

Chapter 8

Licensed Post Office payment arrangements

Introduction

8.1 This chapter addresses evidence from licensees in relation to specific issues including operational issues including payments for post office boxes, parcel delivery, the representation fee and Australia Post's competitive practices.

8.2 Where possible, the committee has provided payment amounts revised as a consequence of the 2014 increase in the basic postage rate (BPR). However, as most submissions were provided before the implementation of the new payments, any payment amounts in quoted submissions refer to the previous payment schedule unless otherwise indicated.

Mail management fee

8.3 The mail management fee is paid per delivery point per annum. There is a sliding scale depending on the number and type (private or business) of delivery point.

8.4 Mail management fees are linked to the BPR and therefore increased from 31 March 2014. For example, for the first 200 mail delivery points, licensees receive \$34.24 for each private delivery point and \$85.56 for each business delivery point where they undertake the primary sort.¹

8.5 The concerns with the linking of payments to the BPR were discussed in the previous chapter.

Post office box fees

8.6 The second major area for which payment is received by LPOs is post office box servicing. Not all LPOs have post office boxes: 11 per cent of the network does not have post office boxes.²

8.7 In the majority of cases, the licensee is responsible for all costs associated with the installation, fit out, servicing/maintenance and provision of post office boxes. Licensees receive three separate payments from Australia Post for each post office box leased:

- post office box service fee, which provides for the selling, processing of mail into and the supply/ maintenance of the box;
- mail management fee, which is a per delivery point payment (as discussed above);³ and

1 Australia Post, 'Basis postage rate increases – changes to licensee payments', 27 March 2014. For details of changes to the mail management fee from 1993 see also *Answer to question on notice, No. 2971*, answered 26 June 2013, http://www.apf.gov.au/Parliamentary_Business/Chamber_documents/Senate_chamber_documents/qon

2 Mrs Christine Corbett, Australia Post, *Committee Hansard*, 17 March 2014, p. 2.

- scanning fee per trackable article which was introduced by Australia Post in relation to parcels delivered to post office boxes (this is discussed below).

8.8 Customers pay for post office boxes depending on the size of the box. A reduced rate is paid by customers where, in certain circumstances, the frequency of mail delivery by Australia Post to that customer's address (residential or business) is once per week or less. Reduced rate boxes are located primarily in rural and remote areas. In addition, new customers pay a \$25 establishment fee.⁴

8.9 Fees paid by customers are not linked to licensee payments. In setting the customer fee, Australia Post takes into account underlying costs for providing the service and required future investment associated with product research and development. The fee is generally increased annually from 1 April.

8.10 The fees and payments, as at June 2013, ranged from \$102.69 (\$73.34 – post office box fee and \$29.35 – mail management fee) for a small consumer leased post office box to \$239.08 for a large business post office (\$165.74 – post office box fee and \$73.34 – mail management fee). The customer paid (normal rate) \$99.00 and \$237.00 respectively.⁵

Issues related to post office box fees

8.11 A major concern raised by licensees in relation to payments received for post office boxes was the rate of increase in fees received over time. It was noted that many licensees purchase post office boxes outright at substantial cost and maintain them but that the fees are set by Australia Post.⁶

8.12 Several licensees commented that, while the price charged by Australia Post to consumers to lease a post office box has increased significantly over the past several years, the annual payment from Australia Post to licensees for managing post office boxes has not increased accordingly.

8.13 For example, Mr Tony Buskariol, LPO Group, commented that payments received for post office boxes have remained 'static for the last four years whereas the cost to customers for those very boxes has increased quite dramatically'. Mr Buskariol added that the costs of servicing boxes was higher than the amount received when the extra work associated with parcels was taken into consideration (issues relating to parcels are considered below). He estimated a loss of \$30 per post office box and called for a review of post office box payments.⁷

3 Additional Estimates 2013, Australia Post, *Answer to question on notice*, No. 132; see also Mrs Christine Corbett, Australia Post, *Supplementary Estimates Hansard*, November 2013, p. 35.

4 <http://auspost.com.au/parcels-mail/post-office-boxes-and-private-bags.html>

5 Australia Post, *Answer to question on notice*, No. 2971, answered 26 June 2013, http://www.aph.gov.au/Parliamentary_Business/Chamber_documents/Senate_chamber_documents/qon

6 See for example, LPO Group, *Supplementary (No. 3) Submission 65*, p. 28.

7 Mr Tony Buskariol, LPO Group, *Committee Hansard*, 6 December 2013, p. 7.

8.14 Licensees pointed to changes in fees to customers over time and the corresponding changes to payments that they receive. Taking a small post office box leased by a consumer as an example:

- in 2000, the customer paid \$49.50 and the LPO received a total of \$77 (post office box fee of \$55 and mail management fee of \$22); and
- in 2013, the customer paid \$99 and the LPO received a total of \$102.69 (post office box fee of \$73.34 and mail management fee of \$29.35).⁸

8.15 It was argued that, while the consumer fee had doubled between 2000 and 2013, total payments to LPOs increased by only 33 per cent. As a consequence, the post office box fee as a proportion of the fee paid by the customer fell from 110 per cent in 2000 to 74 per cent in 2013. When both fees are combined, the proportion fell from 155 per cent to 103 per cent respectively.⁹

8.16 Mr Andrew Hirst, LPO Group, also argued that Australia Post had only recently linked the two payments and stated that 'in the licensee's mind there is no link between the mail management fee and a PO box'.¹⁰

8.17 In addition, the LPO Group argued that the ratio of the 1993 agreed payment remained unchanged until 2006 and has been dramatically reduced as customer costs have increased over the last eight years and licensees are substantially underpaid for the service in real terms.¹¹

8.18 The LPO Group commented that payment should be linked to the Consumer Price Index or Average Weekly Earnings if the original ratio is not continued.¹² In its submission to Australia Post on this matter, the LPO Group put forward an additional solution: that a more equitable arrangement to the sharing between Australia Post and LPOs of the post office box fees charged to customers would be Australia Post receiving 15 per cent and LPOs 85 per cent.¹³

8.19 Licensees also expressed frustration that a \$25 establishment fee for new post office box customers has been introduced in 2014, without any portion of this new fee being passed on to the licensee.¹⁴ However, the committee notes that Australia Post is now providing a payment of \$5.79 as a post office box establishment fee.¹⁵

8 Australia Post, *Answer to question on notice, No. 2971*, answered 26 June 2013, http://www.aph.gov.au/Parliamentary_Business/Chamber_documents/Senate_chamber_documents/qon

9 LPO Group, *Response to Australia Post response to LPO Group evidence*, pp 3–4.

10 Mr Andrew Hirst, LPO Group, *Committee Hansard*, 4 March 2014, p. 3.

11 LPO Group, *Response to Australia Post response to LPO Group evidence*, p. 4.

12 LPO Group, *Response to Australia Post response to LPO Group evidence*, p. 4.

13 LPO Group, *Supplementary (No. 3) Submission 65*, p. 31.

14 See for example, Ms Vanessa and Mr Gavin Caplice, *Submission 70*, p. 3.

15 Australia Post, *Licensed Post Office Payment Scheme*, p. 21.

8.20 Both POAAL and other submitters cautioned against linking post office box payments to what a customer pays, particularly where the customer pays a reduced rate for the box. POAAL stated:

The payments are linked to the basic postage rate, and increases are automatic when the BPR increases, not linked to the amount the customer pays, which varies from place to place and which would seriously disadvantage the large number of Licensees whose post office box setup is largely for subsidised customers. More subsidised post office boxes are located at LPOs than at Corporate Post Offices, meaning that these hundreds of Licensees would all be worse off if the Annual Post Office Box payment were linked to customer rental rates.¹⁶

8.21 Mr Dennis Jenner also commented that benefits would only flow to a small number of LPOs:

Any payment linked to the customer fee would only benefit a small minority, mostly in metro areas, whilst having a catastrophic effect on the viability of remaining LPOs. These Licensees also fail to understand the payment process, which remunerates Licensee with a Mail management fee (MMF) in addition to the Post Box payment. Some get a third payment also, called a Mail Service Payment. In some areas, Australia Post will from time to time have a "special" offer on Post Office Boxes. If the LPO fee for Post Office Boxes were linked to the rental amount paid by the customers, it would be reduced in this instance, not a situation desired by Licensees.

