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### Submission - Australia Post Licensed Post Office Model

This submission relates to the deliberations of the Environment and Communications Legislation Committee into the performance, importance and role of Australia Post in Australian communities, the challenges it faces and the operations of Australia Post in relation to Licensed Post Offices (LPOs).

I became aware of the Committee's activities when Australia Post sought my opinion on how their activities benchmarked with other franchised and licensed networks. I trust that I can add some value by virtue of my extensive involvement in franchise sector affairs and my understanding of the operations of Australia Post and the LPO network.

My work producing *The Deacons Report on Australia Post Consultative Processes* in May 2002, and my subsequent work with Australia Post helping it to establish the Australia Post Licensee Advisory Council (APLAC) and providing input in relation to corporate, commercial and business issues, challenges and disputes, gives me an understanding of the licensing and trading conditions applicable to LPOs, including the Community Service Obligations, and the effects these can have on operating an LPO business.

I am also familiar with the legal and business relationship between Australia Post and its LPO's, and the general marketing, retail and trading arrangements between Australia Post and LPOs and other entities.

I think I can also provide some industry comparisons, as I have advised over 200 major retail and franchise networks and am familiar with the business models of most franchise systems as a result of my extensive industry involvement. I have served for around 15 years as a director of the peak industry body, the Franchise Council of Australia, including 4 terms as chairman.

I wish the Committee well in its deliberations and would be pleased to expand upon any comments in this submission, or meet with the Committee to provide any further input or assistance it may desire.

Stephen Giles

November 25, 2013

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## Executive Summary

It is hard to imagine any means other than the current LPO model to effectively satisfy Australia Post's community obligations, and meet the expectations of customers used to a level of service coverage and excellence over many years. The challenges posed by the size, geography and demographics of Australia are obvious. Yet the Australia Post network consistently rates very highly in terms of brand, service delivery and service efficiency.

There are always improvements that can be made, but at least from a customer perspective the relationship does seem to be delivering. That is I think an important reference point in the context of the Committee's deliberations, and the assessment of submissions received.

I invite the Committee to factor into their deliberations the following observations I make based on my experience with Australia Post, the LPO network and other franchised and licensed networks:-

- 1) The Australia Post network is integral to the fabric of the communities it serves, and provides vital consumer to consumer, business to consumer and business to business services. Australia Post representatives now not only deliver our daily mail, but we rely on Australia Post for bill paying, passport photography and a whole range of new goods and services. Australia Post facilitates business to business communications through its postal, courier, storage and distribution services. Business depends on Australia Post. Freight and courier competitors frequently interface with Australia Post to enable them to provide their services. So in an economic sense the cost of Australia Post providing its services is reflected in most of the goods and services we buy. Any legislative changes, or any unnecessary compliance obligations or red tape, will not only impact the financial performance of Australia Post, but are likely to be reflected in general cost increases, and any inefficiencies created within Australia Post will have a ripple effect across the community.
  - 2) The structural dynamics of the relationship between Australia Post and its licensees ensure that the relationship is fundamentally sound. Australia Post simply cannot succeed unless its licensees are successful, and vice-versa. The level of business interdependence is higher than for most other franchise systems. The customer proposition simply cannot be delivered unless Australia Post and its licensees work together, follow the system and are fundamentally profitable and happy. Any chink in the relationship will immediately manifest itself in reduced business performance and customer satisfaction.
  - 3) Australia Post is used to coping with change, and already has a structure and network relationships that enable change to be implemented. New products and services are routinely being introduced, and there is a track record of the parties reaching mutually acceptable commercial arrangements including in terms of split of revenue and allocation of responsibilities.
  - 4) Australia Post's regulatory constraints and community service obligations present unique challenges. Where pricing is set by the market there is less tension than where pricing is statutory. Splitting revenue and responsibilities between Australia Post and licensees can be challenging where statutory pricing does not keep pace with business reality and cost structures.
  - 5) When conducting the 2002 review I formed the view that Australia Post's consultative processes were fundamentally sound, and that it would be more productive to establish an advisory council format similar to that used by many franchise systems than duplicate the existing formal consultative process with POAAL. The Australia Post Licensee Advisory Council established after the 2002 review works well, and provides a forum for business collaboration between Australia Post and its licensees that supplements the formal consultative arrangements. I would urge the Committee to resist any requests to establish some additional formal consultative process or create any process that was adversarial rather than collaborative.
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- 6) Australian regulation in the franchising field is generally regarded as world's best practice, and provides an excellent framework for the Australia Post – Licensee relationship. Australia enjoys relatively low levels of disputation, and there are strong regulatory protections for licensees. The Australian Competition and Consumer Commissioner oversees these provisions, and is an effective and well-resourced regulator. Other protections exist via various State and Federal Small Business Commissioners.
  - 7) The LPO model is robust and flexible, and has continued to evolve with developments in transportation, communications technology and now e-commerce. The strength of the Australia Post brand, and the fact that postal services and related activities draw customers to an LPO and therefore support other business activities conducted by the licensee, need to be remembered in the context of any discussion around remuneration for specific postal activities. Australia Post does not receive any royalties or share of revenue for the non-postal activities, yet it clearly adds value to them. This flexible licensed model is one of the main reasons why I believe it would be impossible to provide the network coverage and the quality of products and services to customers through any other structure. A network of Australia Post owned businesses would be too expensive, and a network of entirely independent businesses would be destined to fail.
  - 8) Australia Post currently has the most comprehensive consultative process of any franchise network I know. There are formal and informal elements within that consultative process, and strong safeguards that ensure consultation is substantive and genuine.
  - 9) The structure and much of the content of the LPO Agreement is similar to a typical franchise agreement, but licensees enjoy commercial terms that are beyond industry standard in several key areas.
  - 10) Australia Post has a more comprehensive dispute resolution process than most other franchise systems. The informal processes supplement the formal dispute resolution processes contained in the LPO Agreement and the Franchising Code of Conduct.
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## Detailed Remarks

