

## Foreword

1. The postal environment worldwide is experiencing rapid and significant change. In Australia, the substitution of digital communications for letters is now so pervasive that Australia Post is reporting escalating losses in its letter business.
2. At the same time, Australia Post is required to maintain its community service obligations. The losses incurred by Australia Post in meeting these obligations in the face of declining mail volumes have had a detrimental impact on Australia Post's financial performance. In the second half of the 2013–14 financial year, Australia Post reported a net loss for the first time in its corporate history.
3. The committee believes the future of postal services in Australia is at a crossroads. As a consequence, there are a number of significant and far-reaching issues that need to be addressed. These include the type and scale of the postal network that can be sustained into the future, the funding options available to maintain the network, and how, and to what extent, the current community service obligations can be preserved.
4. In this context, it must be recognised that Australia Post is not a private business; its shareholders are the entire Australian community and the postal network is woven through the fabric of Australian life. Significant changes to Australia Post and its network will have a commensurate effect.
5. The committee is concerned that Australia Post is making changes without involving stakeholders and considers that this has contributed to the growing divide between the various stakeholders and Australia Post. This divide is particularly evident in the dysfunctional relationship between Australia Post and licensees who provided evidence to this inquiry. The committee therefore believes that the rebuilding of this relationship is fundamental so that constructive negotiations are able to occur and the smooth transition to the 'new' postal network can be achieved.
6. **The committee has therefore recommended that the Minister for Communications form a formal postal network strategy group that engages all stakeholders in the development of a comprehensive strategy to inform changes to the Australian postal network in the face of emerging challenges.**
7. **In addition, the committee considers that a broad community consultation program should be implemented.**
8. The committee believes that one of the most fundamental responsibilities of Australia Post is to supply a letter service in Australia which is reasonably accessible to all people in Australia on an equitable basis wherever they may reside or operate a business.

9. This obligation is delivered via a broad network of Australia Post Offices, Licensed Post Offices (LPOs), Community Postal Agencies and Australia Post franchises. The LPOs and Community Postal Agencies account for approximately 80 per cent of the postal retail network (over 90 per cent in rural and regional areas).
10. A number of LPOs and Community Postal Agencies have indicated their operations are unsustainable under existing arrangements. Many stated that they would have to close because their financial viability is being threatened by the under-recovery of the costs of providing services required by Australia Post.
11. Given the significance of the postal network, the closure of a large number of LPOs will significantly impact upon Australia Post's ability to deliver its community service obligations.
12. The committee heard from a number of witnesses and submitters that Australia Post has used its monopoly position to influence payments. Evidence given by many of the LPOs suggested that Australia Post had been aggressive in using its market power, for example, slower-than-CPI increases in postal service payments. LPOs stated the lack of competition and the refusal of Australia Post to negotiate with any representative body excepting POAAL had further impacted on their financial position.
13. The committee further considers that there is now a significantly different postal environment from that existing at the time when the standard LPO Agreement was established and when many licensees originally negotiated their service agreements with Australia Post. The committee believes this should be recognised.
- 14. The committee has therefore recommended that, at the request of any recognised association, Australia Post be required to renegotiate the terms and conditions of an LPO Agreement.**
15. There were additional concerns that the changes in the work activities of LPOs have resulted in payments not reflecting the work undertaken. In particular, the increase in parcel post was noted.
- 16. The committee has recommended that the Minister for Communications, as a matter of urgency, commission an independent audit of the activities undertaken by the LPO network, specifically to determine the validity of claims made by licensees that payments made under the LPO Agreement are not fair and reasonable.**
- 17. The committee has further recommended that, where a payment is found to be not fair and reasonable, a study should be conducted to determine what an appropriate payment rate should be.**
18. The committee acknowledges that there are a wide range of factors currently influencing the financial performance of Australia Post, in addition to declining mail volumes. Such impacts include the costs of meeting community service obligations, the cost of the Reserved Service, increased mail delivery

points, international inward mail, the adequacy of the Basic Postage Rate (BPR) and the cost of the legacy superannuation scheme.

19. The committee understands that all of the influencing factors will require changes to Australia Post's operations and the broader postal network. However, in the case of the legacy superannuation liability of Australia Post, the committee was concerned at the suggestion by Australia Post that LPOs should be absorbing some of this liability.
20. In evidence provided by Australia Post it was stated that superannuation 'will need to be taken into consideration when making any additional payments to licensees'. The committee considers that superannuation and the consequential liabilities rest entirely with Australia Post and licensees should in no way be impacted by the decision of Australia Post in this regard.
21. The committee received representations from licensees concerned that Australia Post was engaging in predatory behaviour that conflicted with Australia Post's obligation to 'use its best efforts to maximise sales of Products and Services to the mutual benefit of the Licensee and Australia Post'.
22. The committee is concerned that Australia Post may be using its monopoly position as an unfair advantage in competition with licensees.
23. With regard to the Australia Post franchisee network, the committee heard evidence that Australia Post made assurances to franchisees that have never eventuated, and that Australia Post was in possession of relevant information in this regard that was not divulged to prospective franchisees. As a result the value of the assets of the franchises has been significantly devalued.
- 24. The committee recommends that Australia Post take into account the impact on the value of the franchises of its inability to deliver the promised opportunities when negotiating the current value of franchises.**
25. The committee recognises the difficulties that are currently being faced by all stakeholders in the Australian postal network and believes that a transparent and consultative approach is necessary to enable a transition to a postal system that meets the demands of the future.
26. The committee also comments that the aim of the inquiry was to identify problems and canvass solutions in relation to both Australia Post and the LPO network. However, it appears to the committee that the negative publicity surrounding the inquiry has accelerated and exacerbated the decline in the value of LPOs.
27. The committee considers it is therefore extremely important that negotiations about the future model for the delivery of postal services in Australia and the network through which they will be delivered are undertaken in a calm and considered way.