Furthermore, the payment to Licensees for Post Office Box fees is paid on a once-off annual payment which is usually for a substantial amount, and can be used to pay their BAS or other ATO payments.¹⁷

8.22 Australia Post responded in relation to fee increases and noted that licensees received an increase in the payments related to post office boxes in 2008 (an increase of 10 per cent) and 2010 (an increase of 9.1 per cent).¹⁸ As a result of the increase in the BPR in March 2014, payments related to post office boxes will also increase by 16.7 per cent.

8.23 Australia Post noted that the payment to licensees for each post office box leased typically exceeds the leasing fee charged to the customers.¹⁹ In addition, Australia Post commented that payments had increased notwithstanding that mail volumes had declined over time as the post office box/bag fee and the mail management fee are tied to the BPR. Australia Post stated:

Since 1993, both payments have increased in the order of 33%, notwithstanding the significant reduction in per delivery point letter volumes and associated work effort during this time.

16 POAAL, *Submission 9*, p. 10.

17 Mr Dennis Jenner, *Submission 92*, p. 6.

18 Australia Post, *Response to LPO Group evidence*, p. 1.

19 Australia Post, *Answer to written question on notice*, No. 31.

Post Office Box rental charges have increased on average by around 103% over the corresponding period.²⁰

8.24 Australia Post also stated that fees payable to licensees for post office boxes are not tied to the charge to customers, with licensees continuing to receive payment of the full fee in situations where Australia Post provides the service to customers at a reduced rate.²¹

Payments for post office box services where there are no street address deliveries

8.25 In evidence to the committee, Mrs Angela Cramp commented on the situation where post office boxes are used by communities when there are no street address deliveries of mail. Mrs Cramp stated that at Lightning Ridge there is no street address delivery service, with 1,860 boxes servicing the community. Mrs Cramp acknowledged that, although the customer pays a reduced rate for the post office box, the LPO receives the standard post office box service fee.²²

8.26 However, Mrs Cramp noted that in addition to mail addressed to the post office box, the LPO staff must also redirect the street addressed mail to the required post office box without additional payment as this is regarded as a single delivery point. Mrs Cramp stated:

With no street delivery, our problem is that we are supposed to manage any mail that is addressed to a street address for free. I am managing up to 4,000 delivery points for no remuneration, because Australia Post maintains that the service should be provided by us for the cost of a single delivery point. I might have four or five delivery points that are to be diverted into one PO box; I cannot fund that. That is the problem across the country with reduced-rate boxes. There is no Australia Post contractor going out to the street address. The onus has been put back on the licensees across Australia in the rural and remote areas to fund that themselves.²³

8.27 Mr Buskariol added that savings of around \$120 a year accrued to Australia Post when a street addressed mail item was re-directed to a post office.²⁴ The LPO Group went on to comment that:

It is more cost effective for [Australia] Post to subsidise the [post office box] rental than to provide the street delivery yet the Licensees must manage multiple delivery points for a single fee. This is only required by LPOs that service areas without street delivery. All other street delivery is service at a fee per delivery point by a contractor or by Post.²⁵

20 Additional Estimates 2013, Australia Post, *Answer to question on notice*, No. 86.

21 Additional Estimates 2013, Australia Post, *Answer to question on notice*, No. 86.

22 Mrs Angela Cramp, LPO Group, *Committee Hansard*, 6 December 2013, p. 9.

23 Mrs Angela Cramp, LPO Group, *Committee Hansard*, 6 December 2013, p. 9.

24 Mr Tony Buskariol, LPO Group, *Committee Hansard*, 6 December 2013, p. 9.

25 LPO Group, *Response to Australia Post response to LPO Group evidence*, p. 5.

8.28 The LPO Group suggested that licensees should be paid additional delivery points under the mail management fee for every street addressed delivery point that requires diversion to a post office box unless the mail is received at the LPO clearly endorsed with the correct post office number on every article.²⁶

8.29 Australia Post responded to this evidence and stated that licensees receive two separate payments for each post office box and counter mail delivery (Poste Restante) point: the mail management fee and the counter mail delivery fee or post office box service fee as applicable.²⁷

Committee comment

8.30 The committee notes that licensees now receive a post office box establishment fee. This is a welcome addition to the payment schedule.

8.31 However, there are still ongoing concerns about the way in which the payments for post office boxes are indexed and the proportion received by licensees. While some submitters argued that the post office box fee received by the licensee should be linked to the fee paid by the customer, other submitters commented that to do so would disadvantage licensees who had reduced rate post office boxes.

8.32 It appears to the committee that linking the post office box fee to the amount paid is not a solution to this issue. However, the committee considers that linking the fee to the BPR is also inadequate given the increase in costs associated with maintaining post office boxes appear to outstrip the increases in the BPR. The committee considers that Australia Post should explore another method of determining the post office box fee.

Recommendation 12

8.33 The committee recommends that Australia Post, as a matter of urgency, reassess post office box payments to licensees to ensure that they reflect the true costs borne by licensees in providing this service.

Payments for parcels

8.34 Licensees receive parcels in three circumstances and three separate payments for handling parcels:

- when a customer lodges a parcel with the LPO to be sent elsewhere, payment is received to assess postage and accept parcels – payment is a commission based on the amount of postage paid (12 per cent);
- to stream (sort) parcels – payment is an additional commission based on the amount of postage paid (1.5 per cent, 5 per cent or 8 per cent, depending on the amount of streaming required); and
- where applicable, to deliver parcels to customers –

26 LPO Group, *Supplementary (No. 3) Submission 65*, p. 31.

27 Australia Post, *Response to LPO Group evidence*, p. 2.

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- for a street addressed article, where the customer is not available to accept the article and the article is returned to the nearest post office for collection an 'awaiting collection card' is left for the customer. Licensees are remunerated through:
 - mail management fee and the scanning fee payment; or
 - carded article fee and the scanning fee payment;
 - for post office box or 'care of post office' addressed trackable articles, licensee are remunerated through
 - for trackable articles – mail management fee and scanning fee payment;
 - for non-trackable articles – mail management fee.²⁸

8.35 The carded article fee is reflective of average article volumes and is paid as either a base-rate amount or, where the LPO regularly receives more than 25 carded articles per week, a negotiated-rate. The carded article fee is expressed as an annual fee rather than a per article rate for the delivery of carded articles within the LPO Agreement (paid monthly).

8.36 The LPO Agreement provides that the carded article fee is negotiable by individual licensees where the LPO regularly receives more than 25 articles per week. Where a licensee is paid a negotiated rate carded article fee, this is based on an average number of articles received for delivery. Licensees in receipt of a negotiated-rate carded article fee may request a review of that payment at any time.²⁹

8.37 The scanning fee is a per-article payment generated directly from scanned delivery events. The scanning fee came into effect from April 2013.³⁰ With the change in the BPR, the scanning fee increased from 22c to 26c per article (GST inclusive) for street addressed carded parcels.³¹ The scanning was to be fully rolled out by May 2014 and all LPOs are eligible.³²

Issues related to parcel deliveries

8.38 Submitters raised several issues in relation to parcel deliveries, in particular the impact of increasing numbers of parcels and whether appropriate remuneration is being received for the extra work required.

28 Budget Estimates 2012, Australia Post, *Answer to question on notice*, No. 237; Australia Post, *Answer to written question on notice*, No. 30; Australia Post, *Submission 8*, pp 41, 51, 52; POAAL, *Submission 9*, p. 14;

29 POAAL, *Submission 9*, p. 15.

30 Australia Post, *Submission 8*, p. 41; Additional Estimates 2013, Australia Post, *Answer to question on notice*, Nos. 73, 84.

