

The Senate

Environment and Communications
Legislation Committee

Performance, importance and role of Australia
Post in Australian communities and its
operations in relation to licensed post offices

September 2014

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Committee membership

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Recommendations

Recommendation 1

4.86 The committee recommends that Australia Post be required to submit notifications of changes to the price of business mail services to the Australian Competition and Consumer Commission.

Recommendation 2

4.90 The committee recommends that the Minister for Communications undertake a thorough examination of cost allocation within Australia Post and report back to the committee.

Recommendation 3

5.49 The committee recommends that greater commercial freedoms for Australia Post should be only be considered if this provides support for the delivery of the community service obligations through a viable Licensed Post Office network.

Recommendation 4

5.70 The committee recommends that the Commonwealth Government immediately commission an independent review of the community service obligations contained in the Australian Postal Corporation Act 1989 and associated regulations.

5.71 In undertaking this review, the committee further recommends that:

- the future of mail delivery services be assessed;
- the number of retail outlets required in the network be assessed;
- the effects of any changes to the community services obligations on Australia Post employees, Licensed Post Offices, Community Postal Agencies, franchisees and mail contractors be investigated; and
- consideration be given to the needs of remote, rural and regional communities particularly where other service providers have ceased to operate.

Recommendation 5

5.92 The committee recommends that, before further or more complex trusted services are provided through the postal network, the Minister for Communications consult Australia Post and relevant government agencies with a view to determining the requirements for the provision of those services.

5.93 The committee also recommends that Australia Post undertake consultation with all licensee representative groups in regard to any additional requirements related to an expansion in the delivery of trusted services, including training, staffing, shopfront space, technology and remuneration.

Recommendation 6

5.110 The committee recommends 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 Post network in the face of emerging challenges.

5.111 The committee further recommends that a broad community consultation program be implemented.

Recommendation 7

6.51 The committee recommends that, at the request of any recognised association, Australia Post be required to renegotiate the terms and conditions of an LPO Agreement.

Recommendation 8

6.79 The committee recommends that Australia Post capture information relating to 'issues requiring attention' raised under the dispute resolution process in order to provide early identification of systemic problems.

Recommendation 9

6.83 The committee recommends that the Australia Post dispute resolution process should be amended to provide for a more streamlined process.

Recommendation 10

6.88 The committee recommends that Australia Post provide further information to licensees and franchisees on the alternative dispute resolution processes available under the Franchising Code of Conduct.

Recommendation 11

6.129 The committee recommends that the definition of 'Association' in the LPO Agreement be amended to include, in addition to POAAL, other licensee representative groups including but not limited to the LPO Group.

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.

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.

Recommendation 14

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

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.

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.

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.

Recommendation 18

9.26 The committee recommends that Australia Post, when negotiating the current value of franchises, takes into account the impact on the value of franchises of its inability to deliver the promised opportunities.

Abbreviations and Acronyms

| | |
|-------------------|---|
| ACCC | Australian Competition and Consumer Commission |
| APDM | Australia Post Digital Mailbox |
| APC Act | <i>Australian Postal Corporation Act 1989</i> |
| APLAC | Australia Post Licensee Advisory Council |
| BCG | Boston Consulting Group |
| BPR | Basic postage rate |
| CAM | Cost allocation methodology |
| CC Act | <i>Competition and Consumer Act 2010</i> |
| CEPU (NSW Branch) | Communications Electrical Plumbing Union (NSW Postal and Communications Branch) |
| CPA | Community Postal Agency |
| CPI | Consumer Price Index |
| CPO | Corporate Post Office |
| CPSU | Community and Public Sector Union |
| CSOs | Community service obligations |
| CWA | Country Women's Association |
| CWU | Communication Workers Union |
| EPOS | Electronic point of sale |
| DHS | Department of Human Services |
| GBE | Government Business Enterprise |
| LPO | Licensed Post Office |
| MMF | Mail management fee |
| NCC | National Competition Council |
| OECD | Organisation for Economic Co-operation and Development |
| PIAA | Printing Industries Association of Australia |
| PMG | Post Master General's Department |
| POAAL | Post Office Agents Association Limited |
| UPU | Universal Postal Union |
| WACC | Weighted average cost capital |

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.

Chapter 1

Introduction

Referral of the inquiry

1.1 On 14 November 2013, the Senate referred the following matter to the Senate Environment and Communications Legislation Committee, for inquiry and report by 11 December 2013:

- (a) the overall performance, importance and role of Australia Post in Australian communities, and the challenges it faces in the immediate and longer term;
- (b) the operations of Australia Post in relation to Licensed Post Offices (LPOs), with particular reference to:
 - (i) the importance and role of the LPO network in the Australian postal system, with particular reference to regional and remote areas,
 - (ii) the licensing and trading conditions applicable to LPOs, including the Community Service Obligations, and any effects these may have on operating an LPO business, and
 - (iii) marketing, retail and trading arrangements between Australia Post and LPOs and other entities; and
- (c) any related matters.¹

1.2 Following the tabling of an interim report on 11 December 2013, the reporting date for the committee's final report was extended to 31 March 2014.² The reporting date was subsequently extended to 27 August 2014 and then to 24 September 2014.³

Conduct of the inquiry

1.3 In accordance with usual practice, the committee advertised the inquiry on its website and wrote to relevant organisations inviting submissions by 25 November 2013. The committee received 213 submissions and these are listed at Appendix 1. The submissions may be accessed through the committee's website. The committee also received 845 form letters from Licensed Post Offices.

1.4 The committee held public hearings in Canberra on 6 December 2013, 4 March and 19 March 2014 and in Adelaide on 5 August 2014. A list of witnesses who appeared at the hearings may be found at Appendix 2.

1 *Journals of the Senate*, No. 3, 14 November 2013, p. 127.

2 *Journals of the Senate*, No. 10, 11 December 2013, p. 349.

3 *Journals of the Senate*, No. 26, 27 March 2014, p. 743; *Journals of the Senate*, No. 47, 27 August 2014, p. 1312.

1.5 The committee would like to thank all the organisations and individuals that contributed to the inquiry and the witnesses who attended the public hearings.

Submissions

1.6 The committee received many submissions from individual licensees. It was not the role of the committee to address the specific problems raised by some licensees. However, the committee has used this evidence to build a picture of the issues before it and to inform its deliberations.

1.7 In addition, a number of submitters requested that their submissions be received as confidential or be published with their name withheld. While the committee prefers evidence to be taken in public, the committee was mindful that submissions contained information concerning the submitter's private circumstances. In other instances, even with the protection of parliamentary privilege, submitters were unwilling to provide their evidence in public because of their commercial relationship with Australia Post.

Structure of the report

1.8 The committee's report is structured as follows:

- Chapter 2 provides an overview of Australia Post including its business model, its obligations under the *Australian Postal Corporation Act 1989* and a description of the postal network as well as the importance of Australia Post and Licensed Post Offices to the Australian community;
- Chapter 3 provides information on changes in the postal environment including the decline in letter volumes;
- Chapter 4 analyses the performance of Australia Post and matters influencing its performance;
- Chapter 5 canvasses opportunities and challenges for the future development of Australia Post's business;
- Chapter 6 provides an overview of Licensed Post Office arrangements;
- Chapter 7 discusses the outlook for the Licensed Post Office network including viability issues;
- Chapter 8 canvasses issues in relation to specific payments and other matters impacting on the viability of Licensed Post Offices; and
- Chapter 9 addresses issues related to mail delivery contracts and franchisees.

Chapter 2

The provision and importance of postal services in Australia

2.1 This chapter provides background information about Australia Post and its regulatory framework as well as the importance of Australia Post for the Australian community, particularly in remote, rural and regional areas.

Australia Post

2.2 Postal services have been an integral element of Australian life since 1809, when the first postmaster was appointed for the colony of Sydney. Prior to federation, the six colonies maintained their own postal services. From 1901, Commonwealth postal services and telecommunications were provided by the Post Master General's Department (PMG). The PMG was split into the Australian Postal Commission and the Australian Telecommunications Commission in 1974.

2.3 Since 1989, Australia Post has operated as a Government Business Enterprise (GBE) under the *Australian Postal Corporation Act 1989* (APC Act).

Governance structure

2.4 Australia Post is overseen by a Board of Directors comprising the Managing Director, a Chairperson, a Deputy Chairperson, and up to six more directors.

2.5 Australia Post has two Shareholder Ministers: the Minister for Finance and the Minister for Communications.¹ The APC Act provides that after consultation with the Board, the Minister for Communications may, if the Minister considers it necessary in the public interest, issue to the Board such written directions in relation to the performance of Australia Post's functions.² The Minister cannot issue written directions in relation to:

- rates of postage; or
- amounts to be charged for work done, or services, goods or information supplied, by Australia Post.³

Stakeholders

2.6 There are a range of stakeholders within the Australia Post network including Australia Post employees, licensees, franchisees, operators of Community Postal Agencies, mail contractors, unions and the licensee representative groups – the Post Office Agents Association Limited (POAAL) and the LPO Group.

1 Department of Finance, *Submission 5*, p. 4; see also *Australian Postal Corporation Act 1989*, s. 20–24.

2 *Australian Postal Corporation Act 1989*, ss. 49(1).

3 *Australian Postal Corporation Act 1989*, ss. 49(2).

Australia Post's functions and obligations

2.7 The APC Act sets out the functions and obligations. Australia Post's principal function is to supply postal services within Australia and between Australia and places outside Australia.⁴

2.8 The APC Act imposes three types of obligations on Australia Post:

- commercial obligations;⁵
- community service obligations;⁶ and
- general government obligations.⁷

2.9 Each of these obligations are addressed in further detail below

Commercial obligations

2.10 The APC Act imposes the following general commercial obligations upon Australia Post:

Australia Post shall, as far as practicable, perform its functions in a manner consistent with sound commercial practice.⁸

2.11 The Board of Australia Post must also have regard to, among other matters:

- the need to earn a commercial rate of return on Australia Post's assets;
- the need to maintain Australia Post's financial viability; and
- the cost of carrying out Australia Post's community service obligations.⁹

Community service obligations

2.12 The APC Act provides for a set of community service obligations (CSOs) that must be adhered to in relation to Australia Post's letter service. These include that Australia Post must make the letter service available at a single uniform rate of postage for the carriage within Australia, by ordinary post, of letters that are standard postal articles.

2.13 Australia post is also required to ensure that:

- in view of the social importance of the letter service, the service is reasonably accessible to all people in Australia on an equitable basis, wherever they reside or carry on business; and

4 *Australian Postal Corporation Act 1989*, s. 14.

5 *Australian Postal Corporation Act 1989*, s. 26.

6 *Australian Postal Corporation Act 1989*, s. 27.

7 *Australian Postal Corporation Act 1989*, s. 28.

8 *Australian Postal Corporation Act 1989*, s. 26.

9 *Australian Postal Corporation Act 1989*, s. 38; see also Australia Post, *Submission 8*, p. 7.

-
- the performance standards (including delivery times) for the letter service reasonably meet the social, industrial and commercial needs of the Australian community.¹⁰

2.14 Performance standards to be met by Australia Post are set out in the *Australian Postal Corporation (Performance Standards) Regulations 1998* (Performance Standards Regulations). The performance standards relate to the frequency, speed and accuracy of mail delivery for its letters service, and the availability or accessibility of post boxes and Australia Post offices (or other places from which Australia Post services may be purchased).

2.15 The performance standards require that Australia Post must:

- service 98 per cent of all delivery points each weekday, and further, 99.7 per cent of all delivery points must be serviced at least two days each week;¹¹
- deliver at least 94 per cent of all reserved service letters within prescribed timeframes. The prescribed timeframes range from next business day after posting within the metropolitan area of a capital city up to four business days for an interstate posting between non-metropolitan areas;¹²
- maintain at least 10,000 street posting boxes, and at least 4,000 retail outlets at which persons can purchase Australia Post products and services. Of these retail outlets, at least 50 per cent of all retail outlets, and in any event, not fewer than 2,500 must be in rural or remote areas. In addition, retail outlets must be located so that:
 - in metropolitan areas at least 90 per cent of residences are within 2.5 km of a retail outlet; and
 - in non-metropolitan zones at least 85 per cent of residences are within 7.5km of a retail outlet.¹³

2.16 In order to meet its CSOs, Australia Post offers a range of delivery methods to customers, including those in rural and remote areas, which reflect cost considerations, transport infrastructure limitations and customer preferences. These

10 *Australian Postal Corporation Act 1989*, s. 27.

11 *Australian Postal Corporation (Performance Standards) Regulations 1998*, regulation 5. Subregulation 5(2) defines a 'delivery point' as 'a mail address that, taking account of accessibility, delivery cost and general volume of mail for the address, it is practicable and reasonable to service frequently' (for example, street and roadside letter delivery boxes, post office private boxes and locked bags, private and community bags).

12 *Australian Postal Corporation (Performance Standards) Regulations 1998*, subregulation 2(b); see also: Australia post, 'Domestic Delivery Times', <http://auspost.com.au/parcels-mail/domestic-delivery-times.html> (accessed 18 November 2013).

13 *Australian Postal Corporation (Performance Standards) Regulations 1998*, regulations 8 and 9; see also Australia Post, *Submission 8*, p. 9.

methods include street and roadside delivery, post office box delivery and counter delivery.¹⁴

Government obligations

2.17 Australia Post also has a number of general governmental obligations to comply with:

- general policies of the Commonwealth of which the directors (members of the Board) are notified under section 28 of the *Commonwealth Authorities and Companies Act 1997*;¹⁵
- any directions given by the Minister under section 49 of the APC Act; and
- Australia's obligations under any convention (such as the Universal Postal Union¹⁶ convention).¹⁷

2.18 In addition, Australia Post has obligations as a GBE:

...a principal objective of each GBE is that it adds to shareholder value by, among other things, operating and pricing efficiently, and earning at least a commercial rate of return. The *Commonwealth Government Business Enterprise Governance and Oversight Guidelines 2011* stipulates a commercial rate of return to include fully recovering costs and working towards a financial target and a dividend policy agreed with shareholder Ministers. The rate of return should be at least sufficient to justify the long-term retention of assets in the business, and to pay commercial dividends from those returns.¹⁸

2.19 Australia Post pays a dividend equivalent to 75 per cent of its profit after tax. The payments of dividends and financial performance are discussed in detail in Chapter 4 of this report.

Services 'reserved' to Australia Post

2.20 In recognition that Australia Post must meet certain CSOs, it has a general monopoly in the carriage and delivery of letters within Australia subject to some specific exemptions.¹⁹

14 Budget Estimates 2013–14, Australia Post, *Answer to question on notice*, No. 156.

15 From 1 July 2014, the provisions of the *Public Governance, Performance and Accountability Act 2013* apply.

16 Australia Post is a member of the Universal Postal Union (UPU) of the United Nations. As such, it has international treaty obligations, including the UPU universal service obligation, which requires signatories to provide an affordable but viable service to all points in their territory, to a standard that meets the needs of the population. Department of Communications, *Submission 7*, p. 3.

17 Department of Communications, *Submission 7*, p. 4.

18 Department of Communications, *Submission 7*, p. 4.

19 Australia Post, *Submission 8*, p. 9.

2.21 Subject to some exceptions, Australia Post has the exclusive right to collect, carry and deliver letters (weighing under 250g) within Australia and to issue postage stamps within Australia. The term 'letters' has a meaning that is wider than its general usage. The APC Act defines 'letter' in section 3 as meaning any form of written communication that is directed to a particular person or a particular address. This is known as the 'Reserved Service'.²⁰

2.22 The exemptions to the Reserved Service including the carriage of:

- a letter weighing more than 250 grams;
- a letter relating to goods that is sent and delivered with the goods;
- a newspaper, magazine, book, catalogue or leaflet, whether or not directed to a particular person or address and whether or not enclosed in any sort of cover;
- a letter otherwise than for reward;
- a letter on behalf of a foreign country under a convention; and
- a letter within Australia for a charge or fee that is at least four times the then rate of postage for the carriage within Australia of a standard postal article by ordinary post.²¹

2.23 The price of postage for items less than 250 grams is known as the Basic Postage Rate (BPR). Currently, letters less than 250 grams account for 99 per cent of total letter volume.²²

Basic Postage rate

2.24 Australia Post may seek a variation of the BPR, which it must be assessed by the Australian Competition and Consumer Commission (ACCC), and must notify the Minister. This undertaken pursuant to the *Competition and Consumer Act 2010* (CC Act).

2.25 The CC Act price notification provisions apply only to 'notified services' and 'declared persons'. The object of these provisions is to have prices surveillance applied only to those markets where, in the view of the minister, competitive pressures are not sufficient to achieve efficient prices and protect consumers. Australia Post letter services, other than the business letters service, have been declared to be a service covered by the CC Act provisions and Australia Post to be a declared person in relation to those services.²³

20 *Australian Postal Corporation Act 1989*, s. 29 and s. 30; see also Australia Post, *Submission 8*, p. 9.

21 *Australian Postal Corporation Act 1989*, s. 30.

22 Department of Finance, *Submission 5*, p. 3.

23 ACCC, 'ACCC role in postal services', <http://www.accc.gov.au/regulated-infrastructure/postal-services/accc-role-in-postal-services#assessing-price-notifications-for-australia-post-s-reserved-services>

2.26 The APC Act requires that, before the Board of Australia Post varies the rate of the BPR, it must give the Minister written notice of the proposed determination. The Minister may, within 30 days after receiving notice of a proposed determination, give the Board written notice disapproving it. In exercising his discretion on this, the Minister must consider:

- Australia Post's obligation under the APC Act;
- changes to the Consumer Price Index; and
- any other matters the Minister considers appropriate.

2.27 Effective from 31 March 2014, the BPR was increased by 16.7 per cent. In addition, Australia Post introduced, for the first time, a concession rate stamp for eligible customers so that they have access to the original 60 cents postage until 2017. Eligible customers will be limited to 50 concession stamps per year.²⁴

2.28 Australia Post is able to charge freely for all other services it provides.

Australia Post business structure

2.29 Currently, Australia Post's business structure consists of four business groups:

- Mail: the collection, processing and distribution of mail items, digital communications and associated services. This includes all regulated mail. Regulated mail comprising:
 - reserved letters—the collection, processing and distribution of domestic letters defined as reserved by the APC Act; and
 - non-reserved mail – the processing and distribution of non-reserved domestic letter services;
- Parcel and Express: the processing and distribution of parcel and express products, international mail services along with freight forwarding operations;
- Retail: provision of postal products and services, agency services, mail boxes and bags, financial services and other retail merchandise, principally philatelic, stationery, telephony, greeting cards, gifts and souvenirs; and
- Other services.²⁵

2.30 In June 2014, Australia Post has announced that it will restructure the Australia Post Group around its two key brands: Australia Post and StarTrack.²⁶

24 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 107; Mrs Christine Corbett, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 111.

25 ACCC, *Assessing Cross-subsidy in Australia Post 2012–13*, June 2014, p. 10.

26 Australia Post, 'Reform critical to future of Australia Post', 10 June 2014, <http://auspost.com.au/about-us/reform-critical-to-future.html>.

Size and distribution of the Australia Post retail network

2.31 As at June 2013, the Australia Post Retail Network consisted of a total of 4,429 retail outlets. The outlets reflect a variety of formats and ownership type as follows:

- Corporate Post Offices (CPOs) – owned and operated by Australia Post and offer Australia Post's full suite of products and services;
- Licensed Post Offices (LPOs) – owned and operated by a licensee (not an Australia Post employee). LPOs are obliged to provide mandatory services which are postage assessment, mail acceptance and delivery, and agency banking and bill-pay. LPOs may be standalone – that is, provide only Australia Post services – or run in conjunction with a host business. More than half of all LPOs are run in conjunction and are often situated in smaller communities;
- Franchised Post Offices – franchised post offices are a turnkey operation with arrangements being entered into for 10 years. There are currently 29 franchised post offices. Australia Post has announced that the franchises will be converted to LPOs;²⁷ and
- Community Postal Agencies (CPAs) – established in a host business or other local premises and offer basic postal services only.²⁸

2.32 LPOs and CPAs provide the vast majority of services in rural and remote areas. LPOs are the most prominent model in rural and remote areas, accounting for 64 per cent of all of these retail outlets as at 30 June 2013. Australia Post noted that the majority of these LPOs (58 per cent) are run in conjunction with a host business.²⁹

27 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 126.

28 Australia Post, *Submission 8*, p. 20.

29 Australia Post, *Submission 8*, pp 23–24.

Table 2.1: Outlet types and distribution, June 2013

| Type of outlet | Total number of outlets | Total number of outlets in metro area | Total number of outlets in rural area | Total number of outlets in remote area |
|---|-------------------------|---------------------------------------|---------------------------------------|--|
| Corporate Post Office | 761 (17.2%) | 517 (27.7%) | 223 (10.9%) | 21 (4%) |
| Licensed Post Office (including 29 franchisees) | 2,924 (66%) | 1,299 (69.5%) | 1,357 (66.6%) | 268 (51%) |
| Community Postal Agencies | 744 (16.8%) | 52 (2.7%) | 456 (22.4%) | 236 (45%) |
| Total | 4,429 | 1,868 | 2,036 | 525 |

Source: Australia Post, Submission 8, Tables 3.3 and 3.4, p. 21.

2.33 In 2012–13, the Australia Post network handled 4.58 million mail articles. This included a total of 4.4 million articles posted in Australia for delivery in Australia and overseas and 180,000 posted overseas for delivery in Australia. These figures do not include articles that do not generate revenue, such as official mail or redirected mail.³⁰

2.34 A more detailed analysis of Australia Post's mail service, trends in mail use and the impact on Australia Post is provided in Chapter 3 of this report.

Role of the Australian Competition and Consumer Commission

2.35 The Australian Competition and Consumer Commission (ACCC) has three specific responsibilities in the regulation of postal services:

- assessing proposed price increases for Australia Post's notified reserved services (assessing price notifications);
- monitoring for the presence of cross subsidies between Australia Post's reserved and non-reserved services; and
- inquiring into certain disputes regarding the terms and conditions under which Australia Post supplies bulk mail services.

2.36 The ACCC's role in assessing any variation to the BPR being sought by Australia Post is discussed above.

2.37 The APC Act requires the ACCC to assess whether Australia Post is cross-subsidising its non-reserved services (generally, services it provides in competition with others) with revenues from its reserved (statutory monopoly) services. The

30 Australia Post Annual Report 2012–13, p. 132.

ACCC commented that this would be a concern because Australia Post could damage competition in competitive markets by the use of its legislated monopoly.³¹

2.38 Prior to 2011, Australia Post was required to provide the ACCC with notification of proposals to increase charges for bulk (business) mail. Australia Post is no longer required to submit price notifications to the ACCC for changes in the prices of its business mail services. However, regulations made under section 32B of the APC Act allow the ACCC to inquire into disputes about the terms and conditions, including price of access to Australia Post's bulk mail services.

Franchising Code of Conduct

2.39 The *Competition and Consumer Act 2010* (CCA) and its associated Franchising Code of Conduct apply to Australia Post. The CCA is administered by the ACCC by:

- preventing or halting anti-competitive behaviour so that all businesses have the opportunity to survive and thrive, and to conduct their business in a manner consistent with the interests of the Australian public, the Australian consumer, and
- protecting consumers against misleading and deceptive conduct.³²

2.40 The ACCC may take action against any corporation which it believes has broken the law and has acted in an anti-competitive or unfair manner against the interests of consumers or other businesses. The ACCC takes on cases on behalf of small business when there are allegations from those businesses concerning unconscionable conduct, misleading or deceptive conduct or breaches of the Franchising Code.

2.41 The Department of Communications noted that, in his speech to the 2004 POAAL National Conference, the then ACCC Commissioner John Martin stated that 'given Australia Post's dominant position [with regard to market power] any allegation of conduct by it which deliberately damages the competitive process would be investigated by the ACCC'.³³

2.42 The ACCC may undertake franchising audits and has the power to obtain from a corporation any information or document it is required to keep, to generate or to publish under the relevant industry code.³⁴

2.43 Proposed changes to the Franchising Code of Conduct will allow the ACCC to use its audit powers to obtain documents that the franchisor has relied upon to support statements and claims made in their disclosure documents. In addition, the

31 ACCC, *Assessing Cross-subsidy in Australia Post 2012–13*, June 2014, pp 6, 7.

32 Department of Communications, *Submission 7*, p. 7.

33 Department of Communications, *Submission 7*, p. 7.

34 ACCC, Industry Code Audits (<http://www.accc.gov.au/business/industry-codes/industry-code-audits>)

changes will introduce a general obligation on franchisors and franchisees to act in good faith during their dealings with each other.³⁵

2.44 The committee understands that individual LPOs have written to the ACCC in regards to their own relationship with Australia Post. The Committee intends to write to the ACCC requesting they examine the overall relationship between LPOs and Australia Post and determine whether the allegations put forward by some LPOs are appropriate to pursue under the powers of the ACCC.

The importance of Australia Post and the Australia Post network

2.45 Postal services have been a vital part of Australian life since the earliest days of the Sydney colony. Australia Post now has a presence across Australia through an extensive network of corporate and privately owned post offices. The services being provided by Australia Post have grown from 'traditional' letter deliveries to include parcel delivery services, many government services and commercial services such as bill payments and banking as well as new services that embrace the digital economy.

2.46 While many submitters noted the decline in letter volumes and the increasing use of electronic communications, Australia Post is still seen as being a central service provider for the business sector, the general community and government. As Mr Stephen Giles stated:

Australia Post is an iconic and trusted brand with an unrivalled business network. For more than 100 years Australia Post has been an integral part of our Australian community, facilitating communication and ensuring that important services are provided to all. The efficiency and accuracy of delivery that the Australia Post network achieves is globally acknowledged, and rendered even more remarkable given Australia's geographic and logistical challenges and our relatively small population base.³⁶

2.47 The Community and Public Sector Union (CPSU) and the Communications Electrical Plumbing Union (NSW Postal and Communications Branch) (CEPU (NSW Branch)) both pointed to the importance of Australia Post, with the CPSU stating that Australia Post is 'an important public institution that provides a variety of essential services to the Australian public every day'.³⁷

2.48 The CEPU (NSW Branch) added that Australia Post has stepped in to provide trusted services when other institutions, for example, financial institutions, have closed. It concluded that 'in many areas, Australia Post has been the underpinning reason for the survival of local economies'.³⁸

35 The Treasury, *Amendments to the Franchising Code and the Competition and Consumer Act*, April 2014 (<http://www.treasury.gov.au/ConsultationsandReviews/Consultations/2014/Franchising-Code>)

36 Mr Stephen Giles, *Submission 1*, p. 5.

37 CPSU, *Submission 4*, p. 1.

38 CEPU, *Submission 11*, p. 2.

2.49 Submitters noted that the Australia Post network is more important to some groups in the community than others, including the elderly, the disabled and those who do not have access to computers. The Communication Workers Union Postal and Telecommunications Branch Victoria (CWU Victoria Branch) stated:

While digital messaging has decreased the reliance on mail, it must be realised that not everyone has access to a smart phone, computer and internet. Many low income people cannot afford this access, or many people do have the technical skills to keep their systems fully functioning. For some types of messaging, physical mail is the preferred option. This is particularly true of documents containing signatures or confidential information or that are lengthy.³⁹

2.50 This was acknowledged by the Department of Communications which stated:

...replacing physical letters with an electronic service would not yet be appropriate for all communities and businesses, in particular those which do not have ready access to an electronic service that could act as a replacement.

While electronic services are increasingly an option for many, there are consumers who prefer to use letters for other reasons, such as security or familiarity (such as among the aged). Alongside this, the role of Australia Post in Australian communities continues, but the importance of physical letter services is diminishing.⁴⁰

2.51 The Post Office Agents Association Limited (POAAL) also commented on the range of services provided by the Australia Post network to different groups in the community:

Post offices serve the elderly, the frail, the disadvantaged, the infirm, the unemployed and low-paid workers, as well as mums and dads and local businesses. Many of these people living in country areas do not have access to the internet nor can they afford it.⁴¹

2.52 This view was supported by other submitters; for example, one licensee commented on the great value of the services provided by LPO; not only postal services but also bill paying facilities. They stated that this was 'particularly important to elderly residents who are not confident with online or telephone payment arrangements, who are given personal care and attention, and many of whom do not have ready transport to larger centres'.⁴²

2.53 Another licensee also provided details of the assistance his office provides to elderly and homeless customers:

39 CWU Victoria Branch, *Submission 6*, p. 2.

40 Department of Communications, *Submission 7*, p. 5.

41 POAAL, *Submission 9*, p. 6.

42 Ms K Whelan and Mr P Lee, *Submission 130*, p. 3; see also, Mr Robert Richardson, *Submission 117*, p. 2.

May I explain that our LPO, as would many other small community post offices help the community in so many ways that a lot of people would not even realize. From helping the aged who cannot see. I have a couple of people who have me fill in their cheques to pay their bills. I have elderly residents in the caravan villages who are incapacitated and to whom I deliver parcels because they cannot collect them from the post office. In many cases I am the only person people can talk to when they are grieving the loss of their partner and they are left all alone...A lot of people are unaware of the number of homeless people that "reside outside" in our area whose only link with authorities is our post office for everything from making a phone call for them to contact Centrelink maybe the hospital when they have appointment.⁴³

2.54 It was also noted that the postal network is of great value to government, through the provision of services:

Post offices are of inestimable value to government. They meet the necessity for human interaction while providing a government service. It is my belief that Australia Post provides an essential community service in addition to it being another Government Business Entity. It is therefore very important that this not be sacrificed to corporate expediency under the guise of financial restraint.⁴⁴

2.55 Australia Post recognises its important role in the Australian community. Mr Fahour has stated:

We and the licensed post offices play a vital community role, which I know you all believe in...They are vitally important for the success of Australia Post and to provide our community with the services it deserves. We are committed to a strong and sustainable future and to working cooperatively and effectively with all our partners—our valuable workforce, our very important LPO network. We want to continue to serve the community

2.56 The committee recognises that in many areas across Australia, the local post office provides not only postal services but also an invaluable amenity for individuals and local business and for the community as a whole.

Importance of the Australia Post network in regional and rural communities

2.57 Australia Post submitted that it has a 'demonstrable commitment' to rural and remote Australia, and that over 5,500 people are directly employed by Australia Post in rural areas.⁴⁵ Mr Fahour commented:

...Australia Post prides itself on being able to service the community in places where very few institutions are left. Particularly in regional and rural

43 Mr G Bond, *Submission 195*, p. 2.

44 Mrs Margaret Fowler, *Supplementary Submission 98*, p. 3.

45 Australia Post, *Submission 8*, p. 23.

Australia there are not many options available to the community, and Australia Post tends to be there to assist across a range of services.⁴⁶

2.58 In rural areas, as shown in table 2.1 above, of the total of 2,036 post office outlets 10.9 per cent are Corporate Post Offices while the remainder are LPOs or CPAs. In remote areas it is LPOs and CPAs which provide the vast majority of postal services, with only four per cent of outlets being Corporate Post Offices. It was noted that without the LPO network, Australia Post would not be able to deliver its CSOs.⁴⁷

2.59 Many submitters emphasised the importance of the Australia Post network, particularly LPOs and CPAs, in remote, rural and regional communities. A licensee commented:

...I believe the community service obligations of Australia Post have evolved to be far broader than the supply of a letter service as defined in Section 27 of the Australian Postal Corporation Act. The services provided by local post offices often tend to make the post office the face of government. This is especially so in rural towns. The post office in these communities is seen as an integral part of the social fabric of that society. Indeed, from my observation, there is an expectation in the community that even if a problem does not relate to the post office per se, someone in the post office will know where to direct the enquiry.⁴⁸

2.60 Submitters also pointed to the lack of other services and problems with other forms of communications in rural and remote areas. For example, the CWU Victoria Branch further observed that 'Internet and even mobile phone coverage in country Victoria is often patchy, and sometimes (especially during rain) non-existent.'⁴⁹

2.61 Submitters highlighted the central role of post offices in rural and remote areas which were described by some submitters as the 'hub of the community', particularly where other services had closed or in times of an emergency.⁵⁰ Ms Helen Bain commented further:

Since many banks, government services and offices have left regional areas and centralized in cities, rural post offices have become essential for the provision of banking, bill paying, financial transactions, communications and general business services within small towns.⁵¹

2.62 The Southern Grampians Shire Council added that post offices and LPOs in smaller communities provide a focal point for a range of community services and

46 Mr Ahmed Fahour, *Additional Estimates Hansard*, 25 February 2014, pp 119–20.

47 See for example, Ms Helen Bain, *Submission 19*, p. 3.

48 Mrs Margaret Fowler, *Supplementary Submission 98*, p. 1.

49 CWU Victoria Branch, *Submission 6*, p. 2.

50 See for example, Ms Lisa Cooper, *Submission 71*, p. 3; Mr Kevin Nicholls, *Submission 53*, p. 2; Mooball and District Moovers (Inc), *Submission 78*, p. 1.

51 Ms Helen Bain, *Submission 19*, p. 3.

activities apart from the postal services that they provide directly. The council went on to state:

...the importance [of LPOs] lies not just in the provision of services proved at and by LPOs but also in the capacity of such facilities to strengthen communities...LPOs act as community hubs. In many smaller communities these are the main service centre, providing a focal point for a range of community services and activities quite apart from the vital service they provide directly...

The effect of the loss of 'institutions' such as LPOs on small communities should not be underestimated.⁵²

2.63 It was also noted that the post office can play an important role in times of emergency. One licensee submitted:

In our small community we are the last business still operating. In the recent floods we were the focal point for all of the community and the emergency services. The communities' very identity is now reflected in the local Post Office as the last government service available to them...

The role of the regional LPO is to keep regional communities connected to the rest of the country in the same way as their city relatives.⁵³

2.64 The Country Women's Association NSW (CWA NSW), while recognising the costs of maintaining postal services in regional and remote areas, added that:

Even though the population served by remote mail services is small, the maintenance of these services is vitally important—the people who live in these areas should have access to "a" mail service. Couriers do not operate in many regional and remote areas—the only alternative is to send items using Australia Post—this illustrates the importance of Australia Post in conducting a business or just getting something like Christmas presents delivered on time.⁵⁴

2.65 The CWA NSW went on to comment about the role of LPOs and problems that would be faced by communities where postal services were no longer available:

The LPO network is vitally important to communities in regional and remote Australia – as well as handling mail, they are very often the venue where people pay utility accounts, Shire Council rates and insurance, or purchase money orders, reams of paper, envelopes and stamps. LPO owners earn a commission for providing these services. LPOs operate in small towns and villages, so they are usually the only business in the community where these services are available. Sometimes the LPO offers a fax service as well. Often, it is up to 100km to the next nearest Post Office or LPO.

