciation was consistent with the ACCC's approach.

Our preliminary view is that the current approach is inconsistent with regulatory precedent and has the potential to frontload revenue recovery. We recommend that Australia Post update its approach to calculating depreciation in its PTRM model in consultation with the ACCC ahead of its next draft price notification.

Return on assets

The return on assets, also known as the return on capital, represents the return required to incentivise investment. In regulatory settings, it is determined by multiplying the weighted average cost of capital by the regulatory asset base.

The weighted average cost of capital reflects the opportunity cost to investors and lenders of choosing to finance a firms' operations. The ACCC's approach to the weighted average cost of capital is discussed in Chapter 7, and further in Appendix C.

The ACCC has applied the same methodology to calculate the weighted average cost of capital used in the 2023 price notification process, updated for newly available data.

Australia Post's regulated asset base is relatively small when compared to other capital-intensive businesses regulated using a building block approach, such as energy and telecommunications firms. As a result, this update does not materially impact Australia Post's forecast under-recovery, as the return on assets makes up around 3% of the maximum allowable revenue.

Tax allowance

In a post-tax revenue model, an allowance for tax is a building block component. Australia Post's tax liabilities as they relate to the reserved services are relatively small. The ACCC has assessed Australia Post's calculations for the tax allowance building block, and has not found any issues that would materially affect the size of Australia Post's under-recovery.

Australia Post's half-year 2024-25 financial results

In recent years, the profits earned in Australia Post's other services have not been high enough to cover the losses of the reserved services. As a result, Australia Post made successive overall enterprise level losses in the 2022–23 and 2023–24 financial years.[178]

However, on 28 February 2025, Australia Post released its half-year financial results for the 2025 financial year.[179] These results included an interim enterprise level profit of $249.1 million, which suggest Australia Post is likely to record a return to profit for the full financial year in 2025. The ACCC notes that historical trend data indicates Australia Post is likely to record a second half loss in 2025. This means if it does achieve an enterprise level profit for the full financial year it would be less than its half-year outcome.

Australia Post reported a 10% increase in letters revenue and a 54% decrease in letters losses in its half-year results. Although positive, Australia Post still recorded a $83.7 million

[179] Australia Post, *Improved performance driven by record Peak and Post26 strategy, with challenging second half ahead*, 28 February 2025. Accessed 25 March 2025.

loss in its letters business. Australia Post has provided an updated forecast to the ACCC for 2024–25 based on its half-year results. This forecast still indicates a material under-recovery on the provision of its reserved letter services.

Although these results do not affect the forecast period for Australia Post's proposed price increase, they have informed our view on the applicability of specific scenarios provided by Australia Post.

9. Other issues

Key points

- The current price notification framework contains limitations that affect the ACCC's ability to fully address all concerns identified during its assessment of Australia Post's draft price notification.
- The ACCC considers Australia Post should provide its efficient costs, rather than actual costs, for future price notifications. This should include a breakdown of enterprise level operating expenditure into efficient reserved services costs and non-reserved services costs, and a quantification of the costs associated with policy positions such as Australia Post's Statement of Expectations.
- We acknowledge stakeholder concerns regarding Australia Post's cost allocation methodology, and the importance of the fair and transparent allocation of costs between reserved and non-reserved services.
- We consider that Australia Post can continue to improve transparency and timeliness of information to support a robust assessment process.

The ACCC has identified a range of issues through its analysis of the Australia Post draft price notification and consultation process. Specifically, the potential for inefficiencies in Australia Post's reserved letter services cost base, the potential for cross subsidisation that may cause competitive distortions, Australia Post's implementation of the ACCC's 2024 recommendations and its approach to transparency.

The ACCC has also identified constraints in the current price notification framework. We address these limitations first as we consider they provide additional context for the discussion of the remaining 'other issues'.

The price notification framework

The Declaration, which requires Australia Post to notify the ACCC when it proposes to increase the price of its notified services, will cease to have effect on 30 June 2025. In the Government's current Statement of Expectations for Australia Post it states:

> *The Government will work with Australia Post to settle a future pricing oversight mechanism that will give Australia Post and its customers more certainty over a longer-term price path for basic postage.*[180]

The ACCC remains open to discussions with the Government about the future of the price notification framework.

The ACCC has decades of experience undertaking assessments of price notifications made under Part VIIA of the CCA and predecessor Acts. The price notification regime has been in place since the *Prices Surveillance Act 1983* was introduced. Similar provisions were

[180] Department of Infrastructure, Transport, Regional Development, Communications and the Arts, *Statement of Expectations for Australia Post*, July 2024, accessed 30 January 2025.

subsequently incorporated into Part VIIA of the *Trade Practices Act 1974*, and then into the CCA. The framework has remained substantially unchanged throughout this time.

In this context, and based on the ACCC's experience in performing its functions under the price notification framework, the ACCC considers that there are some aspects of the framework that could be improved to reflect this passing of time and changes in the economic analysis required to evaluate price notifications.

In particular, the ACCC notes that a period of 21 days to assess a formal price notification does not allow the ACCC to apply the necessary rigour it considers is required to undertake a fulsome economic assessment. This includes assessing the level and the efficiency of the declared firm's cost base, as well as a reasonable rate of return. This has led to the development of the pre-notification processes set out in the Statement of regulatory approach to assessing price notifications under Part VIIA of the CCA.[181]

This approach includes informal discussions with Government Business Enterprises and consultation with stakeholders before the formal notification is submitted. However, the ACCC has no information gathering powers until a formal price notification has been received. In addition, the statutory framework and criteria for assessing price notifications has remained broadly the same for over 40 years. The ACCC considers section 95G(7) is no longer reflective of the current and likely future pricing principles that should be applied to monopoly infrastructure under widely-accepted economic theory, and as seen in other regulatory settings.[182]

Further, price notifications do not allow the ACCC to make binding decisions; the ACCC can only decide whether or not to object to the prices notified (or to not object to another lower proposed increase). This includes not having the ability to set a binding long-term price path or to build enduring, incentive-based regulatory frameworks. Lodgement of a price notification is the decision of the regulated firm, which can be ad hoc and create uncertainty for industry. The ACCC has no ability to initiate a review of prices, which may result in excessive returns.[183]

This can create 'gaps' in which the efficiency of a firm's cost base may not be assessed for several years. The ACCC can only assess the notified goods or services, which does not necessarily represent the appropriate economic regulation of the full suite of services from the Government Business Enterprise or private monopoly. Government Business Enterprises may be required to make investments for non-economic factors which are not considered by the regime. This can also lead to capital expenditure programs that appear to vary in a random manner.

The ACCC considers improvements to these aspects of the regulatory framework (which would require legislative amendment) would likely see better outcomes for industry and consumers overall, moving forward.

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181 ACCC, *Statement of regulatory approach to assessing price notifications under Part VIIA of the CCA*, March 2017.

182 See for example, the pricing principles contained in section 44ZZCA of the CCA or the revenue and pricing principles contained in section 7A of the *National Electricity (South Australia) Act 1996* and section 24 of the *National Gas (South Australia) Act 2008*.

183 The decision of the regulated firm of when to submit a price notification has the potential to create perverse incentives. For example, where there is uncertain demand or where forecasts differ from actual outcomes, a regulated firm may have the incentive to submit a new price notification that differs from any longer-term price path previously approved in principle from the ACCC. A regulated firm may also apply for higher prices during a temporary period of increased activity; with no ability to revise prices downwards, this may lead to long-term over-recoveries.