31 LPO Agreement, July 2014, Annexure A.

32 Australia Post, *Submission 8*, p. 41.

8.39 Many submitters noted that the volume of parcels being processed by LPOs has increased markedly in recent years, and that this has had a substantial effect on the operations of licensees. In addition to increases in the volume of parcels, there has been an increase in the number of parcels which are large or fragile or heavy.³³ The principal concern expressed by licensees is that while there has been a significant increase in the workload associated with processing parcels, LPOs are not receiving adequate compensation to deal with this workload.³⁴

Level of payments received

8.40 In February 2013, Australia Post advised that some 1,200 licensees receive payment for the delivery of carded parcels through the mail management fee and 1,800 through a combination of the carded article fee and the scanning fee.³⁵ Both the carded article fee and the scanning fee are linked to the BPR so they increased by 16.7 per cent in this year in line with the movement of the BPR, as provided in the LPO Agreement, to \$445.47 per annum (GST inclusive).³⁶ That is the equivalent of 34c per article for 25 articles per week over the year. The scanning fee increased to 26c.

8.41 Australia Post added that, due to the increase in parcel volumes, total payments to licensees for carded articles increased by a further 19 per cent during 2011–12.³⁷ Licensee payments for handling carded articles increased by some 45 per cent from 2011–12 to 2012–13.³⁸ Australia Post noted that 80 per cent of around 1,800 licensees receiving the carded article fee are paid a higher, negotiated rate.³⁹

8.42 In response to concerns raised about the number of parcels, the scanning fee was introduced from April 2013. Australia Post stated that the scanning fee is a per article payment which increases revenue to licensees that currently receive the carded parcel fee, in line with any volume increase associated with the current online retail activity. Australia Post noted that it took into account the 'dynamic online shopping environment and the impact that this is having on carded article volumes'.⁴⁰

8.43 However, the committee notes that, as at February 2013, Australia Post did not know how many carded articles are delivered through LPOs. In an answer to a question on notice from the Additional Estimates 2013, Australia Post stated:

33 LPO Group, *Submission 65*, pp 31–33; Mr Tom Dancer, *Submission 105*, p. 4.

34 See, for example, Kersbrook LPO, *Submission 15*, p. 1; Mr Robert Richardson, *Submission 117*, p. 4; Mr M Odhadee, *Submission 127*, p. 1.

35 Additional Estimates 2013, Australia Post, *Answer to question on notice*, No. 86.

36 LPO Agreement, July 2014, Annexure A.

37 Budget Estimates 2012, Australia Post, *Answer to question on notice*, No. 237.

38 Supplementary Estimates 2013, Australia Post, *Answer to question on notice*, No. 53.

39 Australia Post, *Submission 8*, p. 41.

40 Budget Estimates 2013, Australia Post, *Answer to questions on notice*, Nos 161, 163.

As payments to licensees for handling street addressed carded articles have been historically made through either the mail management fee or carded article fee, which do not identify the volume of carded articles involved and can include payment for other activities, details of the number of street addressed carded articles delivered through LPOs are not available.⁴¹

8.44 In relation to the distribution of workload for LPOs between parcels and other types of mail, Australia Post pointed out that, overall, the number of postal items handled by LPOs has declined in recent years:

Australia Post appreciates that the nature of the Delivery work done by LPOs over time has shifted towards parcels and away from letters as volumes have declined. This has had an impact on LPO work distribution.

During this period, total volumes of articles per delivery point has fallen substantially...The implication of this is that the fee paid per letter has increased substantially over this time.⁴²

8.45 Australia Post also commented that there was a further benefit to licensees from increasing parcel volumes through:

- commission from the sale and acceptance of parcels over the counter;
- where applicable payment for the delivery of carded parcels; and
- associated customer foot traffic.⁴³

Adequacy of the payments for parcels

8.46 Many licensees expressed discontent at what they perceived as Australia Post's lack of understanding of the impact of the increase in the volume of parcels, the inadequacy of reimbursement for the work undertaken and the additional costs incurred, even though Australia Post has acknowledged that it is now a parcel business. One licensee stated:

Australia Post has gradually evolved from a letter business to a parcel (freight) business. We as Licensees are at the "coal face" end of this change. We are definitely not getting reimbursed for handling freight at a rate of return that is comparable with other freight companies.⁴⁴

8.47 Another licensee commented:

Australia Post claims our parcels are at the "pointy end" ie we receive them at their final delivery point and there is little if any resource required to process them. I can assure you that it does have a significant financial burden on this business as I have needed to increase staffing to ensure the post office continues to function effectively.⁴⁵

41 Additional Estimates 2013, Australia Post, *Answer to question on notice*, No. 73.

42 Australia Post, *Submission 8*, p. 40.

43 Additional Estimates 2013, Australia Post, *Answer to question on notice*, No. 85.

44 Name Withheld, *Submission 113*, p. 3.

45 Mr Wayne Krause, *Submission 42*, p. 3.

8.48 The change in parcel volumes has been significant for many licensees. For example, Mr Hirst stated that over the last ten years, parcel volumes had increased from 30 per month to 1,000 per month at his LPO.⁴⁶ Another licensee stated that in 2000 the LPO processed about 15 parcels per day. Now the average is 100 per day and at peak times 200–250 per day.⁴⁷

8.49 As parcel volumes have increased, many licensees have had to employ more staff to undertake processing with the LPO Group stating that 'many LPOs report that the management of parcel freight is now the single biggest labour impost in their retail business'.⁴⁸ Mr Hirst informed the committee that in his particular LPO it costs around \$1,600 per month in staff wages to process the volume of parcels currently being experienced, while Australia Post payments for processing parcels amounted to \$172.80 per month.⁴⁹ Another licensee added:

I have had to employ two part-time staff members in order to cope with the additional daily workload in mail management. While I accept that letter volumes are in decline, the workload to manage parcels at my outlet far exceeds any reduction in letter numbers. Just consider, for example, what reduction in letter quantity is needed to equate to (by weight or volume or handling time – or any other measure), a single case of wine?⁵⁰

8.50 Licensees have also had to rent extra storage space to cope with the increased number of parcels. Mr Hirst, for example, commented that he has had to redesign his parcel room with additional costs for shelving, palletisers and equipment.⁵¹ Another licensee stated:

This post office is based in a shopping centre where my rental rate per square metre is \$456 per annum. I now require up to 20 square metres to store parcels, a cost to me of \$10,000 per year. I estimate that the above has contributed a financial loss to the business of between 20K and 30K per year.⁵²

8.51 POAAL added that storage pressures are particularly acute for small, retail-focused LPOs located in high rent suburban and metropolitan locations.⁵³

8.52 Licensees expressed significant disenchantment with Australia Post as they saw Australia Post taking advantage of increased parcel volumes while leaving LPOs to carry the burden of the additional costs.⁵⁴ For example,

46 Mr Andrew Hirst, LPO Group, *Committee Hansard*, 6 December 2013, p. 4.

47 Mr B Barger, *Submission 170*, p. 1.

48 LPO Group, *Submission 65*, p. 30.

49 Mr Andrew Hirst, LPO Group, *Committee Hansard*, 6 December 2013, p. 4.

50 *Confidential Submission 33*; see also Mr B Barger, *Submission 170*, p. 1.

51 Mr Andrew Hirst, LPO Group, *Committee Hansard*, 6 December 2013, pp 4–5.

52 Mr Wayne Krause, *Submission 42*, p. 3.

53 POAAL, *Submission 9*, p. 14.

The post office has no space to move with all the parcels and we have to pay rent for the space but we have to provide this service free for Auspost when they keep increasing the postage for the parcels and keep making more and more money and we are left dry.⁵⁵

8.53 It was also argued that the mail management fee was developed in the days of high letter volumes and fewer parcels and was now not adequate compensate licensees for the additional costs. A licensee stated:

LPO's are paid a mail management fee per delivery point. This payment was calculated in an era when most of the work involved was sorting standard letters. Personally I can sort 500 standard letters in around ten minutes. 500 parcels would take two or three hours. Therefore the remuneration paid by Australia Post per delivery point is now extremely inadequate for the time it takes to complete the work involved.⁵⁶

8.54 Another licensee commented:

Our understanding of payment for handling parcels is that it is included in our "Mail management fee." This payment does not appear to have been adjusted to reflect the increase in time required to handle the increased volume of parcels (some very large and heavy) and we feel frustrated when we have to navigate around them in the office area.⁵⁷

8.55 Mrs Cramp agreed, and stated that the decline in letters equated to about 15 minutes mail-sorting time while the increase in parcels added four to five hours work per day.⁵⁸

8.56 While it was acknowledged that Australia Post had introduced the scanning fee for carded parcels, it was argued that the 22c (now 26c) payment was not adequate for time taken to process parcels. One licensee stated:

We now sign, scan-in an average of 27 parcels per day. We currently receive \$0.22 (inc GST) commission for this service. However, every day one employee has to spend at least one hour to scan, sort and put in place these parcels. Then on top of that before we deliver the parcel we have to check ID of the customer, scan the parcel again and obtain the signature.