In many small communities, older residents do not use technology to pay bills or communicate, so the services offered by the LPO are their lifeline.

52 Southern Grampians Shire Council, *Submission 175*, p. 2.

53 Name Withheld, *Submission 88*, p. 1.

54 CWA NSW, *Submission 18*, p. 1.

If LPOs did not exist, many services in regional and remote areas would be very different, in particular mail services. An example: Rowena has an even smaller Australia Post service than an LPO – a Community Postal Agency (CPA). If it didn't exist, local mail would be sorted at a centre 80 kms away or by the local roadside mail delivery contractor at his house or in a shed. Posting a parcel would have to wait until someone went to town, to a PO with a set of scales – 80 to 100kms away. What would happen to registered mail, where a signature is necessary for delivery to occur? There wouldn't be a Post Office to go to, to collect the parcel/letter. What about an oversize object which wouldn't fit in the mailbox? Mail contractors will not leave such an item on the ground beside the mailbox – where would one go to collect that sort of item?⁵⁵

2.66 Other submitters also pointed to the great distances that customers would have to travel to access postal services if local post offices closed.⁵⁶ The Mooball and District Moovers commented on the impact of the loss of postal services in its district and stated:

Village lifestyle functions around and depends on these local services – it is often the only contact residents have to "the outside world"...

Immediate and future impact on our communities in the event of the loss of our Postal services would necessitate residents having to access Postal services at Murwillumbah Post Office which is 20 kms north west of the Mooball community. This would pose many problems for the elderly, ill and incapacitated residents who do not drive or have access to personal transport with the only daily transport available being the school bus. Not the best option.⁵⁷

2.67 The committee also received a number of submissions concerning the potential closure of small LPOs including the Gulgong LPO. The Gulgong Community Action Group provided the committee with a list of affects if the LPO were to close including:

- loss of productivity for businesses in the town as they would have to travel to Mudgee (a one hour round trip) numerous times per week for mail;
- increased travel costs for local business which may make the business no longer viable;
- loss of business in the local community as people will do other business while in Mudgee;
- isolation of elderly and disabled members of the community; and

55 CWA NSW, *Submission 18*, p. 1.

56 See for example, Mr V Cooney, *Supplementary Submission 201*, p. 1.

57 Mooball and District Moovers (Inc), *Submission 78*, p. 1.

- the community being forced to use online services taking away a customer's right to choose the way they conduct their business in an area with poor internet access.⁵⁸

2.68 In addition to concerns about the closure of post offices in rural and regional areas, the CWU raised the issue of changes to rural and regional mail services that would impact detrimentally on individuals and communities. The CWU, for example, noted that Australia Post has recently announced cuts to existing services in regional and rural NSW. The CWU stated that there is no justification for reducing these services.⁵⁹ The CWU pointed to the importance of mail delivery services for the elderly in regional areas and commented:

Ingham [in rural Queensland] has a large elderly population who are accustomed to receiving physical mail and for whom the postie may be the only person they see every day. As long as there is post, at least one human being comes to your home with something for you...mail delivery has changed from 10 days in a fortnight to 5 days a fortnight. This has caused a lot of concern for the Ingham residents. There has been no public consultation.⁶⁰

2.69 The CWU also commented on the impact of postal employees. It stated that 'cutting the delivery schedule will overload workers on the days when mail is delivered, backlog sorting centres and isolate regional/rural and remote communities reliant on the mail for communication'.⁶¹

2.70 It was also argued that moves by Australia Post to centralise its main sorting centres will impact on next day delivery services. In Victoria, Australia Post will move the majority of mail from regional Victoria to its main sorting centre in Dandenong. The CWU concluded that 'not only are they abandoning next day delivery for mail posted between Melbourne and Ballarat and between Ballarat and adjoining country towns, but to make matters worse only 94% of mail will be delivered on the second day'.⁶²

2.71 Mr Fahour has indicated to the committee that Australia Post has a strong commitment to the development and maintenance of the physical post office network and stated 'we are absolutely committed to maintaining that physical presence in communities everywhere so that we can continue our role of providing trusted services that connect all Australians'.⁶³ Australia Post launched a rural sustainability

58 Gulgong Community Action Group, *Submission 204*, pp 4–5.

59 CWU Australia, *Submission 2*, p. 2; see also see also Mr Martin O'Nea, Assistant National Secretary, CWU, *Committee Hansard*, 6 December 2013, p. 31.

60 CWU Australia, *Submission 2*, p. 4; see also CWU Victoria Branch, *Submission 6*, p. 2.

61 CWU Australia, *Submission 2*, p. 2; see also see also Mr Martin O'Nea, Assistant National Secretary, CWU, *Committee Hansard*, 6 December 2013, p. 31.

62 CWU Australia, *Submission 2*, p. 5.

63 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 80.

package to support the viability of rural outlets in June 2014. This is discussed in Chapter 6 of this report.

Committee comment

2.72 The committee recognises the expanded role played by post offices across the country and the services that are provided to the community. Many elderly Australians use the post office to pay bills and to access a range of government services. People with disabilities and poor levels of literacy are assisted by post office staff to use banking facilities, to fill out forms and to access other services.

2.73 The committee was provided with numerous examples of the assistance provided to members of the public through the postal network. The committee commends the many Australia Post employees, licensees, franchisees and mail contractors who provide services and assistance to members of the public far beyond their stated responsibilities.

2.74 In small remote, rural and regional communities, the postal network provides essential services for communities. This is particularly the case where other facilities are no longer available with the additional services provided by post offices, such as banking and account payments, ensuring that community life can continue. This is of great importance in areas where public transport is limited, where major towns are some distance away and where internet services are unreliable. The post office also provides invaluable services for individuals who cannot afford computer access or have difficulty using electronic means of communication.

2.75 The majority of the postal services in rural and remote Australia are provided by LPOs and CPAs. The committee notes that Australia Post has recognised the possible adverse impact for communities if LPOs were to close. In response, Australia Post has developed the rural sustainability package. The contribution of this package for the long-term sustainability of the rural and remote postal network is examined later in this report.

Chapter 3

Changes in the postal environment

Introduction

3.1 Postal services in Australia have been built on the delivery of letters. Government, business and personal communications have, until recently, been transacted through hardcopy post.

3.2 However, the growth of other means of communications has been felt by Australia Post, and indeed, postal services across developed economies. E-substitution, such as SMS, e-mail and the Internet, has seen significant shifts away from letters, for example the use of email or the Internet for banking services.

3.3 At the same time, the negative effect of developments in information technologies has not been felt by parcel mail. On the contrary, demand in Australia Post's parcel services have increased as more and more purchases are made over the Internet.

Australia Post's letters business

3.4 Generally, 'letter' refers to the traditional or reserved services, that is, the domestic carriage of letters within Australia that (subject some exceptions) weigh less than 250 grams. However, the terms letter, mail and posted article are used interchangeably in some submissions. The committee has used the same terminology as used in source documents in the following discussion. In some instances it is unclear if the information drawn from various sources is precisely comparable. The committee has indicated where this has occurred.

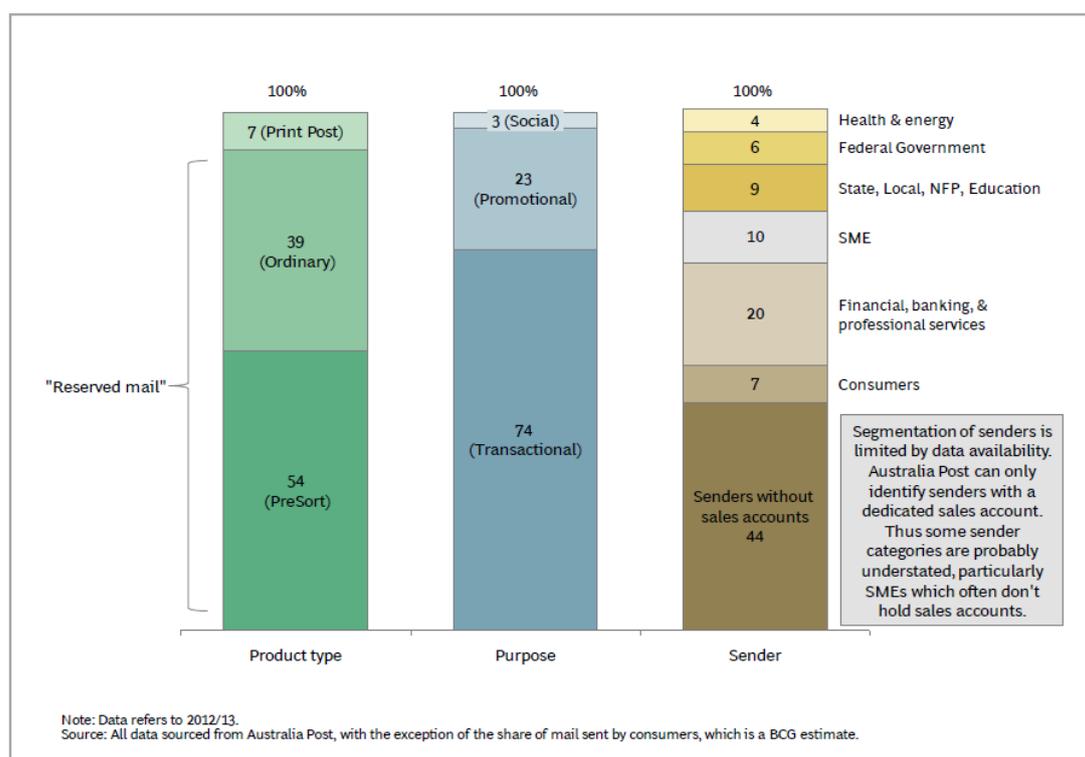
Types of letters

3.5 Letters can be categorised by purpose, product type and sender. There are three main purpose categories of mail handled by Australia Post:

- transactional, which involves transactions between businesses and their customers, for example, bills, invoices, accounts and statements;
- promotional, such as targeted offers, requests, brochures, and other marketing communications; and
- social, including greeting cards, postcards and personal letters.

3.6 Letters can also be split into the product types of PreSort (that is, bulk letter mailings), Ordinary (other letters) and Print Post (newspapers, catalogues and magazines).

3.7 The Boston Consulting Group (BCG) provided the following breakdown of addressed letters as part of its assessment of an internal review conducted by Australia Post.

Figure 3.1: Australia Post addressed letters categories, 2012–13

Source: *The Boston Consulting Group, Australian and International Postal Services Overview Background Report, June 2014, p. 8.*

The trend in letter volumes

3.8 Australia Post indicated that up to 2007–08, overall letter volumes in Australia exhibited an increase. For example, between 2006–07 and 2007–08 the volume of letters increased by 2 per cent.¹ However, since 2008–09, letter volumes have experienced a significant decline. Australia Post commented in its 2008–09 Annual Report, that letter volumes had fallen during the year due to the challenging economic climate and ongoing electronic substitution as well as the lack of federal election mailings, which had boosted volumes to record levels in the previous period.²

3.9 Since 2008–09, the rate of decline in mail volumes has continued with Australia Post commenting that 'the year-on-year decline in Australian domestic letter volumes has been gradually accelerating'.³ In its November 2013 submission, Australia Post stated, in relation to predicted trends in 2013–14 letter volumes, that:

This year's volume trends indicate that the Australian community is now shifting away from using letters at a faster pace. In the April–June 2013 quarter, the fall in Australia's domestic letter volumes was dramatically faster (10.3% down on the same period in the previous year). This is the

1 Australia Post, *Australia Post Annual Report 2007–08*, p. 9.

2 Australia Post, *Australia Post Annual Report 2008–09*, p. 17.

3 Australia Post, *Submission 8*, p. 12.

first time in Australia Post's history that we have recorded double-digit decline in our core letters product.⁴

3.10 At the May 2014 Budget Estimates, Mr Fahour commented further on the predicted trend for 2013–14 letter volumes and stated that there had been a decline of 6.2 per cent in the year to May 2014.⁵ Australia Post announced in September 2014, that letter volumes declined by five per cent over the year, 'excluding the impact of the federal election'.⁶

3.11 The following table provides the change in letter volumes for 2007–08 to 2012–13. The table below shows that domestic addressed letter volumes have declined, while the volumes of unaddressed mail have remained relatively steady.

Table 3.1: Australia Post's domestic addressed and unaddressed letters

| Financial year | Domestic addressed | | Unaddressed letters | Total letters | |
|----------------|--------------------|----------------------|---------------------|---------------|----------------------|
| | Volume | Year-on-year decline | Volume | Volume | Year-on-year decline |
| 2007–08 | 4.6 billion | – | 575 million | 5.2 billion | – |
| 2008–09 | 4.4 billion | (4.0%) | 511 million | 4.9 billion | (4.9%) |
| 2009–10 | 4.2 billion | (5.6%) | 546 million | 4.7 billion | (4.2%) |
| 2010–11 | 4.0 billion | (3.7%) | 612 million | 4.6 billion | (1.9%) |
| 2011–12 | 3.8 billion | (5.2%) | 606 million | 4.4 billion | (4.4%) |
| 2012–13 | 3.6 billion | (6.0%) | 582 million | 4.2 billion | (5.9%) |

Source: Australia Post, *Submission 8*, pp 12–13; Australia Post, *Answer to question on notice*, No. 32.

3.12 In addition, information was provided by the Department of Finance of the trends in letter volumes by originating sector between 2008–09 and 2012–13. The Department of Finance noted that the majority of letter volumes originate from government or business. The decline in letter volumes for these two sectors during the period was 22 per cent and 18.5 per cent respectively.⁷

3.13 As a consequence of the decline in letter volumes, the average number of mail items being delivered to each delivery point in the postal network has declined. In

4 Australia Post, *Submission 8*, p. 13.

5 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 80.

6 Australia Post, 'Australia Post reports FY14 Financial Results', *Media Release*, 4 September 2014.

7 Department of Finance, *Submission 5*, p. 5.

2000, 2.2 items were delivered to each point, by 2012 this fell to 1.7 items per delivery point.⁸ Australia Post forecast in its 2011–12 Annual Report that the number of mail items per delivery point per day would fall to 1.3 by 2016.⁹ At the November 2013 Supplementary Budget Estimates, Mr Fahour commented that:

By 2020, there will only be 0.5 letters per letter box each day. What that essentially means is two and a half letters per week.¹⁰

Increase in delivery points

3.14 A further factor influencing the efficiency of the postal network is the number of delivery points. While letter volumes have declined, it was noted that the number of delivery points in the postal network was increasing, on average, by 200,000 new delivery points each year.¹¹ Australia Post now delivers to 11.2 million delivery points.

Table 3.2: Trends in number of delivery points and number of articles delivered, 2006–07 to 2012–13

| | 2006–07 (‘000) | 2007–08 (‘000) | 2008–09 (‘000) | 2009–10 (‘000) | 2010–11 (‘000) | 2011–12 (‘000) | 2012–13 (‘000) |
|-----------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Delivery points trends | 10,266.6 | 10,458.9 | 10,588.9 | 10,709.0 | 10,879.9 | 11,000* | 11,200* |
| <i>Change</i> | – | 1.84% | 1.23% | 1.21% | 2.54% | – | |
| Daily articles per delivery point | 2.142 | 2.137 | 2.02 | 1.923 | 1.848 | 1.7* | –# |

* Rounded figures; # Not provided in 2013 Annual Report

Sources: Budget Estimates 2012–13, Australia Post, Answer to question on notice, No. 252; Australia Post, Annual Report 2012, pp 30, 131; Australia Post, Annual Report 2013, p.131.

Factors influencing Australia Post's letters business

3.15 There are a range of factors contributing to the decline in letter volumes including:

- increased internet usage and adaption of online platforms, and the rise of smart phone and tablet computers;
- softer economic growth as a result of the global financial crisis;

8 Australia Post, *Annual Report 2012*, p. 30.

9 Australia Post, *Annual Report 2012*, p. 30.

10 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 20.

11 Department of Finance, *Submission 5*, p. 4.

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- cost-cutting measures instituted by major senders, accelerated by the global financial crisis, including increased emphasis on e-substitution, rationalisation (less frequent provision of account statements) and consolidation;¹² and
 - consumer demand for more efficient and timely interactions with business and government.

3.16 In relation to the use of letters for social purposes, Mr Fahour noted that 'the last generation of people who used mail is now down to five per cent of our volume'.¹³ While the majority of mail is sent by business customers, this is also changing. Mr Fahour explained:

The really big driver of this volume decline is obviously the growing trend to online statements and payments as well as direct debits via BPAY. BPAY and electronic payments today control 80 per cent of these payments that are occurring. Ten years ago, the majority of these payments were either by cheque in the mail or in a post office.¹⁴

3.17 Both the Departments of Finance and Communications pointed to changes in technology and business and consumer behaviour as contributing to the decline in letter volumes. The Department of Communications noted that continuing efforts by business to reduce costs has led to an 'inevitable shift' to digital substitution. It saw this as being 'on the whole' desirable: 'it is reducing the cost of doing business and increasing opportunities for citizens and businesses to participate in a global economy, regardless of their location'.¹⁵ In addition, the growing availability of affordable high-speed broadband is expected to further accelerate the decline in mail volumes sent by both business and government.¹⁶

3.18 However, while the Departments of Communications and Finance noted the importance of reducing costs for business, Mr Fahour did not consider that the increased in the basic postage rate (BPR) in March 2014 would contribute overly to the decline in mail volumes. Mr Fahour stated:

The conclusion that we have come to is that the demand elasticity associated with price increases in the letters business today is fairly non-existent. In other words, the substitution from physical to digital is occurring at a maximum pace and is not really driven by the price movements that are occurring.¹⁷

12 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, p. 9.

13 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 112.

14 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 20.

15 Department of Communications, *Submission 7*, p. 2. See also Department of Finance, *Submission 5*, p. 4.

16 Department of Finance, *Submission 5*, p. 4.

17 Mr Ahmed Fahour, *Additional Estimates Hansard*, 25 February 2014, p. 113.

Forecasts of changes to letter volumes

3.19 The decline in letter volumes and how to manage the Australia Post mail business in the face of that decline is one of the most significant issues facing Australia Post. The committee received a range of views on the rate of decline.

3.20 Mr Fahour stated at the November 2013 Supplementary Estimates that the rate of decline in letter volumes was accelerating and this trend was expected to continue:

A volume decline of four to five per cent over the past four years has accelerated in the past six months to eight to 10 per cent. When we look into 2020, unfortunately for us, the community's use of our letter service looks like it is going to continue to fall.¹⁸

3.21 At the May 2014 Budget Estimates, Mr Fahour stated that 'under current momentum' letter volumes are expected to decline by eight to 11 per cent through to 2020.¹⁹ Mr Fahour went on to state:

We estimate, just using that trajectory, that by the next decade this notion of people sending and receiving letters and mail will be quite a small niche business. It will be transactional mail. The reality is that it will be an adjunct service to the thing that people will be getting, which is an increasing number of parcels. It is just a big letter in a box, hopefully, that we are delivering.²⁰

3.22 The committee examined other sources of information on the projected decline in letter volumes. As part of the Australian Competition and Consumer Commission's (ACCC) process for examining the 2014 increase in the BPR, Australia Post provided a forecast for the Reserved Service letter volumes for 2013–14 and 2014–15.

Table 3.3: Forecasts of changes in Australia Post's Reserved Service letter volumes

| Financial year | PreSort letters (business mail) | 'Other' (including 'ordinary') letters | Total Reserved Services |
|-----------------------|--|---|--------------------------------|
| 2013–14 | (3.9%) | (10.4%) | (6.6%) |
| 2014–15 | (6.3%) | (7.9%) | (6.9%) |
| Average annual change | (5.1%) | (9.1%) | (6.7%) |

Source: Australian Competition and Consumer Commission, Australia Post price notification for its 'ordinary' letter service February 2014, ACCC Decision, 20 February 2014, p. 24.

18 Mr Ahmed Fahour, *Supplementary Estimates Hansard*, 19 November 2013, pp 19–20.

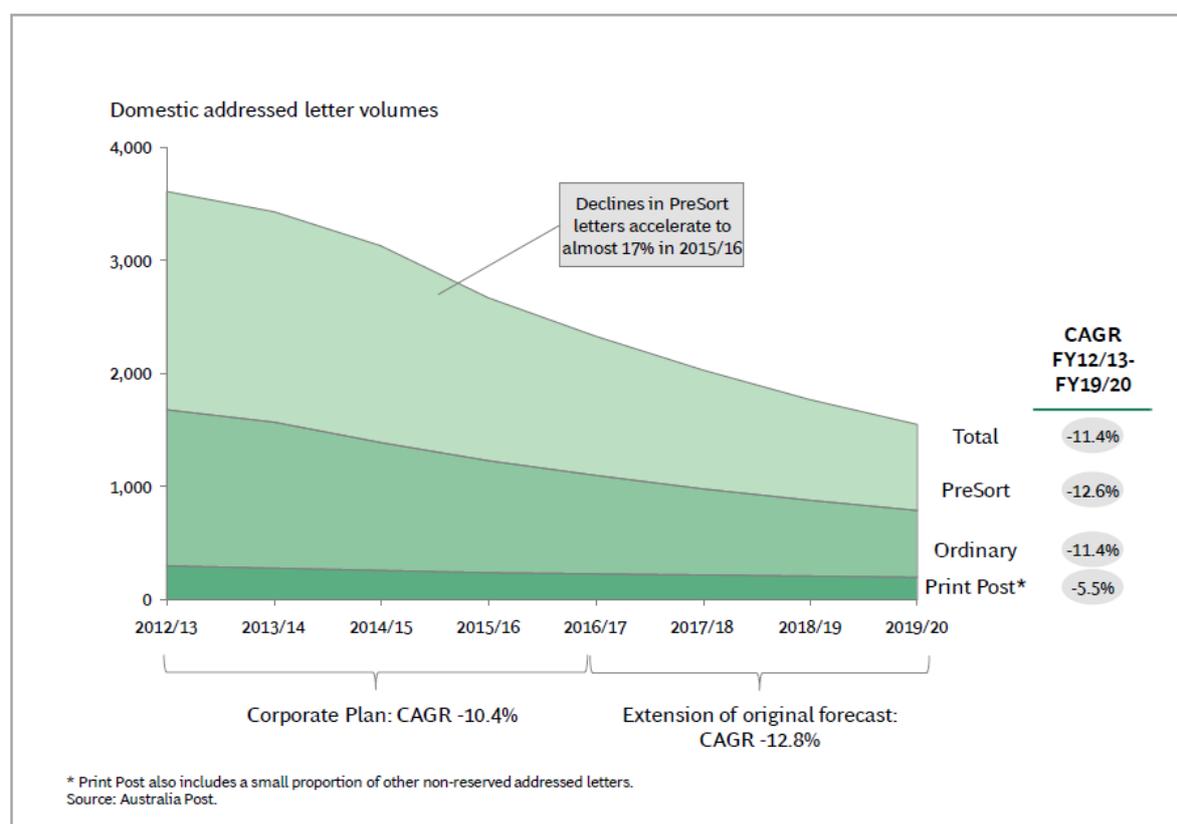
19 Mr Ahmed Fahour, *Budget Estimates Hansard*, 28 May 2014, p. 80.

20 Mr Ahmed Fahour, *Budget Estimates Hansard*, 28 May 2014, p. 92.

3.23 BCG, in its Australian and international postal services overview, assessed Australia Post's internal review of its letters business. The BCG report examined Australia Post's forecasts of the decline in letters. BCG noted that changes in letter volumes are difficult to forecast and that Australia Post had consistently underestimated letter volume declines over the period of its corporate plan. BCG did, however, report that the rate of letter decline to date (June 2014) for 2013–14 was lower than forecast.²¹

3.24 BCG reported that Australia Post forecast an average decline in domestic addressed letters of 11.4 per cent per annum to 2019–20. BCG noted that this forecast comprised an average decline of 10.4 per cent per annum through to 2016–17, after which major letter categories are rolled forward at 2016–17 rates, resulting in an aggregate decline of 12.8 per cent per annum to 2019–20.²²

Figure 3.2: Australia Post forecast of annual domestic addressed letters to 2019–20



Source: *The Boston Consulting Group, Australian and International Postal Services Overview Background Report, June 2014, p. 12.*

21 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, p. 11.

22 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, p. 11.

3.25 The Australia Post forecast includes a small decline in print post and a very large decline in PreSort letter volumes. BCG noted the PreSort forecast was 'linked to the expected take-up of the MyPost Digital Mailbox and other similar products'. BCG went on to state that it believed that the Australia Post forecast overstates the likely scale and speed of the impact of digital mailboxes. While there had been a successful take-up of this product in Denmark, BCG stated that this was an isolated case driven by specific circumstances and 'this is unlikely to be replicable now in Australia'.²³

3.26 The committee also notes that, in recent months, a number of digital mailbox providers in the United States have cancelled their services. In official statements to their customers, both Manilla and Zumbox cited that the service was not financially viable. Zumbox's Australian partner, Digital Post Australia, will continue to operate.²⁴

3.27 BCG reported that its assessment was that letter volumes will decline by eight to 11 per cent per annum to 2019–20 and stated that 'although Australia Post's forecasts are slightly outside this range, BCG considers them to be reasonable for planning purposes'.²⁵

3.28 The Communication Workers Union Australia (CWU) commissioned a review of the BCG report from The Australia Institute.²⁶ The Australia Institute noted that, while there was a trend decline in the volume of letters, 'estimates of the rate of decline vary significantly and assertions that the trend decline will continue for a decade or more are based on no empirical evidence'.²⁷

3.29 The Australia Institute went on to conclude that 'the Boston Consulting Group's range of forecast annual decline in letter volumes of 8–11% is much too pessimistic'.²⁸ In addition, The Australia Institute commented that:

A forecast of the postal services & telecommunications industry out to 2023 is quite a novelty. The macroeconomic assumptions are provided by

23 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, p. 12.

24 'Manilla will be closing on July 1, 2014', <https://www.manilla.com/announcement/> (accessed 30 July 2014); 'Zumbox pulls the plug on digital post', <http://www.zdnet.com/zumbox-pulls-the-plug-on-digital-post-7000028275/> (accessed 30 July 2014)

25 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, p. 4.

26 CWU Australia, *Supplementary Submission 2*, The Australia Institute, 'Review of the Boston Consulting Group's report to the Minister for Communications, Briefing for the CWU on Australia Post's operations', *Technical Brief No. 32*, July 2014.

27 CWU Australia, *Supplementary Submission 2*, The Australia Institute, 'Review of the Boston Consulting Group's report to the Minister for Communications, Briefing for the CWU on Australia Post's operations', *Technical Brief No. 32*, July 2014, p. 1.

28 CWU Australia, *Supplementary Submission 2*, The Australia Institute, 'Review of the Boston Consulting Group's report to the Minister for Communications, Briefing for the CWU on Australia Post's operations', *Technical Brief No. 32*, July 2014, p. 4.

Euromonitor and many of the operational assumptions are taken from past averages or seemingly were invented from scratch.²⁹

Other views on the decline in letter volumes

3.30 During the ACCC's assessment of the 2014 Australia Post price notification for letters, views were sought from interested parties. While Mailing House accepted Australia Post's volume forecasts, the Printing Industries Association of Australia (PIAA) put another view. The ACCC reported PIAA had submitted that print post 'will remain a key component of the emerging multi-channel communication'.

3.31 PIAA also referred to Australia Post consumer surveys undertaken in 2012 which found a consumer preference for bills and statements to be sent by mail. As a consequence, PIAA argued that transactional and direct mail will continue to have a significant role into the foreseeable future. PIAA also argued that 'there is evidence that advertising agencies are starting to question the effectiveness of digital media and are returning to traditional areas of advertising'.³⁰

3.32 The ACCC went on to note:

Similarly, Mailing House notes there are threats to electronic communications caused by, for example, electronic eavesdropping, data and identity theft and privacy issues posed by social media that could result a significant flow back to physical mail.³¹

3.33 The dire outlook for mail volumes was not shared by all submitters to the committee's inquiry. For example, the CWU Australia stated that Australia Post's outlook was more pessimistic than that of international experts. It stated that 'mail is not dead. This is not a business that is going to go away anytime soon'. CWU Australia added:

Our members are delivering fewer letters but small parcels and packets have replaced the declining volume of traditional letters.³²

3.34 The committee also received evidence from individual LPOs which pointed to increased mail volumes at least for their particular LPO. For example, one licensee with 18 years' experience stated:

I have been sorting the same incoming mail for the same delivery points on a daily basis for over eighteen years. Over this time I believe quantity of mail increased steadily and peaked three or four years ago and has only eased fractionally since then. I do not have written records of this, but that

29 CWU Australia, *Supplementary Submission 2*, The Australia Institute, 'Review of the Boston Consulting Group's report to the Minister for Communications, Briefing for the CWU on Australia Post's operations', *Technical Brief No. 32*, July 2014, p. 10.

30 ACCC, *Australia Post price notification for its 'ordinary' letter service February 2014*, ACCC Decision, 20 February 2014, p. 25.

31 ACCC, *Australia Post price notification for its 'ordinary' letter service February 2014*, ACCC Decision, 20 February 2014, p. 25.

32 CWU Australia, *Submission 2*, p. 5; see also Mr Martin O'Nea, Assistant National Secretary, CWU, *Committee Hansard*, 6 December 2013, p. 30.

does not make my observation any less truthful. What I have noticed is the steep decline in mail with postage stamps attached. I am curious to know if Mr Fahour's steady decline of letters is calculated on the sale of postage stamps ignoring all the bulk lodged and unaddressed advertising mail we still deliver.³³

3.35 Another licensee similarly commented that while personal addressed letters may have declined, print post has increased:

As LPO owners working on the coal face day in day out, we know if there is substantially less mail being sent to our PO Boxes. Sure the personal stamped letters may be in decline but the increase in Print Post advertising and promotional mail has largely offset this.³⁴

3.36 This view was supported by the LPO Group. Mr Andrew Hirst, LPO Group, commented that while addressed letter volumes had decreased across the network 'there has also been a vast increase in what is called unaddressed mail, which is the junk mail you get in your letterbox'. He went on to comment that since 2001, the delivery of junk mail had increased from once a week to upwards of six a day now. He concluded 'for all that the volume of official mail with a stamp on it has dropped, when you take into account all the unaddressed mail that has tagged along, the decrease is not as big as Australia Post say from our perspective'.³⁵

3.37 The committee also notes that Australia Post's Annual Report 2012–13 stated that larger customers were increasing their use of mail:

While overall volumes declined, many of our larger customers increased their use of mail. This year more than 40 per cent of our bulk mail customers increased their use of mail, demonstrating the role physical mail continues to play in business communication.³⁶

3.38 Australia Post's consumer surveys support the ongoing role of physical mail. The August 2013 survey found that 'consumer preference for receiving bills & statements by mail has risen over the last 12 months'. The preference for receiving rates, water, gas, mobile phone and insurance bills and bank statements increased by three per cent over the preceding 12 months. It was noted that 'despite online channels being used more by senders, consumers' preference for mail continues to grow'.³⁷

3.39 When it comes to receiving communications from government, consumers prefer mail. Fifty-two per cent of the January 2013 survey participants indicating that mail is the preferred channel for receiving policy/legislative changes from government

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

34 Name Withheld, *Supplementary Submission 32*, p. 1; see also Mr Ivor Ransom, *Submission 100*, p. 1.

35 Mr Andrew Hirst, LPO Group, *Committee Hansard*, 4 March 2014, p. 14.

36 Australia Post, *Annual Report 2013*, October 2013, p. 24.

37 Australia Post, Australia Post Consumer Survey Mail Finding, August 2013, pp 3, 5 <http://auspost.com.au/media/documents/aus-post-consumer-survey-mail-findings-aug-2013.pdf> (accessed 10 July 2014).

organisations.³⁸ In addition, the May 2013 survey found that young people (18 to 24 year olds) still prefer to receive mail across six out of ten communication types, including magazines and important or sensitive information.³⁹

Committee comment

3.40 The committee notes that Australia Post's business was built on the traditional letter service. Currently, that service is changing with a significant decline in letter volumes. The change is principally the result of the emergence of new technologies which have led to the substitution of various forms of digital communications, such as email, SMS and the Internet, for letters.

3.41 The committee notes that there is a reduction in the number of Australians who now use letters for personal communications while government and business are moving to digital communications to lower costs and improve access for customers. At the same time, parcel deliveries have expanded as consumers take advantage of online shopping to access the goods they wish to purchase.

3.42 While the decline in letter volumes was generally undisputed, the committee notes that there were differences of opinion in relation to the rate of the decline and the forecast of future trends.

3.43 The committee notes the difficulty in predicting the rate of decline. The committee further notes the recently announced partnership between the Department of Human Services and Australia Post to trial digital mail delivery.⁴⁰ Government customers will be able to opt to have their government digital mail automatically forwarded to their Australia Post MyPost Digital Mailbox.⁴¹ As government communications comprise a large proportion of letter volumes, a successful move to digital mailboxes by the Commonwealth Government will have an impact on the rate of decline of Australia Post's letters business.

38 Australia Post, Australia Post Consumer Survey Mail Finding, January 2013, p. 14. <http://auspost.com.au/media/documents/australia-post-consumer-survey-mail-findings-jan-2013.pdf> (accessed 10 July 2014).

39 Australia Post, *Consumer Survey Mail Finding*, May 2013, p. 14

40 The Minister for Communications, the Hon Malcolm Turnbull, 'Access to digital mail moves forward', *Media Release*, 18 August 2014.

41 The MyPost Digital Mailbox was launched by Australia Post in 2012. Further information is provided in Chapter 4 of this report.

Chapter 4

The performance of Australia Post

Introduction

4.1 The changing postal environment, particularly the decline in letter volumes, is being felt across all sections of Australia Post's business and the postal network, including Licensed Post Offices (LPOs). This chapter examines the impact on Australia Post itself, including its financial position, as a result of the decline in letter volumes. In order to provide a comprehensive assessment, the committee also examines other factors influencing Australia Post's financial position.

Australia Post's financial performance

4.2 Australia Post has a commercial obligation to, 'as far as practicable, perform its functions in a manner consistent with sound commercial practice'.¹ In addition, Australia Post is required to have regard to the need to earn a reasonable return on assets, the need to maintain financial viability and the cost of carrying out community service obligations (CSOs).