### Background

In 2002 I chaired an Expert Committee that investigated the consultative process between Australia Post and its licensees. The Expert Committee was asked to review and report on the nature and structure of the existing consultative processes in place between Australia Post and its licensee network in order to determine the adequacy of existing arrangements for licensees to consult with Australia Post, either directly or indirectly through a representative.<sup>1</sup>

In the course of these activities I considered the consultative processes, and examined dispute resolution mechanisms and the nature and quality of communications between Australia Post and members of the LPO network. I met with and considered the views of the Post Office Agents Association Limited (POAAL), the Licensed Post Office Agents Limited (LPOAL) and other individuals who were representing groups of licensees. I also interviewed Australia Post senior management, and examined the nature, extent and content of communications between Australia Post and its licensees. My report, *The Deacons Report on Australia Post Consultative Processes* produced in May 2002, is a matter of public record.

I was subsequently engaged by Australia Post to help establish the Australia Post Licensee Advisory Council (APLAC) to supplement existing communications processes. I established the structure, which features the direct election of licensee representatives to the APLAC to serve alongside Australia Post senior management. I also attended the early meetings of the APLAC, and was able to see the process in action. The APLAC follows an advisory council format commonly used in franchise networks that seek to ensure business decisions are made in a highly collaborative manner. I understand the APLAC continues to operate very productively.

I have maintained an ongoing connection to the Australia Post LPO network. Norton Rose Fulbright was a successful tenderer to the Australia Post legal panel in 2009, and as a consequence I have been subsequently engaged by Australia Post on a range of legal and strategic matters. These include assisting in the negotiations of international contract terms and joint ventures, providing advice on the Franchising Code of Conduct and assisting with dispute resolution. I believe I have a good understanding of the Australia Post business and the LPO network.

My firm is the leading franchise law firm in Australia, and I have been practising in the franchise law field for over 30 years. I have advised over 200 Australian and international franchise systems, and as a consequence feel qualified to be able to compare the Australia Post LPO network with other franchise and retail networks and comment about common industry practice. I am also able to draw upon my experience as a director of the Franchise Council of Australia, which is the peak industry body, and as co-author of the leading industry text *Giles, Redfern & Terry – Franchising Law & Practice*.

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<sup>1</sup> The Deacons Report on Australia Post Consultative Processes, May 2002

### Australia Post is integral to our communities

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. The LPO network is vitally important to the Australian postal system, providing the customer interface and community involvement that has made Australia Post part of the fabric of the Australian community. As someone who was born and raised in a small rural community I know first-hand how valued is the Australia Post presence in regional and remote areas.

