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(28) in ESB CR 25/1096/51(00)

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12 June 2001

Mr Andy Lau
Clerk to LegCo Panel on Economic Services
Legislative Council Building,
8 Jackson Road,
Central, Hong Kong

Dear Mr Lau,

Postage Revision

At the meeting on 28 May 2001 to discuss Postage Revision, some Members requested the Administration to provide supplementary information on the following -

- (a) Unit cost and percentage of recovery for major mail categories;
- (b) Comparison of domestic postage rates in Hong Kong and overseas countries; and
- (c) Traffic and revenue from the Printed Papers service as percentage of the total traffic and revenue from local mail.

The information is herewith enclosed as Annexes A to C respectively.

Regarding **Annex A**, Members may wish to note that for local mail, which represents over 80% of the total mail traffic handled, the Post Office is not achieving full cost recovery. This will continue even after

the planned postage revision. In the light of decreasing revenue from profitable services such as airmail and philatelic services, and to avoid subsidising overseas mailers, there is a need to bring local postage rates more in line with cost recovery.

Regarding **Annex B**, Members may wish to note that, while Hongkong Post continues to provide high quality service, our domestic postage rates at almost all levels are generally lower or in line with postage rates of various overseas countries.

Regarding **Annex C**, Members may wish to note that local printed papers service only constituted around 13% and 16% of overall local mail traffic and revenue respectively, and that the demand for the service is decreasing year after year. The abolition of local printed papers service is a response to the Public Accounts Committee's recommendation in 1993 that the Postmaster General should review the price structure and service standard of this service, as the Director of Audit's has questioned the justification for preferential rates for printed papers. After the abolition, letter rates will apply to printed papers. Whether there will be increase or reduction in mailing cost would depend on the choice of service quality and the weight of the item. The Post Office will continue to provide the same discount levels currently available for pre-sorted mail and bulk postings of first class and economy items.

Yours sincerely,

(Ms Irene Young)
for Secretary for Economic Services

c.c. Postmaster General

Post Office Trading Fund

Annex A

Unit Cost and Percentage of Recovery for Major Mail Category for 2000/2001 (Provisional)

	2000/2001 (Provisional)		
	<i>Before Revision</i>	<i>After Revision</i>	<i>% change</i> %
<i>Local mail</i>			
<i>- Average unit cost (\$ per item)</i>	\$ 1.67	\$ 1.67	
<i>- Average existing postage rate (\$ per item)</i>	\$ 1.37	\$ 1.48	
<i>- Cost recovery %</i>	82.0%	88.6%	6.60
<i>Air mail letters and packets</i>			
<i>- Average unit cost (\$ per item)</i>	\$ 2.50	\$ 2.50	
<i>- Average existing postage rate (\$ per item)</i>	\$ 3.59	\$ 3.55	
<i>- Cost recovery %</i>	143.6%	142.0%	-1.60
<i>Surface mail (excl Bulk Bag etc)</i>			
<i>- Average unit cost (\$ per item)</i>	\$ 5.35	\$ 5.35	
<i>- Average existing postage rate (\$ per item)</i>	\$ 4.69	\$ 5.15	
<i>- Cost recovery %</i>	87.7%	96.3%	8.60