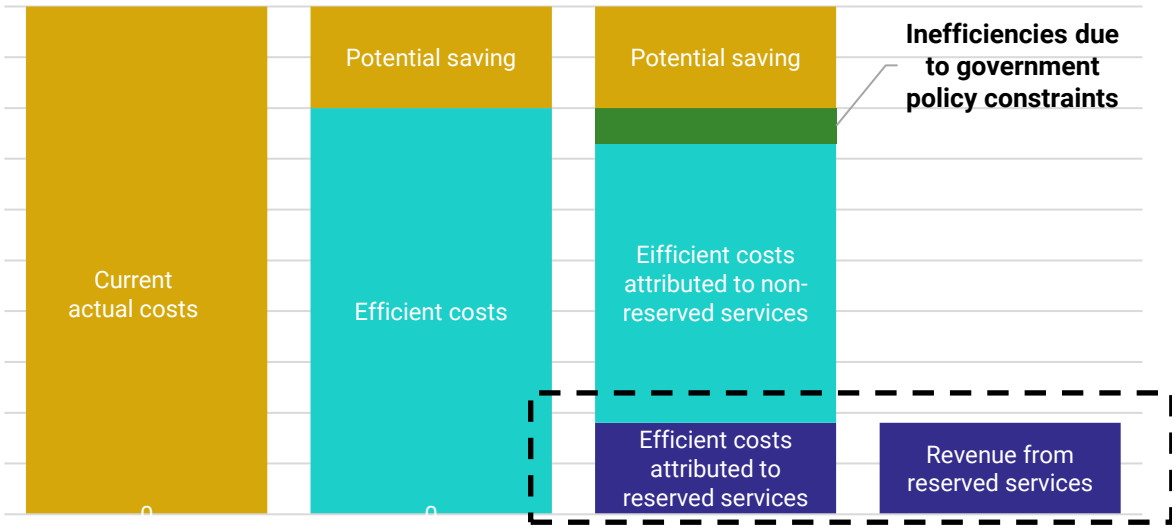
Australia Post's efficient costs

As explained in Chapter 1, and above, the ACCC's approach to interpreting section 95G(7) of the CCA is set out in our *Statement of regulatory approach to assessing price notifications under Part VIIA of the CCA*.[184]

Broadly, the ACCC considers that the matters in section 95G(7) require an assessment of the efficiency of a regulated firm's cost base and the rate of return that it is seeking. The proposed price increase is then assessed having regard to the firm's ability to recover revenue sufficient to cover the efficient cost of providing a service, including a rate of return commensurate with the risks faced by the firm, without generating excessive or monopoly profits.

A key aspect of establishing the efficient cost base is identifying a firm's potential savings or inefficiencies and removing them from the calculation of maximum allowable revenue (or the revenue required to cover the cost of providing the required service). Figure 14 describes this process for Australia Post.

Figure 14: Calculation of required revenue to provide reserved letter services



- Step 1: Australia Post submits is current actual costs and cost forecasts.
- Step 2: We consider the efficiency of Australia Post's operations. Only efficient costs should be included in the revenue model.
- Step 3: The ACCC uses a 'dual till' approach where we assess the efficient costs allocated to reserved letter services. We do not consider the costs allocated to non-reserved services in this assessment. The efficient costs for the reserved letter services should exclude inefficient costs related to government policy constraints.
- Step 4: We compare the efficient costs for the reserved letter services with the revenue Australia Post is expected to earn from the reserved letter services.

[184] ACCC, *Statement of regulatory approach to assessing price notifications under Part VIIA of the CCA*, March 2017.

Policy related inefficiencies

Australia Post operates in a complex policy environment subject to constraints related to its community services obligations, regulated performance standards and its Statement of Expectations.[185] These constraints mean that it cannot function as a commercial operator and remove all inefficiencies from its business.

Labour related inefficiencies are a relevant example of this. The Statement of Expectations outlines that there will be no forced redundancies of frontline team members directly impacted by changes to the New Delivery Model and retail network. In Chapter 5, the ACCC notes that Australia Post's delivery and processing costs are not declining, or forecast to decline, at the rate expected as a result of the New Delivery Model. ACCC analysis suggests this may be due to the labour related constraints on Australia Post set out in its Statement of Expectations, which affect its ability to reduce its workforce. Frontier Economics also identified that Australia Post's Statement of Expectations represents a 'significant constraint' on its ability to reduce its expenditure in response to declining letter volumes.[186]

Consistent with the ACCC's approach to assessing price notifications under the Statement of Regulatory Approach, the ACCC considers that customers should only pay for the efficient costs of providing the reserved letter service.

The ACCC's preliminary view is that it does not consider it appropriate for expenditures to be treated as prudent or efficient only because they relate to achieving government policy statements, such as the Statement of Expectations.

We acknowledge that the Statement of Expectations guides Australia Post's operations. However, having regard to the statutory criteria and the object of Part VIIA, we consider that costs which are otherwise avoidable but for policy positions, should be excluded from estimates of efficient cost for the purposes of our cost-based assessment.

As such, to estimate its efficient costs, Australia Post should identify and remove costs that arise solely due to policy statements. The ACCC considers that the identification of these costs will enable a better understanding of the impost on Australia Post customers of these obligations and an informed discussion about how these costs are funded.

For the current assessment of the draft price notification, we do not consider that removing these costs would reduce Australia Post's forecast under-recovery to a degree that would influence our assessment of the proposed price increase.

However, for future price notifications, we would expect to receive a breakdown of enterprise-level operating expenditure into efficient reserved and non-reserved services components. Generally, the efficient reserved services component should not include costs incurred by Australia Post due to its policy related obligations, which are otherwise avoidable.

Cross subsidisation concerns

Australia Post operates in both a regulated reserved letter services market and a competitive letter and parcel delivery market. The reserved letter services share the use of some

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185 Department of Infrastructure, Transport, Regional Development, Communications and the Arts, *Statement of Expectations for Australia Post*, July 2024, p. 4, accessed 30 January 2025.

186 Frontier Economics, Expenditure Review: Final Report for Australia Post, January 2025, p. 7.

resources (for example, post offices and postal delivery officers) with non-reserved competitive services such as parcels. This means that Australia Post has a significant volume of common costs.

In this context, the ACCC recognises the critical importance of appropriate revenue and cost allocation as Australia Post's business changes from focusing primarily on letters to parcel delivery. This is relevant because the proposed price increase for the reserved letter services should be commensurate with the costs associated with those services only, and should not be used to cross-subsidise other services that are provided by Australia Post in competitive markets.

Submissions received from APIF[187] and CAPEC[188] raised concerns about the possibility of market distortion due to cross-subsidisation and the accuracy of Australia Post's cost allocation.[189] Of primary concern is whether Australia Post is able to use the revenue it receives from its monopoly services to set the prices of its unregulated products below economic cost. If so, it would benefit from an unfair advantage to the detriment of competitors. This may reduce investments, innovations and efficiency improvements in the affected markets.

The submissions from CAPEC and APIF both note that the ACCC's March 2024 recommendations were not fully implemented prior to Australia Post submitting its draft price notification. Key among APIF's concerns are recommendations related to cost allocation issues identified by WIK Consult that suggested over allocation of costs to the reserved services business. APIF argue that:

> *…unfair, outdated and inaccurate cost allocations resulting in cross subsidisation between reserved and non-reserved services remain unaddressed and continue to distort the competitive parcels market.'*[190]

APIF also identify concerns with Australia Post's operational efficiency in its letters business. It considers there is little evidence Australia Post is pursuing the most efficient operating model for the delivery of letters but rather optimising its model for parcel delivery.[191]

Due to these concerns, APIF submit that the proposed increase in the price of stamps would be used to subsidise Australia Post's parcels business and exacerbate unfair competition.[192]

Although not addressed prior to submitting its draft price notification, Australia Post has made progress in implementing the cost allocation recommendations made by the ACCC. Its progress is outlined in Chapter 6 and in the summary table at Appendix B.

The ACCC acknowledges APIF's concerns regarding Australia Post's cost allocation model and has outlined its expectations regarding Australia Post's implementation of the remaining cost allocation recommendations below.

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187 APIF represents the following parcel carriers: Aramex, FedEx Express, Sendle, and Team Global Express.

188 CAPEC represents the following parcel carriers: DHL Express, Federal Express and UPS.

189 Conference of Asia Pacific Express Carriers, *CAPEC submission*, December 2024; Australian Parcels Industry Forum, *APIF submission*, December 2024.