The Australia Post network provides vital consumer to consumer, business to consumer and business to business services. Australia Post outlets are ubiquitous, and the red post boxes adorn our metropolitan and regional landscapes across the country. Australia Post representatives now not only deliver our daily mail, but we rely on Australia Post for bill paying, passport photography and a whole range of new goods and services. For rural and regional communities in particular Australia Post has a symbolic role. Australia Post is a signal of equality, demonstrating the intended commitment that all Australians wherever they are located should enjoy fundamental communications. It indicates to people in smaller communities that they remain important, and have not been forgotten by Government.

Australia Post facilitates business to business communications through its postal, courier, storage and distribution services. Business depends on Australia Post. Freight and courier competitors frequently interface with Australia Post to enable them to provide their services. So in an economic sense the cost of Australia Post providing its services is reflected in most of the goods and services we buy. This has been recognised by successive Governments in their deliberations concerning postal rates.

The challenges faced by the Australia Post network will be detailed by others, but will no doubt include the declining volumes of letters, increasing parcel volumes, storage costs associated with e-commerce, rising business operating costs, declining population bases in regional communities and so forth. Some of these factors are normal business exigencies, but others are unique to Australia Post or at least are made more challenging due to the need to subsidise some activities or operate in an environment where prices charged to consumers do not reflect the cost of providing the good or service.

I am not aware of any proposals the Committee is considering, or the content of any other submissions to the Committee, so I can offer no specific comment. However I do appreciate the impact Australia Post has on the broader community, and on our economy. As I noted above, the cost of almost everything we purchase probably includes an element for freight, logistics and delivery. If Australia Post is not directly involved, it will likely be involved supporting a third party courier, freight or logistics company. Or indirectly involved disseminating the marketing material that generates business for those companies, or for the senders or recipients of the items delivered.

I therefore urge the Committee to continually reflect upon the fact that any legislative changes, or any unnecessary compliance obligations or red tape, will not only impact the financial performance of Australia Post, but are likely to be reflected in general cost increases. Similarly any inefficiencies created within Australia Post will have a ripple effect across the community.

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### There is structural integrity in the LPO arrangement

The LPO network was established to enable Australia Post to efficiently meet its statutory obligations and commitments to its customers. The LPO model symbiotically combines the brand, systems and resources of Australia Post with the energy, connections and service ethic of a committed and locally engaged owner-operator. Without Australia Post's brand and the systems, products, support and resources it would not be possible to operate a business in many communities. Similarly the engagement and motivation of a business owner adds value and local relevance to the Australia Post business, and ensures the business runs efficiently and cost-effectively.

I believe it would be impossible to provide the network coverage and the quality of products and services to customers through any other structure. A network of Australia Post owned businesses would be too expensive, and a network of entirely independent businesses would be destined to fail.

The structural dynamics of the relationship between Australia Post and its licensees ensure that the relationship is fundamentally sound. Australia Post simply cannot succeed unless its licensees are successful, and vice-versa.

Most franchise systems have some level of interdependence, but the Australia Post – LPO relationship goes well beyond general franchise network requirements for consistent brand presentation and customer experience. The fundamental customer promise of delivery of an item requires Australia Post and its licensees to work together. The customer promises simply cannot be delivered unless Australia Post and its licensees work collaboratively.

Australia Post cannot dictate to the LPO network like it would be able to do if it were a network of employees. Australia Post must rely on the motivation and commitment of the members of the LPO network to honour the brand promises, follow the system and deliver the goods or services to customers. As independent business owners they can only do this if their businesses are fundamentally profitable, and they remain personally committed.

The LPO network is large, and capable of influencing change directly and through organisations such as POAAL. In a human sense Australia Post may be the nerve centre, but the LPO network is the arms and legs. Licensees can and do communicate with each other, and there are a number of representative bodies that are active and effective. The Government ownership of Australia Post, and the fact that there are likely to be multiple LPO outlets in every electorate, ensures there is active political interest in the operations of the network, particularly given the community service expectations. This is healthy, and makes for a highly transparent and balanced business relationship between Australia Post and its licensees.

### Australia Post is used to coping with change

Any business that has operated successfully for as long as Australia Post has done is used to coping with change. Indeed it needs to have a core structure and network relationships that enable change to be implemented. Otherwise the customer is left dissatisfied.

New products and services are constantly being introduced into the Australia Post network. The ubiquitous footprint of the LPO network is attractive to suppliers seeking broad distribution of their goods and services. Bill paying, urgent delivery, secure storage, post office box services and banking are examples of new initiatives introduced into the LPO network. The commercial terms of these arrangements need to be individually negotiated, as they differ from product to product. So before any arrangement can be reached with an external supplier there needs to be discussions between Australia Post and its licensees. This is the purpose of the formal consultative agreement and the

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APLAC. Australia Post needs to know the views of its licensees before any new product can be introduced.