Majority of the customers are very polite and understandable, however now and then we get difficult customers who refused to show adequate ID and we are at the receiving end of the abuse and intimidation. Australia Post and the senders of the parcel increasingly tighten their ID requirements to

54 See for example, Mr David and Ms Liz Dundovic, *Submission 49*, p. 2; Name Withheld, *Submission 113*, p. 5.

55 Mr Hamsa Lingam, *Submission 81*, p. 1.

56 Name Withheld, *Submission 110*, p. 1.

57 Mr Peter Hay, *Submission 17*, p. 1.

58 Mrs Angela Cramp, LPO Group, *Committee Hansard*, 6 December 2013, p. 4; see also LPO Group, *Submission 65*, p. 31.

combat fraud. But we are the people who have to implement those requirements and get abuse threatened and intimidation for just 22 cents.⁵⁹

8.57 POAAL disputed that the increase in parcel volumes resulted in a substantial increase in processing time. Mr Kerr stated that there were systems available which allowed licensees to spend the minimum amount of time on handling carded articles and carded parcels.⁶⁰ However, Mr Kerr went on to comment that licensees were not happy with the carded article rate.⁶¹

8.58 Suggestions were provided to the committee on the amount of increase of fees required to cover the additional costs associated with increased parcel volumes. One licensee suggested that the payment should be paid at least \$1 per scan and \$2 per parcel.⁶² Mr Hirst commented that if Australia Post had to go to a third-party provider for the delivery of parcels, it would cost around \$5 per parcel.⁶³

8.59 Other witnesses noted that the differences in payments received for StarTrack parcels to that for Australia Post parcels. At the May 2014 Budget Estimates, Mr Fahour explained that when StarTrack was a joint venture company the remuneration was different and had changed with the acquisition of the company by Australia Post.⁶⁴ Australia Post provided the following information:

The payment licensees currently receive for the handling of StarTrack parcels is \$0.99 upon the completion of an awaiting collection event and a further \$0.99 for the completion of the delivery/return event. For Australia Post street addressed carded parcels licensees receive a total of \$0.60 per article.

Historically, a higher fee was payable to licensees for StarTrack parcels under a joint venture company comparative to the payment for Australia Post parcels. This was due to the additional work effort required by the licensee to process the parcel. This included the requirement for an individual charge to be raised for each article handled.⁶⁵

8.60 The LPO Group commented that, until recently, any LPO which provided the carded article service for a StarTrack contractor, where the delivery had failed, received \$1.98. For the same service, the licensee received 22c from Australia Post. The LPO Group went on to comment that since May 2014, Australia Post has directed many StarTrack employees to card StarTrack parcels to a corporate outlet only. The LPO Group concluded:

59 Name Withheld, *Submission 25*, p. 2.

60 Mr Ian Kerr, POAAL, *Committee Hansard*, 6 December 2013, p. 13.

61 Mr Ian Kerr, POAAL, *Committee Hansard*, 6 December 2013, p. 18.

62 Mr Hamsa Lingam, *Submission 81*, p. 31

63 Mr Andrew Hirst, LPO Group, *Committee Hansard*, 4 March 2014, p. 13.

64 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 97.

65 Budget Estimates 2014, Australia Post, *Answer to question on notice*, No. 181.

The result of this new process is that customers may have to travel 50 to 60 kms to collect the parcel, and the local LPO has lost the profitable work, but is still required to provide the underpaid work. This is just another form of poaching or competitive business practices undertaken by Australia Post to the detriment of the LPO network.⁶⁶

8.61 Mr Fahour acknowledged that there have been some concerns expressed about the growth in parcels—particularly carded parcels. However, he went on to explain the complexity of finding a solution:

The issue which we have been grappling and struggling with and which we have discussed time and time again is: how do we on the one hand shield them from the losses in letters but pay them more money on parcels? If you pay more money on parcels, you cannot look at it in isolation from the bigger picture.⁶⁷

8.62 Mr Fahour also added:

...if we even double the carded parcel item, it will not solve the licensees' problems...If I were to run it as an efficient system—that is, if you do less in letters, and we are losing money on it, I pay you less on the letters side but more on the parcels side. If I ran it as a logical extension of the argument, this would make the problem worse and of course we are not going to do that. Therefore we have to find a way to tweak the system—which we are committed to doing—so that they can do more profitably some of the parcels work without jeopardising the sustainability of Australia Post, which has 37,000 people working for it and provides a vital community service. I am committed to that and as an organisation and a set of shareholders we need to support our delicate act of being a community service getting a commercial rate of return.⁶⁸

Issues related to parcels addressed to post office boxes

8.63 Evidence received by the committee indicated that parcel deliveries to post office boxes were a major concern for many LPOs. Not only do the parcels have to be sorted and stored; until recently, only the standard post office box payments applied no matter how many parcels were delivered to a post office box.

8.64 Australia Post stated that, for all LPOs, payment for the delivery of parcels addressed as 'care of post office' or post office boxes is made through the applicable mail management fee.⁶⁹ Australia Post commented that:

They do not get extra for delivery of parcels, because the delivery point payment is for delivery of items, whether they be letters or parcels, to that

66 LPO Group, *Supplementary Submission 65*, p. 4; see also Name Withheld, *Submission 22*, p. 2.

67 Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 6 December 2013, p. 47.

68 Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 6 December 2013, p. 47.

69 Australia Post, *Submission 8*, p. 51.

post office box. It is not for what goes in; it is for the number of delivery points that they have.⁷⁰

8.65 For example, Mr Buskariol informed the committee that in relation to his LPO:

We bought the business five years ago. Then we were paid a fee, which is the same fee that exists today, for the purposes of processing parcels for PO Box holders at our post office outlet. The number of parcels we would receive back then was about five day, if that. It was negligible. Now we are receiving 50 parcels a day for PO boxes, 1,000 a month, and we are getting no extra payment whatsoever for that service. It is a direct cost to us to employ a staff member who works during the day for which we do not get paid. We have to pay for that extra staff member out of our own pocket just in that one transaction.⁷¹

8.66 This circumstance appears to significantly affect LPOs where there is no street delivery. The LPO Group commented that where there is no street delivery the licensee is expected to deliver an unlimited number of parcels to the post office box for the mail management fee of 11 cents per day for the delivery point. Large numbers of parcels being delivered per day are not uncommon, with one rural LPO delivered 93 parcels to one post office box on one day for a total payment of 11 cents. The LPO Group argued that a metropolitan based post office would receive 29 cents (carded article fee) plus 22 cents (scanning fee) per article for 93 carded articles for a total payment of \$47.43.⁷²

8.67 The committee notes that from 1 February 2014, an additional fee payment for post office box and care of post office trackable articles was introduced for licensees.⁷³

Outsize and overweight parcels

8.68 Australia Post has size limits on parcels. Until 8 April 2013, contract customers could lodge parcels weighing up to 22kg at retail outlets and customers could lodge parcels weighing up to 20kg. From that date, Australia Post accepts parcels up to 22kg from all customers. In addition, for certain contract customers, parcels up to 32kg are accepted. The maximum allowable size for a parcel is not exceeding 105cm and maximum cubic dimensions must not exceed 0.25m³.⁷⁴

8.69 Australia Post stated that it had consulted with POAAL in advance of this change and that it has in place safety procedures for the safe handling of parcels over 16kg within the network:

70 Mrs Christine Corbett, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 36.

71 Mr Tony Buskariol, *Committee Hansard*, 6 December 2013, p. 2.

72 LPO Group, *Response to Australia Post response to LPO Group evidence*, p. 6.

73 Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 17 March 2014, p. 1; see also, Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 109.