190 Australian Parcels Industry Forum, *APIF submission*, December 2024, p. 5.

191 Australian Parcels Industry Forum, *APIF submission*, December 2024, p. 10.

192 Australian Parcels Industry Forum, *APIF submission*, December 2024, pp. 11-12.

Productivity Commission report

In its submission CAPEC highlights findings from a report of the Australian Government Competitive Neutrality Complaints Office (AGCNCO), part of the Australia Government's Productivity Commission. The report investigates a complaint made by CAPEC that Australia Post is not complying with its competitive neutrality obligations, including requirements on cross-subsidisation.[193] Australia Post's Community Service Obligations (CSOs) are described in Appendix A, and relate to its obligations under the Postal Act and the Postal Regulations to provide the reserved letter services and ensure these services are reasonably accessible to all people in Australia on an equitable basis and that the performance standards reasonably meet the social, industrial and commercial needs of the Australian community.[194].

Australia Post does not currently receive external funding from government to cover its losses in performing its CSOs. This means the costs of the CSOs must be met internally by Australia Post. The AGCNCO stated that Australia Post's obligation to deliver and fund its various CSOs puts it at a competitive disadvantage.[195] The AGCNCO also found that Australia Post's mandated internal funding (cross-subsidisation) of its CSOs contradicts the Government's competitive neutrality policy, and has the potential to distort competitive markets and cause perverse incentives. It stated:

> *'An alternative funding mechanism that removes the potential for economic harm should be pursued.'*[196]

The AGCNCO recommended that the costs of Australia Post's CSO be funded directly from the Budget to eliminate the potential for perverse incentives and to introduce increased transparency and accountability.[197]

The report also responded to a supplementary complaint made by CAPEC that raised concerns about Australia Post's cost allocation methodology misrepresenting the real cost of its CSOs. In its response, the AGCNCO noted the ACCC's March 2024 decision on Australia Post's price notification, stating:

> *'…the AGCNCO is satisfied that, while improvements to cost allocation are necessary, Australia Post's cost estimates are credible and reflect a competitive disadvantage for the organisation.'*[198]

The ACCC acknowledges these findings.

Implementation of the ACCC's March 2024 recommendations

The ACCC made several recommendations in its March 2024 decision for Australia Post to improve its future price notification processes. These included changes to Australia Post's

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193 Productivity Commission, *Australia Post competitive neutrality report*, October 2024.

194 Section 27 of the Postal Act.

195 Productivity Commission, *Australia Post competitive neutrality report*, October 2024, p. 55.

196 Productivity Commission, *Australia Post competitive neutrality report*, October 2024, p. 60.

197 Productivity Commission, *Australia Post competitive neutrality report*, October 2024, p. 62.

198 Productivity Commission, *Australia Post competitive neutrality report*, October 2024, p.. 57.

financial modelling, improvements to its cost and demand forecasts, and the provision of further information to the ACCC to assist with future assessments.

In making the recommendations, we stated that:

> *The ACCC expects Australia Post to implement these recommendations before submitting its next draft price notification. The ACCC would be concerned if Australia Post does not implement these recommendations, and may not be in a position to not object to any future proposed price increase'*[199]

Australia Post did not fully implement the ACCC's recommendations prior to submitting its November 2024 draft price notification. Australia Post has also not been transparent about its progress implementing the recommendations. Where Australia Post has identified recommendations in its draft price notification, it has largely done so by exception.

Australia Post's current Statement of Expectations specifically anticipates its constructive engagement on these recommendations to enable transparency in the consultation process.

> *In the interim, the Government expects Australia Post to continue to engage constructively with the Australian Competition and Consumer Commission ('ACCC') on the recommendations for improvements, including regarding the cost allocation model, outlined in its decision on Australia Post's February 2024 price notification, to support a transparent and consultative price notification process.*[200]

In general, Australia Post has engaged constructively with the ACCC to progress implementation of the recommendations. Overall, the majority of recommendations have been implemented. Appendix B contains a summary table of our recommendations and Australia Post's response.

However, Australia Post's lack of transparency regarding its implementation of the recommendations has hampered effective consultation on its draft price notification.

Australia Post's transparency

In 2024 the ACCC stated that it:

> *…considers that transparency and consultation are important for an effective price notification assessment process. We encourage Australia Post to be as transparent as possible with the information it provides. We note the ACCC will continue to consider public consultation to be a critical step in any future price notification process.*[201]

The ACCC acknowledges Australia Post's improved approach to transparency in its 2024 draft price notification through the inclusion of an indicative price path and though reduced redactions in its published documents.

Based on feedback from consultation we consider there are improvements Australia Post can make to its engagement processes and its transparency, especially around its implementation of ACCC recommendations.

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199 ACCC, *Decision on Australia Post's price notification*, March 2024, pp. 3-4.

200 Department of Infrastructure, Transport, Regional Development, Communications and the Arts, *Statement of Expectations for Australia Post*, July 2024, p. 2, accessed 30 January 2025.

201 ACCC, *Decision on Australia Post price notification*. March 2024, p. 62.

Australia Post's lack of transparency regarding its implementation of the recommendations was a central issue identified in submissions on the draft price notification from Are Media, APIF and CAPEC.

Are Media, APIF and CAPEC noted that it appeared the ACCC's recommendations to Australia Post had not been implemented.

> *Contrary to the ACCC's expectations, it is clear AP has either failed to, or outrightly refused to, implement various ACCC recommendations before submitting its notification.*[202]
>
> *At a minimum, AP's progress (or lack of) in implementing the ACCC's recommendations should be subject to public scrutiny.*[203]
>
> *Based on a review of Australia Post's current Draft Price Notification, APIF notes that the recommendations have been largely unmet, despite the strength and urgency of the ACCC's comments ...*[204]
>
> *The ACCC recommended that Australia Post ensure the classifications of services align with the Postal Act, and that revenues and costs are attributed accordingly. This recommendation further underscores the need for transparency and accurate cost allocation in future requests for increases to pricing for reserved services. Despite these clear recommendations by the ACCC, Australia Post has not yet addressed the concerns. As a result, the ACCC's position on the current request by Australia Post for increases to pricing for reserved services should remain firm: any further price increases for reserved services should only be approved once Australia Post has resolved these transparency and classification issues.*[205]

We encourage Australia Post to continue to improve transparency to facilitate a robust assessment process.

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202 Are Media, *Are Media submission*, December 2024, p. 11.

203 Are Media, *Are Media submission*, December 2024, p. 3.

204 Australian Parcels Industry Forum, *APIF submission*, December 2024, p. 6.

205 Conference of Asia Pacific Express Carriers, *CAPEC submission*, December 2024, p. 1.

10. ACCC recommendations

Key points

- We acknowledge Australia Post's work in implementing some of the ACCC's previous recommendations and welcome its commitment to continue implementation of the outstanding items.
- The ACCC makes several recommendations to Australia Post to improve the rigour of our assessment process and to provide greater transparency and confidence to stakeholders.

Recommendations

- Australia Post should provide improved forecast data
  - Its cost forecasts must be based on efficient costs[206]
  - It must improve the transparency around any adjustments it makes to Diversified Specifics letter volume forecasts[207]
  - It should provide forecast data which contains a decomposition of cost changes related to input price changes, volume changes, economies of scale, economies of scope, and any changes in the production process.[208]
- Australia Post should make significant further improvements to its cost allocation model
  - It should provide short-run and long-run incremental costs of individual services and products, including loss-making reserved services to the ACCC[209]
  - It must conduct a new delivery time standard survey[210]
  - It must provide further details on the implementation of its ex-ante contractual transfer pricing arrangement with StarTrack to the ACCC
- Australia Post should adjust its depreciation approach in its PTRM
- Australia Post should be timelier and more transparent in its draft price notification submissions
- Australia Post should increase its cap on concessional stamps
- We encourage Australia Post to engage with its stakeholders earlier and more thoroughly.

In this chapter, we set out recommendations for Australia Post to support any future price notification process. These include recommendations we made in March 2024 that still require full implementation.