The surge in parcel deliveries caused by the rise in e-commerce is just the latest issue that the Australia Post network needs to collaboratively resolve. I am not aware of the detail, but I will be surprised if Australia Post and its licensees cannot identify and implement mutually satisfactory solutions to cope with any implications of this and future market place changes.

That said, Australia Post's regulatory constraints and community service obligations present unique challenges. Where pricing is set by the market there is less tension than where pricing is statutory. Splitting revenue and responsibilities between Australia Post and licensees can be challenging where statutory pricing does not keep pace with business reality and cost structures. Government may have a role in adjusting any statutory pricing or regulations that impede the achievement of fair pricing.

#### Existing consultative processes are sound

Australia Post currently has the most comprehensive consultative processes of any franchise or licence network I know.

There are formal and informal elements within that consultative process, and strong safeguards that ensure consultation is substantive and genuine. In addition to normal internal consultative processes through conferences, meetings, field support and normal business communication channels, Australia Post has a formal consultative agreement with the Post Office Agents Association Limited (POAAL). Under the Consultative Agreement Australia Post has agreed to consult with POAAL on matters referred to in the Consultative Agreement, notably issues such as fees, commissions and discounts, changes to the Licensed Post Office Agreement and changes to the Licensed Post Office Manual. In addition the Australia Post Licensee Advisory Council (APLAC) was established based on a recommendation of the Deacons Report. (See discussion below.)

When conducting the 2002 review there were groups and individuals within the network of LPO's that asserted that they also ought to have formal consultation rights. I interviewed these people, and listened to their claims. I then looked to find objective evidence to support their assertions.

In a network of thousands of licensees there are likely to be differing opinions, and some parties that see themselves less effectively represented than others. There was criticism of the exclusivity of the formal consultation process, but I found that licensees understood the role of POAAL and I saw little value (and likely additional cost and inefficiency) in adding extra parties to this process. I formed the view that Australia Post's consultative processes were fundamentally sound, and that it would be more productive to establish an advisory council format similar to that used by many franchise systems than duplicate the existing formal consultative process with POAAL.

The APLAC was established as a response to the Deacons Report, and has been operating effectively. The structure follows the model of an advisory council that is common in many other franchise systems. The APLAC features licensee representatives directly elected by all licensees, plus nominated AP senior executives. It meets 4 times each year, and as intended deals with business issues network issues, new initiatives and matters referred to it by licensees. It operates in a highly collaborative manner, and is seen by Australia Post as a key mechanism for accessing licensee input. As such it supplements the activities of POAAL, which are more focused on matters that arise from the formal Consultative Agreement.

The effect of the formal and informal consultative arrangement, combined with the level of external scrutiny that occurs as a natural course as a result of the profile and importance of Australia Post in the Australian community, is that the LPO network enjoys high levels of consultation and has an enviable communications framework. Indeed to the best of my knowledge such formal consultative

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arrangements are peculiar to Australia Post. I am not aware of any other licence or franchise network where there is a formal legal obligation for consultation. Accordingly licensees enjoy greater protection than would be available to franchisees and licensees of other networks.

#### Effective dispute resolution

Disputes are a normal incidence of any licence or franchise network. In a business sense a franchise is frequently likened to a business marriage between two independent business owners. As with any marriage, differences of opinion will arise. The challenge is not to try to prevent disputes, as they arise as a normal feature of a vibrant business relationship. The key is to have effective dispute resolution mechanisms that resolve disputes quickly, fairly and cost-effectively.

Australia Post does this very well, and has a more comprehensive process than most other franchise systems. Australia Post adopts the Franchising Code of Conduct processes, but also augments the regulatory processes by having its own internal dispute resolution mechanisms. As a consequence the level of disputes within the Australia Post network is even lower than the industry standard discussed below.

The Australia Post process begins with ongoing informal consultation and communication processes including meetings, field support visits, training sessions and conferences. Although the APLAC does not consider individual disputes, it does provide an additional forum for considering issues of relevance to the licensee group as a whole. There are also formal dispute resolution processes contained in the LPO Agreement and the Franchising Code of Conduct.

The Australia Post internal dispute resolution process commences with local discussions, then escalates to a State discussions followed if required by consideration by a State Committee. Most disputes are resolved by this structure without the need to access the Franchising Code processes.