74 POAAL, *Submission 9*, p. 17.

To protect the safety of our staff, contractors and business partners, where a parcel exceeds 16kg in weight it has an identifying sticker affixed so as to indicate that a second person should be involved in its handling. Usage of appropriate equipment such as trolleys is also recommended.⁷⁵

8.70 POAAL noted that Australia Post trialled, then terminated, a dedicated delivery network (XL Parcels Network) for the delivery of overweight and oversize parcels. POAAL indicated that, following the termination of this delivery network, Australia Post stated that it would ensure that any undeliverable overweight and oversize parcels addressed to metro and suburban addresses would be sent to Business Hubs for collection, and never to LPOs. However, from POAAL's experience this has not been the case. It stated:

In the last week, in response to a specific call for comments by POAAL, many Licensees in metro/suburban areas have contacted POAAL to complain that they continue to receive overweight and oversize parcels. Overweight and oversize parcels pose a number of problems at LPOs, including storage, handling and risk of injury.

Licensees at LPOs in rural areas, where there are no Australia Post Business Hubs or alternative Australia Post outlets, continue to receive 100% of all undeliverable overweight/oversize parcels.

Many LPOs in rural areas are single-person operated businesses. It is unreasonable for Australia Post to expect these Licensees to handle overweight and oversize parcels on their own.⁷⁶

8.71 Individual licensees also provided information to the committee on the difficulties posed by the processing of outsize and overweight parcels. For example, two submitters commented:

Overweight and oversize parcels are heartily disliked by all in the LPO network. They are heavy, they are unwieldy, they often cannot be lifted, they need special trolleys or lifting equipment, customers expect help in getting them to their vehicles, they pose OH&S issues. Australia Post must, without delay, re-activate its XL delivery network for overweight and oversize parcels.⁷⁷

Our only adverse comment on inward parcels is that some of them are grossly overweight or oversize, making them almost impossible to handle. And customers, who are usually the ones who ordered the items which are being delivered, cannot handle them too, and expect us to help them!⁷⁸

8.72 POAAL stated that by accepting overweight and oversize parcels for delivery, Australia Post is putting licensees, contractors and its own employees at risk of injury.

75 Budget Estimates 2013, Australia Post, *Answer to question on notice*, No. 165.

76 POAAL, *Supplementary Submission 9*, p. 4.

77 Mr Robert Chizzoniti, *Submission 91*, p. 8.

78 Name Withheld, *Submission 123*, p. 4.

POAAL recommended the reintroduction of the XL parcel delivery network for overweight and oversize parcels.⁷⁹

8.73 Some licensees suggested that overweight and oversized parcels should be removed from the network.⁸⁰ The LPO Group provided a number of suggestions in relation to large parcels, including:

- the re-categorisation of mail pieces to create more profile status while recognising that a single mail piece may span more than one strata (for example, is it large, heavy and fragile);
- that Australia Post undertake a review of occupational, health and safety issues; and
- that Australia Post take into account the costs of ensuring the safety of employees involved in managing the increasing number of parcels.⁸¹

Bypass arrangements for street carded articles

8.74 Following negotiations by POAAL, bypass arrangements for parcels have been introduced. In some circumstances LPOs may negotiate with Australia Post for a bypass arrangement which allows the licensee to stop accepting street carded articles (although they must still receive parcels delivered to post office boxes). The arrangements may be casual, for example, to allow the licensee to clear a backlog of parcels, or permanent, for example, a small LPO may only receive street addressed carded parcels weighing under 2kg.⁸²

8.75 Licensees confirmed that because they are not necessarily remunerated for increased volumes of street carded articles, they can be better off financially by declining to handle these articles.⁸³

8.76 However, it was also noted that the bypass option 'is really for metro outlets, and it is difficult if not impossible for Australia Post to implement bypass arrangements in country areas'.⁸⁴

Committee comment

8.77 The committee notes comments by licensees in relation to costs associated with parcel processing. As online shopping booms, many licensees are facing high additional costs in wages and storage. The committee is also concerned about occupational health and safety implications of heavy and oversized parcels for both licensees and their staff and Australia Post workers being distributed through the

79 POAAL, *Submission 9*, pp 17, 30.

80 See for example, Ms Jenny Patroni, *Submission 83*, p. 6; Mr Russell Benn, *Submission 90*, p. 6.

81 LPO Group, *Submission 65*, pp 35–36.

82 POAAL, *Submission 9*, pp 15–16.

83 Mr Tony Buskariol, LPO Group, *Committee Hansard*, 6 December 2013, p. 4.

84 Mr Robert Chizzoniti, *Submission 91*, p. 7.

normal postal network. The committee agrees with the view that these items are freight rather than parcels.

8.78 Australia Post's profits from parcels have increased. The committee recognises that this is a highly competitive sector with many players. However, it considers that licensees must be adequately remunerated for the extra work and cost they incur in providing the Australia Post parcel service. The committee welcomes the introduction of the additional fee for post office box and care of post office trackable articles but it believes that further assessment of the adequacy of the payments for parcels is required, in particular the costs associated with the storage of parcels.

8.79 In addition, the committee was concerned about allegations that Australia Post couriers are 'driving by' addresses and making no attempt to deliver parcels. It is alleged that they card the article to the addressee and drop the parcel at the nearest post office.

Recommendation 13

8.80 The committee recommends that Australia Post review parcel storage requirements in Licensed Post Offices with a view to providing payments for those licensees who incur additional storage costs.

Other issues relating to payments

8.81 Submitters and witnesses also raised issues in relation to other payment arrangements, including the representation allowance paid to licensees, postage stamps and retail products.

Representation allowance

8.82 Australia Post pays licensees a 'representation allowance' to cover functions set out in the LPO Agreement including customer enquiries and education, handling missing article inquiry forms, acceptance and security of mail bags and updating manuals.

8.83 At the commencement of the committee's inquiry, the representation allowance was \$792 per year (\$15.30 per week). The representation allowance is linked to the BPR. With the increase in the BPR in March 2014, the allowance increased to \$924. The allowance was again increased by 20 per cent from 1 July 2014 to \$1108 (\$21.30 per week) under the LPO sustainability package.⁸⁵ The committee notes that these figures include GST.

8.84 Submitters commented that the payment is received to provide not only the services listed in the LPO Agreement but also many more time consuming duties. Mr Hirst, LPO Group, commented on the amount of time he devotes to activities on behalf of Australia Post:

That representation allowance is for putting a shopfront out there for Australia Post. It is for dealing with customers' complaints...It is for a whole range of things. We do all of that interaction where there is no

85 LPO Agreement, July 2014, Annexure A.

earning for a licensee. Australia Post pay us \$66 a month to put up a shopfront, whether that shopfront is on a strip shop or in a shopping centre. They pay us \$66 a month; it is totally inadequate. I would spend up to two hours a day looking for lost parcels and dealing with problems for Australia Post.⁸⁶

8.85 One licensee was of a similar view and stated that 'this payment is a gross injustice and is massively detrimental to my business viability',⁸⁷ while another stated:

Licensees are paid the pittance of \$66.00 per month – the Representation Allowance.

This grand sum is provided by Australia Post for Licensees to, amongst other activities, spend countless hours taking phone calls from both customers and Australia Post's Customer Contact Centre searching for parcels – some parcels not even at your post office.⁸⁸

8.86 The LPO Group commented on the increased rate of the representation allowance. It argued that the payment is still 'grossly inadequate' and that the increase required was 2,000 per cent rather than 20 per cent.⁸⁹ The LPO Group suggested that the minimum representation allowance for every LPO should be \$1,500 or a value calculated using 'rent and outgoings' of the LPO, whichever is the greater.⁹⁰

Retail products

8.87 Postage and retail products available for purchase by licensees at discounted rates are subject to minimum order quantities under clause 13 of the LPO Agreement. The discounts offered by Australia Post on retail items are individually determined.⁹¹ However, Australia Post stated that 'the average margin to licensees for Australia Post merchandise products is in the order of 41%'.⁹²

8.88 Many submitters voiced concern about the margins on Australia Post retail products. For example, one licensee stated that 'in general the profit margins that the retail prices that Australia Post grant LPOs are not sustainable for any business'.⁹³

8.89 Another licensee also commented on the delay experienced in receiving retail products from Australia Post:

The margin on AP stock is so small that we can hardly cover the invoice, yet alone wages, rent, tax, and electricity, phone and other suppliers.