206 ACCC, *Decision on Australia Post price notification*, March 2024, p. 60.
207 ACCC, *Decision on Australia Post price notification*, March 2024, p. 60.
208 ACCC, *Decision on Australia Post price notification*, March 2024, p. 59.
209 ACCC, *Decision on Australia Post price notification,* March 2024, p. 61.
210 ACCC, *Decision on Australia Post price notification,* March 2024, p. 61.

These recommendations are important because of Australia Post's statutory monopoly over reserved letter services in Australia. Given that it is not subject to competition in relation to these services, which would drive it to deliver them efficiently, the ACCC's recommendations seek to ensure rigour in the way that Australia Post incurs and accounts for its costs. This is so that consumers and businesses who use these services can be confident that they aren't paying more than is needed to recover the costs of providing them.

Further, Australia Post offers services in competitive markets, for example parcel delivery. It is important that Australia Post does not cross-subsidise its competitive services from its regulated services. This requires a robust allocation of costs between the regulated and competitive services.

The ACCC also recognises the impact of material stamp price increases on the community and businesses. As noted in Chapter 3, concerns raised by stakeholders indicate Australia Post could improve its stakeholder engagement and consultation processes.

Implementation of 2024 recommendations

The ACCC made several recommendations in its March 2024 decision for Australia Post to improve its future price notification processes. These included changes to Australia Post's financial modelling, improvements to its cost and demand forecasts, and the provision of further information to the ACCC to assist with future assessments.

When making these recommendations, the ACCC noted it expected Australia Post to implement the recommendations before submitting its next draft price notification.[211] We also stated that we would be concerned if Australia Post did not implement the recommendations and may not be in a position to not object to any future proposed price increase.[212]

Australia Post did not implement all of our recommendations prior to submitting its November 2024 draft price notification. A summary of the recommendations and Australia Post's response is at Appendix B.

In some instances, Australia Post's ability to fully implement recommendations prior to submission of its draft price notification in November 2024 was affected by the short lead time. In other cases, Australia Post has not clearly addressed the concerns underlying a recommendation.

In general, the ACCC's preliminary view is that it is satisfied with Australia Post's progress in implementing our March 2024 recommendations.

To continue enhancing the robustness of the economic regulation process, we have made further recommendations for Australia Post to implement prior to submitting future price notifications. The aim of these recommendations is to encourage Australia Post to be more rigorous in its cost allocation methodology, and to improve its cost forecasting capabilities, its record keeping procedures and information sharing practices.

The recommendations include those that were not fully implemented for this price notification process.

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211 ACCC, *Decision on Australia Post price notification*, March 2024, p. 3.

212 ACCC, *Decision on Australia Post price notification*, March 2024, p. 3.

ACCC preliminary view recommendations

Australia Post should provide improved forecast data

As set out in Chapter 5, Australia Post implemented key recommendations on improving its forecast data regarding the provision of alternative scenarios.

Three recommendations were partially implemented and are described below. The ACCC recommends these recommendations be fully implemented over the identified timeframes.

Australia Post's cost forecasts be based on efficient costs[213]

While Australia Post acknowledged this recommendation in its draft price notification it was not implemented. Instead, it engaged a consultant, Frontier Economics, to assess the efficiency of its enterprise-level costs after the lodgement of the draft price notification.[214]

As discussed in Chapter 5, Frontier Economics tested Australia Post's enterprise level operating expenditure. We consider that Frontier Economics' findings provide some comfort that Australia Post's estimate of reserved services operating expenditure for 2024–25 may be similar to efficient costs, for the purposes of assessing this draft price notification.

For this reason, we did not request Australia Post update its PTRM to reflect Frontier Economics' analysis.

However, for future price notifications, we would expect to receive a breakdown of enterprise-level operating expenditure into efficient reserved and non-reserved services components. Australia Post should allow sufficient time in its preparation of future draft price notifications to incorporate estimates of efficient reserved services operating expenditure into its Post Tax Revenue Model.

We also expect Australia Post to provide a high-level quantification of the magnitude of costs allocated to reserved letter services that are a result of its policy obligations, including those contained in its Statement of Expectations.

The ACCC expects Australia Post to implement this recommendation prior to submitting its next draft price notification.

Improve the transparency around any adjustments Australia Post makes to Diversified Specifics letter volume forecasts[215]

The ACCC consider that there remains a lack of transparency about how Australia Post employ Diversified Specific's volume demand forecasts.

Although not clearly explained in its draft price notification, it appears that Australia Post take 'advice' from Diversified Specifics on volume demand forecasts to develop their own forecasts. It does not 'adopt' Diversified Specific's volume demand forecasts per se. This approach results in minor variations in total volume demand forecasts for reserved letter services between Diversified Specifics and Australia Post.

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213 ACCC, *Decision on Australia Post price notification*, March 2024, p. 60.

214 Australia Post, *Draft price notification*, November 2024, p. 22.

215 ACCC, *Decision on Australia Post price notification*, March 2024, p. 60.

The ACCC expects Australia Post to clearly identify any differences between its letter volume demand forecasts and Diversified Specifics forecasts in its next draft price notification, and clearly explain these differences.

Provide forecast data which contains a decomposition of cost changes related to input price changes, volume changes, economies of scale, economies of scope, and any changes in the production process.[216]

Australia Post did not refer to this recommendation in its draft price notification and did not implement the recommendation. Australia Post told the ACCC that it would require an upgrade of systems and specialist advice to meet this recommendation and instead provided fixed and variable costs data.

On the basis that Australia Post may have to make system changes in order to provide this data to the ACCC, we expect Australia Post to make progress in implementing this recommendation prior to submitting its next draft price notification. However, we accept it may take time to fully implement.

Australia Post should make further improvements to its cost allocation model

As set out in Chapter 6, Australia Post has improved its cost allocation model based on ACCC recommendations made over the last three price notification processes. However, Australia Post has not fully implemented the following cost allocation recommendations from our 2024 decision. The ACCC recommends these recommendations be implemented within the identified timeframes.

Short-run and long-run incremental costs of individual services and products, including loss-making reserved services[217]

Australia Post noted this recommendation in its draft price notification but stated it does not collect its costs in this format.[218] Instead it provided its fixed and variable costs to the ACCC.

On the basis that Australia Post may have to make changes to the way it captures its cost information to provide this data to the ACCC, we expect Australia Post to make progress in implementing this recommendation prior to submitting its next draft price notification. However, we accept that this recommendation may take time to fully implement.

Conduct a new delivery time standard survey[219]

Australia Post acknowledged this recommendation in its draft price notification and committed to undertaking a new survey when its New Delivery Model is fully rolled-out. Australia Post provided a public document on the integration of the New Delivery Model into its Enterprise Profit Model.[220] It also committed to implementing WIK Consult's recommendations on survey design.[221]

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216 ACCC, *Decision on Australia Post price notification*, March 2024, p. 59.

217 ACCC, *Decision on Australia Post price notification,* March 2024, p. 61.

218 Australia Post, *Draft price notification*, November 2024, p. 22.

219 ACCC, *Decision on Australia Post price notification,* March 2024, p. 61.

220 Australia Post, *Delivery time standard survey and the integration of the New Delivery Model into our Enterprise Profit Model*, November 2024.

221 Australia Post, *Draft price notification*, November 2024, p. 17.

The ACCC expects Australia Post to implement this recommendation prior to submitting future price notifications after the delivery time standard update is complete in late 2025.

Provide additional information on its ex-ante contractual transfer pricing arrangement with StarTrack

In its draft price notification Australia Post stated that it was committed to implementing this recommendation and would provide the ACCC with updates on its progress.[222]

Australia Post provided the ACCC with an 'intercompany services agreement' (agreement) between itself and StarTrack. The agreement includes a schedule of fees payable by each entity for the use of the other's commercial services.

A key concern raised by WIK Consult underlying this recommendation was that Australia Post should implement more incremental cost elements to determine the appropriate transfer price for StarTrack.[223]

Although the agreement does set out some incremental costs related to Australia Post's parcel delivery, we note that these costs are not transparent, and we are not fully satisfied that they reflect incremental costs associated with delivery of StarTrack parcels during peak demand periods. We consider that one reason for this may be that these incremental costs may be difficult for Australia Post to differentiate from its average costs.