Revenues and profit

4.3 Australia Post submitted that it has been consistently profitable every year since it was corporatised in 1989.² Table 4.1 below shows Australia Post's revenue and profit after tax from 2008–09 to 2012–13.

Table 4.1: Australia Post's Revenue and Profit 2009–13

| Financial year | Revenue | Profit After Tax |
|----------------|----------|------------------|
| 2008–09 | \$4,975m | \$261m |
| 2009–10 | \$4,856m | \$90m |
| 2010–11 | \$4,987m | \$241m |
| 2011–12 | \$5,126m | \$281m |
| 2012–13 | \$5,893m | \$312m |

Source: Australia Post, Submission 8, p. 8.

4.4 Australia Post's profit after tax has shown a steady increase since 2010–11. The substantial decline in profit in 2009–10 was the result of \$150.2 million in restructuring costs. The restructured business model was implemented on 1 July 2010 and focused on 'strategic business units with profit-and-loss accountability and supported by lean, high-performing functional business units'. The 2010–11 Annual

1 *Australian Postal Corporation Act 1989, s. 26.*

2 *Australia Post, Submission 8, p. 7.*

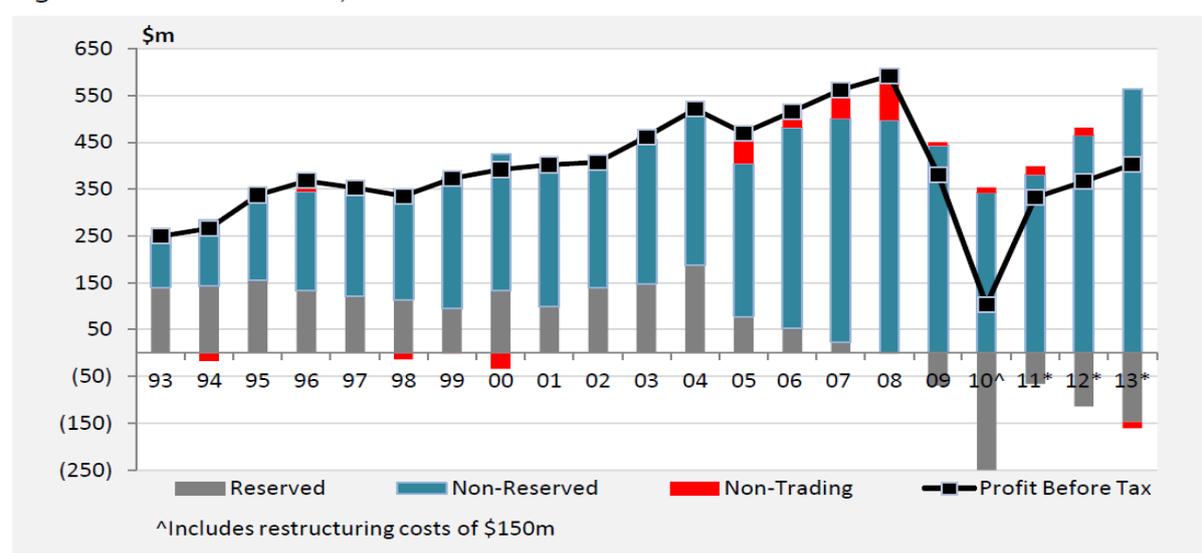
Report noted that the business had been 'stabilised' and that revenue (up 2.8 per cent from 2009–10) grew faster than costs (up 1.2 per cent).³

4.5 At the October 2012 Supplementary Estimates, Mr Ahmed Fahour commented that Australia Post had achieved a strong commercial rate of return in 2011–12: revenue had increased by 2.8 per cent to a record \$5.1 billion, after-tax profits had increased by 17.1 per cent to \$281 million and cash flow had risen 35 per cent.⁴

4.6 The profit that Australia Post reports reflects both its Reserved Service and Non-reserved Services. Australia Post provided the following breakdown of profit.

Figure 4.1: Profit before tax: Contribution of Reserved and Non-reserved Services

Figure 1: Profit Before Tax; Contribution of Reserved & Non-Reserved Services⁸



Source: Australia Post, Submission 8, p. 10.

4.7 Australia Post noted that, up to 2008–09, it had historically earned a profit from both the Reserved and Non-reserved Services. The Reserved Service incurred a loss for the first time in 2008–09 and since then has continued to incur a loss. Australia Post commented that its 'overall profitability (as an enterprise), over the past five years, is solely because of the products and services it sells in competitive markets (i.e. the "Non-Reserved" Services, such as Parcels and Retail).'⁵

Dividend payments

4.8 Australia Post is required to pay a dividend to the Commonwealth Government of 75 per cent of its profit after tax. The declared dividends for the financial years from 2008–09 to 2012–13 are as follows:

3 Australia Post Annual Report 2010–11, p. 3.

4 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates*, 16 October 2012, p. 73.

5 Australia Post, *Submission 8*, p. 10.

Table 4.2: Australia Post's declared dividends 2008–09 to 2012–13

| Financial year | Dividends declared⁶ |
|-----------------------|---------------------------------------|
| 2008–09 | \$222m |
| 2009–10 | \$79m |
| 2010–11 | \$173m |
| 2011–12 | \$214m |
| 2012–13 | \$193m |

Source: *Australia Post, Submission 8, p. 8.*

4.9 Over the five financial years 2008–09 to 2012–13, Australia Post paid a total of \$881 million in dividends to the Commonwealth. This was a decrease from the previous five financial years where a cumulative dividend of \$1,516 million had been paid to the Commonwealth. Australia Post noted that this dividend was the result of record letter volumes during this period which had contributed to sustained high levels of profitability.⁷

Financial outlook

4.10 Evidence received from both Australia Post and the Department of Finance indicated that Australia Post, in its present operating structure and with its current obligations, was facing a significant decline in its profits from the 2013–14 financial year. At recent estimates hearings, Australia Post has reported concerns about its financial outlook: at the November 2013 Supplementary Estimates, Mr Fahour stated that:

We are pleased with last year's results but we are also conscious it is a rear view vision of what has already happened to our business. When we look into the future, as I have said on a number of Senate estimates, we are very concerned about what lies in front of us.⁸

4.11 Mr Fahour went on to point to the decline in letter volumes and the expense of the Australia Post legacy defined benefit superannuation scheme as major factors

6 Dividends are paid twice a year. The dividends declared relates to the dividends relating to the Operating Profit for that particular year. Dividends paid reflects the physical cash payments made during the year. This includes the final dividend for the prior year (payment made in October) and the interim dividend for the current year (payment made in April).

7 *Australia Post, Submission 8, p. 7.*

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

contributing to a change in Australia Post's financial position.⁹ Of particular concern were the increasing losses from the letters business.¹⁰

4.12 At the February 2014 Additional Estimates, Mr Fahour provided an indication of the outcome for the 2013–14 financial year and stated that Australia Post would report a worsening financial result:

At the current rate, we anticipate Australia Post as a whole is likely to lose money in the second half of this financial year for the first time since corporatisation.¹¹

4.13 Mr Fahour went on to explain that, while the parcel service had returned a profit in previous years, 'losses in the postal service also for the first time will exceed our profit in parcels'. He concluded that the gross profit in the full financial year 2013–14 would be less than the full year 2012–13 reported profits.¹² At the May 2014 Budget Estimates, Mr Fahour stated that the loss from regulated mail 'will grow to around \$350 million' and that it would 'soon grow to around a billion dollars a year'.¹³

4.14 Mr Fahour also stated that it was 'unlikely' that Australia Post would be able to pay future dividends to the Commonwealth Government.¹⁴ The dividend payment for 2014–15 was projected to be \$21 million. At the May 2014 Budget Estimates, Mr Fahour stated that he believed that it is 'highly unlikely' that the dividend of that magnitude would be paid based on 'the revelation of our new trading position, given the acceleration of the letters losses that is occurring'.¹⁵

4.15 In September 2014, Australia Post announced a group profit of \$116.2 million after tax for 2013–14, down 34.5 per cent on the previous financial year. Australia Post also indicated \$78.8 dividend declared to the Commonwealth, down 59.1 per cent on the previous financial year.¹⁶

4.16 In its submission, the Department of Finance commented that Australia Post expected to make losses from 2015–16 with dividend payments to the Commonwealth reduced to zero. This assessment was based on financial forecasts provided by

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

10 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 33.

11 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 108.

12 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 108.

13 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 80.

14 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 108.

15 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 84; see also p. 87.

16 Australia Post, 'Australia Post reports FY14 Financial Results', *Media Release*, 4 September 2014.

Australia Post 'which have experienced some volatility in the past, reflecting the changing business environment'.¹⁷

4.17 The Department of Finance also noted that total Commonwealth Government equity in Australia Post at 30 June 2013 was approximately \$1.7 billion, down from \$2.8 billion at 30 June 2008. It was anticipated that there would be further significant declines for the out years.¹⁸

4.18 The Australia Institute put forward an alternative view of Australia Post's financial position and commented that it is 'a large, profitable and growing enterprise'. It pointed to Australia Post's 'substantial' capital investment campaign and stated that 'such a strategy clearly suggests that the management of Australia Post have significant confidence in both the current and future financial position of the organisation'.¹⁹

4.19 The Australia Institute also commented on the complex way in which Australia Post reports on its financial position. For example, it noted that in the 2012-13 financial statements, regulated international inbound letters and packets (<2kg) have been reclassified from Mail to Parcel and Express. The Australia Institute stated:

The separation of 'regulated mail services' (international letters and small parcels) from 'reserved mail' (domestic letters) in the 2012-13 Annual Report, effectively isolates the letter delivery segment as a loss-making entity, while the international letters component is then cross-subsidised by the lucrative parcel segment.²⁰

4.20 The Australia Institute also drew attention to the accounting for the \$400 million investment in AUX (the parent company of StarTrack) purchased from Qantas, capital transfers to Parcel and Express, the \$800 million increase in 'Other Commitments' (contractors), assets held for sale valued at cost, significant write-downs of assets and revenue and 'significant irregular movements' in Australia Post's holdings of bonds and other debt instruments.²¹

17 Department of Finance, *Submission 5*, p. 6.

18 Department of Finance, *Submission 5*, p. 6.

19 CWU Australia, *Supplementary Submission 2*, The Australia Institute, 'Review of the Boston Consulting Group's report to the Minister for Communications, Briefing for the CWU on Australia Post's operations', *Technical Brief No. 32*, July 2014, p. 2.

20 CWU Australia, *Supplementary Submission 2*, The Australia Institute, 'Review of the Boston Consulting Group's report to the Minister for Communications, Briefing for the CWU on Australia Post's operations', *Technical Brief No. 32*, July 2014, p. 12.

21 CWU Australia, *Supplementary Submission 2*, The Australia Institute, 'Review of the Boston Consulting Group's report to the Minister for Communications, Briefing for the CWU on Australia Post's operations', *Technical Brief No. 32*, July 2014, pp 12-16.

Factors influencing Australia Post's financial performance

4.21 There are a range of factors influencing the financial performance of Australia Post. These include:

- the costs of meeting the community CSOs;
- the cost of the Reserved Service;
- increase in the number of mail delivery points;
- the under recovery of international inwards mail costs;
- the adequacy of basic postage rate; and
- the costs of the legacy superannuation scheme.

Cost of meeting community service obligations

4.22 Australia Post noted that there is a financial cost associated with meeting its CSOs when the charge to a consumer for a mandated service does not recover the cost of Australia Post delivering that service. Australia Post provided costs of the CSOs for the last five financial years, noting that the CSOs have been achieved at an increasing cost.²²

Table 4.3: Community service obligation costs incurred by Australia Post

| Financial year | CSO cost |
|----------------|----------|
| 2008–09 | \$113.8m |
| 2009–10 | \$147.7m |
| 2010–11 | \$144.7m |
| 2011–12 | \$165.2m |
| 2012–13 | \$177.5m |

Source: Australia Post, *Submission 8*, p. 9.

4.23 For the 2012–13 financial year, the cost of meeting the CSOs was \$177.5 million, an increase of seven per cent over the previous financial year.²³ Mr Fahour noted that the loss for the total domestic letter business was \$218 million in that financial year, with \$177.5 million being the 'calculation of how much the CSO within the letters business under one particular methodology is costing to provide'.²⁴ Mr Fahour also stated that he believed that the calculated cost of the CSO 'underestimates the investment in the CSO'.²⁵

22 Australia Post, *Submission 8*, p. 9.

23 Australia Post, *Annual Report 2013*, October 2013, p. 115; see also Australia Post, *Submission 8*, p. 9.

24 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 93.

25 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 90.

4.24 Australia Post also stated that it was given a statutory monopoly over the Reserved Service so that it could fund the cost of meeting its CSOs; 'however, Australia Post must deliver its CSOs regardless of whether revenue from its Reserved Services is sufficient to cover the costs of the CSOs'.²⁶ In its submission to the ACCC's 2014 stamp price determination, Australia Post submitted that 'its CSO-related standards effectively impose fixed costs on the letters sorting and delivery network'.²⁷

4.25 The Department of Finance submitted that:

To date, Australia Post's profit from its commercial activities has been sufficient to meet the financial losses from its letters services. However, the cost of servicing its CSOs...is becoming increasingly unaffordable.²⁸

The cost of the Reserved Service

4.26 As noted in Chapter 3, letter volumes have declined substantially since 2008, and are continuing to decline.²⁹ With this decline, Australia Post has reported a loss on the Reserved Service. The following table provides the five-year trend.

Table 4.4: Five year trend in the Reserved Service

| | 2009 \$m | 2010 \$m | 2011 \$m | 2012 \$m | 2013 \$m |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| <i>Losses</i> from reserved service ¹ | (69.2) | (250.1) | – | – | – |
| <i>Losses</i> from reserved mail service | N/A | N/A | (66.5) | (114.4) | (147.4) |
| <i>Losses</i> from regulated services arising from Universal Postal Union arrangements | N/A | N/A | (55.9) | (72.5) | (71.0) |
| Total <i>loss</i> from regulated mail services ² | N/A | N/A | (122.4) | (186.9) | (218.4) |

1. Amounts prior to 2011 included inbound letters and packets (weighing less than 2kg) in accordance with the arrangement of the Universal Postal Union (UPU).
2. Regulated mail is composed of the collection, processing and distribution of domestic letters defined as reserved by the APC Act and the processing and distribution of international inbound letters and packets (less than 2kg) in accordance with arrangements of the UPU (where Australia Post has been nominated by the Australian Government to fulfil its obligations in Australia).

Source: Australia Post, Annual Report 2013, October 2013, p. 11.

26 Australia Post, *Submission 8*, p. 9; see also Mr Stephen Giles, *Submission 1*, p. 11.

27 ACCC, *Australia Post price notification for its 'ordinary' letter service February 2014*, ACCC Decision, 20 February 2014, p. 16.

28 Department of Finance, *Submission 5*, p. 4.

29 Australia Post, *Submission 8*, p. 11; Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 80.

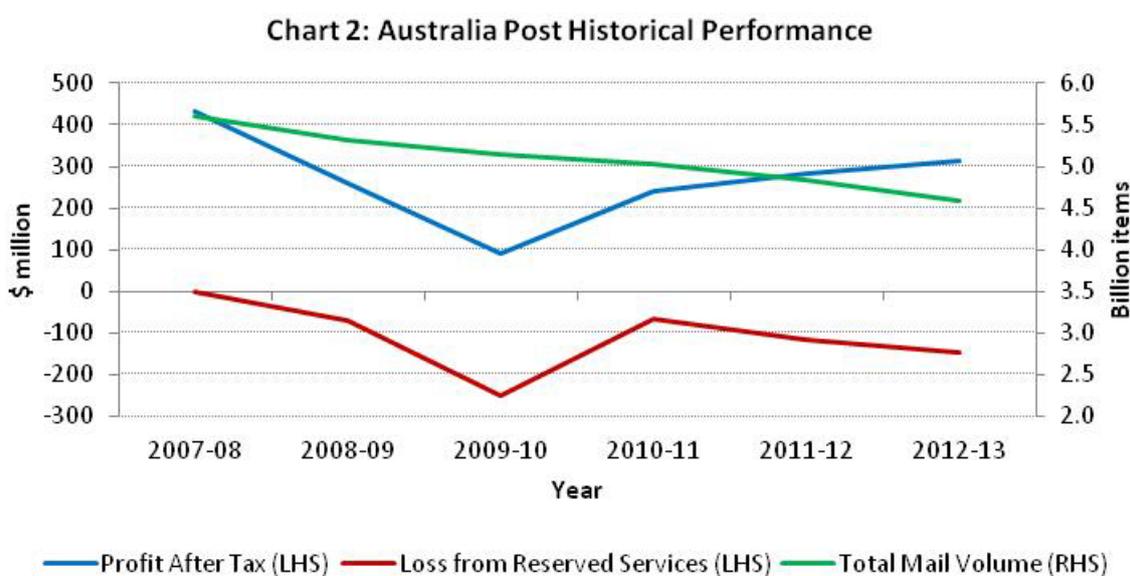
4.27 The table indicates a steady increase in losses. Losses prior to 2011 included those attributable to both Australian mail services and Universal Postal Union (UPU) arrangements. Since that time, the regulated mail service losses increased by \$47.9 million between 2010–11 and 2011–12 (41.8 percent increase) and \$33 million between 2011–12 and 2012–13 (22.3 per cent). During this three year period, the loss attributable to the UPU arrangement increased by \$16.6 million (15.4 per cent increase) and then fell by \$1.5 million between 2011–12 and 2012–13.

4.28 Australia Post submitted that, since 2008, it has incurred losses \$600 million in Reserved Service with losses of over \$400 million being incurred over the last three years.³⁰ Australia Post explained that this has been due to:

...the current combination of rapid volume decline and fixed operating costs imposed by the existing regulatory framework (particularly the CSO-related Performance Standards). This combination is leading, inevitably, to deteriorating and unsustainable financial results.³¹

4.29 The Department of Finance provided the following graph of the trends in financial performance and letter volumes.

Figure 4.2: Trends in financial performance and letter volumes



Source: Department of Finance, Submission 5, p. 6.

4.30 The committee notes that in its decision on Australia Post's 2014 stamp price notification, the Australian Competition and Consumer Commission (ACCC) provided some comments concerning the forecasts and financial outlook for the

30 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 33; Australia Post, *Submission 8*, p. 3.

31 Australia Post, *Submission 8*, p. 9.

Reserved Service.³² The ACCC noted that Australia Post had forecast losses in its domestic Reserved Service of \$289 million in 2013–14 and \$313 million in 2014–15 due to continuing declines in letter volumes and increasing costs from 2012–13 levels.³³

4.31 Australia Post announced that in 2013–14, the mail business losses were \$328.4 million before interest and tax (EBIT) due to falling letter volumes and high fixed costs.³⁴

Allocation of costs

4.32 In coming to final profit or loss on Reserved Services, Australia Post allocates direct and non-operational (indirect) costs to Reserved Service. Australia Post uses a cost allocation methodology (CAM) to apportion costs.

4.33 The ACCC commented that, in an environment of declining demand for letter services, questions are raised as to what the appropriate contribution towards shared costs by Reserved Service need to be.³⁵ In response, Australia Post commented that 'the CAM has safeguards to avoid over-costing declining products with reserved service letter products bearing less of the fixed cost burden of the network over time'.³⁶

4.34 As part of its decisions on Australia Post's 2014 price notification, the ACCC commented on Australia Post's CAM and stated that:

...on the basis of the information provided by Australia Post about its non-operational costs, is that while Australia Post's CAM is continuing to improve there is still some capacity for further improvements in the use of cost drivers within the CAM. For example:

- Australia Post appears to effectively use the same approach to cost allocation for some direct and indirect activities. If the nature of cost incurrence is similar for both direct and indirect activities, such a practice may be appropriate. However, cost incurrence between direct and indirect activities is more likely to be different and therefore such a practice may not be cost reflective.
- For some of Australia Post's indirect activities, Australia Post currently allocates costs to reserved and non-reserved services based on the relative number of 'transactions' undertaken. However, if the

32 ACCC, *Australia Post price notification for its 'ordinary' letter service February 2014*, ACCC Decision, 20 February 2014.

33 ACCC, *Australia Post price notification for its 'ordinary' letter service February 2014*, ACCC Decision, 20 February 2014, p. 28.

34 Australia Post, 'Australia Post reports FY14 Financial Results', *Media Release*, 4 September 2014.

35 ACCC, *Australia Post price notification for its 'ordinary' letter service February 2014*, ACCC Decision, 20 February 2014, p. 12.

36 ACCC, *Australia Post price notification for its 'ordinary' letter service February 2014*, ACCC Decision, 20 February 2014, p. 11.

time taken to perform each transaction is very different, an allocation based on the relative frequency of transactions may not be reflective of the actual costs that are attributable to reserved and non-reserved services.

Notwithstanding the above, the ACCC did not consider there was evidence of any systematic bias in Australia Post's CAM that would likely lead to an inappropriate allocation of non-operational costs to reserved services.³⁷

4.35 The ACCC went on to comment that it had tested the sensitivity of the results to several key factors as 'uncertainty surrounds the forecast data for a number of components of the financial model'.³⁸ As a consequence of the sensitivity analysis, the ACCC was of the view that:

Given the potential for Australia Post's forecasts to overstate its losses, in the limited time available to the ACCC, the ACCC has made two cumulative adjustments to Australia Post's base data in order to test the sensitivity of the net result to certain assumptions. These adjustments comprise an alternative [weighted average cost capital] WACC³⁹ and a different assumption regarding shared cost allocations.

The ACCC's analysis shows that Australia Post's under recovery for reserved services could be closer to \$220 million in 2013–14 and \$245 million in 2014–15 under these alternative assumptions.⁴⁰

4.36 While the ACCC made adjustments to Australia Post's financial model base data, it concluded that 'the most likely outcome is an under recovery of reserved services costs, albeit by less than that estimated by Australia Post'.⁴¹

4.37 At the May 2012 Budget Estimates, Mr Fahour also commented on the costs of the monopoly letter business. He stated that:

The reality is that 80 per cent of our costs in the monopoly business are driven by the CSO requirements. So we have an 80 per cent fixed-cost structure and a 20 per cent variable-cost structure. So what that effectively means is that, for every dollar lost due to volume declines in revenue, we variably can lose 20c and 80c will go to a loss to the bottom line.⁴²

37 ACCC, *Australia Post price notification for its 'ordinary' letter service February 2014*, ACCC Decision, 20 February 2014, p. 12.

38 ACCC, *Australia Post price notification for its 'ordinary' letter service February 2014*, ACCC Decision, 20 February 2014, p. 29.

39 Weighted average cost capital, which is the reasonable rate of return allowed, given the relative level of risk associated with the capital base, averaged across debt and equity funding.

40 ACCC, *Australia Post price notification for its 'ordinary' letter service February 2014*, ACCC Decision, 20 February 2014, p. 28.

41 ACCC, *Australia Post price notification for its 'ordinary' letter service February 2014*, ACCC Decision, 20 February 2014, p. 28.

42 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 24 May 2012, p. 38.

4.38 The Boston Consulting Group (BCG) assessment of Australia Post's internal review commented on letters' costs. BCG also estimated the letters business has approximately 80 per cent fixed costs, factoring in the network economics associated with prescribed performance standards. While BCG commented that there may still be opportunities for Australia Post to improve efficiencies, these appeared to be limited and would only offset an additional 1–2 years' work of volume declines.⁴³

4.39 However, The Australia Institute put forward a different view and noted that the network not only provides for the delivery of letters but also small parcels:

While the costs of maintaining a delivery network for letters is large it is important to note that the costs of this network underpins not just the delivery of letters but of small parcels as well. While Australia Post and the Boston Consulting Group have recently argued that the delivery of letters is placing an 'unsustainable' financial burden on Australia Post, in fact the delivery network used for letters is actually the foundation on which the rapidly growing, and highly profitable, small parcel delivery business is based.⁴⁴

4.40 The Australia Institute also argued that the way in which Australia Post presents its financial accounts:

...conceals the relationship between the 'losses' made delivering letters and the 'profits' made delivering small parcels. In turn, any proposal to reform the letter delivery business of Australia Post needs to be based on a detailed analysis of the inter-relationship between different Australia Post business units rather than a simple analysis of the costs and revenues of a particular administrative 'silo'.⁴⁵

4.41 In relation to BCG's analysis of the fixed cost base, The Australia Institute commented that:

The high 'fixed cost' base of the mail delivery system assumed in BCG's estimation of 80% is opaque and at odds with standard economic analysis. As the BCG report is not transparent about its estimates, it is likely that it exaggerates the level of fixed costs to the segment.⁴⁶

4.42 The Australia Institute also stated that 'the BCG report describes their estimate of fixed costs in the letters business as "based on an outside-in consideration of

43 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, p. 15.

44 CWU Australia, *Supplementary Submission 2*, The Australia Institute, 'Review of the Boston Consulting Group's report to the Minister for Communications, Briefing for the CWU on Australia Post's operations', *Technical Brief No. 32*, July 2014, p. 1.

45 CWU Australia, *Supplementary Submission 2*, The Australia Institute, 'Review of the Boston Consulting Group's report to the Minister for Communications, Briefing for the CWU on Australia Post's operations', *Technical Brief No. 32*, July 2014, p. 1.

46 CWU Australia, *Supplementary Submission 2*, The Australia Institute, 'Review of the Boston Consulting Group's report to the Minister for Communications, Briefing for the CWU on Australia Post's operations', *Technical Brief No. 32*, July 2014, p. 5.

network economics across each step of the value chain". This is a dubious and opaque justification.⁴⁷

4.43 The committee notes that postal employees now not only deliver letters but also small parcels. Mr Fahour stated at the May 2013 Budget Estimates that approximately a quarter of all parcels delivered by Australia Post are now delivered by postal employees. Mr Fahour went on to comment that this was a 'massive shift'.⁴⁸

4.44 BCG stated that 'Australia Post's letters and parcel delivery networks operate separately: metro delivery is typically via motorcycle for letters, and van for parcels'.⁴⁹ The committee also notes that postal employees are now delivering small parcels.

Increase in number of delivery points

4.45 In addition to the decline in mail volumes, Australia Post has been faced with an increasing number of delivery points. In 2012–13, delivery points increased by 200,000 to a total of 11.2 million delivery points across Australia, up from 8.8 million delivery points in 2000.⁵⁰

4.46 The impost of rising numbers of delivery points was noted by the Department of Finance which stated that the 'CSOs represent a rising fixed cost as the number of delivery points increase in line with population and commercial growth'.⁵¹ The Department of Communications described that as an 'inexorable pressure'.⁵²

4.47 Australia Post stated in its 2011–12 Annual Report that it was 'commercially challenging' to meet the prescribed performance standards set out under its CSOs when letter volumes were declining and the network of delivery points was growing.⁵³ BCG agreed with this position and commented that the annual growth in new households was steadily increasing the physical network required to meet performance standards and was driving cost increases, despite declining volumes.⁵⁴

4.48 A consultancy report commissioned by Australia Post from Economic Insights identified that 'an increasing number of delivery points and increases in the

47 CWU Australia, *Supplementary Submission 2*, The Australia Institute, 'Review of the Boston Consulting Group's report to the Minister for Communications, Briefing for the CWU on Australia Post's operations', *Technical Brief No. 32*, July 2014, p. 9.

48 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 30 May 2013, p. 54.

49 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, p. 7.

50 Australia Post, *Annual Report 2013*, pp 5, 131; *Annual Report 2012*, p. 30.

51 Department of Finance, *Submission 5*, p. 4.

52 Mr Keith Besgrove, Department of Communications, *Committee Hansard*, 6 December 2013, p. 53.

53 Australia Post, *Annual Report 2012*, p. 22.

54 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, p. 15.

distance covered on postal delivery rounds are having a significant impact on Australia Post's operating costs'.⁵⁵

International inward letter and parcel costs

4.49 As shown in Table 4.4, Australia Post returns a loss on international inward letters. Australia Post delivers most international mail in accordance with UPU arrangements (international regulated mail). Payment for delivery is made under a system known as 'terminal dues'. The ACCC 2014 report, *Assessing Cross-subsidy in Australia Post 2012–13*, stated that:

The terminal dues payable to the destination postal operator are not based on the actual costs incurred in delivering this [international] mail. Rather terminal dues remuneration is linked to a formula that uses a percentage of the basic postage rate.⁵⁶

4.50 The ACCC noted that revenue received by Australia Post from both international regulated and non-regulated mail was below the costs of providing these services in 2012–13. At the same time, international outward letters over recovered fully distributed costs. However, the over recovery on outwards letters has been less than under recovery in all years since the ACCC has monitored cross-subsidy (except 2004–05).⁵⁷

4.51 The UPU arrangements include delivery of small packets less than 2 kg. The remuneration to Australia Post for these services is also determined by the terminal dues system. The ACCC commented that the revenue for this group of items was also below the direct and attributable costs for providing the service in 2012–13. The ACCC noted that the decline in cost recovery was due to a shift in volume-mix towards the parcels less than 2 kg category, which forms part of the terminal dues stream, where Australia Post's remuneration is currently linked by a formula to the basic postage rate. With the high Australian dollar, and increase in online purchasing/shopping, there has been rapid growth in volumes in this category.⁵⁸

4.52 In February 2012, Australia Post sought an increase in the terminal dues rate with the UPU. This was not successful with the UPU not supporting the proposal. As a consequence, a majority of the Postal Operations Council voted against an increase in terminal dues.

4.53 Mr Fahour explained the losses suffered by Australia Post and other developed nations attributable to international mail:

We lose a huge sum of money handling the imports of any of these parcels or letters....There is only really one solution to this problem, and that is

55 ACCC, *Australia Post price notification for its 'ordinary' letter service February 2014*, ACCC Decision, 20 February 2014, p. 21.

56 ACCC, *Assessing Cross-subsidy in Australia Post 2012–13*, June 2014, p. 14.

57 ACCC, *Assessing Cross-subsidy in Australia Post 2012–13*, June 2014, p. 14.

58 ACCC, *Assessing Cross-subsidy in Australia Post 2012–13*, June 2014, p. 14.

they tie the international price to the domestic price. So the only way we can minimise our losses is if the domestic price goes up.⁵⁹

4.54 While Australia Post was unsuccessful in its bid to increase terminal dues, at the same meeting, a new model for determining terminal dues rates was considered. The new model is scheduled to take effect from 1 January 2014. Australia Post commented in 2012 that 'if it proceeds in its current form, [it] will significantly improve the terminal dues paid to Australia Post'.⁶⁰

4.55 The Australia Institute also commented on international mail costs and stated that, 'based on the publicly available information provided in the Australia Post annual report, the largest financial losses relate to the delivery of international mail'.⁶¹

Basic Postage Rate

4.56 As explained in Chapter 2, Australia Post has the monopoly right to issue postage stamps in order to fund its CSOs. The price of postage for items less than 250 grams is known as the Basic Postage Rate (BPR). Currently, letters less than 250 grams account for 99 per cent of total letter volumes.⁶²

4.57 In its November 2013 submission, Australia Post noted that postage in Australia is the second cheapest in the OECD.⁶³ In addition, Australia Post stated 'while CPI [Consumer Price Index] has risen by more than 70% over the past 21 years, the Basic Postage Rate (BPR) has only increased by 33% (from 45c to 60c)'.⁶⁴

4.58 Australia Post provided an indication of changes in the BPR and CPI from 1992 to 2012.

59 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 24 May 2012, p. 35.

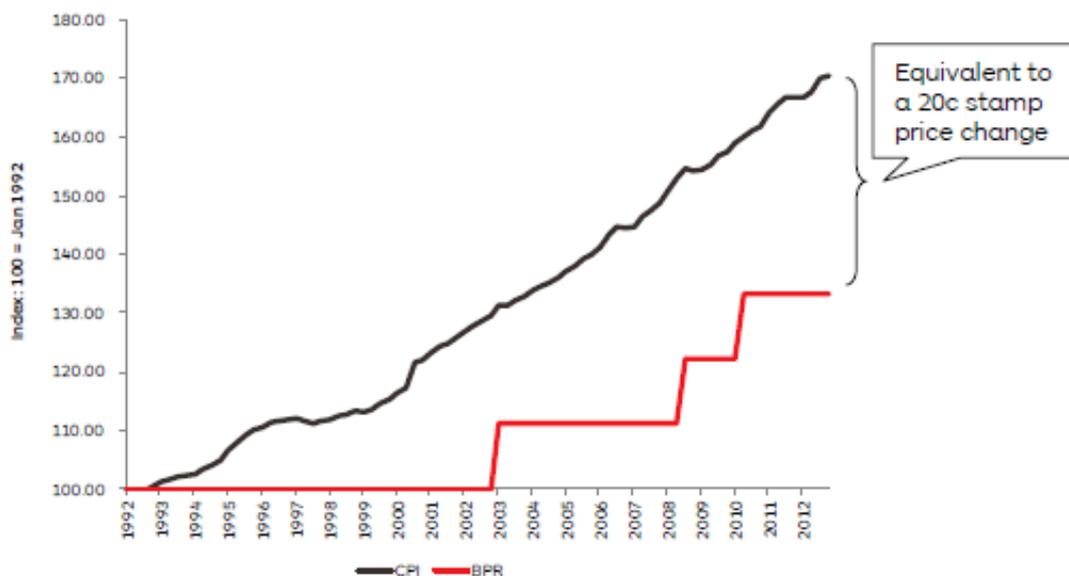
60 Additional Estimates 2011–12, Australia Post, *Answer to question on notice*, No. 11.

61 CWU Australia, *Supplementary Submission 2*, The Australia Institute, 'Review of the Boston Consulting Group's report to the Minister for Communications, Briefing for the CWU on Australia Post's operations', *Technical Brief No. 32*, July 2014, p. 1.

62 Department of Finance, *Submission 5*, p. 3.

63 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 24 May 2012, p. 35.

64 Australia Post, *Submission 8*, p. 17.

Figure 4.3: CPI and Basic Postage Rate

Source: Australia Post, Submission 8, p. 17, Figure 7.

