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Panel on Economic Development
Meeting on 22 July 2013

Background brief on
the revision of postage rates and miscellaneous postal fees and charges

Purpose

This paper summarizes views expressed by Members in the past years about postage rates revisions and postal services.

Background

2. The Post Office Trading Fund (POTF) was established by a resolution passed by the Legislative Council on 19 July 1995 under the Trading Funds Ordinance (Cap. 430). The Postmaster General (PMG) is the general manager of the trading fund and the management will retain the trading fund revenue to finance the cost of service provision on a financially autonomous basis.

3. Section 6 of the Trading Fund Ordinance requires the general manager to manage a trading fund with the objectives of –

- (a) providing an efficient and effective operation that meets an appropriate standard of service;
- (b) within a reasonable time, meeting expenses incurred in the provision of the government service and financing liabilities of the trading fund out of the income of the trading fund, taking one year with another; and
- (c) achieving a reasonable return, as determined by the Financial Secretary, on the fixed assets employed.

4. In moving the resolution for establishing the POTF in July 1995, the Administration undertook that future postage rate increases would be broadly in line with inflation.

Postage rates revisions in recent years

5. Hongkong Post (HKP) last increased principal postages rates in April 2002 and certain international bulk mail services in August 2006. The postage revisions in April 2002 included both increases and reductions. In gist, for local mail, the increase in postage per letter ranged from 10 cents to 20 cents depending on weight. For international surface mail, postage for bulk posted bags increased by \$4/kg and for other types of surface mail, the average increase was about 10%. For airmail, there was a reduction of 10 cents for all non-bulk items. The weighted average net increase amounted to 6.5%. According to the Administration, factors which it had taken into account in the postage revision included the increase in operating costs, decrease in revenue, cross-subsidization among post services, operating deficits since 1998/99 and inflation.

6. PMG increased the postage for Bulk Bag service to all destinations, and bulk posting of light-weight air and surface mail items to Japan and Thailand in August 2006. According to the Administration, it was necessary to revise the postage of these international bulk mail services because a handful of commercial mailers accounted for over 80% of the usage of these services. Since the Universal Postal Union had increased the terminal dues¹ for 2006-2009 and Japan and Thailand had invoked the Bulk Mail Option Rate² on bulk mail posting from Hong Kong, HKP had incurred deficits for bulk bag service to all destinations and bulk posting of light-weight air mail items to Japan and Thailand. The postage revision was to avoid subsidizing this small number of commercial mailers which would otherwise put pressure on the HKP's overall finances and the postage of other services.

¹ "Terminal dues" is the charge collected by postal administrations at destination from postal administrations at origin at a level fixed by the UPU for processing the mail sent to them for delivery.

² Under the international terminal dues system, terminal dues are generally calculated on a per kilogram of mail items basis. If the relevant mail items are of relatively light-weight, the postal administrations at destination will need to process more mail items for each kilogram of mails received and there will be more delivery addresses. The UPU authorizes destination postal administrations to impose at their discretion a "Bulk Mail Option Rate" to pass back to postal administrations at origin the increase in processing cost.

Members' views and concerns

7. Views and concerns expressed by Members about postage rates revisions as well as questions related to postal services in the past are set out in ensuing paragraphs.

Postage rates revisions and competitiveness of postal services

8. The Administration briefed the Panel on Economic Services³ (Panel) on the proposal to revise some postage rates at the meeting 28 May 2001. Members in general acknowledged that with increasing operating costs and decreasing revenue, the operation of the POTF had become quite difficult. In this connection, they urged HKP to increase competitiveness and maintain operational viability by creating additional sources of revenue and enhancing productivity.

9. Members pointed out that with widespread e-substitution and diversion of international mail from the normal international mail exchange, the core services provided by HKP were facing some fundamental changes. Such problems could not be resolved simply by postage revision and long-term solutions were required to ensure the POTF's healthy financial position. Members also expressed concern about the continuing trend of operating deficit of HKP. Members cautioned HKP to be vigilant about the bleak development prospects of postal services in general. They called on HKP to explore every opportunity to develop new services to meet the changing needs of the society. HKP should also make reference to overseas experience in exploring new opportunities for service expansion.

10. The Administration assured members that HKP was mindful of the need to achieve productivity gains to cut costs. It further explained that over the previous five years, productivity index in terms of "handling rate per man-hour" had increased by 7.4% which helped to absorb the 14% overall increase in mail traffic. Apart from conducting reviews on workflow and rationalizing the staff structure, the HKP would contract out more services where appropriate, including the increased use of hired vehicles. However, major security considerations would be involved in the contracting-out of mail delivery services.

11. At the Panel meeting on 26 June 2006, the Administration briefed members on PMG's plan to revise the postage of certain international bulk mail services. As to members' concern that publishing companies might transfer the increase in postage to subscribers of their magazines or

³ The Panel on Economic Services was renamed the Panel on Economic Development from the 2007-2008 session onwards.

periodicals, the Administration advised that postage only constituted a small percentage of a publisher's operating costs. If the publishing companies so decided, the increase in postage would only be transferred to overseas subscribers of the magazines or periodicals and the general public of Hong Kong would not be affected.