The ACCC will seek additional information from Australia Post to ensure our concerns are addressed prior to Australia Post submitting its next draft price notification.

Australia Post should adjust its approach to depreciation in the PTRM

As discussed in Chapter 8, we consider that Australia Post's current approach to depreciation and the RAB is inconsistent with regulatory precedent and has the potential to frontload revenue recovery.

We recommend that Australia Post update its approach to calculating depreciation and the RAB in its PTRM model in consultation with the ACCC ahead of its next draft price notification.

Australia Post to be timelier and more transparent in its draft price notification submissions

Australia Post submitted its 2024 draft price notification to the ACCC in mid-November for a proposed price increase commencing mid–2025. At the time it submitted this draft price notification it had not implemented several of the ACCC March 2024 recommendations. Instead, it subsequently submitted evidence of its progress on these recommendations in a piecemeal approach.

For example, the Frontier Report on Australia Post's operating efficiency was not received by the ACCC until mid-January 2025 and could not be published until February 2025. This means stakeholders were not able to review and comment on this important report in their submissions to the ACCC on the draft price notification.

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222 Australia Post, *Draft price notification*, November 2024, p. 40.

223 WIK Consult, *Assessment of Australia Post's cost allocation methodology*, December 2023, p. xv.

Australia Post's delay in submitting its draft price notification, and its fragmented approach to evidencing its progress on the ACCC's March 2024 recommendations, hampered the ACCC's ability to thoroughly consult on the draft price notification. As noted in Chapter 9, it has also created transparency concerns with stakeholders.

For all future price notification processes, the ACCC expects Australia Post to submit its draft price notification together with all supporting materials in a timely way to facilitate a robust and transparent consultation process.

While the ACCC notes that Australia Post has made significant progress in terms of transparency, we continue to encourage it to make as much information available for public consultation as possible.

Australia Post should increase its cap on concessional stamps

As noted in Chapter 3, some respondents to the ACCC's consultation survey expressed concerns about the availability and limitations of Australia Post's concessional pricing – particularly the cap of 50 concession stamps per person each year.

Considering the proposed price increase will be the third price increase in four financial years, amounting to a 55% increase in the price of stamps since 2022 ($1.10 to $1.70), the ACCC shares these concerns.

We note that the cap on the number of concession stamps has not changed since 2014 when they were first offered, while the price of stamps has more than doubled (from 70 cents to $1.50) during this period. This means the cost of additional stamps bought by these customers outside of their concessional allocation will be having an increasing impact on their cost of living.

As Australia Post's half-year financial results suggest its enterprise level profitability is improving, the ACCC recommends Australia Post increase its current cap on concessional stamps of 50 per eligible customer per year prior to submitting any future price notifications.

Australia Post to engage with its stakeholders earlier and more thoroughly

In submissions to the ACCC, stakeholders raised concerns about the magnitude and timing of the proposed price increase, and Australia Post's approach to consultation. These concerns are discussed in Chapters 3 and 9.

Are Media and Sydney Water both noted that due to the nature of their operating environment the short lead time for the proposed price increase, being the second material increase in a short period, will have a material detrimental effect on their business.[224] Both stakeholders state that improved consultation from Australia Post and a longer notification period for proposed price increases is necessary.[225]

The Electoral Commission of Queensland discusses the effect the proposed price increase would have on statutory authorities that are legally compelled to use Australia Post's letter

[224] Are Media, *Are Media submission*, December 2024, p. 9; Sydney Water, *Sydney Water submission*, December 2024, p. 2.

[225] Are Media, *Are Media submission*, December 2024, p. 12; Sydney Water, *Sydney Water submission*, December 2024, p. 2.

service. It proposes that Australia Post consider a discounted and consistent pricing arrangement that reflects its use of the postal service to discharge legislative obligations.[226]

Given the cumulative stamp price increases experienced by businesses in recent years, the ACCC further encourages Australia Post to maintain timely dialogue with its business customers and to strongly consider additional forms of price relief for affected businesses.

[226] Electoral Commission of Queensland, *ECQ submission*, December 2024, p. 4.

Appendix A – Legislative framework

Reserved and notified services

Under section 29 of the *Australian Postal Corporation Act 1989* (Cth) (the Postal Act), Australia Post has exclusive rights over the provision of 'reserved services' in Australia. These services include the domestic carriage of letters weighing no more than 250 grams and the issue of postage stamps.

The *Price Notification Declaration (Australia Post Letter Services) (No. 2) 2015* (the Declaration) provides that, for the purposes of Part VIIA of the *Competition and Consumer Act 2010* (CCA), the provision of reserved letter services for ordinary letters are 'notified services' (the notified letter services).[227] This means that Australia Post cannot increase the price of its notified services without first notifying the ACCC of its intentions. The ACCC's role is to consider Australia Post's proposed price increase and decide to:

- not object to the price increase, or
- not object to a price increase that is less than the proposed increase, or
- object to the price increase.

Furthermore, in accordance with section 33 of the Postal Act, and in addition to the ACCC's assessment, Australia Post must give written notice to the Minister for Communications of its intent to vary the postage rate for reserved ordinary letters. Australia Post may increase the rates only if the Minister does not disapprove the proposed rates within 30 days of receiving notification from Australia Post.

In effect, this means Australia Post is not permitted to increase the prices of its notified services until:

- 21 days have elapsed since the formal notification to the ACCC, or the ACCC has decided to not object to the proposed increase (or another lower proposed increase which Australia Post has agreed not to exceed), and
- Australia Post has provided the Minister written notice of the proposed price increase, and the Minister has not disapproved the proposed increase within 30 days of receiving the notice.

Under subsections 95Z(1)-(3) of the CCA, it is an offence for a declared person to supply notified goods or services (unless the supply is exempt supply under section 95B):

- if the declared person has not supplied those goods and services in Australia on the same or substantially similar terms and conditions in the preceding 12 months, or

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[227] *Price Notification Declaration (Australia Post Letter Services) (No. 2) 2015*. Letter services which involve the supply by Australia Post of a special service for which a special charge or additional fee is payable (as described in the Price Notification Declaration) or letter services under an incoming overseas mail service to which a convention applies are not notified services.

We note that at the time of publication of this preliminary view, there were unincorporated commenced amendments that affect the Declaration. These are contained in the legislative instrument amending the Declaration that commenced on 27 March 2025. See: Federal Register of Legislation - Competition and Consumer (Price Notifications—Australia Post Letter Services) Amendment (Measures No. 1) Declaration 2025

- where they are supplied at a price above the highest price at which the declared person supplied those services on the same or substantially similar terms and conditions at the relevant location or in Australia (as applicable) in the preceding 12 months.

Subsections 95Z(4)-(8) create a defence if:

- the declared person has given the ACCC notice of the increase,
- the ACCC has either not objected, or has notified the firm of a lower price that it does not object to (the approved price) and the declared person has agreed to not exceed the approved price, or the applicable period has expired,[228]
- the terms of supply are the same or substantially similar to those proposed in the notice, and
- the actual price at which the notified goods or services are supplied does not exceed the proposed price (or approved price, if applicable).

Subsection 95G(7) of the CCA specifies that in exercising its powers and functions under Part VIIA, such as considering whether or not to object to a proposed price increase for Australia Post's notified services, the ACCC must have particular regard to:

- the need to maintain investment and employment, including the influence of profitability on investment and employment
- the need to discourage a person who is in a position to substantially influence a market for goods and services from taking advantage of that power in setting prices, and
- the need to discourage cost increases arising from increases in wages and changes in conditions of employment inconsistent with principles established by relevant industrial tribunals.