Comparison of Domestic Postage Rates - HK vs Overseas

Annex B

Hong Kong			UK		USA			Japan		Singapore		
Weight Not over	Before Revision	After Revision	Weight Not over	HK\$ ^{Note 2}	Weight Not over		HK\$ ^{Note 2}	Weight Not over	HK\$ ^{Note 2}	Weight Not over	HK\$ ^{Note 2}	
Domestic Rates												
<i>Note 1</i>												
30g	\$ 1.30	\$ 1.40		\$ 3.00	1 oz	28g	\$ 3.43		\$ 7.79	40g	\$ 2.16	
50g	\$ 2.10	\$ 2.20		\$ 3.00			\$ 4.29	50g	\$ 7.79			
			60g	\$ 3.00	2 oz	57g	\$ 4.29	75g	\$ 9.09			
					3 oz	85g	\$ 5.78					
100g	\$ 2.80	\$ 3.00	100g	\$ 4.55			\$ 7.50	100g	\$ 10.38	100g	\$ 3.46	
					4 oz	113g	\$ 7.50					
150g	\$ 3.50	\$ 3.70	150g	\$ 6.33	5 oz	142g	\$ 9.21	150g	\$ 12.98		\$ 4.33	
					6 oz	170g	\$ 10.93					
200g	\$ 3.80	\$ 4.00	200g	\$ 7.99	7 oz	198g	\$ 12.64	200g	\$ 15.58		\$ 4.33	
					8 oz	227g	\$ 14.36					
250g	\$ 4.20	\$ 4.40	250g	\$ 9.32			\$ 16.08	250g	\$ 17.52	250g	\$ 4.33	
			300g	\$ 10.65	9 oz	255g	\$ 16.08					
			350g	\$ 12.10	10 oz	283g	\$ 17.79					
			400g	\$ 13.76	11 oz	312g	\$ 19.51					
			450g	\$ 15.65	12 oz	340g	\$ 21.22					
500g	\$ 8.20	\$ 8.20	500g	\$ 17.53	13 oz	369g	\$ 22.94	500g	\$ 25.31	500g	\$ 6.49	
			600g	\$ 21.09								
			700g	\$ 26.52								
			750g	\$ 28.41				750g	\$ 37.64			
			800g	\$ 30.74								
			900g	\$ 33.85								
1kg	\$ 16.40	\$ 16.40	1kg	\$ 36.84				1kg	\$ 45.43	1kg	\$ 10.82	
2kg	\$ 28.00	\$ 28.00	2kg	\$ 72.80				2kg	\$ 61.66	<i>(Note 3)</i>		
								3kg	\$ 74.64			
								4kg	\$ 87.62			
					For Standard Items meeting special posting conditions							
										20g	\$ 0.95	
					1 oz	28g	\$ 2.57		25g	\$ 5.19	40g	\$ 1.30
					2 oz	57g	\$ 4.29		50g	\$ 5.84	100g	\$ 2.16
										250g	\$ 3.46	
										500g	\$ 4.33	
Notes:												
(1) The comparison is based on non-bulk first class rates (or equivalent) in the relevant postal administrations												
(2) The applicable rates of exchange for comparison purpose are: GBP 1 = HKD 11.0975; USD 1 = HKD 7.7998; JPY 1 = HKD 0.0649; SGD 1 = HKD 4.3285												
(3) Mail items above 500g will be treated as Speedpost Islandwide Standard items with delivery standard in 3 working days												

Post Office Trading Fund
Traffic & Revenue from Local Printed Papers Service 1996/97 to 2000/01

	1996/1997		1997/1998		1998/1999		1999/2000		2000/2001 (Provisional)	
	Traffic (<i>'000 items</i>)	Revenue \$'000	Traffic (<i>'000 items</i>)	Revenue \$'000	Traffic (<i>'000 items</i>)	Revenue \$'000	Traffic (<i>'000 items</i>)	Revenue \$'000	Traffic (<i>'000 items</i>)	Revenue \$'000
Printed Papers	276,374	449,047	263,730	407,273	167,322	274,247	149,368	244,204	145,538	241,171
<i>% change</i>	15.08%	27.08%	-4.57%	-9.30%	-36.56%	-32.66%	-10.73%	-10.95%	-2.56%	-1.24%
<i>Printed Papers as a percentage of Local Mail (%)</i> ^{Note 1}	29.5%	33.8%	25.3%	28.6%	16.2%	20.2%	14.2%	17.8%	13.0%	15.7%

Note 1: Hongkong Post Circular Service was included in Printed Papers before 1998/99