

For information
On 28 May 2001

Postage Revision

- PO has been under pressure for some time to increase postage rates. Operating deficit since 1998-99 and there is a need to revise some postage rates
- With the revisions, the Post Office still projects an operating loss of \$44m in 2001/02.
- Without the revision, the operating loss is projected to be \$103m. Taking interest income in account, the projected annual deficit without revision is \$73m.
- Recent changes in the payment system for the delivery of international mail agreed by the Universal Postal Union accentuate the need to remove cross subsidization of local mail because overseas postal administrations may request the destination administration to link the rate of payment for mail delivery to domestic tariff. Without revision to local postage rate, we will be subsidizing overseas mailers once we accede to such request.
- A number of measures taken to cut costs, enhance productivity and increase revenue. For instance -
 - savings of \$141 million in 2000-01 under Government's Enhanced Productivity Programme (EPP), including reduction in overtime payments;
 - productivity in terms of handling rate per man-hour increased by 7.4% over the last five years;
 - estimated revenue from PayThruPost around \$30 million per year.
- There has been increase in operating costs of 8.6% since 1996-97 and decrease in revenue of 20% over the same period.
- Overall increase in mail traffic lead to increase in operating cost but

corresponding revenue does not match the operating cost (some rates for services e.g. local mail and surface mail do not achieve full cost recovery).

- Decrease in revenue mainly due to -
 - e-substitution and overseas mailers bypassing the normal postal exchange systems (decrease of over \$300 million or 36% of air mail revenue)
 - much lower philatelic income (\$100 million to \$300 million in the last 3 years compared to \$1 billion to around \$1.5 billion during boom years)
- To remain financially viable, there is a need for PO to increase postage rates. The Plan is briefly -
 - Local mail - range of increase from 10 cents to 20 cents, depending on weight
 - abolish printed papers rates. Rates for letters and cards would apply to printed papers as well
 - Surface mail - increase \$4/kg for bulk posted bags
 - average increase of about 10% for other items
 - Air mail - minus 10 cents for all non-bulk items

Details at Annex.

- Weighted average net increase of 6.5% compared to existing rates (some of which were reduced in 1997 and 1998). Compared to rates after the last increase in September 1996, increase of around 3%.
- The last increase was five years ago. The planned adjustments are below projected cumulative increase of 8.2% over the five years ending September 2001 for the Government Consumption Expenditure Deflator, which reflects the change in the cost of providing Government services.
- Postage constitutes only a small proportion of overall household expenditure and business costs in general. The postage revision is expected to increase the Composite CPI only by 0.002%, and should

have no significant impact on inflation.

- Following abolition of printed papers rates, costs to business relying heavily on postal services such as advertising, publishing and mail ordering may increase or decrease depending on choice of service quality and weight of items. PO would continue current discounts for pre-sorted mail, bulk postings and “economy” items.

Details of postage revision plan

Mail category	Adjustments	% Change
Local mail		
Letters (non-bulk)	\$0.1 to \$0.2	4.8% to 7.7%
Letters (bulk)	\$0.07 to \$0.2	4.5% to 8.7%
Surface mail		
Bulk posted bags	\$4/kg	14.8% to 15.4%
Letters	\$0.2 to \$6.2	8.7% to 12.5%
Printed papers (up to 2kg)	\$0.1 to \$5	7.1% to 10.8%
Small packets	\$0.5 to \$5	9.6% to 10.0%
Air mail		
Letters & Cards	-\$0.1	-1.9% to -4.0%
Printed papers and small packets	-\$0.1	-2.4% to -5.0%
Weighted average increase		6.5%