I am not aware of the representations any other parties are making to the Senate Committee. However I would urge the Committee to resist any requests to establish some additional formal consultative process or create any process that was adversarial rather than collaborative.

#### The LPO network benefits from an effective statutory regulatory framework

The LPO Agreement is a “franchise agreement” for the purposes of the Franchising Code of Conduct, and parties are required to comply with their Code obligations in addition to those contained in the LPO Agreement.

In summary, the key features of the Code are:-

- The requirement to provide to franchisees a comprehensive disclosure document that contains extensive information about the franchisor (ie: Australia Post), the costs of setting up and operating an LPO business, the provisions of the LPO Agreement, details of existing and former licensees and other information relevant to the conduct of an LPO business;
- Provisions that give licensees the benefit of 14 days to consider the LPO Agreement before signing, a 7-day cooling off period, guaranteed right to transfer, prevention from termination other than in specified circumstances and a range of other protections; and
- A mediation based dispute resolution framework.

The Australian regulatory framework for franchising is generally regarded as world’s best practice. It features Federal legislation – the Franchising Code of Conduct – and is framed by the Competition

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and Consumer Act prohibitions on misleading or deceptive conduct and unconscionable conduct. The legislation is overseen by the Australian Competition and Consumer Commission, which is a well-resourced and highly effective regulator with strong enforcement powers. In addition to the Australian Competition and Consumer Commission oversight there is now a Federal Small Business Commissioner and State Small Business Commissioners in most States with regulatory and investigative powers.

The Franchising Code of Conduct contains a highly effective mediation based dispute resolution mechanism that is a cornerstone of the success of Australian franchising. According to the Franchising Australia Surveys conducted by Griffiths University for the Franchise Council of Australia the level of disputation in Australian franchising is very low, rating consistently at under 2%. This compares very favourably with other countries, including the USA where the disputation rate is estimated to be 6 - 8 %.

LPO's therefore enjoy strong statutory protections, and have access to the extensive information the Franchising Code requires Australia Post to provide in its disclosure document. Importantly they also have access to the mediation based dispute resolution framework contained in the Franchising Code. This framework is simple to access, is low cost and is available at an early stage of a dispute. It has been very successful, with over 80% of disputes referred to the Office of Franchise Mediation Advisor being resolved.

The Franchising Code is constantly monitored, and has been the subject of several enhancements since it was introduced in 1998. A review of the Franchising Code conducted in 2013 has made further recommendations that are likely to be implemented in 2014. This regulatory framework is most comprehensive, and I think strikes a good balance between the interests of all parties to franchise and licence relationships.

#### The LPO model has stood the test of time

The LPO model is robust and flexible, and has continued to evolve with developments in transportation, communications technology and now e-commerce. The LPO model symbiotically combines the brand, systems and resources of Australia Post with the energy, connections and service ethic of a committed and locally engaged owner-operator.

The strength of the Australia Post brand, and the fact that postal services and related activities draw customers to an LPO and therefore support other business activities conducted by the licensee, need to be remembered in the context of any discussion around remuneration for specific postal activities. Australia Post does not receive any royalties or share of revenue for these activities, yet it clearly adds considerable value to them. As any experienced retailer will comment, the key is to get customers through the door. It is then up to the retailer to optimise the sales opportunity.

Australia Post is quite flexible in allowing other activities to be conducted collateral to the postal services, and a wide variety of examples of collateral business and activities exist within the LPO network. Australia Post has also been innovative in seeking out new products and services that can be offered to customers attending an LPO. I see this flexibility as one of the great strengths of the Australia Post model. It allows different communities to have different goods and services, depending to some extent on what other businesses are nearby. Similarly it gives the licensee the incentive to think laterally about how to best optimise the business opportunity anchored by the postal activities.

Most licensees seize the business opportunities, but even those that see the LPO opportunity as more of a retirement vocation than a business are accommodated. If that is their desire the LPO model is not highly prescriptive or demanding provided the core postal activities are conducted appropriately. Importantly, all licensees that I have met understand that it is not intended that licensees survive totally on postal revenue, and indeed the contrary assumption applies. The postal revenue is an

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allocation of the available revenue between Australia Post, the licensee, and any other participants in the process.