86 Mr Andrew Hirst, LPO Group, *Committee Hansard*, 6 December 2013, p. 8.

87 Name Withheld, *Submission 32*, p. 1.

88 *Confidential Submission 59*.

89 LPO Group, *Supplementary Submission 65*, p. 7.

90 LPO Group, *Supplementary (No. 3) Submission 65*, p. 41.

91 LPO Agreement, July 2014, Annexure A.

92 Australia Post, *Answer to written question on notice*, No. 35.

93 Name Withheld, *Submission 34*, p. 3; see also Ms Kylie Hill, *Submission 128*, p. 2; Name Withheld, *Submission 207*, p. 3.

So I had to borrow a couple of thousand dollars to fill up the shop with other stock, in my case giftwares, so I could put my own margin (being 50–100%) and make some money. I also went to the AP conference where we are offered an opportunity to order supplies such as catalogue merchandise (ie: books, stationery, kids toys, etc.) and we didn't have to pay until a few months later. So this seemed like a great idea. However, the stock was delayed and didn't arrive until October, we ordered in July, we were due to pay early January.

Again the margins were pathetic, and I didn't make enough to cover the bill.⁹⁴

8.90 Other submitters commented that they could source stock from other providers, pay freight and receive the items significantly cheaper than from Australia Post.⁹⁵

8.91 POAAL also commented on the retail products offered by Australia Post to licensees, pointing to large minimum order quantities and low margins as a source of frequent complaint from licensees. The minimum order quantities are often so large that small LPOs are effectively excluded from ordering some product lines.⁹⁶ This point was demonstrated by a licensee, who stated:

In Queensland there are many small LPOs, serving small communities. It is pointless for them to order and stock some of Australia Post's postal and complementary products, because the margins offered to LPOs are poor, and the minimum order quantities are too large. When there is a static population, you may never even reach 5 of any items sold.⁹⁷

8.92 POAAL went on to comment that it had made strong representations to Australia Post, for example, in relation to the margins on Postpak.⁹⁸ It noted that licensees are not obliged to source non-postal retail products from Australia Post (such as toner cartridges or stationery products). However, there is customer expectation that when they see products in the Australia Post catalogue they will be able to buy those products from their local post office. POAAL also stated:

The LPO margins offered by Australia Post on many retail products are low when compared to margins offered by other wholesalers. Again, Licensees are under no obligation to source non-postal retail products from Australia Post, but the Australia Post catalogues can create customer expectation.⁹⁹

8.93 Some submitters and witnesses raised concerns that Australia Post is able to offer products direct to customers at prices lower than the price they sell those

94 Ms Kylie Hill, *Submission 128*, p. 2.

95 See for example, Mr Bruce Thompson, *Submission 47*, p. 2.

96 POAAL, *Submission 9*, p. 7.

97 Ms Jenny Patroni, *Submission 83*, p. 6.

98 Mr Ian Kerr, POAAL, *Committee Hansard*, 6 December 2013, p. 25; see also POAAL, *Submission 9*, p. 30.

99 POAAL, *Submission 9*, p. 7.

products to LPOs, thus undermining the ability of LPOs to compete for customers.¹⁰⁰ One licensee commented:

As [Australia Post] is a wholesaler and retailer we often find ourselves in the unenviable position of having to compete with local corporate post offices who sell the same products as us but sometimes at massively discounted prices to "get rid of the stock". As we purchase the stock at a set price we need to sell it at least at the initial RRP to maintain gross profit margins of as low as 10–15%. Stock which we purchase from other suppliers can be sold at a more usual gross profit of around 40–50%.¹⁰¹

8.94 Mr Fahour responded to comments relating to margins by stating that there are a range of margins for Australia Post sources products, up to 46 per cent. Mr Fahour also commented that, although there may be exceptions generally, products would not be purchased a lower price by a consumer online from Australia Post than the price offered to a licensee. He added 'as a general rule, why would we undercut our most important people?'¹⁰²

Committee comment

8.95 While licensees can set margins for the non-Australia Post products that they sell, they cannot do so for products that they source from Australia Post. Postal products provide a significant avenue to maintain LPO viability. The committee considers that Australia Post should review its margins on postal products sold to licensees, particularly Postpak, to ensure that they are in line with commercial practice.

Recommendation 14

8.96 The committee recommends that Australia Post review the margins on postal products it sells to licensees with a view to ensuring that margins are in line with commercial practice.

Postage stamps

8.97 A concern raised by licensees related to stocks of unsold or out of date stamps. POAAL stated that Australia Post has, with a few notable exceptions, refused to accept returns of unsold, out-of-date stamps from LPOs. For example, if licensees do not sell all of their international Christmas stamps then Australia Post will not accept unsold Christmas stamps for credit or refund. POAAL stated that it was aware of some instances where, through no fault of the licensee, the licensee has been left with over \$1000 worth of unsold Christmas stamps. Australia Post has refused to accept the return of these stamps. POAAL recommended that Australia Post should accept for return or exchange unsold Christmas stamps from LPOs.¹⁰³

100 See, for example, Mr Tony Buskariol, Licensed Post Office Group, *Committee Hansard*, 6 December 2013, pp 5–6;

101 Ms Lisa Cooper, *Submission 71*, p. 2.

102 Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 6 December 2013, p. 37.

103 POAAL, *Supplementary Submission 9*, p. 7.

Committee comment

8.98 The committee was surprised to learn that Australia Post does not allow the return of stocks of unsold or out of date stamps. The committee considers that the return of unsold stock is not an uncommon practice in the retail sector. Given the concerns relating to LPO viability, the committee considers that the return of unsold stamps would be of benefit to licensees.

Recommendation 15

8.99 The committee recommends that Australia Post allow for the return of unsold and out-of-date stamps by licensees and franchisees.

Competitive practices

8.100 Licensees raised several issues that relate to Australia Post's competitive practices, the most significant being the transfer of business from LPOs to Australia Post corporate offices.

Transfer of business from LPOs to Australia Post

8.101 Several licensees raised anecdotal cases where LPO customers had reportedly been approached by Australia Post staff and convinced to take their business to an Australia Post corporate post office, resulting in lost business to the LPO. Among the comments received by the committee were:

Australia Post is always looking at ways to encroach on our local customers who buy bulk post pack etc. encouraging them to have an account with "Head Office". When a customer goes to a Corporate account yes, we do get a small commission but nothing like we do if they have what is called a Local Account with us or just come in and buy as they need stock.¹⁰⁴

8.102 One licensee commented that they had lost the business of a local private hospital (approximately \$12,000 per year income) to poaching.¹⁰⁵ Another licensee commented that Australia Post:

...continues to poach our local customers and place them on an AP account, thus reducing our commission rate from 12.5% to 5%. An example of customer poaching is with our three local schools which used to be on a local account but they are now on an AP account, representing a significant loss of income for ourselves. Our largest customer (\$1500 to \$3,000 per month) who was once on a local account, was converted to a franking machine system & then to a postage metre system. The postage metre systems we understand have been sold off by AP. Our commissions have reduced from 12.5% to 5% to 1.5%.¹⁰⁶

104 Name Withheld, *Submission 34*, p. 2.

105 Name Withheld, *Submission 144*, p. 1.

106 Mr Bruce Thompson, *Submission 47*, pp 1–2; see also Name Withheld, *Submission 40*, p. 2; Ms Nicole Swain, *Submission 85*, p. 2.

