LCQ20: Improvement of Hongkong Post’s modus operandi in order to increase its revenue

Following is a question by the Hon Kenneth Leung and a written reply by the Secretary for Commerce and Economic Development, Mr Edward Yau, in the Legislative Council today (June 6):

Question:

The Post Office Trading Fund (POTF) was established in August 1995 to manage and account for the operation of the Hongkong Post (HKP). On the other hand, the Director of Audit's Report No. 65 published in October 2015 pointed out that for the 20-year period from 1995-1996 to 2014-2015, HKP had recorded operating losses in eight years and had not achieved the target rates of return in 14 years. There are views that HKP should, apart from improving its operation by implementing measures to generate revenue and manage costs, also draw reference from overseas successful experience and revamp the modus operandi of postal services in order to increase revenue. In this connection, will the Government inform this Council:

(1) of POTF's target rate of return and actual rate of return, as well as HKP's operating cost and trading receipt, in each of the past five years;

(2) of the specific measures taken by HKP in the past five years to reduce its operating cost, and boost the percentage of revenue from sources other than traditional postal services, in its total revenue; the effectiveness of such measures, including the resultant increase in HKP's overall revenue;

(3) apart from rationalising the post office network and closing down those post offices which have been operating at a loss, whether HKP has studied ways to further diversify, through collaboration with various types of organisations, including non-profit-making organisations and commercial establishments, the services provided by various post offices so as to enhance HKP's operational efficiency and increase its revenue; and

(4) whether it has plans to comprehensively review the current arrangement under which HKP operates under the trading fund mode, and to reâ€‘engineer HKP upon drawing reference from the experience of overseas governments in revamping their postal departments, so as to bring the operation of HKP closer to a business model; if so, of the details; if not, the reasons for that?

Reply:

President,

A consolidated reply to the questions raised is set out below.

The Post Office Trading Fund (POTF) started operation in August 1995. The operating revenues and expenditures and the rates of return (Note 1) of the POTF from 2013-14 to 2017-18 are as follows:

	2013-14	2014-15	2015-16	2016-17	2017-18 (Note 2)
Operating revenue	$5,249 million	$5,344 million	$4,878 million	$4,881 million	$5,016 million
Operating expenditure	$5,252 million	$5,175 million	$4,663 million	$4,728 million	$5,171 million
Actual rate of return	-0.5 per cent	4.9 per cent	6.5 per cent	4.7 per cent	-4.0 per cent
Target rate of return	5.9 per cent	5.9 per cent	5.9 per cent	5.9 per cent	2.6 per cent

Hongkong Post (HKP) has been making sustained efforts to contain its operating costs and increase revenue.

Initiatives to contain operating costs include revising the procurement terms for major expenditure items such as airfreight services and vehicle hiring services to better encourage market competition; formulating bilateral agreements with other postal administrations to reduce expenditures on terminal due (Note 3); and business process re-engineering, automation and mechanisation such as implementing the Integrated Postal Services System and the Mail Flow Management and Tracking System to streamline mail processing procedures, improve operational efficiency and enhance user experience.

On revenue generation, HKP has been developing new services with a wider range of service features to capture the varied needs of e-commerce, including introduction of the e-Express Service and expansion of the service network to provide an economical and speedy delivery solution with priority delivery at the destination and basic mail tracking functions; and introduction of Express Lanes in collaboration with individual postal administrations based on a work-sharing model. For the new services developed to capture e-commerce, the revenue generated for 2017-18 is estimated to be about $700 million, constituting about 14 per cent of HKP's total revenue for that year. The revenue generated to a certain extent helps mitigate the drop in revenue caused by e-substitution of traditional mail items. HKP also engages with the Airport Authority Hong Kong and other postal authorities to explore collaboration with a view to maximising the use of the Air Mail Centre's transit handling capability to foster cross-border logistics and trading activities.

In addition, HKP has been collaborating with various organisations to offer a more diverse range of services, including collaborating with the Airport Authority Hong Kong to provide free delivery service for purchases reaching specified amounts at the Hong Kong International Airport to designated destinations (Note 4); collaborating with GS1 Hong Kong (GS1 HK) to launch the "Hong Kong Trusted Product" programme on HKP’s ShopThruPost e-market place, so that small and medium enterprises can offer products authenticated by GS1 HK and delivered by HKP to achieve "Double Trust in e-Commerce" to customers all over the world; and collaborating with the Hong Kong Trade Development Council (HKTDC) to provide international courier service via HKTDC's "Small Order Zone" platform to support local merchants to reach out to the global market.

We have no plan at this stage to change the mode of operation of the HKP as a trading fund. This arrangement allows HKP to manage its resources in a more flexible manner to better achieve cost-effectiveness, and to formulate appropriate business strategies in response to changes in the operating environment so as to provide customers with quality, reliable and value-for-money services. HKP will continue to explore and implement measures to contain expenditure, increase revenue and improve productivity to improve the financial performance of POTF.

Note 1: The rate of return on fixed assets = total comprehensive income (excluding interest income, interest expenses and net realised and revaluation gains or losses on derivative financial instruments and structured notes) divided by average net fixed assets. Fixed assets include properties, plants and equipment and intangible assets.

Note 2: Pending audit review.

Note 3: The fee charged by the destination postal administration from the originating postal administration for handling the mail.

Note 4: Hong Kong, Australia, Canada, Indonesia, Japan, Macao, Mainland China, Malaysia, the Philippines, Singapore, South Korea, Taiwan, Thailand, the United States and Vietnam.