I believe the LPO model has stood the test of time. Indeed in my view it would be impossible to provide the network coverage and the quality of products and services to customers through any other structure. A network of Australia Post owned businesses would be too expensive, and a network of entirely independent businesses would be destined to fail. A network of businesses reliant solely on postal revenue would not be viable in many locations, but a network that uses the Australia Post brand and postal services to attract customers and generate other revenue has the best prospect for success. It builds upon the symbiotic nature of the postal relationship and Australia Post's brand, systems, products, support and resources and the engagement and motivation of a business owner that adds value and local relevance and ensures the business runs efficiently and cost-effectively.

#### LPO Agreement compares favourably with industry standards

The structure and much of the content of the LPO Agreement is similar to a typical franchise agreement. However the LPO Agreement is perpetual, rather than limited to a specific and generally substantially shorter term<sup>2</sup>. The LPO Agreement also contains a number of provisions that are more explicit in terms of franchisor obligations, and more protective in terms of the position of licensees, than would be the case in most franchise agreements. For example clause 11 of the LPO Agreement sets out the obligations of Australia Post to:

- i) furnish the Licensee with the Act, the Post Office Rules and the Licensed Post Office Manual as enforced from time to time;
- ii) ensure that suitable product and service information is provided to the licensee;
- iii) provide initial and ongoing training to the licensee;
- iv) use its best efforts to maximise sales of products and services to the mutual benefit of the licensee and Australia Post;
- v) make available to the licensee for purchase all shelving, signage, fixtures and fittings required by the licensee;
- vi) provide a range of specialised accounting and business reporting forms at no cost to the licensee;
- vii) maintain the integrity of the Post Office network by protecting the marks; and
- viii) from time to time make available to the licensee a list of suppliers of complimentary products.

Under clause 8(b) any decision by Australia Post to relocate the LPO shall only be made after consultation and agreement with the licensee. Clause 9(b) provides that the Fees, Commissions and Discounts shall be fixed by Australia Post after having been reviewed at least once annually following consultation with POAAL. Also, clause 34 requires Australia Post to consult with POAAL prior to making amendments to the Licensed Post Office Agreement.

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<sup>2</sup> The industry average term of a franchise agreement according to the Franchising Australia Surveys conducted by Griffiths University is 10 years.

As noted above, the flexibility of the LPO model is much greater than in a typical franchise. Provided the core postal activities are undertaken well there is not the same level of prescription or monitoring of other allied activities as would be the case in a business format franchise. In my experience some licensees are very good at using the postal activities to generate additional business revenue, and they pro-actively seek new opportunities.

#### Community Service Obligations

Australia Post's community service obligations, and in particular its obligation under section 27 of the Act to ensure that the letter service is reasonably accessible to all people in Australia wherever they reside or carry on business, present unique challenges. Under section 9 of the Australian Postal Corporation (Performance Standards) 1998 Australia Post is obliged to maintain at least 4000 retail outlets at which persons can purchase Australia Post products and services, and under clause 9(2) at any one time there must be located in rural or remote zones at least 50% of all retail outlets in operation and, in any event, not fewer than 2,500 retail outlets.

The benefit provided to Australia Post in return includes a statutory monopoly on postal delivery. However the extent of this monopoly is open to debate, with commercial operations in couriers, transportation and logistics on the one hand competing with, but also typically interfacing with, the Australia Post network. To some extent commercial operators can pick the eyes out of Australia Post services, linking in with them for some elements of their delivery proposition and competing against Australia Post for others.

Traditionally the delivery of mail has been seen as the jewel in the crown, but the relative decline of mail and the continuing increase in parcel delivery poses challenges for the LPO network, and indeed for Government. The delivery to household method for normal mail remains complete, but is not possible for parcel delivery. In a typical situation a recipient of a letter has the service fulfilled at time of first delivery by the local postie. However for parcel delivery the item remains at the Post Office for a period pending collection. As parcels frequently include internet purchased items, often from overseas, the reimbursement to Australia Post and its network relies upon the set statutory rates. However the cost of storage is not factored in to postal rates set by statute, or at least not to the extent that such costs are now incurred.

Traditionally arguments for increases in the statutory postal rates have centred more around a need to recover cost increases, but now the fundamental argument relates to the nature of the costs. It has largely been left to Australia Post to come up with mechanisms to address this issue, but Government may well have a role to play if the investment proves beyond the resources of Australia Post and licensees.

#### Concluding Remarks

I wish the Committee well in its deliberations, and would be pleased to expand on any comments or have any further discussions the Committee considers appropriate. My daytime contact details are set out below.

Stephen Giles – November 25, 2013

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