4.59 Mr Fahour commented that up to 2008, while the BPR did not keep up with inflation, letter volume was rising. He went on to argue that from 2008 the stamp price kept up with inflation on average and with it, compensation; however, 'the issue was not the spread between the BPR and inflation; the issue was declining volume and declining foot traffic' into post offices.⁶⁵

4.60 Mr Fahour also noted that government and business were the largest beneficiaries of a lower BPR:

That basic postage rate—95 per cent of stamps, essentially—is really for business and government. So the biggest beneficiary of holding the stamp price below inflation is business and government.⁶⁶

4.61 Australia Post successfully sought an increase in the BPR, with effect from 31 March 2014, arguing that, along with falling letter volumes, another important contributing factor for the financial loss in the letter services is that Australian stamp prices have been held at levels well below inflation. The ACCC did not have an objection to the 10c BPR increase proposed by Australia Post. However, while the increase in the BPR is expected to generate around an additional \$95 million in 2014–15 in revenue, it will not lead to full recovery of costs, with Mr Fahour stating that 'the loss is going to be little bit less but still substantial'.⁶⁷

65 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 124.

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

67 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 122.

4.62 The committee notes the ACCC's comment on the forecast under recovery:

While the ACCC accepts Australia Post's claim that the proposed price increases are still likely to result in Australia Post under recovering its costs, Australia Post's estimates may overstate the extent of under recovery of efficient costs. In the limited time available, the ACCC has not been able to form a view on the efficiency of Australia Post's cost base as part of its assessment.⁶⁸

4.63 Most submissions and witnesses supported an increase in the BPR, which some described as 'long overdue'.⁶⁹ The Post Office Agents Association Limited (POAAL) also supported an increase in the BPR, noting that delivery cost pressures include rising fuel costs, staff wage rises, maintenance costs and vehicle purchase or leasing costs. POAAL also pointed to Australia Post's financial loss for its Reserved Service in the 2012–13 financial year as justification for a BPR increase.⁷⁰

4.64 However, the Department of Finance cautioned that 'pricing reform alone would be insufficient to put Australia Post on a sustainable footing given the inevitability of letter volume declines'.⁷¹

4.65 In view of the continuing under recovery of costs for letters, even with a 10c increase in the BPR, the committee sought Australia Post's view on whether a 20c increase in the BPR would be more appropriate. Mr Fahour commented 'in order to match inflation the basic postage rate would need to rise 20c to equal the same number and that this postage rate, by going up by 10c, gets you halfway'.⁷² In relation to why a 20c increase had not been sought, Mr Fahour stated 'there is a balance that you need to have between society's ability and affordability'.⁷³

Bulk mail

4.66 Bulk (PreSort) mail accounts for 54 per cent of reserved mail. This mail is bulk letter mailings consisting of business correspondence such as superannuation statements and retailers' promotional material.

4.67 Since 2011, the ACCC is no longer required to review and make a determination in relation to price increases for bulk mail. However, it has a role in certain disputes regarding the terms and conditions under which Australia Post supplies bulk mail services.

68 ACCC, *Australia Post price notification for its 'ordinary' letter service February 2014*, ACCC Decision, 20 February 2014, p. 33.

69 Conrad and Jane Silvester, *Submission 28*, p. 4; see also Ms Angela Cramp, Licensed Post Office Group Chairperson and Foundation Member, *Committee Hansard*, 6 December 2013, p. 3; Ms Lisa Cooper, *Submission 71*, p. 3; Mr John Fisher, *Submission 73*, p. 3; Ms Cynthia Turner, *Submission 86*, p. 2.

70 POAAL, *Submission 9*, p. 19.

71 Department of Finance, *Submission 5*, pp 7–8.

72 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 122.

73 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 123.

4.68 Evidence was provided to the committee on the impact of recent price increases on the use of bulk mail. Mr Alan Read, CEO, Dynamic Direct, commented that his business was moving from a mail house distribution through Australia Post to a digital platform for clients, including superannuation funds and credit unions providing statements to their customers. He stated that the recent increases in the cost of bulk mail had forced clients to seek other avenues for providing information to customers at an accelerated rate. In relation to advertorial and marketing material (print post), Mr Read stated that his business was experiencing a slight increase in volumes.⁷⁴

4.69 While acknowledging that there were general moves towards digital communications, Mr Read commented the bulk mail price increases were accelerating this trend. Mr Read suggested a price moratorium for two years to allow for analysis of trends.⁷⁵

4.70 As part of its review of Australia Post's 2014 price notification, the ACCC received a submission from The Mailing House which commented that:

- the sharing of costs between 'ordinary' mail and bulk mail should be more realistic;
- if the same level of increases made to the bulk mail rate had been applied to the BPR, the BPR would have been in the 65c to 70c range;
- Australia Post could reduce costs by ceasing to compete with its customers in the mail house market; and
- physical mail is a very effective method of promoting goods and services but continual bulk price increases are speeding up its demise.⁷⁶

4.71 The Printing Industries Association of Australia (PIAA) submitted to the ACCC that there is insufficient discount in bulk mail rates. It noted that following the removal of ACCC surveillance, Australia Post had increased prices for bulk mail services without taking into account the efficiencies that have been generated by capital investment and improved systems introduced by bulk mail operators.

4.72 PIAA went on to comment that Australia Post had advised the industry that in April 2014 fees would be increased for a range of bulk mail services. Some of these increases are as high as 7 per cent. PIAA concluded that this would negate one of the key principles underpinning the decision to remove price monitoring for these areas in 2011 and that the obligation of Australia Post to seek approval for price increases in other categories of reserved mail should be restored.⁷⁷

74 Mr Alan Read, CEO, Dynamic Direct, *Committee Hansard*, 5 August 2014, p. 4.

75 Mr Alan Read, CEO, Dynamic Direct, *Committee Hansard*, 5 August 2014, p. 2.

76 <https://www.accc.gov.au/regulated-infrastructure/postal-services/australia-post-letter-pricing-2014/call-for-submissions>, The Mailing House.

77 <https://www.accc.gov.au/regulated-infrastructure/postal-services/australia-post-letter-pricing-2014/call-for-submissions>, PIAA, p. 4.

Legacy superannuation fund

4.73 Australia Post is facing significant liability for its legacy defined benefit superannuation scheme. In 2011–12, Australia Post ceased to offer its defined benefit superannuation fund to new employees commencing with Australia Post. Australia Post indicated that this was 'to prevent the corporation being exposed to unacceptable investment risk over time'. Employees joining Australia Post are offered membership of an accumulation fund.⁷⁸

4.74 The costs of the legacy defined benefit superannuation scheme have significantly increased: in 2004 to 2008 the cost was some \$50 million per annum; it is now projected to be \$300 million. In its 2012–13 Annual Report, Australia Post commented that:

Adding to these market pressures, next financial year our profit will be significantly impacted by a change to accounting standards. This will impose a new recurring expense of more than \$175 million in 2013–14 relating to the Australia Post Superannuation Scheme. This equates to around 44 per cent of our 2013 profit before tax.⁷⁹

4.75 At the May 2014 Budget Estimates, Mr Fahour noted that 'the superannuation scheme is a massive liability that we have inherited over the past several decades'. Mr Fahour confirmed that the annual cost was over \$300 million in 2013–14. He went on to note that 'now the assets equal the liabilities, so we are running at about 100 per cent. But the bad news is that that has come down from 180 per cent' – this posed a significant problem for Australia Post.⁸⁰

4.76 In addition, Mr Fahour stated that the closure of the defined benefits scheme to new employees had very successfully limited the liability growth in the scheme. While the closure of the defined benefit scheme to new entrants was important, Mr Fahour also pointed issues with scheme's portfolio:

That was very important, but we are not completely out of the woods because, unfortunately, the portfolio we inherited was weighted mostly to fixed assets. That is why the VBI [value-based investing] deteriorated the way it did.

We have managed to significantly increase the liquidity of the portfolio without losing any of the VBI performance—around 100 per cent...The trustees, who are both union trustees as well as employer trustees, have done a good job in the difficult circumstances of the last three years. I commend the trustees on the good work.⁸¹

4.77 In response to questions about the risk to Australia Post of the remaining liability, Mr Fahour stated:

78 Australia Post, *Annual Report 2012*, p. 10.

79 Australia Post, *Annual Report 2013*, p. 11.

80 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 96.

81 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 96.

We have a very big scheme that has approximately \$6 billion in total assets. The net assets of Australia Post are only \$2 billion. The net equity is \$2 billion and the pension fund assets are \$6 billion. So this is a very high-risk area and it is one the board and the management team are managing incredibly well in the circumstances.⁸²

4.78 In response to a question from the committee regarding the impact of the superannuation liability on Australia Post's ability to make payments to licensees, Australia Post stated:

The impact of the change in superannuation will have a significant impact on Australia Post's profit before tax and will need to be taken into consideration when making any additional payments to licensees.⁸³

Committee comment

4.79 The committee acknowledges that Australia Post is facing increasing pressures on its financial position. In the 2013–14 financial year, for first time in its corporate history, Australia Post has made a half year loss. The group profit after tax for 2013–14 is 34.5 per cent less than for the previous financial year. Without change, the outlook is not expected to improve, with losses forecast from 2015–16.

4.80 Australia Post provided evidence on the factors contributing to the worsening of its financial position, in particular the costs of the CSOs, the decline in letter volumes, international letter cost under recovery, the adequacy of the BPR and superannuation liability. Some progress has been made in relation to the superannuation liability, the BPR and international inward letter costs.

4.81 The committee notes the significant efforts by Australia Post and the relevant unions to come to agreement on the closure of the defined benefits superannuation fund and the establishment of the accumulation fund for new employees. In addition, changes to the portfolio associated with the legacy scheme have been implemented to improve its performance. The committee considers that these are important steps which will limit the growth in the, albeit significant, financial liability of the scheme.

4.82 The 10c increase in the BPR came into effect in March this year. While this was welcomed, Australia Post indicated that the letters business would continue to experience losses. Australia Post did not believe that the increase in the BPR would accelerate the decline in letter volumes. Rather, e-substitution and the emergence of the digital economy were the key factors. The committee agrees with this assessment.

4.83 In relation to bulk mail, the committee understands that the price for bulk mail has increased every year since 2011, with an overall increase of 29 per cent over that time. The evidence points to a fall in demand as the bulk mail price has increased. As a consequence, clients of mail houses are moving more quickly into digital communications and seeking more cost effective media for marketing campaigns.

82 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 96.

83 Australia Post, *Answer to question on notice*, No. 12.

4.84 While not having access to Australia Post's cost models, it appears to the committee that successive increases in bulk mail prices may run counter to curtailing losses in the letters business. Australia Post has indicated that PreSort (bulk mail) accounts for 54 per cent of its addressed mailbag and that it is the most cost-effective way to send fully addressed mail. Mail houses have introduced systems to facilitate efficient bulk processing by Australia Post which requires all items to be machine-addressed, barcoded and sorted.

4.85 The committee notes that the ACCC has a role in dispute resolution in relation to bulk mail. However, the committee considers that, given the importance of bulk mail's contribution to the sustainability of the letters business, and the magnitude of increases in prices in recent years, Australia Post should again be required to notify the ACCC of proposed changes in the price of business mail.

Recommendation 1

4.86 The committee recommends that Australia Post be required to submit notifications of changes to the price of business mail services to the Australian Competition and Consumer Commission.

4.87 International inbound mail is another area where there has been some progress in addressing under recovery of costs. The committee notes that proposed changes to the terminal dues arrangements were expected to be implemented from 1 January 2014.

4.88 A matter of great significance is the cost of providing the CSOs and its impact on the losses being incurred in the letters business. These matters are crucial to the overall performance of Australia Post and the long-term sustainability of the postal network.

4.89 The committee has also noted the views in relation to the assessments of the cost of the letters business and cost allocation within Australia Post's business as a whole. While not disputing that Australia Post is suffering losses in its letters business, the committee considers that a more thorough examination of cost allocation within Australia Post would be beneficial. This is particularly the case given that part of the parcels businesses is now no longer delivered through a 'parcel only' network, rather, postal employees are also now delivering parcels. Further, the expansion of the parcels business has occurred through the existing distribution and delivery network.

Recommendation 2

4.90 The committee recommends that the Minister for Communications undertake a thorough examination of cost allocation within Australia Post and report back to the committee.

Chapter 5

Opportunities and challenges for Australia Post

Introduction

5.1 In the previous chapter, the committee outlined the impact of the changing postal environment on the performance of Australia Post. As a first step in responding to these changes, Australia Post has implemented a restructured business model.

5.2 However, it was argued that such business changes alone will not be sufficient to ensure the long-term sustainability of Australia Post, and the postal network, in face of declining letter volumes. Australia Post commented that further measures are required to support it into the future including greater commercial freedoms, changes to the community services obligations (CSOs), and expansion of services provided through the postal network.

Future Ready

5.3 In 2010, Australia Post initiated its Future Ready strategy to 'transform Australia Post into a far more customer-driven, sustainable, high-performance and financially viable business'.¹ Future Ready is underpinned by three key strategies to:

- build a sustainable communications business, physically and digitally;
- build a world-class parcels business with excellence in service performance; and
- build a multi-channel trusted services offer for consumers.²

5.4 At the October 2012 Supplementary Budget Estimates, Mr Fahour reinforced strongly this direction for Australia Post. Mr Fahour stated:

I am not intending to hook our future to a business which has lost \$148 million. We need to secure our future. Our future is in parcels and digital communication...

We need to protect this company and we need to protect it by no longer sitting back and saying that the monopoly will deliver a guaranteed revenue stream. There are no more guarantees. Even in our traditional monopoly—and monopoly is supposed to mean you make some sort of monopoly profit—there are no monopoly profits. We lose money. Secondly, our competitor in mail is email—and that is free.³

5.5 The Department of Finance submitted that Australia Post has undertaken a number of initiatives, including:

1 Australia Post, *Annual Report 2010*, p. 2; see also Australia Post, *Submission 8*, pp 15–16.

2 Australia Post, *Annual Report 2012*, p. 22.

3 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 16 October 2012, pp 81–82.

- extracting costs from the letters business and modernising its network;
- diversification of revenue streams, including into digital mail (including Australia Post Digital Mailbox) and financial and identity verification services; and
- investment to capitalise on opportunities in its parcels business stemming from growth in eCommerce.⁴

5.6 Australia Post commented that the Future Ready program 'has been vital in the corporation returning to overall profit growth, over the past three years'.⁵ Mr Fahour added that Future Ready has been 'a huge success'.⁶ However, Australia Post submitted that:

While the Future Ready program has been valuable in transforming Australia Post's business and achieving profitability in recent years, it will not be enough to maintain Australia Post as a financially self-sustaining GBE into the future.⁷

5.7 The following provides a brief overview of some of the changes implemented under the Future Ready strategy.

Two-speed postal service

5.8 At the May 2014 Budget Estimates, Mr Fahour informed the committee that Australia Post would be offering its government and business customers an additional second speed service at a lower cost. As 95 per cent of letters are sent by government or business, this would provide significant cost savings.⁸

5.9 Mr Fahour noted that the majority of Australia Post customers had indicated that they did not need a five day a week service but wanted a basic minimum service. As a consequence, letter volumes will shift to a slower speed, slower frequency service. Mr Fahour went on to explain the efficiencies for Australia Post from this service:

The way it saves us money is that we can take the resources and, instead of having posties go down the street and not have anything to deliver, we can say, 'On these days we are doing letters, but on other days we can do more parcels.' So the whole transformation is predicated on the basis that we want to grow the parcels business.⁹

4 Department of Finance, *Submission 5*, p. 7.

5 Australia Post, *Submission 8*, p. 16.

6 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 93.

7 Australia Post, *Submission 8*, p. 16.

8 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, pp 80, 89 and 105.

9 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 94.

5.10 Australia Post indicated that, by 2015, it aimed to provide to all customers a range of services – regular letter service, priority service and express mail services – which operate at different speeds, frequency and prices. Mr Fahour concluded:

If we are to keep Australia Post relevant and viable into the future, we have to offer our customers choice and we have to give them a range of prices to reflect speed and frequency. That is happening for business next week.¹⁰

5.11 Mr Fahour responded to questions from the committee on the possible contravention of the *Australian Postal Corporation Act 1989* (APC Act) in relation to the 60c concessional stamps which were introduced in March 2014. He stated 'it is very simple. The stamp you are talking about is a 70-cent stamp. What the law does not stop us from doing is offering people a discount.'¹¹

MyPost Digital Mailbox

5.12 Australia Post has launched its MyPost Digital Mailbox. This is a free and secure online portal which allows customers to receive and pay bills and to store important documents through a secure location. Mr Fahour commented:

The Australia Post digital mailbox is a fundamental part of moving into the 21st century for us to deliver the mail in digital form. I do not believe it is a tomorrow thing. It is not going to be tomorrow. It will be something that will develop over the next five or 10 years.¹²

5.13 Australia Post has entered into contracts with 44 senders of mail, with 20 being available through My Digital Mailbox in May 2014.¹³ Mr Fahour commented that while there were commercial businesses using the digital mailbox, the addition of government services would result in a more effective and highly valuable product for society.¹⁴

5.14 In addition, the Minister for Communications, the Hon Malcolm Turnbull, has announced a partnership between Australia Post and the Department of Human Services (DHS) to trial digital mail delivery. As part of the trial, people can opt to have their government digital mail automatically forwarded to their MyPost Digital Mailbox.¹⁵

10 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 106.

11 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 112.

12 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 112.

13 See further Australia Post, Australia Post Digital MailBox, at: <https://digitalmailbox.com.au/content/marketing/en/overview.html> (accessed 3 December 2013); and Australia Post, *Annual Report 2013*, October 2013, pp 24–25.

14 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 137.

15 Minister for Communications, the Hon Malcolm Turnbull, 'Access to digital mail moves forward', *Media Release*, 18 August 2014.

5.15 In undertaking the trial, commentators have noted that Australia Post faces challenges in relation to the functionality of its system and possible moves by banks to access mail sent by Commonwealth services through systems such as BPAY.¹⁶

5.16 Some licensees expressed concern at the promotion of the digital mailbox by Australia Post. The Post Office Agents Association Limited (POAAL) commented that licensees are wary of the impact that the digital mailbox might have on letter volumes and over-the-counter bill payments. POAAL noted that the digital mailbox is aimed at people who are heavy internet users and who, most likely, seldom do business at a post office. POAAL concluded there appears to be no direct benefit to licensees in the digital mailbox.¹⁷

5.17 In addition, licensees have been concerned that Australia Post is marketing the digital mailbox to Licensed Post Office (LPO) customers including post office box holders. The committee received representations from licensees concerning an unaddressed mailing distribution of an Australia Post pamphlet relating to the introduction of the MyPost Digital Mailbox. The representations pointed to the obligations in Section 11 of the LPO Agreement, including that Australia Post shall:

- (d) use its best efforts to maximise sales of Products and Services to the mutual benefit of the Licensee and Australia Post.

5.18 It was asserted that, by encouraging the use of the MyPost Digital Mailbox for electronic communications and online payment of bills rather than the over the counter Billpay method, Australia Post was in breach of this section of the LPO Agreement.

5.19 Mr Fahour responded that 'under no circumstances would this mailout be considered to be in breach of Section 11 of the LPO Agreement'. He went on to note that the Digital Mailbox forms part of Australia Post's overall strategy to remain viable and sustainable. Further, the introduction of new revenue streams it is able to support Australia Post's ongoing viability 'which in turn directly impacts the viability of our Licensed Post Offices'.¹⁸

Parcel business

5.20 While mail volumes have been decreasing, the opposite is true of Australia Post's parcels business, with domestic parcel volumes growing by around 8 to 10 per cent per year, for the last three years. This resulted in a profit for Parcel and Express Services of \$354.8 million (an increase of 29.1 per cent or 13.1 per cent excluding StarTrack) in 2012–13.¹⁹ For 2013–14, Australia Post announced that a record profit

16 GovernmentNews, 'Human Services and Australia Post tie knot on Digital Mail, 18 August 2014, <http://www.governmentnews.com.au/2014/08/human-services-australia-post-tie-knot-digital-mail/> (accessed 10 September 2014).

17 POAAL, *Supplementary Submission 9*, p. 3; *Supplementary (No. 2) Submission 9*, p. 4.

18 Mr Ahmed Fahour, Correspondence to the committee, dated 5 June 2014.

19 Australia Post, *Annual Report 2013*, October 2013, p. 10.

of \$337.5 million operating earnings before interest and tax (EBIT) in its Parcel Services, an increase of 20.8 per cent.²⁰

5.21 Australia Post reported that this increase has been 'entirely' driven by the growth in online shopping, with approximately 70 per cent of the parcels handled by Australia Post being generated by online shopping.²¹

5.22 Australia Post has responded to the growth in parcel volumes and stated that:

Australia Post's nationwide logistics network is now underpinning the growth of thousands of businesses, like these eTailers, by providing them with a fast and reliable way of getting their product to their customers.

For this reason, Australia Post has a vested interest in expanding digital marketplaces and supporting Australian business to get online.²²

5.23 One such investment has been taking full ownership of StarTrack in 2012–13, which has meant that for Australia Post:

...for the first time in our 204-year history, we are predominantly a parcels business. This structural adjustment is reflected in our Parcel and Express Services business contributing 45.1 per cent of our total revenue.²³

5.24 Australia Post noted that it had sought to improve its parcels service through a range of initiatives, including:

- ongoing installation of 24/7 Parcel Lockers – by May 2014, 160 Parcel Lockers had been installed across Australia;
- new delivery choices in partnership with some of our major online retail customers;
- delivery of small parcels by posties with the result that 25 per cent of regular parcels are delivered by posties; and
- Saturday deliveries of parcels and Express Post.²⁴

5.25 The delivery of small parcels was seen as a very positive initiative by the CWU. Mr Martin O'Nea, Assistant National Secretary, CWU, commented:

We support the initiative and think Mr Fahour has nailed it; he has got it right. The infrastructure is there and it made perfect sense to leverage off the infrastructure. With declining mail volumes, over time the space in the

20 Australia Post, 'Australia Post reports FY14 Financial Results', *Media Release*, 4 September 2014.

21 Australia Post, *Submission 8*, p. 15; see also Australia Post, *Australia Post Annual Report 2013*, October 2013, p. 26.

22 Australia Post, *Submission 8*, p. 15.

23 Australia Post, *Annual Report 2013*, October 2013, p. 10.

24 Australia Post, *Annual Report 2013*, October 2013, p. 9; Mr Ahmed Fahour, *Budget Estimates Hansard*, 28 May 2014, p. 80; see also Mr Ahmed Fahour, *Budget Estimates Hansard*, 30 May 2013, pp 54–55; Mr Ahmed Fahour, *Budget Estimates Hansard*, 28 May 2014, p. 94.

posties' bags is getting bigger, so why not fill it with small parcels? It allows the posties to re-engage with the community.²⁵

5.26 In addition, at the May 2014 Budget Estimates, Mr Fahour informed the committee that Saturday deliveries will commence for parcels and Express Post and, from November 2014, corporate owned postal outlets will trade on Saturday.²⁶ While noting that trading on Saturday will entail additional costs, Mr Fahour stated:

...our job is to provide a service that society wants from us and they expect us to deliver. So rather than just add new expenses, we would like to take away the resources that are sitting in the declining letters business—take away the people, which we are already paying for—and move them over to the growing parcels business. I do believe in the long term that when our clients see that we are offering a quality six-day a week service, we are more likely to win new customers and, therefore, new revenue streams.²⁷

5.27 However, Australia Post acknowledges that it faces strong competition in the parcels market:

...parcel delivery is a highly competitive, international marketplace. Australia Post's continued growth in this market is not guaranteed – and, with intensifying competition the profit margins of all logistics providers will continue to come under pressure.

Australia Post needs to invest heavily in its parcels infrastructure and capabilities to ensure that, as volumes grow, its services continue to represent good value, efficiency and reliability.²⁸

5.28 POAAL also commented that Australia Post 'does not have a monopoly on post office boxes or parcels; it is all up for competition'.²⁹

Future growth – opportunities and challenges

5.29 While Australia Post has had some success with its Future Ready strategy, it was argued that continuing cross-subsidisation of the letters business from more profitable areas of Australia Post's business was not a viable long-term strategy. The Department of Finance advised that:

These initiatives have assisted in ensuring Australia Post has been able to subsidise its declining letters business and maintain its financial position to date. However, the underlying deterioration of the letters business continues.³⁰

25 Mr Martin O'Nea, Assistant National Secretary, CWU, *Committee Hansard*, 6 December 2013, p. 32.

26 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 80.

27 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 85.

28 Australia Post, *Submission 8*, p. 15; see also Australia Post, *Annual Report 2013*, October 2013, p. 26.

29 POAAL, *Submission 9*, pp 10–11.

30 Department of Finance, *Submission 5*, p. 7.

5.30 The Department of Finance also commented that 'Australia Post's business is at a critical point where its letters service is in serious decline, with an increasing reliance on its ancillary business for cross-subsidisation'.³¹ It stated that:

The majority of Australia Post's revenue and all of its profits are generated by the parts of the business operating in competitive markets. However, given the increasing losses in the letters business are forecast by Post to overwhelm any profits generated by the competitive business in the next few years, this cross subsidisation is not sustainable in the medium to longer term.³²

5.31 The Department commented on the options for sustaining Australia Post, particularly in light of constraints in the *Australian Postal Corporation Act 1989* (APC Act), and stated:

Accordingly, the scope for continuing to manage the decline of the letters business and Australia Post's longer term sustainability, without significant reform or policy intervention is limited. This gives rise to a number of public policy issues regarding the requirements of the CSO and the means by which it is delivered.³³

5.32 This view was supported by the Department of Communications.³⁴

5.33 BCG also commented that it did not believe that 'it is either feasible or desirable' to rely on funding the reserve service from profits of other Australia Post business areas. BCG noted that in other markets, when operators had attempted to maximise profits in parcels to offset losses in letters, an erosion of competitiveness had occurred.³⁵

5.34 The committee acknowledges that Mr Fahour has stated on many occasions that the losses in the letters business will overwhelm the profits in other areas, notably parcels. At the May 2014 Budget Estimates, Mr Fahour stated:

As of this calendar year 2014, we are getting overwhelmed...unless we reform this business, forget about Australia Post. We cannot save the licensed post offices. And the best way to save the licenced post offices is to save Australia Post. We need to modernise this company fast.³⁶

5.35 Australia Post proposed three initiatives that would help it maintain profitability, modernise its business and ensure the continued viability of its business partners:

31 Department of Finance, *Submission 5*, p. 4.

32 Department of Finance, *Submission 5*, p. 6.

33 Department of Finance, *Submission 5*, p. 7.

34 Department of Communications, *Submission 7*, p. 5.

35 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, pp 16, 18.

36 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 107.

- gain a stamp price increase to minimise the loss in letters and provide a revenue boost for LPOs;
- necessary adjustments to the current limits on Australia Post's commercial freedoms; and
- gain approval to offer a wider range of trusted services on behalf of government.³⁷

5.36 Mr Fahour indicated to the committee that in developing its corporate plan:

We are working through a range of options and scenarios for the ministers to review as part of our corporate plan submission. As you can imagine...if we do not make changes to add services in parcels, and reduce resources in letters, we will be an unviable business.³⁸

5.37 The committee notes that the BPR was increased in March 2014. The remaining two initiatives are explored below, as well as ownership change.

Commercial freedoms

5.38 In its evidence to the committee, Australia Post emphasised that it was seeking options for growth in its non-regulated services to ensure that they 'remain high performing, competitive businesses'.³⁹ In addition, Mr Fahour commented that Australia Post 'needed to replace our lost letter business with further commercial freedoms'.⁴⁰

5.39 Australia Post argued that one of the major constraints on its ability to grow and diversify into other business streams is potentially contained in its enabling legislation. It went on to state that 'various interpretations of our enabling legislation have caused the shelving of a number of potential opportunities that are complementary to Australia Post's core business'.⁴¹

5.40 Australia Post pointed to the product diversification undertaken by other postal services, which have enabled them to grow substantial commercial businesses. For example, Deutsche Post, Royal Mail and New Zealand Post have pursued diversification agendas, including into financial services, parcels, Telcos, logistics and retail businesses.⁴²

5.41 In relation to diversification, the Department of Finance commented on two matters: the capital investment required and the constraints contained in the APC Act. The Department stated:

37 Australia Post, *Submission 8*, p. 16.

38 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 88.

39 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 108.

40 Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 17 March 2014, p. 1; see also, Australia Post, *Submission 8*, p. 19.

41 Australia Post, *Submission 8*, p. 18.

42 Australia Post, *Submission 8*, pp 18–19.

A significant level of capital for investment by Australia Post (and by default the Commonwealth Government) to acquire assets in fully contestable markets, would likely be required to generate sufficient revenue and profits to cross subsidise increasing losses in the letters business.⁴³

5.42 Ms Stacie Hall, Department of Finance, explained further:

It is a matter for government as a policy consideration as to whether, firstly, it would support a diversification strategy and then there is a further question as to how that would be funded, whether from post's-retained earnings or from reduction in dividend returns to government or through debt or additional equity. There are a number of avenues there in the event that government considered it was an appropriate policy response to the challenge for Australia Post to further diversify its business in order to generate new revenue to cross-subsidise the increasing losses of letters.⁴⁴

5.43 In relation to constraints contained within the APC Act, Ms Hall noted that Australia Post's principal function is to supply postal services and in addition to that it is enabled, under its legislation, to undertake other functions that are ancillary and incidental to its principal functions. These ancillary functions include parcel delivery and a range of additional services pertaining to its retail activities. However, undertaking a wider range of activities 'would be inconsistent with the requirements of the [APC Act]'.⁴⁵

5.44 The Department of Finance concluded that Australia Post is already well diversified and 'its ability to further diversify is constrained by legislative impediments and would require significant additional capital funding'.⁴⁶

5.45 Australia Post submitted that the APC Act needs to be reviewed to allow it greater commercial freedoms.⁴⁷

Committee comment

5.46 The committee considers that any move to increase Australia Post's commercial freedoms requires careful consideration by government and the community. The committee notes that there are a range of issues arising from allowing greater commercial freedom including the level of capital requirements need by Australia Post to undertake any new services and the extent to which a government business enterprise should engage in contestable markets to support the provision of the CSOs.

5.47 The committee considers that the capital requirements needed for Australia Post is a matter for government to assess. In relation to supporting the CSOs, the committee recognises that there are few commercial incentives for private providers in

43 Department of Finance, *Submission 5*, p. 8.

44 Ms Stacie Hall, Department of Finance, *Committee Hansard*, 6 December 2013, p. 52.

45 Ms Stacie Hall, Department of Finance, *Committee Hansard*, 6 December 2013, p. 52.

46 Department of Finance, *Submission 5*, p. 8.

47 Australia Post, *Submission 8*, p. 19.

remote, rural and regional Australia to undertake the services provided through the postal network. It therefore may be that the only way to maintain services in remote, rural and regional areas is by providing greater commercial freedoms to Australia Post. In this regard, the committee is mindful of the crucial role the postal network, particularly LPOs, plays in communities where other service providers have withdrawn.

5.48 The committee considers that the maintenance of the CSOs is a priority. Greater commercial freedoms for Australia Post should only be considered if this provides support for the delivery of the CSOs through a viable LPO network.

Recommendation 3

5.49 The committee recommends that greater commercial freedoms for Australia Post should be only be considered if this provides support for the delivery of the community service obligations through a viable Licensed Post Office network.

Community service obligations

5.50 Australia Post has, on many occasions, emphasised the importance of meeting its CSOs. For example, Mr Fahour commented at the 2013 Supplementary Estimates that:

We are really proud of the fact that we have not missed our CSO standards. Our strategy is always intended on meeting our dual obligations of the service standard, as well as the commercial rate of return. So our strategies and plans are predicated on meeting those standards.⁴⁸

5.51 Mr Fahour commented that Australia Post exceeds its CSOs in some areas. He noted, for example, that mail is delivered to 98.8 per cent of homes five days a week rather than the 98 per cent required under the CSOs.⁴⁹

5.52 Information on the basis for the CSOs was contained in the 1998 review of the CSOs by the National Competition Council (NCC) under the Competition Principles Agreement. The NCC supported the universal service obligation for letters as it assists in the 'social, industrial and commercial needs of communities and the development of the nation'. The NCC recommended retention of the universal service obligation because the costs incurred were fully justified by the social benefits, and there was (at that time) no effective alternative means of providing those social benefits.⁵⁰

5.53 In addition, the NCC found that for rural and regional areas the universal service obligation had greater significance, creating a delivery network through which Australia Post delivers parcels, food, spare parts, educational and health materials. The Department of Communications concluded that while the NCC Review is dated,

48 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 41.

49 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 30 May 2013, p. 62; see also Australia Post, *Submission 8i*, p. 9.

50 Department of Communications, *Submission 7*, p. 5.

the findings regarding services in rural and regional areas 'appears to remain substantially the same'.⁵¹

Sustainability of the community service obligations

5.54 It was argued that it was time for the CSOs to be reviewed as letters no longer provide the social or economic benefits as they once did. The Department of Communications stated that today 'it is clear that the relevance of letters to the nation's social, industrial and commercial needs has changed'. While not discounting the need for an affordable, easily accessible, service – 'of some kind' – the Department concluded 'given changes to consumer preferences and technology there is a case for re-examining how this service is most effectively provided to the community'.⁵²

5.55 Further, it was argued that the providing the CSOs to the prescribed level has resulted in growing losses for Australia Post. The losses from the letters business are now so large that they are eroding Australia Post's financial position. Australia Post is unable to continue to absorb the losses or to address them through the changes to its business strategies. Mr Drew Clarke, Secretary, Department of Communications, indicated that a policy reform package was required as well as business strategies.⁵³ That policy reform would be required to provide Australia Post 'additional flexibility in the way it provides the letters service for it to be sustained'.⁵⁴

5.56 BCG commented on the need for reform and pointed to the high fixed cost base of the letters business and stated that:

Reducing delivery speed and frequency are the key levers to significantly reduce the fixed component of ~60% of costs (that is all cost buckets except indoor delivery, other operating and indirect costs), but such moves are constrained by the prescribed Performance Standards.⁵⁵

5.57 In an address to the American Chamber of Commerce in May 2014, Mr Fahour pointed to need for change or reform and stated that without such action government funding of the community service obligation would be required.⁵⁶ At the May 2014 Budget Estimates, Mr Fahour went on to argue that Australia Post had to implement change while it could do so:

51 Department of Communications, *Submission 7*, p. 6.

52 Department of Communications, *Submission 7*, p. 5.

53 Mr Drew Clarke, Secretary, Department of Communications, *Budget Estimates Hansard*, 28 May 2014, p. 77.

54 Department of Communications, *Submission 7*, p. 5.

55 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, pp 14–15.