8.103 Submitters also pointed to Australia Post's rewards program, Lead Legends, available to Australia Post employees for new customers as evidence of incentives to actively seek the transfer of business from LPOs to corporate post offices.¹⁰⁷

8.104 POAAL agreed that this phenomenon is occurring and that it has made strong representations to Australia Post regarding the transfer of an LPO to an Australia Post corporate facility.¹⁰⁸ POAAL went on to state that it had raised the issue with the ACCC but the 'ACCC did not consider that Australia Post's actions constituted a breach of the *Trade Practices Act*'.¹⁰⁹ POAAL added that:

From time to time, Australia Post will make offers directly to business customers that Licensees are unable to match. These offers might involve products and services that are not available to Licensees at all. In other instances Australia Post might offer products and services at discounted rates unavailable to Licensees.¹¹⁰

8.105 POAAL concluded that this practice 'leaves a bad taste in the mouth for Licensees, who feel that Australia Post is unfairly competing with Licensees for the same business'. POAAL further commented that Australia Post had recently given it an undertaking that it would not actively seek to migrate customers from LPOs to corporate facilities. However, POAAL stated that it was 'not convinced that this has filtered through to the field'.¹¹¹

8.106 At the committee's hearing in December 2013, Mr Kerr indicated a high level of frustration that this practice had not been curtailed. He commented that POAAL had approached 'every possible forum' to seek a solution.¹¹² In light of continued problems, POAAL suggested that 'Australia Post needs to introduce a standard procedure for the investigation of these instances and communicate this procedure to all Licensees'.¹¹³

8.107 The LPO Group also provided comments and stated that this issue was 'downplayed by Australia Post'. The LPO Group contended that the issue was ongoing and LPOs continue to lose profitable business customers 'who are enticed with incentives and discounts to deal direct with Australia Post'. It went on to state that 'Australia Post maintains they are unable to control the competitive practices of their 32,000 employees, and it is unable to prevent employees acting in this manner'.¹¹⁴

107 Mr Tony Buskariol, LPO Group, *Committee Hansard*, 6 December 2013, p. 5.

108 Mr Ian Kerr, POAAL, *Committee Hansard*, 6 December 2013, p. 22.

109 See also, Commonwealth Ombudsman, *Submission 26*, p. 6.

110 POAAL, *Submission 9*, p. 23.

111 POAAL, *Submission 9*, p. 23.

112 Mr Ian Kerr, POAAL, *Committee Hansard*, 6 December 2013, p. 25.

113 POAAL, *Submission 9*, p. 24.

114 LPO Group, *Supplementary Submission 65*, p. 3.

8.108 Australia Post provided an extensive response to both the general poaching issue and the incentives program. In relation to the incentives program, Mr Fahour stated that he took 'great offence' at suggestions that the program was being used to move customers away from LPOs.¹¹⁵ It was emphasised that these incentives were only available for new business.¹¹⁶

8.109 Australia Post also provided the following information:

Additionally Australia Post confirms that rewards for business growth opportunities will only be paid for those that have been identified as new incremental business to Australia Post. Rewards will not be paid for opportunities associated with customers holding existing accounts and currently lodging through our Licensed Post Offices. This message has been promulgated to Australia Post managers.¹¹⁷

8.110 Australia Post's submission commented on the general issue of transfer of business customers and stated:

Australia Post does not have a policy to transfer business customers between outlets. From time to time customers do move which may be as a result of customer preference and/or network needs (i.e. large volume customers moving to Business Hubs for efficient management of postings).

Business clients primarily choose where they wish to transact with Australia Post with the procedures for LPOs being the same as for corporate retail outlets.

Australia Post does not incentivise customers to lodge mail at corporate outlets rather than LPOs.¹¹⁸

8.111 In response to a question on notice, Australia Post provided further details of reasons why an existing account customer would be relocated from an LPO to a corporate facility. This would only occur 'where their business has grown or is growing to the extent that it becomes unsafe or inefficient for the Licensee/Australia Post to manage'. It went on to state that any relocation of business lodgements from a LPO will be discussed with the licensee and customer prior to the transfer. Payment of a fee to the licensee for the loss of this business may also be applicable.¹¹⁹

8.112 Mr Fahour explained further:

...we do recognise that as small businesses grow they outgrow an outlet and they tend to want a pickup service as opposed to a drop-off service that an outlet provides. They tend to then put their business out for tender between us and all of our competitors. Therefore, what I absolutely recognise, and I

115 Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 6 December 2013, p. 37.

116 Mrs Christine Corbett, Australia Post, *Committee Hansard*, 6 December 2013, p. 44.

117 Australia Post, *Answer to question on notice*, 6 December 2013, No. 2.

118 Australia Post, *Submission 8*, pp 49–50.

119 Australia Post, *Answer to question on notice*, 6 December 2013, No. 2.

am not oblivious to, is that as some of these businesses grow some of them do come from our outlets...¹²⁰

8.113 Mr Fahour was also emphatic in his view concerning the 'poaching' of LPO customers by corporate post offices:

We have a whole area that investigates this. Let me be clear about this: if there is any illegal or unconscionable conduct by any of our people, this matter will be taken incredibly seriously and there will be an appropriate level of dealing with the situation. I am very clear about that. I can say to you that some of the matters that have come to our attention are a combination of understanding that in the parcels business right now small business owners who start in the back garage of their house become bigger and bigger. They are approached by a number of our competitors who want to say to them, don't go to the post office—we will come to your garage, your warehouse, and collect the parcels.¹²¹

8.114 Mr Fahour concluded by stating that if evidence of 'poaching' became available, it would be dealt with.¹²²

8.115 In correspondence with the committee in July this year, the LPO Group noted a response from Australia Post to a licensee raising concerns about the transfer of business to corporate post offices. The response stated that Australia Post was 'sensitive to the concerns of licensees with regards to any movement of customers from their LPO' and that 'part of our challenge in growing and maintaining our business is ensuring that we meet the changing needs of our customers while at the same time minimising any associated impact on individual outlets'. The response went on to state that Australia Post was in the process of 'establishing in consultation with licensee representations a process to be followed where a change of a customer's lodgement arrangements is proposed'.¹²³

Committee comment

8.116 It appears to the committee, from the evidence received, that not just businesses which have grown or are growing 'to the extent that it becomes unsafe or inefficient for the Licensee/Australia Post to manage' have been targeted for transfer to Corporate Post Offices.

8.117 While the committee notes Mr Fahour's statements in this regard, the level of ill-feeling that this practice is generating is significant. The committee considers that, as Australia Post and the postal network are facing significant challenges, such ill-feeling is detrimental to building a sustainable network. The committee therefore recommends that Australia Post ensure that all employees understand Australia Post's

120 Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 6 December 2013, p. 38.

121 Mr Ahmed Fahour, Australia Post, *Estimates Hansard*, 19 November 2013, p. 29.

122 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 29.

123 LPO Group, *Supplementary (No. 4) Submission 65*, Attachment 1, p. 1.

rules and, more importantly, behavioural expectations when they seek the transfer of business from LPOs to Corporate Post Offices.

8.118 The committee further considers that licensees should be compensated for the loss of revenue when a customer transfers their business from an LPO to a Corporate Post Office.

Recommendation 16

8.119 The committee recommends that Australia Post ensure all employees, in the relevant areas of its corporate network, understand Australia Post's rules and behavioural expectations in relation to the transfer of business from Licensed Post Offices to Corporate Post Offices and that 'poaching' and other predatory behaviour is unacceptable.

Saturday trading

8.120 At the May 2014 Budget Estimates, Mr Fahour indicated that Australia Post would commence trading from its corporate post offices on Saturday. Mr Fahour indicated that this was in response to customer demand.¹²⁴ Mr Fahour went on to state that there will be no impact on LPOs: 'We are not asking them to change their trading terms. This is the corporate post offices opening to deal with the community that operates around them.'¹²⁵

8.121 Mr Fahour also commented that the corporate post offices would not be competing with LPOs on Saturday. He stated LPOs were generally spread around in such a way that 'I do not accept the position that they are competing'. In addition, in the long run, the LPOs will benefit from the corporate offices trading on a Saturday as people buying online want to be able to pick their parcel on Saturday. By providing these extra services, customers will use Australia Post more frequently.¹²⁶

8.122 However, the LPO Group commented that Saturday trading for LPOs is not financially viable although it is mandatory for most LPOs. The LPO Group stated that many licensees have requested their agreements be amended to release them from the obligation to trade on Saturday but this has mainly been denied.¹²⁷

Online sales

8.123 Submitters commented on Australia Post's push towards offering the online sale of products direct to customers.¹²⁸ While noting that some customers prefer to deal with suppliers online, POAAL stated that the retail network needs to be excluded from the process. POAAL went on to state that:

124 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, pp 80, 82.

125 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 103.

126 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 104.