Consideration of the above criteria is subject to any direction issued by the Minister under section 95ZH of the CCA.[229]

The ACCC may have regard to other matters it considers relevant on a case-by-case basis. The ACCC has set out its approach to assessing price notifications under Part VIIA of the CCA in its Statement of Regulatory Approach.[230]

Parcel services and ordinary large letters weighing more than 250 grams are not reserved or notified, and their prices are not subject to ACCC review.[231]

Priority letters are a reserved letter service but not a notified service

The ACCC notes that since the last price notification process in 2024, the *Australian Postal Corporation (Performance Standards) Regulations 2019* (the Postal Regulations) have been

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228 The applicable period is 21 days, starting on the day on which the notice was given, unless otherwise extended in accordance with section 95ZB of the CCA.

229 The ACCC's Statement of regulatory approach to assessing price notifications under Part VIIA of the CCA sets out further information in this regard (pg.12-13).

230 See: http://www.accc.gov.au/publications/regulatory-approach-to-price-notifications.

231 Subsection 30(1)(a) of the Postal Act outlines which services are not reserved services for the purposes of section 29.

amended. In effect, these amendments have removed the possibility for priority letters to be a notified service.[232]

Prior to these amendments 'priority letters' were a notified service for the purposes of Part VIIA of the CCA if, among other things, they were supplied at a rate exceeding 150% of the ordinary rate. The amendments to the Postal Regulations have had the effect of removing priority letters as a notified service, regardless of price. However, they remain a reserved letter service in accordance with section 29 of the Postal Act.

The ACCC notes that Australia Post has included priority letters as a notified service in its draft price notification as it plans to increase the price of this service by more than 150% of the equivalent reserved ordinary letter rate.

Our assessment will still consider all reserved letter services in our cost-based assessment (including priority letters), as notified and reserved letter services share the same processing and delivery facilities.

However, the ACCC's decision on Australia Post's price notification will only relate to notified letter services, which do not include price increases for priority letters.

Community service obligation and delivery standards

Australia Post is subject to a range of obligations under the Postal Act and the Postal Regulations.

Key to the delivery of ordinary letters, under section 27(4) of the Postal Act, Australia Post shall ensure:

(a) that, in view of the social importance of the letter service, the service is reasonably accessible to all people in Australia on an equitable basis, wherever they reside or carry on business, and

(b) that the performance standards (including delivery times) for the letter service reasonably meet the social, industrial and commercial needs of the Australian community.

The obligation under section 27(4)(a) to provide a service that is reasonably accessible to all people is also referred to as Australia Post's community service obligation. A community service obligation arises when a government specifically requires a public enterprise to carry out activities relating to outputs or inputs which it would not elect to do on a commercial basis, and which the government does not require other businesses in the public or private sectors to generally undertake, or which it would only do commercially at higher prices.[233]

The Postal Regulations set out several performance standards Australia Post must currently meet, such as delivery timeframes. For example, under section 7(1) of the Postal Regulations, Australia Post must service:

(a) 98% of all delivery points at least every second day (disregarding weekends or public holidays)

(b) 99.7% of all delivery points at least 2 days each week.

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232 The amendments to the Postal Regulations removing priority letters as a notified service have been reflected in amendments to the *Price Notification Declaration (Australia Post Letter Services) (No. 2) 2015*. These amendments commenced on 27 March 2025.

233 Steering Committee on National Performance Monitoring of Government Trading Enterprises, 1994, p. 8.

Section 8 of the Postal Regulations sets out the time for expected delivery of reserved services letters at different types of addresses.

During 2023–24, Australia Post met its prescribed performance standards relating to delivery timeliness and delivery frequency, except for the requirement to deliver letters to 98% of delivery points every business day up to April 2024, when this standard was relaxed to every second business day.[234]

ACCC approach to assessment

Australia Post's provision of letter services for carriage of reserved ordinary letters at the regular timetable have been declared as a notified service under Part VIIA of the CCA.[235]

In response to a price increase notification for a notified service, the ACCC must consider the proposal and decide to:

- not object to the price increase, or
- not object to a price that is less than the proposed increase, or
- object to the price increase.[236]

In considering a proposed price increase for Australia Post's notified letter services, the ACCC must have particular regard to:[237]

- the need to maintain investment and employment, including the influence of profitability on investment and employment
- the need to discourage a person who is in a position to substantially influence a market for goods and services from taking advantage of that power in setting prices
- the need to discourage cost increases arising from increases in wages and changes in conditions of employment inconsistent with principles established by relevant industrial tribunals.[238]

The ACCC's approach to interpreting section 95G(7) of the CCA is set out in our Statement of regulatory approach to assessing price notifications under Part VIIA of the CCA.[239]

Broadly, the ACCC considers that the matters in section 95G(7) require an assessment of the efficiency of a regulated firm's cost base and the rate of return that it is seeking. The proposed price increase is then assessed having regard to the firm's ability to recover revenue sufficient to cover the efficient cost of providing a service, including a rate of return commensurate with the risks faced by the firm, without generating excessive or monopoly profits.

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234 Australia Post, *Annual Report 2024*, p. 161.

235 *Price Notification Declaration (Australia Post Letter Services) (No. 2) 2015*. We note that at the time of publication of this preliminary view, there were unincorporated commenced amendments that affect the Declaration. These are contained in the legislative instrument amending the Declaration that commenced on 27 March 2025. See: Federal Register of Legislation - Competition and Consumer (Price Notifications—Australia Post Letter Services) Amendment (Measures No. 1) Declaration 2025

236 Section 95Z of the CCA.

237 Subsection 95G(7) of the CCA.

238 As set out in our Statement of regulatory approach, the ACCC considers the third criterion is now less relevant to its consideration of price notifications given there has been a movement away from centralised wage fixing to agreements negotiated at the enterprise level. ACCC, *Statement of regulatory approach to assessing price notifications under Part VIIA of the CCA*, March 2017, p.12.

239 ACCC, *Statement of regulatory approach to assessing price notifications under Part VIIA of the CCA*, March 2017.

In accordance with ministerial directions issued under section 95ZH of the CCA,[240] the ACCC must also give special consideration to the functions and obligations of Australia Post as set out in sections 14–16 (functions), 25–26 (general and commercial obligations), 27(1) (obligation to supply a letter service), 27(3)–(5) (community service obligations), and 28 (general governmental obligations) of the Postal Act, and to directions or notifications given to Australia Post by the Minister under that Act. The ACCC considers these matters in its assessment of Australia Post's cost and revenue forecasts below.

[240] The relevant ministerial directions are General Direction 8 and Direction 11 made under section 20 of the *Prices Surveillance Act 1983*. The *Prices Surveillance Act 1983* is no longer in force, but the directions under apply as directions given under subsection 95ZH(1) of the CCA by virtue of Schedule 2, Part 2, Item 45(2) of the *Trade Practices Legislation Amendment Act 2003.* A number of sections of the *Australian Postal Corporation Act 1989* that are referred to in Direction 11 have been repealed or amended.

Appendix B– Australia Post implementation of ACCC 2024 recommendations

	Recommendation	ACCC comments	Progress
1	**Provide a base case scenario**. Australia Post should provide a base case scenario (without the proposed price increase) in its revenue model, alongside a scenario incorporating the proposed price increase. The base case scenario should show the revenue effects of a stable price, but also the cost impact of volumes due to the stable price. This will allow the ACCC to assess any proposed increase against a counterfactual.	Australia Post has implemented this recommendation. We note that future price increases (and future decisions on price increases foreshadowed in the price path) are subject to a new ministerial declaration from 1 July 2025. The price path is included to increase transparency and present a clearer picture of Australia Post's future financial situation, assuming reserved services continue to experience volume decline.	**Implemented**
2	**Improve forecast data.**		
	a) To allow the ACCC to better assess forecasts, Australia Post should provide the ACCC with the underlying assumptions employed in its forecasts.	Australia Post provided a redacted confidential version of its corporate plan to ACCC.	**Implemented**
	b) We recommended that Australia Post provide the ACCC with forecasts under alternative scenarios that can be	After additional discussions with Australia Post, it provided three agreed scenarios based on optimistic volume demand.	**Implemented**