56 *The Australian*, 'Aust Post to lose \$1bn per year', 9 May 2014, <http://www.theaustralian.com.au/business/latest/aust-post-to-lose-1bn-per-year/story-e6frg90f-1226911979272?nk=5d44bf43a5e6e0939fa8b245e68ae4a3> (accessed 10 September 2014).

We have to change the letters service now while we are strong in order to maintain our broader services and protect the community's equity in our business.⁵⁷

5.58 Mr Fahour also commented that the community understands the need for change and that Australia Post has 'to invest in the services they [the community] want'.⁵⁸

5.59 The Department of Finance pointed to changes implemented by overseas postal services in the face of declining letter volumes. For example, in 2013 New Zealand Post announced the introduction of a minimum three-day delivery to urban areas while maintaining five-day delivery in rural delivery areas; and permitting minimum points of presence to include self-service kiosks after 30 June 2015.⁵⁹

Consumer demand

5.60 BCG also commented on current service standards and stated that it believed that current service standards for letter delivery exceed the demands of most customers. BCG pointed to survey data of 400 customers in each of 14 countries, including Australia, which showed that only one-third of customers use their mail directly on the day they receive it.⁶⁰

5.61 In relation to surveys of Australian consumers conducted by Australia Post and analysed by BCG, it was shown that approximately half of survey respondents in all segments were willing to accept a move to three-day delivery, with only about a third rejecting this change and the remainder neutral. Few (only on average 5 per cent) of the people who would reject a move to three-day delivery would be willing to pay \$25 per annum to retain current standards. BCG concluded that it believed 'that willingness to pay is a reasonable proxy for the true level of customer need'.⁶¹

5.62 In addition, the survey showed that there is a greater level of customer sensitivity towards changes to delivery location. On average, only one-quarter of customers in Australia Post's survey would support a move to post office box rather than home delivery. However, only six per cent would be willing to pay \$30 per annum to retain home delivery. Around three-quarters of Australians across all segments would not accept paying \$30 per annum or a lower amount to retain home delivery.⁶²

57 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 80.

58 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 89.

59 Department of Finance, *Submission 5*, p. 8.

60 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, p. 18.

61 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, p. 19.

62 The Boston Consulting Group, *Australian and International Postal Services Overview Background Report*, June 2014, p. 19.

5.63 The Australia Institute provided a review of BCG's comments and stated that 'BCG has been a long term advocate of deregulating the postal industry in order to allow lower levels of customer service'. The Australia Institute went on to state:

Consistent with their long term international strategy, the Boston Consulting Group recently advised the Australian Government that the Australian postal system should be deregulated to allow lower quality and frequency mail delivery. Their report to the Australian Government, which is analysed below, includes dire warnings about the 'weak-link' of mail delivery, and the need to 'set free' the courier and retail businesses.⁶³

5.64 The CWU Victoria Branch commented that 'service standards are being undermined throughout country Victoria' and pointed to reports from its members of the amount of mail left behind in delivery centres on a regular basis. The CWU Victoria Branch added that the deviation from a 'clear floor policy' may compound as there will be greater risk of mail mix-ups and workers will be unable to readily check dates of postage.⁶⁴

Committee comment

5.65 The committee notes that Australia Post is incurring a significant cost to meet to meet its current CSOs which will be difficult to fund into the future. In addition, the committee notes the evidence that suggests that Australia Post is delivering to a service standard, in relation to frequency of delivery, which is no longer required by customers. It was thus argued that reform of the CSOs would assist in curtailing losses in the letters business with no detriment to the community.

5.66 The committee notes that the CSOs were last reviewed in 1998. At that time, the universal service obligation was recognised as assisting social, industrial and commercial needs of communities and the nation. Since that time, there have been significant changes in technology and thus the community's dependence on mail services has diminished.

5.67 The committee acknowledges it may well be that, today, the majority of the Australian community consider that there would be no adverse consequences to reducing the number of mail deliveries that households receive. In that regard, the committee notes that some rural communities do not receive a daily postal delivery, for example, deliveries of three days per week.

5.68 The committee considers that further independent review of the CSOs is urgently required before any decisions on changes to the CSOs are reached. Such a review should include broad community and stakeholder consultation.

5.69 The committee acknowledges that post office outlets undertake many different functions particularly in the provision of services to small communities and

63 CWU Australia, *Supplementary Submission 2*, The Australia Institute, 'Review of the Boston Consulting Group's report to the Minister for Communications, Briefing for the CWU on Australia Post's operations', *Technical Brief No. 32*, July 2014, p. 5.

64 CWU Victoria Branch, *Submission 6*, p. 3.

disadvantaged groups. The review of the CSOs should take into account the effect of any changes to postal services on all users.

Recommendation 4

5.70 The committee recommends that the Commonwealth Government immediately commission an independent review of the community service obligations contained in the Australian Postal Corporation Act 1989 and associated regulations.

5.71 In undertaking this review, the committee further recommends that:

- **the future of mail delivery services be assessed;**
- **the number of retail outlets required in the network be assessed;**
- **the effects of any changes to the community services obligations on Australia Post employees, Licensed Post Offices, Community Postal Agencies, franchisees and mail contractors be investigated; and**
- **consideration be given to the needs of remote, rural and regional communities particularly where other service providers have ceased to operate.**

Expansion of the delivery of trusted services

5.72 Australia Post has, for many years, provided a range of 'trusted services' on behalf of government and other providers such as passport applications, broader identity services, financial services and payments, foreign exchange, identity services, insurance and travel services. Today, Australia Post provides these services on behalf of 750 organisations, servicing over 800,000 retail customers every business day.⁶⁵

5.73 Australia Post noted that the provision of trusted services maintains customer visitation to Australia Post outlets. Together with careful cost management, access to trusted services 'has enabled Australia Post's Retail Services business to improve profit incrementally – despite the decline in customer numbers'.⁶⁶

5.74 In order to maintain its viability, and that of its business partners (especially LPOs), Australia Post proposed that it gain approval to offer a wider range of trusted services on behalf of government.⁶⁷ Australia Post went on to comment that it is 'well positioned' to deliver trusted services leveraging its:

- customer centric trusted brand;
- 200+ years of history in delivering Government Services across a broad range of activities;
- extensive physical footprint (4,400+ points of presence);

65 Additional Estimates 2014, Australia Post, *Answer to question on notice*, No. 146.

66 Australia Post, *Submission 8*, p. 14.

67 Australia Post, *Submission 8*, p. 16; see also Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 17 March 2014, p. 1.

- deep experience in the delivery of project based outcomes (Future Post & Future Ready);
- commercial focus; and
- existing expertise in payments, identity and communications.⁶⁸

5.75 In late 2013, media reports suggested that Australia Post outlets might expand into providing into other government services, in particular those currently provided by Centrelink.⁶⁹ In response to these reports, the Minister for Human Services and Minister for Social Services clarified that:

The Australian Government has not granted permission to Australia Post to "expand into" government service delivery such as Centrelink services...Australia Post can make a submission to the Commission of Audit, proposing to offer a range of government services...

The Commission of Audit will consider all submissions on their merit, and the Government will consider the report of the Commission, however, no permission has been granted to Australia Post or any other third-party outlet to offer Centrelink or any other government payments.⁷⁰

5.76 Australia Post indicated that it would make a submission to the National Commission of Audit and would identify 'the type of trusted services that we could offer on behalf of Government departments and agencies while delivering an efficiency dividend for the whole of government'.⁷¹

5.77 The National Commission of Audit report stated Australia Post had prepared a proposal to deliver of a range of government services currently provided by the Department of Human Services:

Under the Australia Post proposal there would be a physical integration of service points for the Department of Human Services within Australia Post's network of retail outlets. The proposal would envisage 334 Centrelink service centres, as well as 126 rehabilitation centres and 139 standalone Medicare offices amalgamated into Australia Post's network.

The Commission recognises outsourcing of the payments system arrangements would be a substantial and potentially high risk undertaking. It requires very careful consideration.

68 Australia Post, *Additional Estimates 2014, Answer to question on notice*, No. 146.

69 See, for example, Joanna Heath, 'Post, Centrelink merger backed', *Australian Financial Review*, 29 October 2013, p. 9 and 'Post offices may do Centrelink's job', *Australian Financial Review*, 28 October 2013, p. 1.

70 Senator the Hon Marise Payne, Minister for Human Services, and the Hon Kevin Andrews MP, Minister for Social Services, 'No decision on Government Service Delivery Expansion', *Media release*, 19 November 2013, at: http://www.mhs.gov.au/media/media_releases/2013/11/19_11_2013_-_no_decision_on_government_service_delivery_expansion (accessed 2 December 2013).

71 Australia Post, *Submission 8*, p. 18.

This would include a judgement on whether the assessment of entitlements is an appropriate activity for outsourcing; whether outsourcing should be confined to the development and maintenance of the replacement for the Income Security Integrated System, or whether the payment mechanism only should be outsourced.

The Commission does not support the outsourcing of assessment of entitlements. However, there may be merit in testing the market for the delivery of other aspects of the payments system. A scoping study should be developed, informed by the advice of a business technology expert.⁷²

5.78 Australia Post's capability to deliver trusted services was canvassed at the February 2014 Additional Estimates. Mr Fahour responded that Australia Post had assessed a range of government services currently available to identify those which could be undertaken by the postal network. He stated:

Of the ones that we could do, we wanted to make sure that we put the best foot forward to say that a great institution like a Australia Post is in a position to undertake them—like it has undertaken, historically, things like passport applications—and that we could do them really well through our licenced post office and corporate post office network.⁷³

5.79 Mr Fahour went on to add that the delivery of further trusted services was a very big opportunity for the postal network. Revenue from trusted services had now risen to \$90 million and 'there are immediate opportunities to grow that revenue profile to the post offices'.⁷⁴

5.80 Individual licensees and groups representing LPOs were supportive of proposals to extend services provided by Australia Post and its network. Licensees commented that not only would it be beneficial to their viability but also assist many small communities. One licensee suggested that the Government should:

...take advantage of utilising the extensive Australia Post network by incorporating transactions such as Centrelink. This type of agency work would complement the suite of transactions we undertake on behalf of the Government and its bodies. It would certainly help the bottom line of all Licensed Post Offices, as well as assisting customers who live in areas where they cannot readily access those services, or who are elderly or infirm.⁷⁵

5.81 Similarly, another licensee commented that:

Provision of some Centrelink services would be much appreciated by many residents in our township. It would also help boost the income of our post office...It is a logical extension, and members of the public tend to

72 National Commission of Audit, *Towards Responsible Government: the Report of the National Commission of Audit, Phase One*, February 2014, pp 232–33.

73 Mr Ahmed Fahour, *Additional Estimates Hansard*, 25 February 2014, p. 117.

74 Mr Ahmed Fahour, *Additional Estimates Hansard*, 25 February 2014, p. 127.

75 Mr Tony and Ms Noelene Brandi, *Submission 96*, p. 2.

associate post offices, even those privately owned LPOs, as a function of Government.⁷⁶

5.82 Ms Angela Cramp of the LPO Group also told the committee that 'we are very happy for any new business as long as it is commercially remunerated'.⁷⁷

5.83 POAAL recommended that the range of government services available through Australia Post, and the LPOs, should be extended. It noted that many post offices already offer a number of government services, such as drivers licence applications/renewals; passport applications/renewals; and payment of local council parking fines and rates. POAAL suggested that:

Offering more Government services (such as simple Centrelink transactions) through the post office network would increase business levels at LPOs and help keep the post office in the community.

Local residents also benefit from not having to travel large distances to access government services.⁷⁸

5.84 However, POAAL noted there were some services that it did not consider would be feasible for LPOs to offer. Mr Ian Kerr, CEO, POAAL, commented that LPOs could undertake tasks similar to those already available, such as ID transactions, simple proof of payslips which are similar to witnessing of documentary transactions. However, he considered other tasks beyond the ability of LPOs:

We would probably draw the line—but I do not necessarily wish to bind Australia Post to this—at giving advice on legislation, assessing eligibility, and tasks like. Case management would be another example. These are tasks that require a significant amount of training, perhaps three or six months training, for Centrelink staff in a regional office, before they are dealing with the public. So I would suggest that that is a reasonable sort of line to draw there.⁷⁹

5.85 Other submitters expressed concerned about proposals for Centrelink services to be provided by Australia Post outlets. For example, the Community and Public Sector Union (CPSU) objected strongly to allowing Australia Post to take over services currently undertaken by DHS, such as administering Centrelink payments. The CPSU explained its concerns:

The proposal for Australia Post to undertake DHS functions raises significant concerns about what it might mean for the level of service provided to Australians in need. DHS already performs exceptionally and reliably day after day in delivering a massive scope and scale of services.⁸⁰

76 Mr Steven Kummerow, *Submission 79*, p. 4; see also, Mr Akil Kolhapurwala, *Submission 80*, p. 3; Ms Jenny Patroni, *Submission 83*, p. 3.

77 Ms Angela Cramp, LPO Group, *Committee Hansard*, 6 December 2013, p. 9.

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

79 Mr Ian Kerr, POAAL, *Committee Hansard*, 26 March 2014, p. 3.

80 CPSU, *Submission 4*, pp 1–2.

5.86 The CPSU continued:

Australia Post staff already undertake a wide range of complex tasks in their day to day roles. To expect them to take on a greater workload with more complex matters is unrealistic and unfair. Staff will also require continuous training to stay up to date with any changes to the system of welfare payments. Furthermore any savings from outsourcing functions is unlikely to offset the costs of training Australia Post staff.⁸¹

5.87 The CPSU noted that it is 'unclear at this stage exactly which services or transactions it is envisaged that Australia Post could take over', but that:

...there are few simple transactions in Centrelink and those that are straightforward such as lodging forms are increasingly being conducted online. When a customer attends a Centrelink or Medicare office, it is usually because they cannot perform the function online or need more comprehensive support or assistance.⁸²

5.88 The CPSU concluded that the proposal was 'likely to result in an overall reduction in the quality of service delivery on behalf of DHS, an organisation many Australians rely on at various points of their lives' and that:

The claimed savings from transferring functions to Australia Post are unlikely to account for the full cost of replicating and maintaining DHS ICT infrastructure. It would a far better decision to invest the money required on enhancing its existing infrastructure to improve efficiency and capacity.⁸³

Committee comment

5.89 The committee considers that the postal network provides an opportunity for government to deliver services more efficiently and would benefit many smaller communities. In addition, LPOs and postal franchises, which provide the vast majority of services in remote, regional and rural areas, would reap benefits in payments and increased foot traffic to their post offices.

5.90 However, the committee is mindful that the delivery of more complex *trusted* services also requires higher levels of skill, more training and a possible increase in staff numbers. In relation to licensees and franchisees, there are issues around adequacy of compensation for the delivery of any new services which the committee considers requires investigation before the provision of additional services is undertaken.

5.91 The committee therefore believes that any proposal for Australia Post to deliver more complex *trusted* services must be carefully considered and take into account the impact on licensees and franchisees as well as the efficient and effective delivery of those more complex services to the Australian community.

81 CPSU, *Submission 4*, p. 2.

82 CPSU, *Submission 4*, p. 2.

83 CPSU, *Submission 4*, pp 2–3.

Recommendation 5

5.92 The committee recommends that, before further or more complex trusted services are provided through the postal network, the Minister for Communications consult Australia Post and relevant government agencies with a view to determining the requirements for the provision of those services.

5.93 The committee also recommends that Australia Post undertake consultation with all licensee representative groups in regard to any additional requirements related to an expansion in the delivery of trusted services, including training, staffing, shopfront space, technology and remuneration.

Changes to ownership

5.94 Both Australia Post and the Department of Finance pointed to changes in the ownership of overseas postal services, including the full or partial privatisation of postal services that has occurred in Germany, Austria, the Netherlands, Belgium and, most recently, the United Kingdom. The Department of Finance went on to comment that the benefits of privatisation in these jurisdictions have included greater access to capital and increased flexibility to innovate, take on commercial risk and reform cost structures.⁸⁴

5.95 The National Commission of Audit also stated that 'opportunities exist to consider the privatisation of Australia Post'.⁸⁵

5.96 There was extensive support for the continuation of Australia Post as a government entity from individuals, licensees and stakeholders.⁸⁶

5.97 POAAL supported the continued government ownership of Australia Post and went on to argue that privatisation was the 'biggest threat to the survival' of LPOs and stated that:

It is in the best interests of all Australians – particularly those in rural, remote and isolated areas – that Australia Post remains government-owned.⁸⁷

5.98 The CEPU (NSW Branch) also raised the issue of threats to service levels should Australia Post be privatised. It stated that:

Privatisation will, overnight, remove the need for services to be maintained. Despite contractual arrangements and regulation, postal services that do not make a profit will be left behind. Even subsidised postal services in particular

84 Department of Finance, *Submission 5*, p. 8; Australia Post, *Submission 8*, p. 19.

85 National Commission of Audit, *Towards Responsible Government: The Report of the National Commission of Audit, Phase 1*, February 2014, p. 213.

86 See, for example, CWU Australia, *Submission 2*, p. 7; Conrad and Jane Silvester, *Submission 28*, p. 3; Ms Lisa Cooper, *Submission 71*, p. 3; Mr Graeme Jilbert, *Submission 75*, p. 2; Mr Steven Kummerow, *Submission 79*, p. 6; Mr Akil Kolhapurwala, *Submission 80*, p. 4; Ms Jenny Patroni, *Submission 83*, p. 2; Ms Cynthia Turner, *Submission 86*, p. 2; Mr Russell Benn, *Submission 90*, p. 2; Ms Robyn Chapman, *Submission 104*, p. 2.

87 POAAL, *Submission 9*, pp 29–30.

the regulated mail delivery service will diminish or eventually be lost altogether in high operational cost areas like regional and remote areas of Australia.⁸⁸

5.99 The CPSU similarly submitted that it:

...strongly supports retaining ownership of Australia Post in Government hands and opposes any deregulation of the postal service. By retaining ownership of Australia Post, the Government can ensure that all Australians continue to receive a good postal service regardless of where they live.⁸⁹

5.100 Licensees were concerned not only for the potential adverse impact on their businesses but also the impact on the communities which they served.⁹⁰ For example, Ms Lisa Cooper stated:

We have several hundred thousand dollars invested in our LPO business. I am concerned at recent rumours that AP may be privatised and the impact that this may have on the value of our business.

We hope that the Senate Environmental and Communications Committee fully understand the impact that privatisation may have a thousands of small business owners and employers around Australia, many in struggling rural areas where employment rates are high.⁹¹

Committee comment

5.101 The committee notes that, while the National Commission of Audit recommended the privatisation of Australia Post, the Minister for Finance, Senator the Hon Mathias Cormann, has clearly indicated that the Government would not proceed with the sale of Australia Post.⁹²

Committee concluding comments

5.102 The committee acknowledges the role of Future Ready in assisting Australia Post to sustain its financial position to date. However, the committee notes that issues have arisen in relation to the changes implemented by Australia Post. These include the expansion of the parcels business which has caused concern within the LPO network.

5.103 Future Ready, the increase in the BPR and the changes to the legacy superannuation arrangements, undoubtedly have assisted Australia Post to address many of the consequences of a declining letters service. However, it was argued that the letters business will continue to decline and innovative business strategies alone will not support the long-term sustainability of Australia Post.

88 CEPU (NSW Branch), *Submission 11*, p. 3.

89 CPSU, *Submission 4*, p. 1; see also CWU Australia – National Office, *Submission 2*, p. 9.

90 See, for example, Mr Chris Campbell, *Submission 93*, p. 3.

91 Ms Lisa Cooper, *Submission 71*, p. 3.

92 Senate Finance and Public Administration Legislation Committee, *Committee Hansard*, 28 May 2014, p. 15.

5.104 Australia Post occupies a unique place in the Australian community and it is facing, perhaps, the most significant challenges to its business since its establishment. Important and far-reaching decisions will have to be made in the near future.

5.105 The committee considers that as Australia Post and the Government further consider options for addressing the changes in Australia Post's letters business, there is a need to ensure that all stakeholders, and the Australian community, have confidence in the information on which decisions are made and that there is transparency to decision making processes.

5.106 The committee considers that the community should be given clear and detailed information about the issues confronting Australia Post and the postal network. Australia Post should also be required to genuinely consult with all stakeholders to determine how these challenges can be met and to plan what the postal network will look like in the future.

5.107 The committee is concerned that Australia Post is making changes without involving all the stakeholders. In particular, the committee notes the comments from POAAL that 'it is difficult to be a small business operator in the postal sector when there is no clear and articulated vision from Australia Post of where the business is heading'.⁹³

5.108 The committee further 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 the majority of licensees. The committee therefore believes that the rebuilding of this relationship is fundamental if constructive negotiations are able to occur and the smooth transition to a 'new' postal network can be achieved.

5.109 The committee considers that there needs to be openness and transparency, as well as very broad consultation, in identifying solutions to the challenges that the postal network is facing. In particular, Australia Post must include Australia Post employees, licensees, franchisees and mail contractors in its plans for the future. Licensees and franchisees must be confident that Australia Post is cognisant of their concerns and willing to find viable solutions.

Recommendation 6

5.110 The committee recommends 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 Post network in the face of emerging challenges.

5.111 The committee further recommends that a broad community consultation program be implemented.

93 POAAL, *Supplementary (No. 2) Submission 9*, p. 5.

Chapter 6

Overview of Licensed Post Office arrangements

Introduction

6.1 Licensed Post Offices (LPOs) are Australia Post outlets that are not owned and operated directly by Australia Post but are independent businesses that hold a licence to provide Australia Post products and services.

6.2 The 2,895 LPOs operating in Australia represent over 65 per cent of Australia Post's total retail outlet network. In particular, over 1,600 LPOs operate in rural and remote areas, representing approximately 63 per cent of all non-metropolitan Australia Post outlets.¹ The LPO Group estimated an aggregate capital investment by licensees of approximately \$1.5 billion.²

6.3 The following discussion provides an overview of the LPO model, the LPO Agreement and representation of LPOs.

Introduction of the LPO model

6.4 With the introduction of community service and commercial obligations in the *Australian Postal Corporation Act 1989*, Australia Post sought to change its retail model based on postal agencies (which operated under arrangements dating back to 1942) to a model offering a greater array of services on a commercial basis.

6.5 Australia Post, in consultation with the Post Office Agents Association Limited (POAAL), formulated a plan to convert postal agencies to LPOs. This involved moving to the current LPO business model, based on 'a commercial framework with in-built incentives to improve profitability thus giving licensees greater freedom to grow their own businesses with the benefit of Australia Post's brand and foot traffic'.³

6.6 The basis of the new arrangement was the LPO Agreement, which 'is a contract with an indefinite term and no defined territory'.⁴ The LPO Agreement includes such matters as the obligations of Australia Post and licensee, termination of the agreement and fees, commissions and discounts.⁵

6.7 Existing Post Office Agents were given the opportunity to opt-in to the new agreement, and provided top-up payments where the new LPO agreement provided

1 Australia Post, 'Licensed Post Office (LPO) information', <http://auspost.com.au/about-us/licensed-post-office-information.html> (accessed 20 November 2013).

2 LPO Group, *Submission 65*, p. 9.

3 Australia Post, *Submission 8*, p. 25.

4 Australia Post, *Submission 8*, p. 25.

5 A copy of the agreement is available at Australia Post, *Submission 8*, Appendix 1.

less remuneration than under their previous arrangements. Australia Post indicated that currently 140 rural and remote LPOs remain in receipt of this payment.⁶

6.8 POAAL informed the committee:

The underpinning principle of Licensed Post Offices under Retail Post was that privately-owned post offices would no longer be dependent upon Australia Post for their total income.

Licensed Post Offices would be able to offer Australia Post's products and services, while operating in-conjunction with another business or simply offering other complementary services and products...The LPO arrangements would give protection and support to LPO owners and be sufficiently flexible to cope with changes over the years to come.⁷

6.9 POAAL also noted that the 'Special Conditions' clause of the LPO Agreement can be customised for local conditions and allows for negotiation between the licensee and Australia Post.⁸

6.10 POAAL concluded that as a result of the implementation of the LPO arrangements:

- a. The network was tightened.
- b. Agents operating tiny Post Office Agencies were given the opportunity to leave the business gracefully.
- c. Retail technology was extended to more post offices.
- d. Australia Post had a fresh image, and Australia Post would provide signage to LPOs.
- e. Simple, easy-to-understand payment scheme for LPOs.
- f. Australia Post's retail network was transformed from a loss-making network to a profitable, modern and efficient network.⁹

Types of LPOs

6.11 LPOs are owned through a variety of entities and structures, including sole practitioners, partnerships and corporations. In some instances, multiple LPOs are owned by the same principals.¹⁰

6.12 LPOs operate as either standalone – that is, run solely as a post office – or 'in conjunction' businesses. Standalone LPOs account for 42 per cent of total LPOs. The 'in conjunction' LPOs operate with a host business. This is encouraged by Australia Post, particularly in smaller communities.¹¹

6 Australia Post, *Submission 8*, p. 25.

7 POAAL, *Submission 9*, pp 3 and 4.

8 POAAL, *Submission 9*, p. 4.

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

10 LPO Group, *Submission 65*, p. 9.

11 Australia Post, *Submission 8*, pp 20–21, 43.

6.13 There was some discussion among stakeholders about the extent to which 'in conjunction' LPOs are still dependent on Australia Post for their income. Mr Fahour, CEO, Australia Post, informed the committee that for many LPOs operating in conjunction with another business, 'postal services are, on average, around 10 to 30 per cent of their total activities'. Mr Fahour stated that Australia Post has 'no visibility' on the rest of the business activities undertaken by LPOs.¹²

6.14 In contrast, licensees informed the committee that, while 56 per cent of LPOs are labelled 'in conjunction' businesses, this simply means that they are authorised to offer some non-Australia Post products or services, even if this is a very small proportion of their overall business. Ms Angela Cramp from the LPO Group noted:

...I have been given the right to change the status of my LPOs to 'in conjunction' offices, which will allow me to sell gift cards and stationery. It might be two to five per cent of my turnover, and that would put me in the 56 per cent which Australia Post is saying is 'in conjunction'...It is an unclear statistic. Fifty-six per cent of post offices may well be stamped 'in conjunction', but most of them would be like me. I can have a small range of gift ware and greeting cards which are non-Australia Post. That allows my office to be an 'in conjunction' office. In reality, I have three stand-alone post offices and I do not have any capacity to take on other businesses.¹³

The number of LPOs

6.15 A licence to operate an LPO is granted as an indefinite licence (rather than a licence with a fixed period). Over time, the number of LPOs decreased: from 2,963 in 2009–10 to 2,895 as at 31 October 2013.¹⁴ The change to the number of LPOs was generally the result of closures, with only a small number of new licences being issued.

Table 6.1: Closures of LPOs

| Financial year | Number |
|----------------|--------|
| 2009–10 | 8 |
| 2010–11 | 13 |
| 2011–12 | 11 |
| 2012–13 | 16 |

Source: Australia Post, Answer to written question on notice Nos 1 and 2.

12 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 18.

13 Ms Angela Cramp, LPO Group, *Committee Hansard*, 6 December 2013, pp 6–7.

14 Budget Estimates 2012, Australia Post, *Answer to question on notice*, No. 236; Supplementary Estimates 2013, Australia Post, *Answer to question on notice*, No. 65.

6.16 In the five-year period to May 2013, 55 LPOs closed permanently: 19 in metropolitan areas; and 26 in rural/remote areas.¹⁵

Trading of licences in the secondary market

6.17 On average, 260 LPO licences have been traded annually over the last six years, with 270 licences bought and sold in the 2012–13 financial year. Purchases of LPO licences are mediated through business brokers and Australia Post has no control over the purchase price. Australia Post does, however, assess the suitability of prospective licensees before the purchase can occur.¹⁶

6.18 Australia Post indicated that 73 per cent of LPOs have had their licence for less than 10 years.¹⁷ Australia Post also commented that it could not provide information where a buyer is not able to be found for an LPO as this is not captured on a central database.¹⁸

6.19 POAAL provided information on the LPO sales market and stated that LPOs 'continue to be seen as stable small businesses to own'.¹⁹ However, since the global financial crisis, the LPO market has been slow. The value of post offices has, on average, fallen from five to six times the annual adjusted net profit figure to around 3.8 to 4.3 times in metropolitan areas. In rural areas, LPOs are currently valued at around three times the adjusted net profit figure. POAAL commented that:

This decline could be seen as a commercial-based reduction, as prices for post offices were very high and the market forces adjusted the value.²⁰

6.20 In particular, purchase prices for country LPOs, where the adjusted net profit is under \$100,000, are being squeezed. POAAL stated that this is typically because potential buyers do not wish to purchase a business, with an adjusted net profit under \$100,000, and have to work in the business for five to five and a half days a week.²¹

Termination of licences

6.21 Licences may be terminated by Australia Post or the licensee. The LPO Agreement provides for termination of a licence with cause by Australia Post under several circumstances, including where a licensee breaches the terms of the LPO Agreement and does not remedy those breaches within 30 days. Actions that may lead to termination of a licence include fraudulent conduct, the abandonment of the

15 Budget Estimates 2013, Australia Post, *Answer to question on notice*, No. 160.

16 Australia Post, *Submission 8*, p. 26.

17 Australia Post, *Submission 8*, p. 43.

18 Supplementary Estimates 2013, Australia Post, *Answer to question on notice*, No. 65.

19 POAAL, *Submission 9*, p. 12.

20 POAAL, *Submission 9*, p. 12.

21 POAAL, *Submission 9*, p. 12.

business, a network planning decision around the establishment of a new outlet or an irreparable break-down in the licensor/licensee relationship.²²

6.22 Under the LPO Agreement, either party may terminate the agreement without cause, with a notice period of 90 days. Examples where this provision has been invoked include the establishment of a corporate outlet in close proximity to an existing LPO in a new regional shopping centre location and the unresolvable breakdown in the relationship between Australia Post and a licensee.²³

6.23 In cases where Australia Post terminates an agreement the payment of compensation is subject to the circumstances surrounding the termination of the Agreement, for example, compensation would be payable if Australia Post took steps to close an LPO as part of a network planning decision.²⁴

6.24 Australia Post noted that in relation to licenses terminated by the licensee (rather than traded):

LPOs and CPAs [community postal agencies] are run by small business operators, many in conjunction with another business. Agents may terminate for a number of reasons including availability of premises when a lease expires, closure of the business that hosts the LPO or CPA or for a range of personal reasons. In these instances, Australia Post seeks expressions of interest to try to secure a new operator to ensure continuity of postal services.²⁵

6.25 At the November 2013 Supplementary Estimates, Mr Fahour commented on closures of LPOs:

There are a number of reasons they give as to why they want to hand back their licence and why they cannot sell it on. The biggest and most prevalent reason that we hear is that they are retiring. They have reached an age where they do not want to do this business anymore...

Obviously they will try to sell the business, but there are some who are in some communities in some places where their total business is not of a state where anybody else in the community wants it.²⁶

6.26 Australia Post provided information on termination of LPO agreements.

22 Supplementary Estimates 2013, Australia Post, *Answer to question on notice*, No. 52

23 Australia Post, *Answer to written question on notice*, No. 4.

24 Budget Estimates 2013, Australia Post, *Answer to question on notice*, No. 160.

25 Supplementary Estimates 2012, Australia Post, *Answer to question on notice*, No. 6.

26 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 27.

Table 6.2: Terminations of LPO agreements, 2010–11 to 2012–13

| | 2010–11 | 2011–12 | 2012–13 |
|--|---------|---------|---------|
| Agreement terminated by Australia Post with cause | 5 | 4 | 0 |
| Agreement terminated by Australia Post without cause | 0 | 2 | 0 |
| Agreement terminated by licensee | 15 | 13 | 10 |

Source: Australia Post, Submission 8, p. 32.

Location of LPOs

6.27 Australia Post has 2,561 retail outlets in rural and remote areas. The majority of these, 64 per cent, are LPOs. The majority of rural and remote LPOs are run in conjunction with a host business.

Table 6.3: Rural and remote network

| | Rural | Remote |
|---------------------------|--------------|---------------|
| Corporate Post Offices | 223 | 21 |
| Licensed Post Offices | 1357 | 268 |
| Community Postal Agencies | 456 | 236 |
| Total | 2036 | 525 |

Source: Australia Post, Submission 8, p. 23.

6.28 Australia Post noted that it did not capture on any central database the mail volumes passing through LPOs in regional areas.²⁷

Support provided by Australia Post to licensees

6.29 Australia Post stated that licensees receive a range of benefits associated with being part of the Australia Post LPO network which include:

- being part of a highly trusted and recognised brand which drives foot traffic into their business which can be leveraged for host business sales;
- benefitting from the continual product development/customer acquisition strategies of Australia Post; and
- that the cost associated with these benefits is typically borne by Australia Post and provided either free of charge or at a subsidised rate to licensees.²⁸

27 Budget Estimates 2013, Australia Post, *Answer to question on notice*, No. 161.

28 Australia Post, Submission 8, p. 32.

6.30 Other support provided by Australia Post to licensees includes technology such as point of sale technology, site communications equipment and hand-held scanners; product and service marketing; training; and credit arrangements.²⁹

The LPO Agreement

6.31 LPOs are subject to a number of licensing and trading conditions under their agreement with Australia Post. These conditions are outlined in the LPO Agreement and other related documents.³⁰ Additionally, the relationship between Australia Post and licensees is subject to the Franchising Code of Conduct, a mandatory industry code regulated by the Australian Competition and Consumer Commission (ACCC).

6.32 The LPO Agreement is made up of a number of individual components including but not limited to:

- contractual terms for Australia Post's relationship with its licensees;
- basis of payment to licensees; and
- operational and accounting instructions.³¹

6.33 Australia Post noted that:

While the contractual terms between Australia Post and its licensees have remained largely unchanged since the inception of the LPO Agreement in 1993, the other elements of the Agreement such as the payment scheme and operational procedures are subject to constant review in line with changing business requirements. This results in, for example, annual adjustments to payments in line with price adjustments for a large majority of products and services. Any changes to either the LPO payment scheme or operational procedures are subject to consultation with the licensee representative body, the Post Office Agents Association Limited (POAAL).³²

Australia Post's obligations

6.34 Australia Post's obligations under the LPO Agreement includes obligations to provide the licensee with:

- relevant operational manuals;
- product and services information; and
- initial and ongoing training covering the postal system generally and operating procedures relating to LPOs.

