

12 March 2013

Postal Policy
Communications and Information Technology Group
Energy and Communications Branch
Ministry of Business, Innovation and Employment
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WELLINGTON 6140

postalpolicy@mbie.govt.nz

Dear Sir/Madam

Re: Proposal by New Zealand Post to Minister for Communications and Information Technology

Background

I am writing with regard to the discussion document that relates to the review of the deed of understanding between New Zealand Post Limited and the Government of New Zealand dated 17 February 1998 (referred to as 'the document').

Before BusinessNZ outlines its views on the document, we would like to point out for transparency purposes that New Zealand Post (NZPost) is currently a member of our Major Companies Group (MCG). However, the content of our submission has in no way been influenced by NZPost's membership of that group.

Our submission canvasses two broad issues. First, we believe changes need to be introduced given the practical implications of continuing along the current path where technological advancement has effectively altered the nature of the industry. Second, any changes that will be introduced need to be mindful of the associated effects on NZPost customers, including business customers.

Section 2 – why NZPost is seeking change

Section 2 of the document outlines the primary reasons why NZPost wishes to see change to the Universal Service Obligation (USO). In short, the statistics presented show an industry that is in significant decline.

In other situations, a rapidly changing landscape for customers tends to mean the affected business or businesses need to provide alternative services, or radically change the type of good or service they provide. However, in this instance it is difficult to provide an alternative, due to a fundamental change in the delivery of the

service. To that end, we note the Ministry of Business, Innovation and Employment's report in 2010 that stated "*Much of this decline is attributed to the growth in digital communications (internet and text messaging)*". As the document rightly points out, the on-going move to digital communications means there is no turning back from the decline in mail volumes since the type of service delivery has changed rapidly. The Government is currently undertaking significant communications projects such as the Ultra-Fast Broadband and Rural Broadband Initiatives, which provide increased resources and opportunities for greater efficiency gains via electronic communications. In all likelihood, physical mail will never be able to catch up.

It goes without saying that the demand for physical mail will never cease entirely. For various reasons, people will require a service that delivers various forms of mail, in particular services beyond NZPost's letters services. We note that figure 3 in the document shows the contrast in mail and parcel volumes from current 2011/12 volumes, to predicted volumes in 2016/17. While parcel volumes are expected to increase by around 8.5 million due to increased online purchases, this does not come close to compensating for the revenue lost on an expected drop of 217 million letter items over the same time period.

Combining the effects of falling domestic mail volumes and increased delivery points, the document states that if NZPost does not make the necessary changes, its postal services business will start losing money from 2016/17, and potentially earlier.

Clearly, the current option of status quo will impose increasing and significant constraints. Therefore, given the weight of evidence in terms of future financial difficulties, in principle we support the need for NZPost to seek changes to the USO.

Recommendation: BusinessNZ supports measures to change the Universal Service Obligation for postal services in New Zealand.

Importance of delivery for business

While the document provides a good analysis of the extent of the problem, one aspect that is not significantly discussed involves the effect of potential changes on business.

If we were to look at the importance of business customers based on simple delivery point numbers, at first glance the lack of discussion may seem justified. The schedule for minimum delivery in the 1998 Deed of Understanding places business delivery points (51,673) third behind residential (1,088,617), private boxes for businesses/individuals (168,752) and rural (130,058), so that of the total delivery points businesses (excluding private boxes) make up roughly 3.5%. However, businesses are the engine room for economic growth, with any potential impediments resulting in flow-on effects. Therefore, it is important that due consideration be taken of the business community.

It goes without saying that many day-to-day business transactions are already done online, including the sending of quotes, invoices, statements, account updates,

memos and contracts. This is not to say all are done via the web, but the general trend is continuing to head that way as technological use improves and tailor-made options become available. In addition, time-critical mail or parcels that are sent either as business-to-business or business-to-consumer have the option of other delivery vehicles – the primary one being via courier, with various competitors in the New Zealand market. So it is reasonable to assume that the adverse business effects from reduced postal services will not now be as great as before online options were available.

Nevertheless, from BusinessNZ's perspective, we believe any policy options for changing the USO should:

- a) Take into account the effect on day-to-day business transactions so that any costs are minimised; and
- b) Ensure that the implementation of changes is clearly outlined ahead of when the changes come into force.

For (b), we would expect NZPost to clearly outline when the changes would take effect, and how they would be implemented. For instance, if a 3 day option for delivery is chosen, businesses would need certainty in regard to which days those would be. Also, they would need to know likely delivery times to various parts of the country to ensure mail is posted at an appropriate time. We would not want to see a situation whereby a business is penalised by say IRD for late payment because of a change in the delivery times.

If these two issues are given proper consideration, then any potential costs for business should be minimised.

Recommendation: That NZPost take into consideration possible effects on business, including additional costs on day-to-day transactions, as well as the need for a clear communications programme once changes have been decided upon.

Section 4 - Policy Options by NZPost

The document proposes four options for change, outlined in the table below:

Table 1: Policy Options

Option	Details	NZ Post Criteria Score
Option 1	Status Quo: No change is made to the 1998 Deed.	3/11
Option 2	Constrained Response: Incremental changes to some of the USO targets specified in the 1998 Deed.	2/11

Option 3	Flexible Response: A new deed of understanding between NZ Post and the Crown, which sets out NZ Post's commitment to provide a minimum basic postal service and to maintain a retail network of a minimum size, while providing flexibility as to how services are provided and what additional services are offered.	11/11
Option 4	Market Response: NZ Post provides postal services without any arrangement with the Crown.	8/11

Table 1 on page 44 of the document then summarises the key criteria against which the four policy options identified have been evaluated, which include:

- Commercial sustainability;
- USO fit for purpose;
- Equity;
- Regulatory certainty;
- Flexibility;
- Efficiency; &
- Compliance with international obligations.

Of these options, 1 and 2 rate poorly, option 4 rates better, and option 3 meets all criteria.

While one could argue that all seven criteria are important when assessing whether the policy option chosen provides the best chance of success, from our perspective the criteria of commercial sustainability, equity, regulatory certainty, flexibility and efficiency play the primary roles in weighing up worthwhile options. Therefore, by evaluating the four options by that smaller subset of criteria, option 3 provides the best overall option for the future.

Consequently, we agree with the position taken by NZPost that option 3 offers the best opportunity for providing a balance between a sustainable minimum universal service and increased flexibility to adapt its business model to the changing communications environment.

Recommendation: That option 3 (flexible response) is accepted as the best step forward for change.

Thank you for the opportunity to comment.

Kind regards,

A handwritten signature in black ink, appearing to be 'PO'Reilly', with a stylized, flowing script.

Phil O'Reilly
Chief Executive
BusinessNZ