	compared with the base case. For example, optimistic and pessimistic demand scenarios. This will allow the ACCC to better assess the reasonableness of the forecasts and test the sensitivity of the forecasts to changes in assumptions.		
	c) Provide a decomposition of cost changes related to input price changes, volume changes, economies of scale, economies of scope, and any changes in the production process. This decomposition should be provided for major product groups such that the forecast data are consistent with the cost allocation model data.	Australia Post provided fixed, semi-variable and variable costing of individual services and products. Chapter 3 of the Draft price notification discusses operational changes and impacts on costs.	**Alternative implemented**
	d) In recognising the importance of postal services for regional and remote Australia, we consider that such a disaggregation of reporting data between metropolitan, regional and remote areas would be beneficial.	This data was provided confidentially to the ACCC.	**Implemented**
	e) Review revenue allocation processes to ensure consistency with its approach to cost allocation.	This recommendation was driven by concerns raised by stakeholders regarding potential inconsistencies in the way costs and revenue are allocated by Australia Post. These concerns have the potential to give rise to broader competition impacts. Australia Post notes in its draft price notification that it has continuously refined its cost allocation methodology, stating that it has incorporated: *'…insights from the ACCC, WIK-Consult reviews, as well as our own in-depth understanding of the cost drivers within the business'.* The ACCC consider that questions remain regarding Australia Post's cost allocation and revenue allocation methodology.	**Partially implemented**

	f) Cost forecasts to be based on efficient rather than actual costs.	Australia Post provided a report to the ACCC on its operating efficiency undertaken by Frontier Economics on 15 January 2025. The report concluded that there was no material difference between Frontier Economics' cost forecasts and Australia Post's forecasts. On this basis, Frontier recommended that the ACCC adopt the forecasts proposed by Australia Post for this price notification. As part of this report, Frontier Economics offered some suggestions for further research that would complement any subsequent reviews of price efficiency in the next price notifications.	**Alternative implemented**
	g) Letter volume demand forecasts should consider the impact of the new delivery model.	Australia Post has implemented this recommendation.	**Implemented**
	h) Reconsider use of principal component analysis in demand forecasts.	The ACCC are satisfied with Diversified Specifics' explanation.	**Implemented**
	i) Australia Post should not make arbitrary adjustments to modelled demand forecasts.	Although not clearly explained in its Draft price notification, it appears that Australia Post take 'advice' from Diversified Specifics on volume demand forecasts to develop their own forecasts. It does not 'adopt' Diversified Specific's volume demand forecasts per se. This approach results in minor variations in total volume demand forecasts for reserved letter services between Diversified Specifics and Australia Post. Australia Post has provided justifications as to why Diversified Specifics' forecast differs from theirs. To demonstrate the impact of these differences, Australia Post has adjusted Diversified Specifics forecast to highlight the impact of these	**Partially implemented**

		changes. These adjustments reduce the difference between the two forecasts. After accounting for these adjustments, there remains an unexplained but minor variation between the two forecasts. These are immaterial to revenue outcomes. These adjustments are not addressed by Australia Post in its Draft price notification. As such, although Australia Post may not be undertaking post modelling 'augmentations' to Diversified Specific's volume demand forecasts, unexplained differences have arisen. The ACCC consider that there remains a lack of transparency about how Australia Post employ Diversified Specific's volume demand forecasts.	
	j) Identify planned future price increases and the impact on demand, revenue, and cost forecasts in future price notifications.	Australia Post included three scenarios in its Draft price notification along with relevant demand, cost and revenue forecasts.	**Implemented**
3	**Improve cost allocation model**		
	a) Provide short- and long-run cost of service, forward looking, based on efficient costs.	Australia Post stated its system was unable to provide short- and long-run cost of service. Australia Post noted in its Draft price notification that: *'the ACCC recommended that we provide short-run and long-run incremental costs of individual services and products, including loss-making reserved services. As we do not collect our costs in this form, we have provided the ACCC with our fixed and variable costs. We are continuing discussions with*	**Alternative implemented**

		the ACCC to support full implementation of this recommendation'. Australia Post provided fixed and variable costs by function rather than short and long-run costs of service.	
	b) Identify restructuring costs as unattributable.	Australia Post has implemented this recommendation.	**Implemented**
	c) Conduct a new delivery time standard survey.	The ACCC understood Australia Post would not be implementing this recommendation prior to submitting its draft price notification. On this basis we strongly requested that Australia Post explicitly address the underlying concerns raised by WIK Consult. Australia Post refers to our recommendation in its draft price notification and note that WIK Consult proposed improvements for the next survey. It states that it is committed to implementing these recommendations in the next delivery time standard survey. Australia Post provided a public summary on its delivery time standard survey and how the New Delivery Model is integrated into its Enterprise Profit Model. Australia Post has stated it plans to complete another delivery time standard update beginning in July 2025. It anticipates that by this time the roll-out of the New Delivery Model will be materially complete by June 2025. Australia Post has provided material to the ACCC and the public on the operation of the delivery time standard update and its interaction with its EPM. It has committed to implementing WIK Consult's proposed improvements to survey design.	**Partially implemented**

		However, it has not specifically addressed WIK Consult's concerns about the shift from variable to fixed costs due to the delivery time standard update.	
	d) Review electric delivery vehicle (eDV) cost allocation.	Australia Post refers to our recommendation in its Draft price notification. It notes that it has committed to providing the ACCC with evidence to support its current approach. Australia Post has also provided a public summary of its cost allocation approach to eDVs. The evidence provided by Australia Post shows that the primary reason for using eDVs is to improve safety. As such, Australia Post's view is that a cost allocation approach based on volume is appropriate.	**Implemented**
	e) Assess whether there are direct and indirect benefits for non-reserved services due to the larger post office network, and adjust post office cost allocation accordingly.	Australia Post has remedied this potential issue.	**Implemented**
	f) Change to a contractually specified transfer price system for cost allocations to StarTrack.	Australia Post provided an Intercompany Services Agreement (Agreement) between Australia Post and StarTrack. The Agreement contains a schedule of service fees and is executed by StarTrack's Director and Australia Post's CFO. A key concern underlying this recommendation was that Australia Post should implement more incremental cost elements to determine the appropriate transfer price for StarTrack. Although the Agreement does set out some costs related to Australia Post's parcel delivery, we note that these costs are not transparent, and we are not fully satisfied that they	**Partially implemented**

		reflect incremental costs associated with delivery of StarTrack parcels during peak demand periods. The ACCC will seek additional information from Australia Post to ensure our concerns are addressed prior to Australia Post submitting its next draft price notification.	
4	**Amend the WACC valuations.** We did not agree with Australia Post's provided value for gamma (the estimated value of franking credits), the gearing ratio (the ratio of the entity's debt to the value of its equity), and the values for asset and equity beta (measuring the correlation between the return on the firm's risky assets and the market overall).	Australia Post has implemented this recommendation.	**Implemented**
5	**Use the correct discount rate to calculate the PV formula.** Australia Post's post-tax revenue model (PTRM) uses inflation, rather than the cost of capital as the discount factor to calculate the present value (PV) of the estimated under-recovery.	Australia Post has implemented this recommendation. The updated version of the PTRM used for the Draft price notification no longer estimates PV.	**Implemented**
6	**Align regulatory accounting procedures manual with Postal Act definitions.** The ACCC identified some inconsistencies in the way some services are classified in Australia Post's regulatory accounting procedures manual. Australia Post should review the way some services are classified in its regulatory accounting procedures manual, to ensure that where services are classified as reserved or non-reserved (that is, monopoly services and non-monopoly services), these	Australia Post has rectified the specific issue identified in its 2023 regulatory accounting procedures manual.	**Implemented**

	classifications are consistent with the *Australian Postal Corporation Act 1989 (Cth)*.		
7	**Submit responsibility statement.** Under the relevant Record Keeping Rules, Australia Post must support any submitted regulatory accounts with a responsibility statement, signed by the Chief Executive Officer and Chief Financial Officer. Australia Post failed to do so with its previous price notification.	Australia Post has implemented this recommendation. Submitted with RKR data.	**Implemented**
8	**Improve transparency and consultative process.** The ACCC considers that Australia Post should be as transparent as possible with the information it provides, and notes the importance of public consultation in any future notification processes. We also expressed concerns with the Community Sentiment research that Australia Post relied on because it was from the previous price notification process (for a lower amount in a different context).	We consider Australia Post has acted in good faith regarding the sharing of information with the ACCC. Australia Post's confidentiality claims in the Draft price notification and attachments were reasonable and better moderated than in previous price notification processes. Australia Post has provided a public report on a survey it undertook regarding a range of stamp price increase scenarios. However, Australia Post's delay in submitting its Draft price notification, and its fragmented approach to evidencing its progress on the ACCC's March 2024 recommendations, hampered the ACCC's ability to thoroughly consult on the Draft price notification. It also created transparency concerns with stakeholders.	**Partially implemented**