29 Australia Post, *Submission 8*, p. 32–34.

30 Related documents include the LPO Manual and the LPO Operating and Accounting Procedures; see Australia Post, *Submission 8*, p. 29.

31 Australia Post, *Submission 8*, p. 28.

32 Additional Estimates 2013, Australia Post, *Answer to question on notice*, No. 84.

6.35 In addition, the LPO Agreement requires Australia Post to 'use its best efforts to maximise sales of Products and Services to the mutual benefit of the Licensee and Australia Post'.³³

Licensee obligations

6.36 Under the LPO Agreement, licensees are required to provide certain 'mandatory' products and services to customers, as well as an obligation not to offer products that compete with specified products and services provided through Australia Post. The mandatory products LPOs are obliged to provide are postage assessment, mail acceptance and delivery and agency banking and bill-pay.

6.37 Australia Post noted that in addition to mandatory products, it offers licensees a range of additional products that LPOs may choose to sell to enhance their business and meet local customer needs.³⁴ LPOs may also source products for sale from suppliers other than Australia Post.

6.38 Licensees are obligated to maintain the premises from which the LPO is operating, and may only change location with the agreement of Australia Post. The licensee must pay costs associated with any fit-out, set-up and maintenance costs relating to the premises, and is obligated to staff the LPO appropriately and meet all staffing costs.

Payments made to LPOs under the LPO Agreement

6.39 The remuneration structures for LPOs are based on several different components, which are detailed in Annexure A of the LPO Agreement and the LPO payment scheme. The payment amount for each component is reviewed in June each year, with licensees being advised of any variations.³⁵

6.40 The Australia Post income streams delivered to licensees are derived from:

- the sale of letter and parcel products, on which licensees receive a percentage-based purchasing discount from Australia Post;
- processing and delivery fees for mail related services such as post office box servicing;
- commissions for processing 'trusted service' transactions such as bill payments and banking; and
- some other subsidies, top up payments and discounted merchandise available from Australia Post.³⁶

6.41 In addition, Australia Post informed the committee that arrangements exist for licensees to be provided with a minimum annual payment:

33 LPO Agreement, Clause 11.

34 Australia Post, *Submission 8*, p. 20.

35 Australia Post, *Submission 8*, p. 28.

36 Australia Post, *Submission 8*, p. 36.

In order to ensure that all licensees are fairly compensated, Australia Post provides a minimum annual payment to licensees who have an annual income from Australia Post of less than \$13,995. This payment was initially established with POAAL in 2002 at \$10,000 and is reviewed every year.

- There are currently 154 (5%) LPOs in this category,
- The cost of providing this support to licensees was around \$480,000 in 2012/13.

The majority (94% – 146) of LPOs receiving the minimum payment are in rural and remote Australia. In some cases this represents a commensurately reduced level of service based on community expectation, for example reduced opening hours.³⁷

6.42 Changes have been made to payments during the course of this inquiry. These are discussed in detail in Chapters 7 and 8.

Assessments of the LPO Agreement

6.43 The LPO Agreement has been in place since the establishment of the LPO model in 1993. Amendments have made from time to time to the LPO Agreement.³⁸

6.44 Some submitters, including the LPO Group, considered the LPO Agreement was inadequate and outdated particularly in relation to payment arrangements. One licensee stated:

Quite simply the LPO business arrangement with Australia Post is based on an LPO agreement which has put together in the late 1980's and was based on the basic rate of postage. It is an out dated document, and although they are observing their community service obligation to our area, the antique nature of this agreement does not reflect the work that licensees are doing on behalf of Australia Post.³⁹

6.45 Mr Andrew Hirst, LPO Group, commented:

The 1993 LPO agreement is broken. It is well past its use-by date. Its payment regime no longer works. It has not worked for well over a decade...The evidence is that the LPO agreement has not kept up with business for more than a decade, and such is the case that it is a yardstick of the very fears I am putting forward.⁴⁰

6.46 The LPO Group recommended that an independent arbitrator be appointed to review the terms and conditions of the LPO Agreement with a view to ensuring that it adequately respond to the contemporary needs of modern postal establishments.⁴¹

37 Australia Post, *Submission 8*, p. 38.

38 Australia Post, *Submission 8*, p. 28.

39 Mr Kevin Nicholls, *Submission 53*, p. 3.

40 Mr Andrew Hirst, LPO Group, *Committee Hansard*, 4 March 2014, p. 2.

41 LPO Group, *Submission 65*, p. 34.

6.47 However, POAAL did not agree with this assessment. Mr Ian Kerr, CEO, POAAL, commented that the Agreement had coped very well with changes over the years.⁴² Further, it has 'shown itself to be a very strong and flexible document that has been able to adapt to changes over the past 20 years. It is the benchmark for other franchise agreements.'⁴³

6.48 Some licensees also indicated support for the LPO Agreement stating that it provided it provided flexibility to operate a small business.⁴⁴

6.49 Mr Fahour was also of the view that the agreement 'has served us well over the last 25 years'. However, he commented that the real issue is that the 'fundamental business model that relies upon the letter product is broken into the future, and we need to find an alternative'. Asked whether the Agreement would be reviewed, Mr Fahour stated that Australia Post's entire business would be reviewed.⁴⁵

Committee comment

6.50 The committee believes that the significantly different postal environment, which continues to experience rapid change, no longer reflects the market that existed when many of the LPOs originally negotiated their service agreements with Australia Post.

Recommendation 7

6.51 The committee recommends that, at the request of any recognised association, Australia Post be required to renegotiate the terms and conditions of an LPO Agreement.

Consultative arrangements

6.52 Consultation between licensees and Australia Post are undertaken in a number of ways: through arrangements under the LPO Agreement, through consultative forums (Australia Post Licensee Advisory Council (APLAC) and the Carded Parcel Forum) and through day-to-day interactions with licensees and Australia Post employees.

LPO Agreement

6.53 The LPO Agreement provides for consultation concerning the LPO Agreement between Australia Post and the 'Association'; that is, the LPO representative group. The LPO Agreement contains clauses which refer to the 'Association':

42 Mr Ian Kerr, POAAL, *Committee Hansard*, 6 December 2013, p. 12.

43 POAAL, *Supplementary (No. 2) Submission 9*, p. 5.

44 See for example, Name Withheld, *Submission 68*, p. 2; Mr Dennis Jenner, *Supplementary Submission 92*, p. 2; Ms Sue McNichol, *Submission 107*, p. 5.

45 Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 17 March 2014, p. 4.

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- clause 9 – the fees and commissions paid, and discounts made, to licensees are reviewed annually, during which review Australia Post must consult with the Association; and
 - clause 34 – any variations or amendments to the terms of the LPO Agreement to occur only after Australia Post has consulted the Association.

6.54 The LPO Agreement also provides for consultation with the Association in relation to amendments to the Licensed Post Office Manual and variations to products and services. The LPO Agreement contains a definition of 'Association' as meaning POAAL.⁴⁶

Australia Post Licensee Advisory Council

6.55 Following a review of Australia Post's consultative arrangements with licensees in 2002, APLAC was established in 2003. APLAC is a forum where licensees and Australia Post representatives formally discuss business opportunities and issues, and develop ideas and recommendations for the mutual benefit of stakeholders in the LPO network. APLAC membership is free to licensees with quarterly state and national council/ board meetings with Australia Post fully funding its operations. Around 40 per cent of licensees are members. Licensees may put themselves forward to be State Council members or National Board directors who are elected in a democratic process.⁴⁷

Carded Parcel Forum

6.56 Australia Post has also recently established the Carded Parcel Forum as a result of consultation between Australia Post and POAAL rather than as a result of complaints from any individual licensees. The establishment of the forum recognised the challenges being faced by Australia Post's retail network in handling the increase in carded article numbers. The forum discusses operational issues and opportunities relating to carded articles and has contributed to initiatives such as:

- introduction of formal by-pass arrangements where outlets reach site storage capacity;
- establishment of dedicated arrangements for the handling of oversize items in metropolitan areas which avoids the involvement of retail outlets;
- rollout of handheld scanners to LPOs; and
- provision of parcel trolleys to LPOs at a subsidised price.⁴⁸

6.57 Australia Post commented that, as the parcel business is still experiencing rapid growth, it is intended that the Carded Parcel Forum will continue to meet

46 LPO Agreement, Clause 1.

47 Australia Post, *Submission 8*, pp 29–30.

48 Additional Estimates 2013, Australia Post, *Answer to question on notice*, No. 87.

periodically to discuss issues and opportunities relating to the handling of carded articles.⁴⁹

Post Office Agents Association Limited

6.58 The Post Office Agents Association Limited (POAAL) is the recognised representative body for licensees.⁵⁰ Australia Post commented that it had chosen to recognise POAAL as the LPO representative group at the time of establishing the LPO network with consideration to:

- POAAL's history in representing the interest of post office operators since around 1939;
- the involvement of POAAL from around 1989 in the development of the LPO Agreement; and
- the practicalities and benefits to Australia Post and licensees associated with engaging with a single industry group as opposed to around 3,000 individual licensees on matters relating to general contractual terms (including payment rates).⁵¹

6.59 POAAL's activities in relation to LPOs include:

- annual review of LPO payments;
- meeting quarterly at a State level with Australia Post to discuss State-based LPO operational and security issues;
- meeting quarterly with Australia Post at a National level to discuss marketing and security matters;
- meeting monthly with Australia Post to discuss operational matters such as issues with stock returns or proposed improvements to transactions;
- co-ordination of meetings, workshops and seminars (both face-to-face and by teleconference) for licensees across Australia;
- publication of regular newsletters, frequent email newsletters and its quarterly full-colour magazine *Postal News* for licensees; and
- holding payments workshops, seminars, and assistance in writing to Australia Post.⁵²

6.60 In addition to the LPO Agreement, in 1993 Australia Post and POAAL entered into a consultative agreement. The consultative agreement was amended in

49 Additional Estimates 2013, Australia Post, *Answer to question on notice*, No. 87.

50 POAAL was created in 1939 as a representative group for post office owners, and was made the recognised LPO representative group when the LPO Agreement was introduced in 1993.

51 Australia Post, *Submission 8*, p. 29.

52 POAAL, *Submission 9*, pp 2–3.

1997. The agreement, which is confidential between the parties, provides the framework for how the consultative arrangements will operate.⁵³

6.61 Licensees pay an annual fee to become members of POAAL. Together with mail contractors, the total membership of POAAL is around 4,000. While POAAL could not provide the committee with an exact number, it indicated that LPO membership was 'north of 2,000'. It stated that 'typically, the licensees who do not join any association are usually those that have the LPO as a small part of their business or the LPO generates a very small amount of income'.⁵⁴

Dispute resolution between licensees and Australia Post

6.62 In the event of a dispute arising between licensees and Australia Post, mechanisms are available under both the LPO Agreement and the Franchising Code of Conduct to resolve it.

LPO Agreement dispute resolution process

6.63 The LPO Agreement provides for a five-stage dispute resolution process. Australia Post noted that the process is a staged progression commencing from the local information resolution of the issue with pursuit of legal action as a last resort. Australia Post stated that 'as a result of this staged process the historical number of formal disputes has been low'.⁵⁵

6.64 Mrs Christine Corbett, Australia Post, commented that while there are 'dozens of issues that are occurring all across the country on a daily basis' only those which cannot be resolved progress to the next stage, that is Stage 2. It is only then that a dispute is recorded.⁵⁶

6.65 To progress to Stage 2, an LPO11 form is issued (either by the licensee or Australia Post) and a dispute is recorded. POAAL must be informed and an attempt is made to find a resolution. If this is unsuccessful, the matter is referred to the State Dispute Resolution Committee, whose members include the state chairman of POAAL (or nominee).

6.66 Licensees who are not members of POAAL may still be represented by it at the relevant stages of the dispute resolution process with Australia Post.⁵⁷

6.67 Figure 6.1 outlines the processes available for resolving disputes between Australia Post and licensees under the LPO Agreement

53 Australia Post, *Submission 8*, p. 29.

54 Mr Ian Kerr, CEO, POAAL, *Committee Hansard*, 6 December 2013, pp 21, 22.

55 Australia Post, *Submission 8*, p. 31.

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

57 Mr Ian Kerr, CEO, POAAL, *Committee Hansard*, 6 December 2013, p. 21.

Figure 6.1: Dispute resolution processes between Australia Post and licensees

| PROCESS FOR RESOLVING DISPUTES BETWEEN AUSTRALIA POST AND LICENSEES | | | | |
|--|---|---|---|---|
| STAGE 1 INFORMAL RESOLUTION | STAGE 2 MEETING OF THE PARTIES | STAGE 3 STATE DISPUTE RESOLUTION | STAGE 4 NATIONAL DISPUTE RESOLUTION | STAGE 5 ARBITRATION |
| Orally, or in writing, either party (APM or Licensee) notifies the other of an issue requiring attention. If the issue cannot be resolved within 10 working days , the party affected completes and issues Form LPO11- 'Record of an unresolved Issue'. | <p>After receipt of Form LPO11, the APM and Licensee must meet or contact each other and try to resolve the dispute.</p> <p>This meeting must occur within 10 working days of submission of the form.</p> <p>If resolution is unsuccessful the Area Manager and State Chairman of POAAL must be notified and their nominees must contact each other to try and resolve the dispute.</p> <p>If the dispute cannot be resolved within a further 5 working days, or within any other period the parties agree to, it is then referred to the State Dispute Resolution Committee.</p> | <p>The SDRC consists of the General Manager of AP (or nominee), State Chairman of POAAL (or nominee) and an independent Chairman.</p> <p>The SDRC must hear the dispute within 30 days, or such other time as agreed between the parties.</p> <p>Legal representation is not permitted without the consent of both parties and the SDRC.</p> <p>If the dispute raises significant issues affecting more than one State the SDRC may stay proceedings and refer the matter to the NDRC. If the SDRC cannot resolve the dispute within the specified timeframe either party can, with the consent refer of the other party, refer the dispute to arbitration.</p> | <p>The NDRC consists of up to 2 representatives from AP – one must be Manager Retail (or nominee)- an equal number of representatives from POAAL – one must be the National Chairman (or nominee)- and an independent person.</p> <p>The NDRC must hear the dispute within 30 days or such other time as agreed between the parties.</p> <p>If the NDRC cannot resolve the dispute within the specified timeframe either party can, with the consent of the other party, refer the dispute to arbitration.</p> | <p>The Arbitrator must be a member of the Institute of Arbitrators, Australia.</p> <p>The arbitration must be heard in the State where the premises are located and conducted in the way set out in the Commercial Arbitration Act of that State.</p> |

SDRC: State Dispute Resolution Committee; NDRC: National Dispute Resolution Committee

Source: Australia Post, Submission 8, p. 31.

6.68 The table below provides information on disputes which have progressed to Stage 2. The committee sought evidence on the number of LPO11 forms lodged. Australia Post informed the committee that:

The details sought about the receipt of the LPO11 forms, are not captured on any central database. As such Australia Post is not in a position to provide the information as requested.

However, Australia Post does keep records of disputes which have progressed to Stage 2 or further in the process.⁵⁸

6.69 Mr Fahour also commented:

We receive a number that are called stage 1, which is held in the local area and involves people wanting to deal with a range of issues, including payment issues. The reality is: what private business that operates in the community will not want to be paid more?⁵⁹

6.70 Table 6.4 provides information on the number of disputes from Stage 2 of the process.

Table 6.4: Number of disputes

| Calendar year | Formal advice of a 'dispute' (Stage 2) | Percentage of network | Number referred to State Resolution Committee/office Mediation Advisors | Percentage of network |
|---------------|--|-----------------------|---|-----------------------|
| 2013 | 12 (YTD Sept 2013) | 0.41% | 4 | 0.14% |
| 2012 | 11 | 0.37% | 4 | 0.13% |
| 2011 | 21 | 0.71% | 7 | 0.24% |

Source: Australia Post, Submission 8, p. 31.

Assessment of the dispute resolution process

6.71 Mr Stephen Giles described the dispute resolution process as 'comprehensive', containing an informal process supplementing the formal dispute resolution processes.⁶⁰ However, licensees commented on the inflexibility of Australia Post in relation to disputes and the cost to the licensee of proceeding to Stage 2.⁶¹

6.72 Mr Terry Ashcroft, post office broker, provided further comment and stated that Australia Post refuses to negotiate in most disputes. It then forces licensees into the disputes resolution process with the knowledge that the costs and time to the

58 Supplementary Estimates 2013, Australia Post, *Answer to question on notice*, No. 54.

59 Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 6 December 2013, p. 49.

60 Mr Stephen Giles, *Submission 1*, p. 3.

61 Name Withheld, *Submission 21*, p. 1; Ms Angela Cramp, LPO Group, *Committee Hansard*, 6 December 2013, p. 11.

licensees 'create a financial disincentive for licensees to continue the dispute to fair resolution and in most cases if the licensee does proceed [Australia Post] can and has refused to be fair in the knowledge that the Licensee cannot afford court action'. Mr Ashcroft also stated that Australia Post 'has also been known to reach agreement on a dispute only to repudiate the resolved mediation a short time later leaving the licensee to start the process all over again'.⁶²

6.73 The LPO Group recommended that the terms and conditions of the dispute resolution process be reviewed with a view to 'implementing a three tier option commencing with a fast track option through to a fully mediated option where other attempts to resolve the issues are unsuccessful'.⁶³

Committee comment

6.74 In relation to Australia Post's dispute resolution process, it appears to the committee that, given the overwhelming evidence of the problems within the LPO network, the low number of Stage 2 disputes is somewhat surprising. While it may point to the effectiveness of the resolution processes available at the first, informal resolution stage, it could also point to complexity of the system, time considerations and cost of accessing the process. Or, indeed, it could point to a lack of confidence in the process.

6.75 The committee also notes that Australia Post does not keep a central database of 'issues requiring attention' received under Stage 1 of the process. The committee understands that Australia Post receives a large number of 'issues requiring attention' each day and many may be easily resolved. But it notes that this stage requires 'notification' of an issue and a timeframe for resolution so it appears that formal records of interactions must be established and kept.

6.76 The committee considers that individual matters raised by licensees can provide early evidence of broader problems that Australia Post should monitor and address. The number of unresolved issues that are dropped rather than progressing to the next stage can also be helpful in identifying problems.

6.77 The committee notes, in this regard, the evidence provided by POAAL which pointed to problems experienced for many years in New South Wales. Owing to the attitude of NSW Australia Post management, which Mr Kerr described as 'verging on bullying', the number of licensee complaints from New South Wales at times outnumbered licensee complaints from the rest of Australia. While POAAL welcomed the recently implemented changes in the management team in New South Wales, it reported that many people were affected by the actions of the former management team.⁶⁴

62 Mr Terry Ashcroft, *Submission 94*, p. 4.

63 LPO Group, *Submission 65*, p. 29.

64 POAAL, *Supplementary Submission 9*, p. 8; see also Mr Ian Kerr, POAAL, *Committee Hansard*, 6 December 2013, pp 16, 24.

6.78 The committee therefore considers that it would be desirable for Australia Post to capture this information on a central database to identify possible systemic problems at an early stage as well as the number of unresolved issues that are not progressed to Stage 2 of the process.

Recommendation 8

6.79 The committee recommends that Australia Post capture information relating to 'issues requiring attention' raised under the dispute resolution process in order to provide early identification of systemic problems.

6.80 The committee further considers that the dispute resolution process is overly complex. If disputes are not resolved at an informal level (Stage 1), the parties must move through three further stages before independent arbitration. Time limits are provided for at each stage which appears to allow a maximum of 85 working days before moving to arbitration. The committee considers that this is an overly prolonged timeframe which may result in significant costs – such as lost wages, representation and travel costs – being incurred by the parties involved.

6.81 The committee notes that more streamlined dispute resolution processes are generally the norm in both the government and business sectors. The committee therefore considers that the dispute resolution process should be simplified so that there are fewer stages to be traversed before arbitration. This will provide for a more time and cost efficient system.

6.82 The dispute resolution process includes POAAL at Stages 2, 3 and 4. With the establishment and expansion of other groups representing licensees, notably the LPO Group, the committee considers that the dispute resolution process should be changed to recognise this development.

Recommendation 9

6.83 The committee recommends that the Australia Post dispute resolution process should be amended to provide for a more streamlined process.

Dispute resolution under the Franchising Code of Conduct

6.84 LPOs are also covered by the Franchising Code of Conduct. The Code is mandatory and provides a dispute resolution process, including the option of mediation. The Office of the Franchising Mediation Adviser was established under the Franchising Code of Conduct to regulate the conduct of franchisees and franchisors towards each other and provide a cost-effective dispute resolution solution to the industry. The Department of Communications noted that the LPO Agreement emphasises the use of dispute resolution services.

6.85 The Department also indicated that it had received communications from LPOs, expressing concerns with the viability of their businesses and other matters. It stated that in 2000, 2006 and most recently in mid-2013, the Office of Small Business conducted reviews of the Franchising Code of Conduct which included LPO issues. Likewise in 2002 and 2007 there were reviews of the competition provisions of the then *Trade Practices Act 1974*. These reviews considered the rights and remedies available to small businesses, including LPOs. The Department concluded it:

...considers it appropriate that, in the case of dispute, LPOs avail themselves of the protections of the CCA and the opportunities for redress and resolution afforded by the Franchising Code of Conduct.⁶⁵

6.86 Mr Fahour also commented that licensees had the choice of using either the internal dispute resolution process or the process under the Franchising Code of Conduct. However, he acknowledged that not all licensees may understand that there was another option available:

I think we could do a better job of communicating the rights and the process to ensure that our licensees understand that it is far broader than that. And I think we have not done a very good job in communicating the various options available, and we should do a better job on that.⁶⁶

Committee comment

6.87 The committee considers that licensees and franchisees require better information on the dispute resolution processes available to them under the Franchising Code of Conduct.

Recommendation 10

6.88 The committee recommends that Australia Post provide further information to licensees and franchisees on the alternative dispute resolution processes available under the Franchising Code of Conduct.

Commonwealth Ombudsman

6.89 The Commonwealth Ombudsman submitted that it received a number of complaints from licensees. These typically relate to the terms of the LPO agreement and commercial arrangements; Australia Post's policies for mail sorting and delivery; and the behaviour of Australia Post employees or contractors.

6.90 Generally, the Ombudsman exercises the discretion under the *Ombudsman Act 1976* to not investigate complaints about LPO agreements and commercial practices. Licensees are advised to use the avenues for resolving disputes open to them under LPO agreements, the Code, or through the courts. The Ombudsman also commented that, depending on the issue raised, ACCC may also be relevant.

6.91 The Ombudsman noted that when complaints from licensees about Australia Post are investigated, 'it is typically to resolve a lack of response or an unclear response from Australia Post to the complainant's attempts to resolve the matter, rather than license or commercial matters. We investigate such matters under the Commonwealth jurisdiction.'⁶⁷

65 Department of Communications, *Submission 7*, p. 7; see also, The Treasury, *Submission 12*, p. 2.

66 Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 6 December 2013, p. 48.

67 Commonwealth Ombudsman, *Submission 26*, p. 6.

Effectiveness and adequacy of LPO representation

6.92 The committee received extensive evidence from licensees during the inquiry about the effectiveness of the representation under the LPO Agreement by POAAL. This ranged from support for POAAL's role to severe criticism of its ability to effectively represent LPO interests, including during dispute resolution processes.

6.93 For example, one licensee was highly supportive of POAAL and commented:

POAAL is the recognised representative body for LPOs. It is the only body with which Australia Post deals. In my experience POAAL understands the details and complexity of Australia Post/LPO issues in a way that the LPO Group does not, and they deal with Australia Post in a professional manner – assertive and even adversarial when necessary, but not in public.⁶⁸

6.94 During a number of estimates hearings, Australia Post also commented on its working relationship with POAAL. For example, at the October 2011 Supplementary Estimates, Mr Fahour praised POAAL, along with the CEPU and Australia Post staff, for their contribution to the results gained by Australia Post.⁶⁹ At the May 2013 Budget Estimates, Mr Fahour commented on the successful conclusion, after 18 months of negotiation, of agreement on the additional payment of 22c scanning fee.⁷⁰

6.95 Other matters noted by Australia Post which had been concluded following discussion between Australia Post and POAAL included:

- the introduction of new scanning technology at no cost to licensees;
- an increase in minimum payment allowance; and
- a number of operational changes such as by-pass arrangements, subsidised equipment and improved carding arrangements.⁷¹

6.96 At the May 2014 Budget Estimates, Mr Fahour noted:

I am saying I believe, from looking at the track record that I have seen, that we have actually been very good at discussions and dialogue with POAAL.⁷²

6.97 Australia Post also commented that it considered that POAAL represented the views of licensees:

Australia Post is satisfied that POAAL represents the views of licensees with consideration to the nature of the issues they represent on behalf of licensee to Australia Post and Australia Post's engagement directly with

68 *Confidential Submission 141.*

69 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 18 October 2011, p. 91.

70 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 30 May 2013, p. 60.

71 Australia Post, *Answer to written question on notice*, No. 38.

72 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 108.

licensees who are POAAL members at various POAAL hosted events throughout each year.⁷³

6.98 During evidence to the committee, POAAL also outlined its efforts on behalf of licensees in relation to matters such as parcels, product margins, competitive practices by Australia Post and failure to negotiate in good faith. In relation to competitive practices, POAAL commented that it had sought assistance from politicians, the ACCC and the franchising inquiries to resolve the issue, to no avail.⁷⁴ However, Mr Kerr concluded:

We send out to licensees a list of our achievements, things that I know with great certainty that we have achieved. We might not have had traction on a couple of matters...but we have done an awful lot for licensees.⁷⁵

6.99 However, many other submitters commented on POAAL's role in negative terms. These ranged from general criticisms, including the confidential nature of POAAL's agreement with Australia Post, to specific instances where licensees had unsuccessfully sought assistance from POAAL to help address an issue with Australia Post.⁷⁶

6.100 In addition, a number of licensees raised with the committee matters concerning the operational effectiveness of POAAL, including that:

- annual reports and financial statement were not received;
- membership renewals were not received or not acknowledged or returned to the sender;
- membership was refused; and
- no response to correspondence was received.

6.101 POAAL responded to a number of these issues. Mr Kerr indicated that while annual reports were not provided on POAAL's website, a hardcopy was posted to each member each year.⁷⁷

6.102 In relation to the refusal of membership to POAAL, Mr Kerr commented that 'the board [of POAAL] was unaware of any applications for membership being refused in recent years'.⁷⁸ However, Mr Kerr had earlier stated:

If a licensee were a member of an alternative association and indicated that they were an office holder of that association, we probably would not even bother offering them a membership in the first place.⁷⁹

73 Australia Post, *Answer to written question on notice*, No. 25.

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

75 Mr Ian Kerr, CEO, POAAL, *Committee Hansard*, 6 December 2013, p. 26.

76 Mr Ian Kerr, CEO, POAAL, *Committee Hansard*, 26 March 2014, p. 14.

77 Mr Ian Kerr, CEO, POAAL, *Committee Hansard*, 6 December 2013, p. 26.

78 Mr Ian Kerr, CEO, POAAL, *Committee Hansard*, 26 March 2014, p. 14.

79 Mr Ian Kerr, CEO, POAAL, *Committee Hansard*, 6 December 2013, p. 14.

Mr Kerr clarified this comment by stating that should an office holder of another association seek membership, the matter would be provided to the POAAL board for its consideration.⁸⁰

6.103 Following its March hearing with POAAL, the committee requested additional information from POAAL including information on its financial position. In particular, the committee sought clarification of a significant discrepancy of some \$400,000 in the POAAL 2012–13 financial statements.⁸¹ POAAL responded that:

Following enquiries, we have ascertained that the dash that appears in Note 7 is an error that occurred during print production. In short, it is an inadvertent printing error. Instead of a dash, the amount of \$393,870 should have been included in accordance with the notes. This amount of \$393,870 is included in Note 16 of the same printed notes and is included in the amount of \$1,831,727 in the printed financial statement. The notes to the financial statements show the figure in both Notes 7 and 16. The dash is a mistake made by the printers and the correct amount is disclosed in Note 16 of the printed Notes.⁸²

6.104 The committee, on four occasions, sought additional comments and information from POAAL including further clarification of its 2012–13 financial statements. Finally, in September POAAL provided a statement from its auditors clarifying the matter.⁸³

Committee comment

6.105 The position of POAAL in relation to the delivery of postal services in Australia is unique: it is specifically named in the LPO Agreement in relation to consultative arrangements related to fees, commissions and discounts; and the variation of the agreement. It is thus a key player in negotiations of matters that go to the viability of LPOs. POAAL also advocates on behalf of LPO with the Minister for Communications and politicians generally in relation to postal matters.

6.106 In addition, POAAL is included at Stages 2, 3 and 4 of Australia Post's dispute resolution process. Again, this is a very significant role in terms of ensuring the effective functioning of the LPO network.

6.107 The committee acknowledges changes that have been made which have benefited licensees. Both Australia Post and POAAL commented that these have arisen directly from the work of POAAL. The committee also acknowledges that POAAL expressed a degree of frustration with the lack of progress in relation to a number of matters that are having a significant adverse impact on licensees particularly elements of Australia Post's competitive practices.

80 Mr Ian Kerr, CEO, POAAL, *Committee Hansard*, 6 December 2013, p. 27.

81 Mr Ian Kerr, CEO, POAAL, *Committee Hansard*, 26 March 2014, p. 11.

82 Mr Ian Kerr, CEO, POAAL, clarification of evidence, dated 2 April 2014.

83 Mr Robert Chizzoniti, Director, POAAL, correspondence dated 2 September 2014.

6.108 Evidence of slow progress, or lack of progress, in negotiating matters is of great concern to the committee and appears to be at odds with Australia Post's acknowledgment of the importance of the LPO network. For example, it seems extraordinary to the committee that it would take 18 months to negotiate the introduction of the 22c scanning fee for parcels at a time when the increasing number of parcels being processed was a serious concern to licensees. Of deeper concern is the evidence from POAAL of the lack of good faith negotiation by Australia Post in relation to certain matters.

6.109 It appears to the committee that these matters point to either a significant power imbalance in the relationship between Australia Post and POAAL which places POAAL at a disadvantage; or, the lack of effectiveness of POAAL as the main advocacy body for licensees. Adding complexity to these matters is the lack of transparency in the relationship between POAAL and Australia Post. This is evidenced by the confidential nature of the consultative agreement between POAAL and Australia Post. Given that POAAL is acting on behalf of the members who provide it with its funding, the committee can see no reason why such an agreement would remain confidential from its members. Indeed, the perception of secrecy by POAAL in its dealings with Australia Post can only serve to undermine its position.

6.110 While the committee considers that POAAL appears to have a somewhat difficult negotiating position, there are other matters which raise questions in the committee's mind as to its competence. The committee notes that, in some instances, the evidence provided by POAAL was less than satisfactory. Mr Kerr, CEO of POAAL, appeared to lack an in depth knowledge of POAAL's membership, the structure of its subsidiary company, POAAL Services Ltd, and was less than helpful to the committee in relation to some matters it wished to pursue. In its dealings with licensees, POAAL also showed a lack of sound administrative practices. For example, the committee received evidence that letters addressed to POAAL at its post office box were returned to the sender as they had remained uncollected. Indeed, one of the committee's letters sent to POAAL suffered this fate.

6.111 The committee also sought information in relation to POAAL's financial statements. The committee considered that this information was important to its inquiry as POAAL represents LPOs not only in direct negotiations with Australia Post but also during meetings with the responsible Minister.

6.112 In relation to the information sought by the committee, POAAL had four opportunities to provide the information the committee requested following the March 2014 hearing. While the committee eventually received a response in relation to POAAL's 2012–13 financial statements, no other information was forthcoming. The committee considered the use of its powers to call for documents and persons. Ultimately, the committee agreed not to use these powers as it considered that it already had sufficient evidence that called into question the effectiveness of POAAL as an organisation advocating on behalf of licensees.

6.113 The committee's view on the adequacy of POAAL's representation of licensees was also informed by evidence from licensees and their assessment of

POAAL. Many submitters pointed to the positive outcomes that POAAL has achieved for licensees while others were damning in their assessment of POAAL.

6.114 The committee notes that the LPO Group has emerged as a second organisation seeking to represent licensee views to Australia Post and the Government. Some licensees indicated that they had joined the LPO Group as a result of the dissatisfaction they felt with POAAL's representation of licensee issues.

6.115 The committee notes that membership of the LPO Group is expanding. As a consequence, the committee therefore considers that Australia Post must recognise this new group in its negotiation of licensee matters.

Recognition of other groups by Australia Post

6.116 POAAL had, for many years, been the only representative body with which Australia Post would enter into consultations. However, by the commencement of the committee's inquiry a second body, the LPO Group, had formed to represent a number of licensees. As at March 2014, the LPO Group had approximately 700 members.⁸⁴

6.117 Australia Post has recognised the establishment of the LPO Group and at the committee's December hearing Mr Fahour stated:

We do not have an exclusive relationship with POAAL. It is not exclusive. They are a very important partner in representing many licensed post offices. We have had a very fruitful relationship. But the reality is we have also agreed that we will deal with any individual post office or a collection of them. We have agreed that LPO [Group] represent a number of legitimate licensed post offices and they should have a voice. We are very happy to engage.⁸⁵

6.118 Mr Fahour informed the committee in March 2014 that a documented 'professional process' had been established to discuss issues with other licensees.⁸⁶ While Australia Post has a formal agreement with both the LPO Group and POAAL, Mr Fahour described them as 'different types of agreements. In a sense, we have formalised and recognised LPOG. We are having conversations that recognise that they are an important stakeholder in the licensed post office community.'⁸⁷

6.119 At the May 2014 Budget Estimates, Mr Fahour reiterated Australia Post's engagement with other groups, including the LPO Group:

Where we have had to face into the current reality is that there are other interest groups who are either a single post office or a culmination under different groupings, we have had to improve the quality of dialogue with

84 Mr Andrew Hirst, LPO Group, *Committee Hansard*, 4 March 2014, p. 14.

85 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, pp 83–84.

86 Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 17 March 2014, p. 1.