127 LPO Group, *Supplementary Submission 65*, p. 6.

128 See for example, Name Withheld, *Submission 25*, p. 3; Ms Sioban Whelan, *Submission 137*, p. 3; Name Withheld, *Submission 211*, p. 11.

Wherever possible, Australia Post should use its online presence to drive foot traffic into post offices. For example, giving customers the option to collect their order with no delivery charge from their nearest post office.¹²⁹

8.124 POAAL was also concerned that while any moves to offer more products online might expand Australia Post's market, it will erode the existing customer base at LPOs. POAAL stated that Australia Post must investigate options such as offering trailing commissions to the LPO nearest the customer's address for online purchases.¹³⁰

Other issues raised by licensees

Technology issues

8.125 Point of sale technology (EPOS) was introduced to the majority of LPOs in the early 1990s. This was undertaken at Australia Post expense. Australia Post stated that this had enabled significant growth in bill-pay and banking payments business for LPOs. Recently, Australia Post has invested in the Channel Enablement – Point of Sale (CE-POS) program.¹³¹

8.126 Evidence was received on a range of issues in relation to point of sales technology including that a number of LPOs did not have access to EPOS facilities. Australia Post noted at the December 2013 hearing that it had been trialling FlexiPOS to allow manual LPOs access to technology in a more cost-efficient manner.¹³² Mr Fahour also indicated at the same hearing that Australia Post was:

...investigating 'and have been now for nearly six months or so—the possibility of giving many of our rural post offices some relief around the minimum number of transactions fees that they have to pay for that EPOS. We are not there yet. We have been working on it a little while, but our plan does include looking at a way to give them some cost relief on this minimum EPOS fee, and I think this will be very welcome news if we can get around to doing it.¹³³

8.127 The committee received evidence that this was provided to manual post offices at a cost of \$5,000 plus ongoing fees.¹³⁴

8.128 As at February 2014, around 400 small LPOs did not have access to EPOS facilities. Mrs Christine Corbett indicated that Australia Post had undertaken a trial to establish how to extend the technology to these small LPOs. She stated that cost had been the main factor in delaying access. Mrs Corbett went on to note that prices had now reduced for hardware and communications. Australia Post was in the evaluation

129 POAAL, *Submission 9*, p. 22.

130 POAAL, *Submission 9*, p. 22.

131 Australia Post, *Submission 8*, p. 32.

132 Mrs Christine Corbett, Australia Post, *Committee Hansard*, 6 December 2013, p. 41.

133 Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 6 December 2013, p. 41.

134 Mr Murray Neilson, *Submission 108*, p. 1.

stage and hoped for a positive outcome as benefits accrued to LPOs with access to this technology.¹³⁵

8.129 Under the rural sustainability package, EPOS technology will be supplied to all manual post offices. One licensee commented that this should not have been included in this package but 'should just be an expense to bring its network up to 2014 speed. Why should these outlets effected have to wait for a "rescue package" to be part of the modern era?'¹³⁶

8.130 A further matter raised was the EPOS shortfall fee. A fee of 43c per transaction was payable by the licensee when the LPO failed reach a minimum number of transactions. The fee was payable when there were less than 833 EPOS banking or bill paying transactions per period (10,000 per year) per EPOS terminal. One submitter commented that 'the time frame for each period varies and is totally controlled by Australia Post so some periods are shorter than others and deductions are made in shorter periods but are not refunded until the end of the financial year if you are fortunate enough to process more than 10,000 transactions'.¹³⁷

8.131 Australia Post has decided to withdraw this fee under its LPO sustainability package.¹³⁸

8.132 The committee welcomes Australia Post's decisions in regard to provision of EPOS technology and the transaction fee. As noted by the LPO Group and other submitters, this will improve the outlook for the smaller LPOs and those who have been charged the transaction fee in the past.¹³⁹

Leasing equipment

8.133 Some LPOs are able to provide identity services. These require the use of camera equipment for photographs. Licensees commented that they are required to lease camera equipment from Australia Post rather than purchase their own equipment.¹⁴⁰ Some commented that this equipment was inferior and in other cases not available.

8.134 One licensee commented that they were told by an Australia Post manager that only LPOs with an Australia Post ID camera would be able to perform new ID photos and transactions as they came on line 'as this was the agreement they were making with new agencies'. However, it was noted that other camera equipment was

135 Mrs Christine Corbett, Australia Post, *Additional Estimates Hansard*, 25 February 2014, pp 89–90.

136 Name Withheld, *Supplementary Submission 63*, p. 1.

137 Mr Paul Marrell, *Submission 147*, p. 1.

138 See also Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 6 December 2013, p. 41.

139 LPO Group, *Supplementary Submission 65*, p. 7; see also, Mr Chris Campbell, *Submission 93*, p. 4.

140 Mr David and Ms Liz Dundovic, *Submission 49*, p. 2.

available of a standard required to take passport photos and in many cases was the same camera. The licensee went on to state:

Why should those of us who have sourced a better deal for our cameras now be disadvantaged because Australia Post believes it has the right to dictate where we get our camera etc from. We have customers bring in photos from other providers which are of an acceptable quality to meet current ID transactions that we accept, we may not be able to process their requests in the future because we don't have an Australia Post camera and therefore no access to new ID transactions.¹⁴¹

8.135 Another licensee, who already provided photographs for passports and other documents before being offered the extended identity services by Australia Post, stated:

Now that Australia Post has recently realised that the offering of identity photographs is a lucrative business, they have made their receiving the "lions share" of this revenue a pre-condition of our receiving new identity services offers from them. This would mean that we have to put our entire photographic business through Australia Post, to our financial disadvantage, which in our opinion is a form of "exclusive dealing" and an unfair exercise of monopoly power on their part.¹⁴²

Expansion of Community Postal Agencies

8.136 Mr Terry Ashcroft, a post office broker of 40 years' experience, commented on the increase in the number of community postal agencies (CPAs). Some have replaced failed or closed LPOs but most have been created as new outlets. Mr Ashcroft commented that CPAs are cheaper for Australia Post as their payments are lower and is thus an advantageous model for Australia Post 'as it subsidises AP in providing mail management services at well below the cost'. At the same time, the model is not so beneficial for the CPA nor for nearby LPOs who lose stamp business.

8.137 Mr Ashcroft went on to state:

Many of the newly created CPAs are in fact competing for business with nearby LPOs and there is a great fear among Licensees of LPOs that the creation of new CPAs by AP near them is being done to undermine their business profitability in order for AP to convert their now unviable LPO into a CPA and in the process reducing full Post Office services to the community. We now have the extraordinary reality of a number of Community Postal Agencies being now located in rural Pubs.¹⁴³

8.138 This issue was also addressed by other licensees who argued that CPAs were replacing LPOs in rural areas which saves Australia Post money but limits the services being provided to rural communities.¹⁴⁴

141 Heildon Post Office, *Submission 174*, p. 1.

142 Name Withheld, *Submission 171*, p. 4.

143 Mr Anthony Ashcroft, *Submission 94*, p. 3.

144 See for example, Name Withheld, *Submission 52*, p. 3.

8.139 In relation to the conversion of LPOs to CPAs, Australia Post stated that 'in general terms Australia Post will establish a CPA in areas where the licensee has indicated that they do not wish to continue operating the LPO and no other suitable operator can be found'.¹⁴⁵

Committee concluding comment

8.140 The committee notes the comments in Australia Post's submission to the inquiry that there 'may be opportunities to reassess selected payments and better align them to licensees' costs and Australia Post's business drivers for a mutually beneficial outcome'.¹⁴⁶ The committee considers that given the concerns regarding current payments received from licensees, a survey of activities should be undertaken. The survey should seek to determine the validity of claims of that payments being received are unfair and unreasonable. Should it be found that this is the case, the committee considers that a more appropriate payment rate should be established.

Recommendation 17

8.141 The committee recommends that the Minister for Communications, as a matter of urgency, commission an independent audit of the activities undertaken by the Licensed Post Office network specifically to determine the validity of claims made by licensees that payments made under the LPO Agreement are not fair or reasonable.

8.142 The committee recommends that where a payment is found to be not fair or reasonable, that a study should be conducted to determine what an appropriate payment rate should be.

145 Australia Post, *Submission 8*, p. 54.

146 Australia Post, *Submission 8*, p. 41.