Appendix C– ACCC approach to cost of capital parameters

Australia Post has adopted the weighted average cost of capital (WACC) that the ACCC proposed in the final decision for Australia Post's 2023 price notification, acknowledging that some of the parameters may be updated by the ACCC to reflect more recent market trends.[241] For the assessment of this draft price notification, the ACCC has applied the methodology used in the previous price notification. Acknowledging markets and firms change over time, the ACCC has updated parameter values for the risk free rate, the cost of debt, the asset beta and gearing ratios to reflect recent market trends.

Risk free rate

The ACCC considers the 20-day average of the 10-year Australian Government bond yield a good proxy for the risk free rate. When choosing an appropriate length for the averaging period, it is important to choose a period that balances the need for obtaining a relevant on-the-day proxy for the risk free rate while minimising the bias caused by short-term volatilities in the Australian Government Bond yields. The ACCC considers that a 20-day average well balances these objectives.

As at 31 December 2024, the ACCC's estimate of the risk free rate for the 2024 price notification is 4.38%.[242]

Market risk premium

The market risk premium (MRP) is the expected return over the risk free rate that investors require to invest in a well-diversified portfolio of assets. It represents the risk premium that investors can expect to earn for bearing only non-diversifiable (systematic) risk. The MRP is common to all businesses in the economy and is not specific to an individual business or industry.

The ACCC's and Australian Energy Regulator's (AER's) MRP estimates typically range between 6.1 and 6.6.[243] Given the ACCC's and AER's previous estimates of the MRP, and the AER's current MRP estimate of 6.2%, it is the ACCC's view that 6.2% should be applied in determining the nominal vanilla WACC for this price notification.

Gamma

In general, the ability of a listed company to pay imputation credits with dividends is considered when determining the WACC to avoid over-compensation of a regulated business. Since Australia Post's Revenue Model applies a vanilla WACC, gamma is used to

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241 Australia Post, *Draft price notification*, November 2024, p. 35.

242 Using Bloomberg ticker BV100127.

243 See ACCC, *Public inquiry on the access determination for the Domestic Mobile Terminating Access Service – Final Report*, October 2020, p. 82; AER, *Rate of Return Annual Update*, December 2024, p. 17.

capture all tax effects in the estimation of cash flows and tax liabilities. The revenue allowance to cover Australia Post's expected tax liability is reduced in a manner consistent with the value of gamma.

As noted in previous price notification assessments, the ACCC has historically set gamma with reference to a benchmark of an efficient firm operating in Australia rather than the regulated business' actual financial statements. This is on the premise that the cost of capital should be independent of the regulated firm's ownership structure, and it should instead reflect a competitive capital market that is supporting investment in real assets. The ACCC considers that this approach allows the firm to earn a competitive rate of return to encourage investment but not lead to monopolistic pricing, while providing an incentive to improve overall performance.

For this price notification, the ACCC's view is that a gamma of 0.57 should be used in estimating Australia Post's tax liabilities, consistent with the AER's December 2024 update to the 2022 Rate of Return Instrument.[244]

Equity beta

The equity beta measures the 'riskiness' of a firm's returns compared with that of the market. In other words, the equity beta measures how sensitive a firm might be to the systematic risk that affects the overall market. A firm's exposure to these risks depends on its activities and level of financial leverage.

The ACCC estimates beta with reference to the betas of comparable listed companies operating in the postal and logistics industries that collectively reflect the range of operations of Australia Post. The betas are calculated based on weekly returns over a 5-year period to 31 December 2024. The ACCC considers this approach represents an appropriate balance between recent data reflective of current systematic risk and a longer period that is less biased by short-term volatility.

Comparable Companies

In the 2023 price notification, the ACCC accepted eight international postal companies as comparable: Deutsche Post, Royal Mail, Österreichische Post, PostNL, Bpost, Singapore Post, Pos Malaysia and CTT Portugal.[245]

The ACCC also accepted the following eight logistics/transport provides as comparable: United Parcel Services, FedEx Corporation, XPO Logistics, Mainfreight Limited, Yamato Holdings Co., Forward Air Corporation, Freightways Limited and CTI Logistics. In addition to these 8 international companies, the ACCC elected to add three Australian logistics companies: K&S, Lindsay and Qube.[246]

The ACCC has reassessed the appropriateness of these comparators and has elected to keep all 19 firms in the comparator sample for this price notification. Updated data indicates that transport and logistics consist of only 4% of its reserved services' operating cost.[247] The ACCC has adjusted the weights on the international postal group and the logistics group

244 AER, *Rate of Return Annual Update*, December 2024, p. 5.

245 ACCC, *ACCC decision*, March 2024, p. 81

246 ACCC, *ACCC decision*, March 2024, p. 81

247 From Australia Post's Revenue Model.

when calculating the average beta of the comparable companies to reflect this, now assigning a weight ratio of 0.96:0.04 to the international postal group and logistics group.

This updates the value of equity beta from 0.9 to 0.82.

Gearing

Gearing is the proportion of capital funding sourced through debt as opposed to equity. The gearing level weights the return on equity and cost of debt in the WACC formula. Where the firm is highly geared (that is, the firm has a high level of debt), holding all else equal, this implies greater financial risk for the firm and therefore a greater required rate of return for equity holders.

The ACCC estimates the gearing ratio by observing the average gearing ratios of comparable companies over a five year period. This five-year period is consistent with that used for beta estimation. The ACCC considers it is the long-term gearing that an efficient firm in the industry would target.[248] The ACCC's gearing ratio estimate presents a benchmark of a long-term gearing target for an efficient firm, based on the gearing of comparable companies that most closely reflect Australia Post's range of operations.

The ACCC's view is that a gearing ratio of 41.9% should be applied for this price notification.

Cost of debt

The ACCC's position is that the cost of debt should be estimated based on a forward-looking expected cost of debt, set with reference to a benchmark business facing similar business risks as Australia Post.[249]

For the current price notification, the ACCC has used the comparator companies sample to identify an appropriate benchmarked credit rating for Australia Post. The range of the entire comparator sample was BB+ to A. However, the range for international postal operators was BBB to A-. As such, the ACCC has estimated the cost of debt using the yields of a 10-year BBB rated Australian Corporate bond over a 20-trading day averaging period, which falls within the range of the comparator sample cost of debt.[250] The ACCC considers that this reflects an appropriate cost of debt that benchmarks Australia Post against a benchmark efficient firm with similar systematic risk, to ensure investors are properly incentivised to invest.

On this basis, the ACCC considers a cost of debt of 5.83% is appropriate for Australia Post's reserved services for this price notification.

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248 Using a firm specific gearing exposes the possibility of firms manipulating their leverage levels to improve their allowed revenues or prices (for example, raising its leverage to increase its allowed revenues or prices). The ACCC considers that a benchmarking approach incentivises a firm to efficiently finance its operations.

249 ACCC, *Decision on Australia Post's price notification,* March 2024, p. 82

250 The ACCC has obtained its corporate bond yield data from Bloomberg's 10-year Corporate A Bloomberg Fair Value Curve. This curve includes bonds rated BBB+, BBB or BBB- by S&P, Moody's, Fitch and/or DBRS. There is no equivalent curve for bonds rated BBB+ or BBB- only.