87 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 84.

them too. We are happy to say that we have improved a lot since that Senate inquiry.⁸⁸

6.120 Mr Fahour added:

As you know, one of the positives that came out of the Senate inquiry is that we have agreed on an extended level of understanding for consultation and dialogue to include the LPO Group, and we have exchanged letters on that basis.⁸⁹

6.121 The LPO Group stated its desire to engage with Australia Post to identify solutions to ensure the long-term viability of the LPO network. Mr Andrew Hirst, Vice Chair, LPO Group, stated:

All the LPO Group are interested in is dealing with Australia Post in good faith, including bringing to the table the collective wisdom and experience of its members to solve the common problem: how to make the network financially viable in everyone's interest.⁹⁰

6.122 At the committee's March hearing with the LPO Group, it was indicated that a consultative agreement had been signed. The agreement included a 'good-faith' negotiation clause at the instigation of the LPO Group.⁹¹ The LPO Group indicated that it had expectations that a consultative agreement entered into with Australia Post would allow for a consultative process between the LPO Group and Australia Post. However, the LPO Group stated that:

The reality is that some Australia Post junior executives, without decision making authority, agree to meet with LPOG representatives in order for fruitless discussion to be held. The LPOG has been advised that Australia Post do not agree to negotiate or consult with LPOG, but will continue to agree to meetings. This appears to be nothing short of a token gesture to satisfy the need to be seen to address the need to consult with the LPOG.⁹²

6.123 The LPO Group stated that it had prepared a list of issues of major concern to licensees for Australia Post and presented several submissions. However, rather than the expected meaningful discussion, the LPO Group submitted that it had been advised by Australia Post that there will be no such discussions with it and that most correspondence from the LPO Group to Australia Post remains unanswered. In addition, all its submissions except that on the Dispute Resolution Process have been dismissed out of hand or ignored or denied. The LPO Group went on to state that it has had no further communication from Australia Post in regard to the only agenda item that was agreed to be reviewed in March 2014.⁹³

88 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 108.

89 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 110.

90 Mr Andrew Hirst, LPO Group, *Committee Hansard*, 4 March 2014, pp 1–2.

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

92 LPO Group, *Supplementary Submission 65*, p. 1.

93 LPO Group, *Supplementary Submission 65*, p. 2.

Committee comment

6.124 The committee was pleased when Australia Post indicated that it was consulting with the LPO Group in relation to licensee matters. However, the LPO Group expressed its concern that its consultations with Australia Post were not adequate.

6.125 The committee is disappointed that the LPO Group feels that it has been unable to engage with Australia Post in any meaningful way. The LPO Group is expanding and now represents a considerable number of licensees. No doubt, other groups will emerge in the future. In these circumstances, it would be expected that Australia Post would also consult with all these groups.

6.126 Indeed, the committee was led to believe that Australia Post was committed to consulting effectively with other groups, including the LPO Group, rather than just agreeing 'on an extended level of understanding for consultation and dialogue'.⁹⁴

6.127 The committee understands that the LPO Agreement definition of 'Association' is limited to POAAL unless the consultative agreement with POAAL is terminated. The committee notes that in recent correspondence to a licensee Australia Post stated:

Australia Post has in place various arrangements for consulting with licensees and their representatives. In more recent times these arrangements have been extended to include meeting with representatives of the Licensed Post Office Group (LPOG).

Notwithstanding any other arrangements that may exist the LPO Agreement has specific requirements for consultation relating to the review of LPO payments. As provided at clause 9.b of the Agreement, Australia Post is required to consult with the Association on the review of payments. The LPO Agreement defines the Association as POAAL.⁹⁵

6.128 The committee considers that as the LPO Group is now a major representative body, the LPO Agreement should be amended to recognise the representation of licensees by other groups.

Recommendation 11

6.129 The committee recommends that the definition of 'Association' in the LPO Agreement be amended to include, in addition to POAAL, other licensee representative groups including but not limited to the LPO Group.

6.130 Australia Post is facing considerable challenges in the face of declining mail volumes and digital substitution. The LPO network is also feeling the effects of these challenges. In order to find a way ahead, and a long-term solution to viability concerns, all parties must work together. This includes Australia Post engaging in meaningful consultations with all stakeholders, including the LPO Group.

94 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 110.

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

Direct consultation with Australia Post by licensees

6.131 Australia Post noted that day-to-day interactions between it and LPOs occur through dedicated network managers, giving licensees a contact point within Australia Post to raise issues or opportunities. LPOs can use this mechanism 'to represent opportunities and issues directly to Australia Post'.⁹⁶ The committee received much evidence from licensees which pointed to difficulties in having issues resolved and the attitude of some Australia Post employees to the LPO network.

6.132 Licensees did not consider that Australia Post saw them as partners in the postal network. For example, one licensee stated:

Licensees need to be recognised as important cogs in the Post machine, we need to be treated with respect and as equal partners.

From over 40 years of working in the postal industry I have seen at firsthand how Australia Post treats Licensees. When I was employed in the Government section of Australia Post many of the staff referred to postal agents (pre Licensee) and now Licensees in derogatory and disparaging remarks.

It was and still is, "us versus them" mentality. Many line managers of Post think we are inferior and treat us as second class personnel of the Postal industry.

This culture needs to be addressed as a matter of urgency. We should be valued members of a big team, yet Post does not recognise us and is quite dismissive of us.⁹⁷

6.133 Mr Kerr, POAAL, was also of the view that 'there are people within corporate Australia Post who do not understand the value of the LPO network and how they can contribute and how licensees can contribute to the success of products'.⁹⁸

6.134 Other comments received by the committee from licensees included that they felt intimidated, dismissed and are not treated with respect.⁹⁹

6.135 In addition, there were concerns about the lack of negotiation on items which the LPO Agreement allowed for negotiations. For example, the LPO Agreement allows for negotiation of the fee where more than 25 carded articles are received per week. However, POAAL stated that 'it is greatly disappointing that Australia Post has failed to negotiate increases in this payment in good faith with Licensees'.¹⁰⁰ Mr Kerr commented that POAAL had 'approached Australia Post on numerous occasions to

96 Australia Post, *Submission 8*, p. 30.

97 Name Withheld, *Submission 113*, p. 4.

98 Mr Ian Kerr, POAAL, *Committee Hansard*, 6 December 2013, p. 23.

99 See for example, Ms Helen Bain, *Submission 19*, p. 1; Name Withheld, *Submission 25*, p. 4;

100 POAAL, *Submission 9*, pp 15, 30.

point out that the existing payment structure is a negotiated payment and that Australia Post must negotiate with licensees'.¹⁰¹

6.136 Mr Kerr went on to comment that if a licensee lodged an LPO11 and commenced Stage 2 of the dispute resolution process, there was usually a satisfactory outcome for the licensee. However, as previously noted, very few LPO11s are lodged.¹⁰²

6.137 Although the committee received some submissions which indicated success in negotiating with Australia Post over the carded article fee, many other licensees commented that they had been unsuccessful. Other submitters reported instances of licensees seeking to negotiate on this matter with no result.¹⁰³

6.138 Mr Fahour responded to comments concerning negotiations on payments and stated:

We act in good faith. When you sit down and negotiate—negotiation does not mean they ask and I give whatever anybody wants. Negotiation means we have a dialogue; we have a discussion; we have a debate; we look at the facts; we look at what we can afford. I have just said that we are about to lose money and we are becoming financially unviable. There are some things that they will get and there are some things that they will not get.¹⁰⁴

Committee comment

6.139 The committee acknowledges that not all representations from licensees can be met by Australia Post: Australia Post has its own sustainability to consider as well as the wider postal network. However, the committee was concerned by the number of submissions from licensees which pointed to some very difficult relationships between Australia Post employees and licensees including comments about bullying and harassment.

6.140 It appears to the committee that often these difficulties arise when licensees choose to exercise their rights under the LPO Agreement to negotiate over issues with Australia Post. The committee also notes the evidence from POAAL that if the licensee lodged an LPO11 form, there was often a successful outcome for the licensee. However, very few LPO11s are lodged and it appears to the committee that many licensees, rather than exercise their rights to negotiate under the LPO Agreement, cease to continue to pursue the issue.

6.141 The committee was also disturbed by the evidence of lack of good faith negotiating, in some instances, by Australia Post and the attitude of some Australia Post employees to licensees. The committee has not pursued particular cases – it is not the committee's role to do so. However, there was evidence of inflexibility by

101 Mr Ian Kerr, CEO, POAAL, *Committee Hansard*, 26 March 2014, p. 13.

102 Mr Ian Kerr, CEO, POAAL, *Committee Hansard*, 26 March 2014, p. 13.

103 See, for example, Mr Terry Ashcroft, *Submission 94*, p. 4.

104 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 109.

managers, competitive practices undertaken by some Australia Post employees and a lack of understanding of the value of the LPO network.

6.142 While the committee concedes that the Australia Post executive has been at pains to acknowledge the important role of LPOs within the postal network, it appears that an attitudinal shift may be beneficial in some areas of Australia Post corporate offices.

Chapter 7

The outlook for the Licensed Post Office network

Introduction

7.1 The committee received many submissions from licensees who voiced concerns about the outlook for the LPO network. Many licensees argued that payments have been eroded over an extended period of time because of the indexing arrangements while costs have increased and the range of duties expected of licensees has expanded without adequate compensation. Individual licensees provided evidence about the viability of their LPOs and expressed disquiet about the integrity of the LPO network and its ability to maintain postal services into the future particularly in rural and regional areas.

Comments on viability issues from licensees

7.2 At a broad level, it is not apparent that the number of LPOs ceasing operations is increasing. Australia Post confirmed that out of almost 3,000 LPOs, only ten closed in the 2012–13 financial year and that, on average, about 10 to 15 post offices in the Australia Post network close each year, with about 300 changing ownership annually.¹

7.3 Nevertheless, the anecdotal evidence received by the committee indicates that there are significant viability issues in the LPO network with many other licensees submitting that they are struggling to stay afloat. In addition, there were comments that many closures of LPOs may be imminent if the core business model and remuneration structures for LPOs remain unchanged.

7.4 The following comments are a small sample of those received by the committee from licensees under financial stress:

In summary, I now view the decision to enter into this "partnership" with Australia Post to be one of the worst decisions of my life. I now hold an asset that has been devalued by the actions of an entity that I thought I could trust – and am being held to the terms of a 20 year old agreement to go on operating a business in an unsustainable manner.

Candidly, if Australia Post came to me tomorrow and offered to buy my license back I would accept in a heartbeat...²

7.5 Another licensee, who stated that they were not drawing a wage, commented:

I would be better off closing my doors and drawing the dole, much less stress with more income. At least then I would be free to start up an on-line business at home, taking advantage of the cheaper postage rates AP offer on-line to e-bay sellers, sending their local post office broke.³

1 Mr Ahmed Fahour, Australia Post, *Estimates Hansard*, 19 November 2013, p. 27.

2 *Confidential Submission 33*.

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

7.6 Some licensees indicated that, in order to continue the operation of their LPO they undertook a number of strategies including working a second job;⁴ not paying themselves a wage;⁵ not taking holidays as there are no funds for relief staff;⁶ and selling other assets or using personal finances.⁷ For example, one licensee stated:

We purchased the business in January 2010, using our superannuation and mortgaged our home, hoping that it would be a means to continue in the work force for a period of time. I have been forced to return to my previous occupation on a full time basis, to sustain us and try to eventually have a comfortable retirement. We presently have our LPO on the market as we can see no future in keeping it.⁸

7.7 Another licensee reported that they were handing in their licence as the business was no longer viable and no buyer could be found even though the LPO had been on the market for a substantial period of time. The licensee stated:

I have thoroughly enjoyed my 21 years of operating my LPO and when I handed back my licence to Australia Post in June this year it was with a heavy heart that I did so. I had no choice but to take this action as I had been putting private funds into my business for some time and I had tried to sell the Business for the past 5 years, but with no luck. There was not enough profit in it to be able to sell...

I found it most disheartening to think that after running a business for 21 years and giving good community service, that I leave this organisation in 2013 showing a net profit of \$22,000. That is a mere \$2,002.00 more than my first pay of \$ 19,998.00 way back in 1992.⁹

7.8 The tone of many of the submissions received from licensees was negative about the future of their business and the support that they received from Australia Post to continue in the sector. One licensee concluded:

Australia Post make my husband and I feel like they have all the power and have no regard for the fact we do not get paid or are grossly underpaid for the services we provide to make Australia Post huge annual profits, salaries and bonuses.

4 See for example, Mr Andrew Hirst, LPO Group, *Committee Hansard*, 4 March 2014, p. 9; Name Withheld, *Submission 34*, p. 3; Name Withheld, *Submission 89*, p. 1; Mr Peter Moody, *Supplementary Submission 131*, p. 1.

5 See for example, Name Withheld, *Submission 24*, p. 1; Name Withheld, *Supplementary Submission 63*, p. 1; Mr Neil Graham, *Submission 74*, p. 1.

6 See for example, Name Withheld, *Submission 44*, p. 4; Mr Kevin Nicholls, *Submission 53*, p. 3; Ms Margaret Fowler, *Submission 98*, p. 1.

7 See for example, Mrs Helen Bain, *Submission 19*, p. 3; Mr Ivor Ransom, *Submission 100*, p. 1; Ms Lyn and Mr Peter Goodlet, *Submission 163*, p.1; Mr Peter Moody, *Submission 131*, p. 1

8 Name Withheld, *Submission 34*, p. 4.

9 Name Withheld, *Submission 24*, pp 1–2

Why has Australia Post, as a government body, not recognised payments to LPO's were not keeping pace with the CPI and corrected the situation, this should be a part of their job and a part of their responsibility.

I just want Australia Post to return a true, fair and reasonable payment to the Licensees that provide a service to the community, especially in country areas, where a corporate office is not just around the corner.¹⁰

7.9 Many licensees who submitted to the inquiry argued that the current business model for licensees is not viable.¹¹ Mr Tony Buskariol from the LPO Group added the LPO Group's view:

...I can confirm that the business model in its current state is not sustainable. Most of us appear to be tipping in our own private funds to continue operating licensed outlets. If that was not the case, I think there would be quite a few of us who would be closing and the community would be missing out on the services available through the licensed post office network.

... I have a second job. I have a mortgage on my house for the business, so my interests are to make sure the business is profitable and to get paid fairly for what we do. We provide a very good service to the community. If we were paid fairly and appropriately for the services that we provided then licensed outlets would be profitable and a vibrant part of the community.¹²

7.10 However, not all evidence received by the committee supported the dire predictions of some submitters. Some licensees indicated that their business was providing good returns and income although most acknowledged that they had concerns about some issues, such as parcel volumes.¹³

7.11 In addition, Mr Ian Kerr, POAAL, commented that some of the statements related to the anticipated number of closures of LPOs were 'wildly exaggerated'.¹⁴ Mr Kerr also noted that licences are still being bought and sold for reasonable prices and that, although revenues had fallen, it wasn't necessarily the case the LPO profits had also fallen. But Mr Kerr indicated that the number of complaints received by POAAL about revenue and costs had increased over the last three to four years.¹⁵

7.12 Mr Terry Ashcroft, post office broker, also commented that, 'if we are fair, currently the majority of LPOs are still financially viable with some of the larger LPOs being very profitable'. However, Mr Ashcroft went on to state that profitability is under attack and being undermined constantly by Australia Post in many areas and,

10 *Confidential Submission 36.*

11 See, for example, Name Withheld, *Submission 172*, p. 3.

12 Mr Tony Buskariol, Licensed Post Office Group, *Committee Hansard*, 6 December 2013, pp 1-2.

13 See for example, Mr tony and Ms Noelene Brandi, *Submission 96*, p. 1; Ms Sue McNicol, *Submission 107*, p. 5.

14 Mr Ian Kerr, POAAL, *Committee Hansard*, 6 December 2013, p. 16.

15 Mr Ian Kerr, POAAL, *Committee Hansard*, 26 March 2014, p. 2.

'through its failure to be fair and reasonable regarding payment and treatment, Australia Post is destroying the business model of LPOs to a point where many LPOs could fail and some have'.¹⁶

7.13 Mr Ashcroft also provided information on the sale of rural LPOs:

It is now hard to sell any rural LPO especially LPOs in smaller rural towns where the Licensee accommodates the mail contractors. Prices of some LPOs have halved in these areas from the peak of 2007 and are back by 20 to 25% in a lot of city locations. Most if not all rural LPOs are suffering from gross underpayment with most at great risk of financial collapse. AP cannot continue to add unpaid work onto licensees and fail to update payments for mail management in line with at least inflation without the expectation that the owners of these LPOs will fail financially. Fairness has to be brought back into the equation and Australia Post needs to have a hard look at the incentives it is giving many areas of corporate Australia Post that has created the current situation.¹⁷

Response by Australia Post

7.14 Mr Fahour provided a number of comments in relation to LPO viability and level of payments. In the first instance, Mr Fahour commented that LPOs were private businesses, most with other sources of revenue, and that Australia Post had no knowledge of their profitability. In relation to the standalone LPOs, Mr Fahour stated:

For the ones that we have, what we cannot see is this. We pay them a stream, but we do not know what their rent is. We do not know how many people they employ. This is their own private business. We have no share in their business, so we do not actually even know what their P and L looks like. I do not know what tax they pay. I do not know how much they buy—¹⁸

7.15 Mr Fahour, in correspondence to the committee, expanded further and stated:

We have also taken steps to provide clarity around the relationship we have with our licensees and to highlight how as independent small business operators they have:

- purchased in most cases an underlying business from a party other than Australia Post – the value of that purchase taking into account in some form the associated income;
- voluntarily applied to be part of the Australia Post network and at their discretion choose to maintain this relationship;
- entered into the agreement with full knowledge of the applicable payment and contractual terms involved and providing a declaration they had sought independent legal and financial advice on these matters; and

16 Mr Terry Ashcroft, *Submission 94*, p. 3.

17 Mr Terry Ashcroft, *Submission 94*, p. 3; see also Mr BC Barger, *Submission 170*, p. 2.

18 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 26.

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- responsibility for how they conduct their own business to which we provide in most cases, but one stream of revenue.¹⁹

7.16 At the November 2013 Supplementary Estimates Mr Fahour commented on the 'noisy minority' of licensees and stated that most retailers are experiencing commercial difficulties.²⁰

7.17 In response to concerns about LPO viability, Australia Post commissioned KPMG to undertake an assessment of the commercial performance of LPOs. The assessment was to examine the current commercial arrangements between Australia Post and licensees and factors impacting the commercial return achieved by LPOs. KPMG undertook this assessment by sampling LPOs which were representative of the LPO network.

7.18 The completed assessment was provided to Australia Post in July 2014. Mr Fahour commented that 'as confirmed by the recent independent assessment conducted by KPMG into LPO sustainability, the LPO network as a whole is not in crisis and licensees continue to receive a return in-line with comparative industry expectations for their business investment'.²¹

7.19 Mr Fahour also emphasised that Australia Post does not pass on to LPOs the financial losses incurred by Australia Post in its letters business. Mr Fahour reiterated this view at a number of hearings including at the November 2013 Supplementary Estimates:

One of the ways that we have supported these stores has been to shield them from the financial losses, which amount to approximately \$600 million over the past five years, in our 'reserved services' letters business while ensuring they share in our growth opportunities such as the many trusted services.²²

7.20 Again at the May 2014 Budget Estimates, Mr Fahour commented that the losses that Australia Post has are not being borne by the LPOs. With accumulated losses in the letter business of \$900 million and losses anticipated to be \$1 billion in the future, Mr Fahour stated 'one of our greatest sources of pride is we have been able to not impose that on the LPOs, not let them share in those losses'.²³ Indeed, Australia Post commented that:

It's worth noting that as Australia Post's losses in the Letters business have been getting worse, overall payments made to Licensed Post Offices has

19 Mr Ahmed Fahour, Australia Post, Response to LPO Group supplementary submission, dated 11 August 2014.

20 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 52.

21 Mr Ahmed Fahour, Australia Post, Response to LPO Group supplementary submission, dated 11 August 2014.

22 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 18.

23 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 107.

continued to grow at a compound annual growth rate of 1.8% over the past five years (\$324m in FY13 versus \$296m in FY08).²⁴

7.21 Mr Fahour also acknowledged the interrelationship between Australia Post and LPOs:

We have a mutual problem. Their problem is my problem, and I acknowledge that.²⁵

7.22 Further, Mr Fahour commented that unless Australia Post is able to modernise, find new streams of revenue, introduce fair pricing for products and services and recover costs, Australia Post will no longer be able to shield the LPOs or itself from the recurring losses in the reserved service.²⁶ Mr Fahour noted that the new corporate plan was being developed based on modernising and sustaining Australia Post. He commented that the plan 'is being built on the premise that we will still have 4,400 post offices over the entire planning period'. He concluded:

We are not building a corporate plan on the assumption that we are going to shut down these post offices. Therefore, we are building a plan to build the business and support the post office network. It is the bedrock of our postal service business. It is the bedrock of the communities. We have to develop a viable plan that keeps them going. That is what our plan will show, and that is what we are starting to outline here.²⁷

7.23 Mr Fahour acknowledged the importance of the LPO network: 'I can assure you we have no benefit in undermining our LPOs—and why would we? They help us meet our CSOs and they do provide a valuable service'.²⁸

Payment arrangements

7.24 As outlined in Chapter 6, LPOs receive payments from Australia Post through four streams: processing and delivery fees; commissions for trusted services; the sale of letter and parcel products; and, where applicable, some other subsidies, top-up payments and discounted merchandise available from Australia Post.²⁹

7.25 Australia Post commented on the payment structure and stated:

The LPO payment scheme is structured to provide licensees with an overall payment from Australia Post. The income for any individual licensee is subject to the mix of business within their LPO (Australia Post and non-

24 Australia Post, *Submission 8*, p. 17.

25 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 33.

26 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 107.

27 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 113.

28 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 30.

29 Australia Post, *Submission 8*, p. 36.

Australia Post) which will also be reflective of local customer demand and associated work effort.³⁰

7.26 Australia Post also noted that it considered that the optimal payment scheme aligned the interests of both parties in a way that encourages mutual growth, such as payments related to the volume of product sales.³¹

7.27 Australia Post described the payments structure as 'complex and inter-linked' which required 'individual payments to be assessed in the broader context'. Both the Basic Postage Rate (BPR) and the prices that Australia Post influences either directly (for example, parcels) or indirectly via commercial agreements between Australia Post and agency partners influence payments received by LPOs.³²

7.28 The LPO Arrangements Payment Schedule presents the payment rates for licensees. It is noted in the schedule that Australia Post's aim is to put in place an LPO Payment Scheme which will, on a continuing basis:

- (a) ensure that LPOs meet Australia Post's financial targets in their retail, mail processing and delivery activities;
- (b) provide a profitable and viable source of income for Licensees;
- (c) provide Licensees with an incentive to grow their business to the benefit of themselves and Australia Post; and
- (d) be based on objective and auditable data (e.g. avoiding the use of mail counts if at all possible).³³

7.29 The process for the updating of payment rates depends of the type of payment:

- rates indexed to the BPR are reviewed when the BPR changes and include payments for representation allowance, most delivery payments and some outward mail processing payments;
- rates indexed to Australia Post prices for other services/products are reviewed when these rates change and include money orders, change of address request, eParcel Case to Collect and FaxPost;
- rates indexed to the top increment of the PDO salary at the overtime rate are reviewed in June each year and relates to the mail service payment;
- rates for third party agency and StarTrack Express are reviewed each year and are based on Australia Post commissions; and
- the minimum rent subsidy amount is review from time to time, based on the changes in the BPR.³⁴

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

31 Australia Post, *Submission 8*, p. 38.

32 Australia Post, *Submission 8*, p. 38.

33 Australia Post, *Licensed Post Office Payment Scheme*, p. 2.

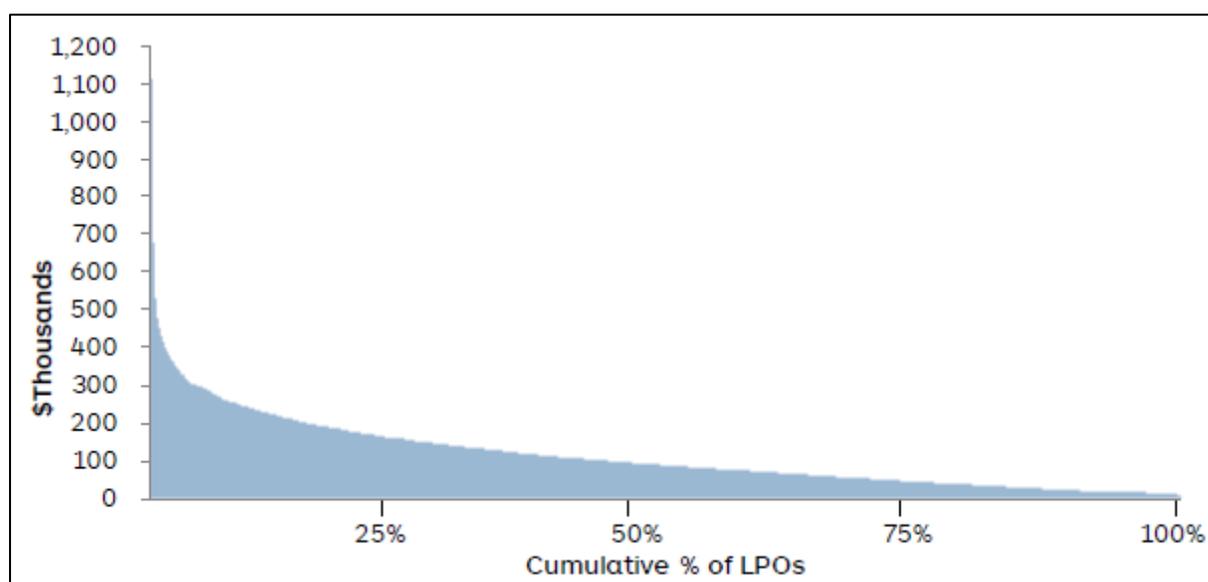
Level of payments made to licensees

7.30 In the 2012–13 financial year, Australia Post made \$324 million in payments to licensees across the four main payment areas: \$78 million in postage product discounts; \$123 million in processing and delivery fees; \$90 million in trusted services payments; and \$33 million in other payments, including merchandise. Of the \$78 million postage product discounts paid to LPOs, approximately \$29 million related to regulated products and \$49 million to non-regulated products.³⁵

7.31 Australia Post noted that total payments to licensees have risen by 1.8 per cent year on year since 2008.³⁶ With the increase in the BPR in March this year, payments to LPOs will also increase. Australia Post noted that payments to LPOs will increase by \$25 million per year.³⁷

7.32 Australia Post informed the committee that the level of payments per licensee is 'extremely broad' and provided information on the distribution of payments to licensees for the 2012–13 financial year.

Figure 7.1: LPO Annual Payment Distribution for the 2012–13 financial year



Source: Australia Post, *Submission 8*, p. 38.

7.33 The payments made to individual licensees range from \$1 million per outlet to \$10,000. Almost 60 per cent of LPOs receive more than \$70,000 per annum from the Australia Post portion of their business.³⁸ Australia Post indicated that, as a result of

34 Australia Post, *Licensed Post Office Payment Scheme*, p. 23.

35 Australia Post, *Submission 8*, p. 36.

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

37 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 75.

38 Australia Post, *Submission 8*, p. 37.

the increase in the BPR in March 2014, on average, payments will increase by \$8,500 per annum, on average, per LPO.³⁹

Adequacy of payment levels and recent initiatives

7.34 As noted in the comments above, many licensees argued that the level of payments is insufficient to sustain the LPO network and did not adequately recognise the work that they undertook on behalf of Australia Post.

7.35 Australia Post, in its submission to the committee stated that 'LPOs are fairly compensated for the work that they do with Australia Post'.⁴⁰ Mr Ian Kerr, POAAL, while noting that there were problems still to be addressed, also stated that:

POAAL is deeply concerned that the committee may have been given inaccurate and false information, in particular with regard to increases in LPO payments over the past five years...In addition to these increases, new transactions have been added regularly, including many identity transactions, or trusted services as Australia Post calls them. These are particularly worthwhile financially to post office licensees.⁴¹

7.36 However, Australia Post recently implemented a number of measures to assist licensees. Mr Fahour indicated, at the committee's December hearing, that Australia Post was seeking ways to support LPOs and provide immediate relief as 'they are a vital community asset, and we have a shared aspiration and a shared need for both of us to survive'.⁴² The first was the urgent and interim relief announced at the end of 2013. In recognition of the viability problems facing LPOs prior to Christmas 2013, Australia Post brought forward the payments for post office box services. Payments of \$35 million were brought forward from April to January 2014.⁴³

7.37 Mr Fahour further commented that Australia Post had established a 1-800 number call service to allow licensees seeking assistance over the Christmas period direct access to Australia Post staff.⁴⁴

7.38 In January 2014, Australia Post extended the trackable article fee to post office boxes and counter mail delivery points. Australia Post indicated that this would add a total of \$2.6 million per annum to LPO payments.⁴⁵

7.39 At the February 2014 Additional Estimates, Mr Fahour commented that 'dramatic action' had been undertaken over the previous 10 weeks and that:

39 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 75.

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

41 Mr Ian Kerr, POAAL, *Committee Hansard*, 26 March 2014, p. 1.

42 Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 6 December 2013, p. 48.

43 Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 17 March 2014, p. 1.

44 Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 6 December 2013, p. 48.

45 Mr Ahmed Fahour, Australia Post, *Committee Hansard*, 17 March 2014, pp 1, 4; Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 81.

...it is quite remarkable what people with good intention can achieve in a short term. Let me just make this comment: \$35 million, a \$25 million increase, the new post office box scanning fee—and there are a range of other things that we are also going to do into the future...What I said—and this is quite important—was that this will provide immediate short-term relief but is not the answer to the long-term vexing issue: if we want this network to continue, something has to give here. If we want these people to do all of these things—and I have just said, for the first time since corporatised history, we are unlikely to even pay a dividend in the future. Where is it going to come from?⁴⁶

7.40 Licensees will also receive a payment of \$5 for each new account established under the MyPost concession program. Mr Fahour stated that this had produced \$1.5 million in new income in two months to establish new accounts.⁴⁷ In addition, the increase in the BPR in March 2014 added an additional \$25 million to payments for LPOs.⁴⁸

7.41 On 17 June 2014, Australia Post announced a package of initiatives 'to strengthen the vital regional and rural stores network'.⁴⁹ The package included:

- offering connection to Australia Post's electronic point of sale system (EPOS) for 432 LPOs that currently use manual processes;
- increasing the minimum guaranteed annual payment for LPOs and introducing a minimum payment for community postal agencies (CPAs);
- increasing payments for providing working space to mail and parcel contractors;
- increasing payments for representing Australia Post to the local community; and
- removing the EPOS transaction shortfall fee.

7.42 Australia Post stated that the initiatives will contribute \$40 million per annum in addition to around \$320 million already paid annually.⁵⁰

Comments related to recent initiatives

7.43 The committee received responses to the initiatives introduced by Australia Post to assist licensees. The LPO Group commented on the advance payment of post office box payments under the urgent and interim relief initiative. While welcoming the advance payment, the LPO Group went on to note that at the same time Australia

46 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 125.

47 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 81.

48 Mr Ahmed Fahour, Australia Post, *Budget Estimates Hansard*, 28 May 2014, p. 81.

49 Australia Post, 'Australia Post strengthens regional and rural support', *Media Release*, 17 June 2014.

50 Australia Post, 'Australia Post strengthens regional and rural support' *Media Release*, 17 June 2014.

Post changed its trading account terms and 'many licensees were obliged to pay a substantial portion of the advance payment back to Australia Post, to keep their stocks available'.⁵¹

7.44 The LPO Group also acknowledged that the rural sustainability package will improve the outlook for manual post offices. However, the LPO Group went on to note that the majority of LPOs will only gain the additional 20 per cent increase in the representation allowance.⁵² The LPO Group also noted that in many cases the increases in payments have been already been absorbed through increases in the basic wage, increased superannuation and annual rent increases.⁵³

7.45 Licensees also provided comments in relation to the benefits that would be received through the rural sustainability package. One licensee commented:

When Mr Fahour announced in the last Senate estimates that he was soon to release the Rural rescue package I was elated with excitement and thought Australia Post had finally heard our calls for help. I was to be bitterly disappointed. With the media release I realised my office only qualified for one of the five points. The increase in the representation allowance was all I qualified for, as so for a majority of us. That equates to a whopping \$184.00 per annum or \$3.54 per week.⁵⁴

7.46 The committee also received a comment from a licensee that 'some of the rates have to go to 3 decimal points to show an increase of 1 cent – not even legal tender'. The committee notes that this applied to certain bill payments.⁵⁵

7.47 Another licensee welcomed in the increases but stated that they would still not be enough to sustain their business. For example, the licensee indicated that they received an increased payment of \$35.83 per month for providing working space for two mail contractors while rent has increased by \$44 per month from the being of the year. Thus the licensee is still behind by \$9 per month.⁵⁶

7.48 Similarly, a rural licensee stated that his LPO would benefit by just over \$1,200 per annum, which the licensee described as 'underwhelming'. The licensee went on to comment that current business viability was not restored nor were accumulated losses addressed.⁵⁷

Payments linked to the Basic Postage Rate

7.49 With the increase in the BPR from 31 March 2014, many of the payments received by LPOs have increased. However, the committee received evidence from

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

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

53 LPO Group, *Supplementary Submission 65*, p. 1.

54 Buladelah Licensed Post Office, *Submission 180*, p. 3.

55 Name Withheld, *Supplementary Submission 95*, p. 1.

56 Name Withheld, *Supplementary Submission 21*, p. 1.

57 Name Withheld, *Submission 194*, p. 1.

licensees which pointed to continued concerns about the indexation of payments linked to the BPR.

7.50 Many of the payments made to licensees are linked to the BPR, including the mail management fee.⁵⁸ Of the \$324 million that Australia Post paid in 2012–13 to licensees, approximately \$200 million was linked to the BPR.⁵⁹

7.51 Mr Fahour commented that, originally, the LPO framework was designed to link two-thirds of the payment to a stamp price.⁶⁰ Mr Fahour noted that over the last 20 years stamp prices have gone up three times, which represents a 33 per cent increase in the BPR when inflation is about 75 per cent and other costs have gone up 100 per cent over that period. Thus 'because successive governments have not allowed the stamp price to catch up with inflation' Australia Post, post offices and licensees have been adversely affected.⁶¹

7.52 Mr Fahour went on to acknowledge that the lack of increase in BPR was a problem:

If we are to save these post offices—or that aspect of their business; I cannot save the other parts of their business because that is none of my business—we do need to review this issue and we have been in dialogue with POAAL, who represent the vast majority of these people, to say we believe changes are needed because they need to be remunerated for the cost of living pressure.⁶²

7.53 However, Australia Post noted that some other payments were not linked to the BPR and that these had increased over time. Australia Post stated that the percentage discount on stamp purchases has not been varied despite higher per-article transportation/processing/delivery costs. In addition, it noted that the main management fee has not been adjusted despite the significant reduction in the number of letters per delivery point.⁶³

7.54 Many submitters commented on the lack of increases in the BPR. Most pointed out that the increases were substantially less than the CPI and thus those

58 The mail management fee is an annual per-delivery point payment associated with the operation of mail delivery staff from the LPO and covers activities such as handling customer inquiries, preparing statistics relating to mail delivery and the delivery of carded articles. The mail management fee is not associated with number of postal items processed by the LPO.