12. Members noted the intense competition faced by HKP and expressed concern that the proposed increase of postage might reduce HKP's competitiveness and some users might change to use the services provided by other courier service companies. Some members pointed out that many publishers who had set up their production base in Shenzhen might prefer to use the international bulk mail services there. The Administration explained that despite the planned increase, the postages for these services were still lower than that charged by some key postal administrations in neighboring places, including the Mainland. As such, the postage revision plan would not affect the patronage for these services.

Loss-making post offices

13. Noting that 97 post offices had operated at a loss in 2008-2009 as reported in the Director of Audit's Report No. 54 tabled in the Legislative Council on 21 April 2010, the Public Accounts Committee asked the Administration about the reasons causing the losses and whether there were any measures to improve the financial viability of these post offices.

14. The Administration advised that there had been a sharp decline of global mail traffic in the last few years due to rising popularity of social networking software and different forms of electronic communication. Mail volume dropped by 2.1% and 5.6% in 2008-2009 and 2009-2010 respectively, mainly driven by substitution of personal correspondences. This evolving business environment posed a direct and significant impact on the financial performance of the post offices located in residential districts or remote areas. Moreover, the revenues from the 97 post offices could not fully offset the salaries of staff and rentals, which were both on the rise.

15. On measures to improve the financial viability of the loss-making post offices, the Administration advised that the HKP conducted regular reviews on the level of activities carried out by each post office and would take prompt action to adjust the staffing level and opening hours, relocate for lower rentals or downsize in situ whenever possible. Where alternative means of service provision was available and practicable, the HKP would also close down post offices subject to local consultation. In addition, the HKP also pursued cost reduction through re-engineering/automation and in opening up new revenue streams.

Compensations for non-civil service contract postmen

16. A Member raised a question at the Council meeting on 6 February 2013 about the employment of non-civil service contract (NCSC) staff in the Government and pointed out that some NCSC postmen in HKP were required to travel to and from the airport to work but not given any travel allowances or overtime compensations. The Administration advised that given the business nature of postal service and the mail volume fluctuation, there were inevitable needs for HKP to arrange for its staff to work overtime from time to time. For daily-rated and hourly-rated NCSC staff in HKP, their actual wages were normally calculated on the basis of the number of days/hours they had worked. For those who were employed on monthly salaries, overtime work was compensated by time-off in lieu. As to travel allowances, if vacant NCSC positions were remotely located, such as at the Air Mail Centre at Chek Lap Kok, the locations would be stated clearly in the recruitment advertisements posted by HKP so that applicants could determine whether they would apply for the positions according to their own circumstances. If vacancies spread over a number of districts, arrangements would be made for the recruited staff to work in districts of their choices as far as possible.

Other concerns about postal services

17. On services provided by HKP, Members have in the past raised questions in the Council on subjects ranging from loss of mail items and HKP's Circular Service to closure of post offices.

18. A Member asked at the Council meeting on 22 October 2008 about measures which HKP took to avoid losing mail items. The Administration advised that HKP has stipulated in its guidelines to postmen that mail items delivered to old buildings had to be inserted into the letterboxes completely. HKP had also called upon the public to use larger and lockable letterboxes and clear their letterboxes regularly to avoid mail overflow which might invite theft. In case of oversized mail items that could not be inserted into letterboxes, HKP would inform the recipients to collect the items at post offices.

19. On HKP's Circular Service for delivering advertisement circulars to commercial and residential letterboxes, a Member asked at the Council meeting on 9 May 2007 whether there was a mechanism for members of the public who did not want to receive such circulars to be exempted from receiving those circulars. HKP advised that it would launch a notice entitled: "Advice on Opt-out Arrangements" under which senders of advertising circulars would be advised to include a reference to

"Non-subscription to Circulars" in their materials which would include information on how residents might request senders not to send further materials to the addressees concerned.

20. At the Council meeting on 18 June 2008, a member asked whether it has consulted the District Councils concerned before closing and relocating the post offices. The Administration advised that HKP would explain the situation to the relevant District Council in advance of the closure of a post office. In cases of relocation, HKP would display notices at the concerned post offices, issue press releases to inform the public, and notify the District Council. For those post offices that have been closed, new posting boxes have been installed in the vicinity.

Latest development

21. The Administration will brief the Panel on Economic Development on the adjustment in a number principal postage rates from 1 October 2013 and plans to adjust certain postal fee from 1 December 2013 at the meeting on 22 July 2013.

References

22. A list of relevant papers is given below –

Administration's paper on Post Office Trading Fund Postage Revision
(LC Paper No. CB(1)1334/00-01(03))

<http://www.legco.gov.hk/yr00-01/english/panels/es/papers/a1334e03.pdf>

Administration's paper on postage revision for certain international bulk mail services (LC Paper No. CB(1)1805/05-06(03))

<http://www.legco.gov.hk/yr05-06/english/panels/es/papers/es0626cb1-1805-3e.pdf>

Panel on Economic Services Minutes of meeting held on 28 May 2001

<http://www.legco.gov.hk/yr00-01/english/panels/es/minutes/es280501.pdf>

Panel on Economic Services Minutes of meeting held on 26 June 2006

<http://www.legco.gov.hk/yr05-06/english/panels/es/minutes/es060626.pdf>

Chapter 4 of Part 4 Provision of postal services in Public Accounts
Committee Report No. 54 –

http://www.legco.gov.hk/yr09-10/english/pac/reports/54/m_4d.pdf

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