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

60 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 52.

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

62 Mr Ahmed Fahour, Australia Post, *Supplementary Estimates Hansard*, 19 November 2013, p. 52.

63 Australia Post, *Answer to written question on notice*, No. 34.

payments linked to the BPR were drastically underpaid over a long period of time.⁶⁴ The LPO Group contended that the average LPO is underpaid 30 to 40 per cent by Australia Post for the work provided under the LPO Agreement.⁶⁵

7.55 While the LPO Group welcomed the increase in the BPR, it stated that it will convert, on average, to between a five and eight per cent increase in LPO returns depending on the percentage of mail service provided from the outlet.⁶⁶ Mr Andrew Hirst, LPO Group, commented that, in relation to his LPO, he would receive a 5.65 per cent increase and that an increase of 30 to 35 per cent was required to ensure the sustainability of LPOs.⁶⁷

7.56 POAAL noted that the decision to link payments to the BPR was taken during the initial formulation of the LPO model in the 1990s, and that proposals to change this system have not been successful:

One of the guiding principles when preparing the new LPO payment scheme was to link payments to indices in order to avoid having to renegotiate all LPO fees and payments every year. Australia Post and POAAL eventually settled on linking certain mail payments to the BPR. Until that point, the BPR had regularly risen.

On several occasions, POAAL proposed that the link between certain mail payments and the BPR be broken and be replaced by either CPI or a percentage, whichever was the higher. Each time, this proposal was rejected by Australia Post, even after the Federal Government froze the price of the postage stamp.⁶⁸

7.57 The committee notes that Australia Post commented on the linkage between payments and the BPR and the possibility of reassessing this linkage:

The payment scheme that underpins the LPO Agreement provides a range of discounts, commissions and fees for providing goods and services on behalf of Australia Post.

When the payment scheme was originally introduced a number of delivery related payments were linked to adjustments in the BPR due to the relationship of the work required with the letters product.

Due to the recent changing nature of Australia Post's business (ie a reduction in letters and increase in parcels) there may now be opportunities to reassess selected payments and better align them to licensee's costs and Australia Post's business drivers for a mutually beneficial outcome.⁶⁹

64 See, for example: Ms Angela Cramp, Licensed Post Office Group, *Committee Hansard*, 6 December 2013, p. 3; Name Withheld, *Submission 176*, p. 1.

65 LPO Group, *Supplementary Submission 65*, pp 5–6.

66 LPO Group, *Supplementary Submission 65*, p. 5.

67 Mr Andrew Hirst, LPO Group, *Committee Hansard*, 4 March 2014, pp 2, 9.

68 POAAL, *Submission 9*, p. 4.

69 Australia Post, *Answer to written question on notice*, No. 16; see also Additional Estimates 2014, *Answer to question on notice*, No. 65.

7.58 In addition, in correspondence to the committee, Mr Fahour commented that Australia Post was looking to identify alternative benchmarks to price increases in delivery compared to the current methodology tied to the BPR.⁷⁰

Future structure of the postal network

7.59 The committee received little evidence on whether there are now too many post offices as a result of the changing postal environment and increased use of digital means of communication. However, those submitters that did comment on this issue pointed to instances where there were a large number of post offices within a small area particularly in metropolitan areas. For example, Mr Buskariol, LPO Group, stated that there were ten post offices within 15 kilometres of his LPO.⁷¹

7.60 The LPO Group also commented on the possibility of rationalisation of the network in metropolitan areas and stated that:

We see that possibly there is a rationalisation of the network. There are possibly licensed post offices that need to be exited, and I am sure that there are licensees who would accept that. That is something that needs to be addressed.⁷²

7.61 In addition, some licensees commented that if there were to be a rationalisation of LPOs, Australia Post should buy back licences and that the value should not be based on the present value which was viewed as being undermined by Australia Post's action in relation to payments.⁷³

Committee comment

7.62 Australia Post is not a standalone organisation – the postal network is composed of small business operators, be they LPOs, community postal agencies or franchisees. Thus, the challenges facing Australia Post are also the challenges of these businesses and the committee considers that they must be part of the solution to ensure the long-term sustainability of the postal network.

7.63 The committee acknowledges that LPOs make their own business decisions in relation to non-Australia Post services and products to the extent allowable under their LPO Agreement.

7.64 That being said, the foundation of the LPO network is the provision of postal services. LPOs rely on the payments provided for in the LPO Agreement as remuneration for the postal services they provide on behalf of Australia Post and the Australian community. In doing so, they enable Australia Post to meet its community service obligations as contained in the *Australian Postal Corporation Act 1989*.

70 Mr Ahmed Fahour, Australia Post, Response to LPO Group supplementary submission, dated 11 August 2014.

71 Mr Tony Buskariol, LPO Group, *Committee Hansard*, 6 December 2013, p. 3.

72 Ms Angela Cramp, LPO Group, *Committee Hansard*, 6 December 2013, p. 3.

73 Name Withheld, *Submission 52*, p. 4.

Without LPOs, as well as community postal agencies and franchisees, it would be impossible for Australia Post to meet these obligations.

7.65 The committee also notes that the LPO Agreement establishes the obligations on LPOs to deliver services and the level of compensation for postal and other services provided on behalf of Australia Post. Many of the payments received by licensees are linked to the BPR and others are set by Australia Post. This is a significant matter: it cannot be said that licensees act independently in the delivery of postal services or that they have control over the level of compensation they receive for this work.

7.66 It is evident to the committee that linking many payments to the BPR has significantly added to the erosion of the financial position of LPOs as the BPR has not increased in line with the CPI. The BPR is now significantly lower than it should be if CPI increases are taken into account and therefore is not adequate to ensuring the financial viability of the LPO network.

7.67 There are a number of reasons for the lack of adequate increases in the BPR including various policy considerations taken into account by previous governments and Australia Post. However, in not pursuing increases in the BPR, there has been a significant opportunity cost to the LPO network.

7.68 In addition, the committee considers that, even though LPOs have been assisted by some initiatives, a rationalisation of the LPO network, as well as the corporate postal network, may be necessary in the longer-term to maintain the viability of postal network. The committee's Recommendation 4 addresses this issue.

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.

- 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.

Chapter 9

Mail delivery contracts and franchisees

Introduction

9.1 While not specifically mentioned in the terms of reference, the committee received evidence concerning mail delivery contracts and post office franchisees.

Mail delivery contracts

9.2 Australia Post routinely contracts out parts of its mail delivery network, including most rural deliveries and a significant proportion of urban parcel deliveries. Licensees, particularly in country towns, often take on the mail delivery contract from Australia Post in addition to operating the LPO itself. In these instances, the licensee performs the daily sort of all incoming mail, and then also undertakes delivery of the street addressed mail. POAAL commented that this arrangement often improves the overall viability of the local LPO and provides visibility for the licensee in the community.¹

9.3 Submitters raised concerns about recent trends in the awarding of mail delivery contracts by Australia Post, which are typically for a five-year term.

9.4 POAAL commented in relation to the businesses being awarded contracts:

There are a small number of 'super contractors', who hold multiple mail contracts. Most Mail Contractors hold one or two contracts, especially in rural areas where a mail contract might only involve delivery one or two days per week.

Concerns have been expressed that a couple of companies that hold a large number (in excess of 20) of mail contracts with Australia Post may be engaging drivers who do not have sufficient training or insurance.²

9.5 Another example was provided by a submitter from a small rural community in Gippsland where, after 15 years, the licensee had to re-tender for their township mail delivery contract. The submitter commented that the licensee was offered a renewed contract for a lower amount of return and that if the licensee did not accept this, the contract would go out to tender. The submitter stated that:

Unfortunately, [they] then lost their contract to a Melbourne-based firm, and had three days' notice before these contractors were to begin work. It seems that this particular company has "won" over 40 such contracts in Victoria, with some also interstate, to the detriment of innumerable suburbs and towns, and the loss of many "mum and dad" businesses.

To add insult to injury Australia Post demanded full use of the privately-owned Post Office premises for mail sorting (denied, but access was given

1 POAAL, *Submission 9*, p. 24; see also, Mr Tom Dancer, *Submission 105*, p. 8.

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

to a suitable outdoor shed), and two weeks later the...contractors filled the "postie" position with another temporary worker when their "gumtree.com" advert. was not answered!³

9.6 POAAL commented on Australia Post's handling of expiring contracts. POAAL stated that when a mail contract is due to expire, if Australia Post deems that the contractor has met his/her obligations during the term of the contract, it will engage in what is called 'Direct Negotiation'. Australia Post offers the incumbent contractor a new contract fee rather than extending the contract under the existing terms as was the previous practise.

9.7 Some contractors informed POAAL that Australia Post had presented them with a new, reduced fee, which in some cases was significantly lower than their current contract fee.⁴ POAAL stated that contractors were provided with a breakdown of the new annual fee only after representations to Australia Post. In addition, in some instances Australia Post gave the contractor less than 48 hours to consider the contract fee. POAAL commented that 'the negotiation part of "Direct Negotiation" was in many cases an attitude of "take it or leave it" on Australia Post's part'.⁵

9.8 One licensee in this position commented that:

In most cases these contracts are essential for the survival of regional LPOs. Without the income from these contracts many LPO's become totally unviable. This places a licensee in the unenviable position of having to negotiate with Australia Post knowing they cannot lose the contract.⁶

9.9 POAAL concluded that:

If Australia Post is to persist with the Direct Negotiation process, then the process must be completely transparent and Australia Post must be prepared to negotiate in good faith with contractors, bearing in mind the gulf in bargaining power between the two parties and any local conditions relevant to the contract.⁷

9.10 POAAL also noted that contractors are locked into contracts which do not allow for the occasionally volatile nature of oil prices. POAAL commented that it had grave concerns that mail services in rural Australia are under threat due to rising fuel prices. POAAL noted that the standard contract makes allowances for the review of the fuel component of a mail contract fee but the fuel price review can only be initiated by Australia Post. POAAL has proposed automatic monthly reviews of fuel prices as a fairer and more transparent mechanism to address fluctuating fuel prices.⁸

3 Ms Kathy Whelan and Mr Peter Lee, *Submission 130*, p. 3.

4 POAAL, *Submission 9*, pp 24–25.

5 POAAL, *Supplementary Submission 9*, p. 11.

6 Name Withheld, *Submission 88*, p. 2.

7 POAAL, *Supplementary Submission 9*, p. 11.

8 POAAL, *Supplementary Submission 9*, pp 12–14.

9.11 Contractors have also expressed concern about overweight and large parcels as they pose a risk to the contractor.⁹

9.12 POAAL advised the committee that it has held discussions with Australia Post regarding its rural post projects. POAAL indicated that it hoped that this project will reap some benefits for LPOs in rural areas particularly those that hold mail contracts.¹⁰

Australia Post franchisees

9.13 In 2006 Australia Post announced that it would establish 150 franchises within the postal network. Australia Post indicated that it was intended:

That network was going to be made up of licensees that may have converted to the franchise model, corporate outlets that we would convert to the franchise model, as well as green field brand new sites. So it was a mix of all of those things.¹¹

9.14 There are currently 29 franchised post offices.

9.15 At the May 2011 Budget Estimates, Australia Post indicated that it was reviewing its franchise model.¹² Australia Post added at the October 2011 Supplementary Estimates that:

We began franchising a number of years back and I think that was under a different business model than what we are proposing under our Future Ready strategy. As part of our Future Ready strategy, as you would be aware, we have set up different business units and we are currently looking at our retail offering to really look at how we open up access, convenience and choice for customers, and that will involve looking at different service delivery methods to make sure that the format and the ownership model is appropriate to community needs now as their channel preferences change and their access preference changes.¹³

9.16 At the February 2012 Additional Estimates, in response to questions about the extension of franchisee arrangements, Australia Post that:

The franchise agreement is a 10-year agreement. The original terms that they have entered into we will still abide by. We are not moving away from that at all. So at the end of the 10-year fixed term agreement that franchise will then be revalued and then will be reoffered back to the marketplace.¹⁴

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

10 POAAL, *Supplementary (No. 2) Submission 9*, p. 5.

11 Mrs Christine Corbett, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 134; see also *Additional Estimates 2013, Answer to question on notice*, No. 81.

12 Mr Russell Ramey, Australia Post, *Budget Estimates Hansard*, 25 May 2011, p. 172.

13 Mrs Christine Corbett, Australia Post, *Supplementary Estimates Hansard*, 18 October 2011, p. 95.

14 Mrs Christine Corbett, Australia Post, *Additional Estimates Hansard*, 14 February 2012, p. 81.

9.17 The phasing out of franchises was discussed at the February 2014 Additional Estimates. Mr Fahour indicated that franchisees were happy with the conversion to LPOs as franchises only have a 10-year term: 'The licensed post office is forever. So what we do is we keep them in business without having their businesses terminated at the end of the term.'¹⁵

9.18 Mr Fahour went on to add that the formula for payout a franchise is contained in each contract:

Each contract specifies exactly the formula. We are giving people long-term notices of what we intend. The earliest one that is going to go up is two years' time, so it is a long, long way.¹⁶

9.19 Mr Fahour also stated that franchisees would be consulted in the first instance and then given the option to convert to an LPO or to sell.¹⁷

9.20 The committee received a number of submissions concerning the franchise arrangement established by Australia Post. POAAL, for example, stated that it had repeatedly expressed its severe misgivings about the concept and considered that it was poorly conceived and executed by Australia Post.¹⁸

9.21 A particular matter of concern to a number of franchisees was the failure of Australia Post to disclose an agreement entered into with relevant unions in which Australia Post undertook to only covert a maximum of 20 corporate post offices to franchises.¹⁹ Mr Mark Bailey stated:

...Australia Post sold us a business that came with non-disclosed encumbrances that would never allow us to achieve our business plan.²⁰

9.22 Franchisees commented that had they known about this agreement they would not have become an Australia Post franchisee. Mr Bailey went on to explain that he had been unable to sell his franchise and that 'professional business agents said we had nothing to sell and that our business was of no value'.²¹

9.23 Mr Bailey noted that financial growth, as forecast, has failed to meet targets and appropriate commission upgrades, meeting operating costs, CPI and market forces have been inadequate.²²

15 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 126.

16 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 133.

17 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 133.

18 POAAL, *Supplementary (No. 2) Submission 9*, p. 2.

19 Mr John Christensen, *Committee Hansard*, 5 August 2014, p. 8; Mr Tim Prest, *Submission 197*, p. 1.

20 Mr Mark Bailey, *Committee Hansard*, 5 August 2014, p. 6.

21 Mr Mark Bailey, *Committee Hansard*, 5 August 2014, p. 6.

22 Mr Mark Bailey, *Committee Hansard*, 5 August 2014, p. 6.

9.24 In addition, now that Australia Post is closing franchises, it was stated that the terms of exit payments were different to those understood to be the case when the franchise agreements were entered into.²³

Committee comment

9.25 The committee considers that franchisees have been disadvantaged by the non-disclosure of the agreement Australia Post entered into in relation to the number of corporate post offices to be converted to franchises. As a consequence of this agreement, the franchise network was restricted to 29 franchises rather than the 150 originally planned. This has had a detrimental impact on the market for these types of postal businesses.

Recommendation 18

9.26 The committee recommends that Australia Post, when negotiating the current value of franchises, takes into account the impact on the value of franchises of its inability to deliver the promised opportunities.

**Senator Anne Ruston
Chair**

23 Mr Mark Bailey, *Committee Hansard*, 5 August 2014, p. 9.

Labor Senators' Additional Comments

1.1 Labor Senators are disappointed but not surprised to submit Additional Comments on this inquiry into Australia Post.

1.2 Labor Senators are not dissenting from the entire report, rather these Additional Comments focus on one part of Chapter 5; the assertion that 'the postal network provides an opportunity for government to deliver services **more efficiently**'. (*emphasis added*)

1.3 Labor Senators note that the primary target for outsourcing of government services to Australia Post are the over-the-counter processing functions performed by the Department of Human Services.

1.4 Nowhere in the preceding paragraphs of the Majority Report, or in evidence presented to this Committee both throughout this inquiry and at Estimates, was evidence provided to back up this assertion.

1.5 Rather, the assertion is simply another attempt by the Liberal Party to promote its ideological belief that the outsourcing of government services increases efficiency.

1.6 In evidence to the Senate's Community Affairs Committee's November 2013 Estimates, the Department of Human Services outlined the varied functions of officers in face-to-face interactions with customers.¹

The Department of Human Services is tasked with delivering social, health and other services on behalf of the Australian Government to individuals, families, communities, businesses and healthcare providers.

Service Officers in the face-to-face environment engage with and support customers from shopfronts located across Australia in metropolitan, regional and remote communities.

Day-to-day functions in the face-to-face environment include:

- Assist customers by providing services across a range of payments, programs and services.
- Actively promote, demonstrate and assist customers to use the department's digital and phone self-managed services.
- Advise customers on legislation, policy, procedures, payments and services administered by the department.
- Assess customer needs, requirements, entitlements and obligations.
- Provide managed and intensive services, focusing on customers with complex needs. This may include activities such as developing individual support plans or assisting people to acquire vocational skills to maximise training and employment opportunities.

1 *Supplementary Budget Estimates 2013*, Department of Human Services, Answer to question on notice, No. HS4.

- Where appropriate, refer customers to relevant government and community services. Liaise with local community service providers and other government agencies to make referrals and assist with brokering solutions for people with complex needs.
- Facilitate service recovery in line with relevant service standards for customer feedback/complaints and escalate as appropriate.

1.7 As highlighted in the Majority Report, Australia Post's capability to deliver trusted services was canvassed at the February 2014 Additional Estimates. Mr Fahour was directly asked if Australia Post could perform a number of the face-to-face functions outlined above and responded that he did not know and would take the questions on notice. In the subsequent answers to the questions on notice, Australia Post did not directly answer the questions asked.²

1.8 Labor Senators are concerned that the Government is irresponsibly seeking to use the prospect of increased remuneration and post office visits from additional trusted services as a financial lifeline for Licensed Post Offices. We note that all the submitters who support the outsourcing of services provided by Centrelink and Medicare to Australia Post rely on the prospect of additional revenue for Australia Post and LPO operators as justification for the measure. Providing additional revenue for the private operators of LPOs and Australia Post corporate outlets is not an object of any of the legislation that governs the provision of services by the Department of Human Services. As outlined in the Majority Report, many proprietors of LPOs are battling to keep afloat and, of course, would welcome the additional remuneration. The face-to-face functions performed by DHS officers are complex and very different from the 'high-volume transactions' that Mr Fahour asserts are Australia Post's specialisation.³

1.9 Evidence was included in the Majority Report from the Community and Public Sector Union (CPSU) warning that outsourcing DHS functions is 'likely to result in an overall reduction in the quality of service delivery on behalf of DHS, an organisation many Australians rely on at various points of their lives'. The CPSU also stated that 'any savings from outsourcing functions is unlikely to offset the costs of training Australia Post staff.'⁴

1.10 Labor Senators believe that the advice from the CPSU and the lack of certainty from Australia Post demonstrate that the assertion that outsourcing will increase efficiency in government service delivery is based on ideology not evidence.

2 *Additional Budget Estimates 2014*, Australia Post, Answer to question on notice, No. 146.

3 Mr Ahmed Fahour, Australia Post, *Additional Estimates Hansard*, 25 February 2014, p. 116.

4 CPSU, *Submission 4*, pp 1-2.

Recommendation 1

The Government not outsource any functions of the Department of Human Services to Australia Post.

**Senator Anne Urquhart
Deputy Chair**

**Senator the Hon Doug Cameron
Shadow Minister for Human Services**

Additional Comments by Senator Nick Xenophon

'The cheque's in the mail'

1.1 I am strongly supportive of the inquiry's recommendations and commend the Committee for the non-partisan way it tackled this important issue.

1.2 There is no question that Australia Post is at the cross roads, and with it the future of nearly 3000 licensed post offices across the country together with a number of franchisees. Further, many of the LPOs and franchisees have been 'hanging on' for the outcome of this inquiry because of the dire and difficult financial circumstances they find themselves in, generally through no fault of their own.

1.3 Pointedly, many LPO operators have told me that they would be happy just to receive the same rate of pay for the long hours they work as their employees who are on the award. The fact that so many LPO operators, are working on subsistence levels of pay, or indeed are eating into their existing assets to keep their businesses afloat is unacceptable and unsustainable.

1.4 The Committee's recommendations, particularly those that relate to fair recompense for services provided and for a streamlined and effective dispute resolution process, must be implemented as a matter of urgency. If they are not there is a genuine fear that an increasing number of LPOs will not survive, with enormous consequences for the individual operators involved and for the broader community, particularly in regional Australia. There is also no question that Australia Post would be paying much more to operate such post offices if they had to pick up the pieces.

1.5 I am very disturbed at the lack of candour and cooperation from POAAL. I believe that organisation and its leadership have by and large failed many of its members. I consider that a number of unanswered questions from Senator O'Sullivan reflect very poorly on POAAL. That organisation's credibility to effectively represent its members must be seriously questioned. In contrast, the relatively recently formed LPO group seems to be much more active and engaged in advocating for its members.

1.6 The way Australia Post has treated mail houses is very disturbing. Given that direct mail is a highly effective form of marketing (particularly in the era of so many spam emails) it beggars belief that Australia Post would cruel a strong part of the business with its steep price increases.

1.7 The evidence heard from franchisees indicates a significant failure on the part of Australia Post to achieve a fair outcome for franchisees, who were put in a difficult commercial position through no fault of their own.

1.8 The serious and difficult circumstances that so many LPOs and franchisees are facing cannot be understated, nor can it be ignored by the Federal Government. Unless there is urgent remedial action taken the personal and community consequences will be enormous. The Government cannot afford to sit on these recommendations – to do so would be equivalent to that old adage that 'the cheque's in the mail'.

1.9 Finally, I wish to express my gratitude for the work and assistance of Angela Cramp and the LPO group, and the many LPO licensees I have met and spoken to. Without exception they all have a strong commitment to the communities they work in – they just don't want to go broke in the process of providing a valuable community service.

Senator Nick Xenophon
Senator for South Australia

Appendix 1

Submissions and other documents

Submissions

| | |
|----|---|
| 1 | Mr Stephen Giles |
| 2 | CWU Australia - National Office |
| 3 | Australian Federation of Disability Organisations |
| 4 | Community and Public Sector Union |
| 5 | Department of Finance |
| 6 | Communication Workers Union, Postal & Telecommunications Branch Victoria |
| 7 | Department of Communications |
| 8 | Australia Post |
| 9 | Post Office Agents Association Limited |
| 10 | Franchisees Association of Australia Inc |
| 11 | CEPU |
| 12 | Commonwealth Treasury |
| 13 | Name Withheld |
| 14 | Name Withheld |
| 15 | Kersbrook LPO |
| 16 | Mr Ken King |
| 17 | Mr Peter Hay |
| 18 | Country Women's Association of NSW |
| 19 | Ms Helen Bain |
| 20 | Ms Carina Mayers |
| 21 | Name Withheld |
| 22 | Name Withheld |
| 23 | Name Withheld |
| 24 | Name Withheld |
| 25 | Name Withheld |
| 26 | Commonwealth Ombudsman |
| 27 | Dr Doug Lloyd |
| 28 | Conrad and Jane Silvester |
| 29 | Name Withheld |
| 30 | Confidential |
| 31 | Confidential |
| 32 | Name Withheld |
| 33 | Confidential |

34 Name Withheld
35 Confidential
36 Confidential
37 Confidential
38 Name Withheld
39 Name Withheld
40 Name Withheld
41 Name Withheld
42 Mr Wayne Krause
43 Name Withheld
44 Name Withheld
45 Ms Aileen Eccles
46 Name Withheld
47 Mr Bruce Thompson
48 Name Withheld
49 Mr David and Ms Liz Dundovic
50 Name Withheld
51 Name Withheld
52 Name Withheld
53 Mr Kevin Nicholls
54 Confidential
55 Confidential
56 Confidential
57 Confidential
58 Confidential
59 Confidential
60 Confidential
61 Confidential
62 Confidential
63 Name Withheld
64 Name Withheld
65 Licensed Post Office Group Limited
66 Name Withheld
67 Name Withheld
68 Name Withheld
69 Tony Burgess and Irene Reinders
70 Vanessa and Gavin Caplice
71 Ms Lisa Cooper
72 Mr Malcolm Davies

| | |
|-----|------------------------------------|
| 73 | Mr John Fisher |
| 74 | Mr Neil Graham |
| 75 | Mr Graeme Jilbert |
| 76 | Lynette and Wayne Kerr |
| 77 | Mr Paul Kitson |
| 78 | Mooball and District Moovers (Inc) |
| 79 | Mr Steve Kummerow |
| 80 | Mr Akil Kolhapurwala |
| 81 | Mr Hamsa Lingam |
| 82 | Name Withheld |
| 83 | Ms Jenny Patroni |
| 84 | Harry and Claire Taylor |
| 85 | Ms Nicole Swain |
| 86 | Ms Cynthia Turner |
| 87 | Mr Bagula Sankrithyan |
| 88 | Name Withheld |
| 89 | Name Withheld |
| 90 | Mr Russell Benn |
| 91 | Mr Robert Chizzoniti |
| 92 | Mr Dennis Jenner |
| 93 | Mr Chris Campbell |
| 94 | Mr Terry A Ashcroft |
| 95 | Name Withheld |
| 96 | Mr Tony and Ms Noelene Brandi |
| 97 | Mr Shabbir Lokhandwala |
| 98 | Ms Margaret Fowler |
| 99 | Ms Sue Flynn |
| 100 | Mr Ivor Ransom |
| 101 | Mr Mark French |
| 102 | Name Withheld |
| 103 | Mr Kevin Lee |
| 104 | Ms Robyn Chapman |
| 105 | Mr Tom Dancer |
| 106 | Mr Grant Booth |
| 107 | Ms Sue McNichol |
| 108 | Mr Murray Neilson |
| 109 | Mr John Purdie |
| 110 | Name Withheld |
| 111 | Name Withheld |

112 Name Withheld
113 Name Withheld
114 Danielle Hocking & Helen Zowtyj
115 Mr Wolf Hoffmanbeck
116 Confidential
117 Mr Robert G Richardson
118 Confidential
119 Confidential
120 Confidential
121 Confidential
122 Confidential
123 Name Withheld
124 Mr Eric Keft
125 Name Withheld
126 Confidential
127 Mr Mahendra Odhadee
128 Ms Kylie Hill
129 Ms Helen Evans
130 Kathy Whelan and Peter Lee
131 Mr Peter Moody
132 Miss Dale M Raper
133 Mr Andrew Hirst
134 Mr Kim Thi Mai Xuan
135 Mr Paul Desteno
136 Mr Mark Bailey
137 Ms Siobhan Whelan
138 Confidential
139 Confidential
140 Mr Justin Hughes
141 Confidential
142 Mr Tony & Ms Leslie Buskariol
143 Shire of Ashburton
144 Name Withheld
145 WA Local Government Association
146 Ms Ulla Killury
147 Mr Paul Marrell
148 Name Withheld
149 Name Withheld
150 Confidential

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|-----|----------------------------------|
| 151 | Confidential |
| 152 | Confidential |
| 153 | Confidential |
| 154 | Confidential |
| 155 | Confidential |
| 156 | Ms Fiona Brayshaw |
| 157 | Confidential |
| 158 | Name Withheld |
| 159 | Mr Errol Hobbs |
| 160 | Mr Mark Martire |
| 161 | Mr Ross Pollock |
| 162 | Name Withheld |
| 163 | Lyn and Peter Goodlet |
| 164 | Mrs J J Newton |
| 165 | Mrs Anne Beetson |
| 166 | Mr Chris Kingsland |
| 167 | Confidential |
| 168 | Name Withheld |
| 169 | Mr Alfonse Farag |
| 170 | Mr B C Barger |
| 171 | Name Withheld |
| 172 | Name Withheld |
| 173 | Confidential |
| 174 | Helidon LPO |
| 175 | Southern Grampians Shire Council |
| 176 | Name Withheld |
| 177 | Mr Nicholas J Levis |
| 178 | Albury North LPO |
| 179 | Warren and Denise Gould |
| 180 | Buladelah Licensed Post Office |
| 181 | Goombungee LPO |
| 182 | Confidential |
| 183 | Confidential |
| 184 | Confidential |
| 185 | Confidential |
| 186 | Confidential |
| 187 | Confidential |
| 188 | Confidential |

| | |
|-----|-----------------------------------|
| 189 | Confidential |
| 190 | Hextronik Australia Pty Ltd |
| 191 | Name Withheld |
| 192 | Mrs Alison Kennedy |
| 193 | Confidential |
| 194 | Name Withheld |
| 195 | Mr Gene Bond |
| 196 | Name Withheld |
| 197 | Mr Tim Prest |
| 198 | Confidential |
| 199 | Eugowra Rural Transaction Centre |
| 200 | Eddie Chandler and Elaine Prebble |
| 201 | Alison Lee and Vince Cooney |
| 202 | Confidential |
| 203 | Mrs Beverley Lincoln |
| 204 | Gulgong Community Action Group |
| 205 | Ms Jenny Farrell |
| 206 | Mr Thomas Hoskins |
| 207 | Name Withheld |
| 208 | Name Withheld |
| 209 | eBay Inc. |
| 210 | Mr Gary Oliver |
| 211 | Name Withheld |
| 212 | Mr Robert and Mrs Debra Dimmock |
| 213 | Mr Stephen Bass-Rees |

Form letters

845 letters from licensees of post offices

Additional information and tabled documents

Australia Post response to evidence given at public hearing, 6 December 2013, Canberra

Opening statement by Mr Martin O'Nea, Communications Workers Union, tabled by Mr Martin O'Nea (at public hearing, 6 December 2013, Canberra)

Australia Post Consumer Survey – Mail Findings, tabled by Communications Workers Union (at public hearing, 6 December 2013, Canberra)

Australia Post boss finds plenty of life in snail mail, tabled by Communications Workers Union (at public hearing, 6 December 2013, Canberra)

Lead legends form, tabled by Australia Post (at public hearing, 6 December 2013, Canberra)

Procedure for Stamp Price Increases, tabled by Department of Communications (at public hearing, 6 December 2013, Canberra)

Increases to LPO Payments (2009-2013) negotiated by POAAL, tabled by POAAL (at public hearing, 26 March 2014, Canberra)

Post Office Agents Association Ltd, Annual Report 2012–2013

A PostShop franchise: Your key to business success, tabled by Mr Mark Bailey (at public hearing, 5 August 2014, Adelaide)

Franchising, tabled by Mr John Christensen (at public hearing, 5 August 2014, Adelaide)

Australia Post response to supplementary submission from Licensed Post Office Group, received 13 August

LPO Group response to Australia Post Response, received 14 March 2014

Answers to written questions and questions taken on notice

Australia Post – Answers to questions taken on notice (from public hearing, 6 December 2013, Canberra)

POAAL – Post Office Agents Association Limited Annual Report 2012-2013: Answer to a question taken on notice (from public hearing, 6 December 2013, Canberra)

POAAL – List of POAAL Board members since 1993 – Answer to a question taken on notice (from public hearing, 6 December 2013)

Australia Post – Answers to written questions taken on notice

LPO Group – Answers to questions taken on notice from Senator Williams (at public hearing, 4 March 2014, Canberra)

LPO Group – Answers to questions taken on notice from Senator Barry O'Sullivan (at public hearing, 4 March 2014, Canberra)

LPO Group – Answers to questions taken on notice from Senator Ruston (from public hearing, 4 March 2014, Canberra)

Mr Alan Read – Answer to a question taken on notice from Senator Xenophon (at public hearing, 5 August 2014, Adelaide)

Post Office Agents Association correction to financial statements, received September 2014

Appendix 2

Public hearings

Friday, 6 December 2013
Parliament House, Canberra

Licensed Post Office Group

Ms Angela Cramp, Chairperson
Mr Andrew Hirst, Vice Chairman
Mr Tony Buskariol, LPO Group Member, Concord West, NSW
Mr Silvio Villani, LPO Group Member, Nanango, Qld

Post Office Agents Association Limited

Mr Ian Kerr, Chief Executive Officer
Mr Bob Chizzoniti, POAAL Director
Mr Dennis Jenner, POAAL Director
Mr Chris Campbell, POAAL Director

CWU Australia – National Office

Mr Martin O'Nea, National Assistant Secretary
Ms Carol Gee, Senior Industrial Officer

Australia Post

Mr Ahmed Fahour, Managing Director and Chief Executive Officer
Mrs Christine Corbett, Executive General Manager, Retail and Consumer
Mr Paul Burke, Corporate Secretary
Mr Russell Ramey, General Manager, Retail Sales and Service

Department of Finance

Ms Stacie Hall, Assistant Secretary, Government Business Advice Branch

Department of Communications

Mr Keith Besgrove, First Assistant Secretary
Mr Duncan McIntyre, Assistant Secretary

Thursday, 4 March 2014
Parliament House, Canberra

Licensed Post Office Group

Mrs Angela Cramp, Chairperson
Mr Andrew Hirst, Vice Chair

Monday, 17 March 2014
Parliament House, Canberra

Australia Post

Mr Ahmed Fahour, Managing Director and Chief Executive Officer
Mrs Christine Corbett, Executive General Manager, Retail and Consumer
Mr Paul Burke, Corporate Secretariat and General Manager, Government Affairs
Mr Russell Ramey, General Manager, Retail Sales and Service

Wednesday, 26 March 2014
Parliament House, Canberra

Post Office Agents Association Limited

Mr Ian Kerr, Chief Executive Officer
Mr Bob Chizzoniti, Director and New South Wales Branch Chairman

Tuesday, 5 August 2014
Adelaide Town Hall, Adelaide

Dynamic Direct

Mr Alan Read, Chief Executive Officer

Mr Mark Bailey, Private capacity

Mr John Christensen, Private capacity