Postal Services Legislation Amendment Bill 2003
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Postal Services Legislation Amendment Bill 2003

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House: House of Representatives
Portfolio: Communications, Information Technology and the Arts
Commencement: Royal Assent

Purpose

The Bill makes amendments to the Australian Postal Corporation Act 1989 (APC Act) and other legislation in order to:

• provide the Australian Communications Authority (ACA) with responsibility for the oversight and reporting on Australia Post’s supply of postal services

• require the Australian Competition and Consumer Commission (ACCC) to make record keeping rules for Australia Post to demonstrate clearly the separation between Australia Post’s reserved and competing services

• enable the ACCC to inquire into disputes and make recommendations in relation to terms and conditions of Australia Post's bulk interconnection service, and

• reduce Australia Post’s reserved services in relation to document exchange and aggregation services.

Background

Australia Post is the successor body to the Postmaster-General’s Department which was established in 1901 to operate a national postal service. Australia Post became a separate entity under the Australian Postal Services Act 1975. In 1989 it became a statutory corporation under the Australian Postal Corporation Act (the APC Act).

Australia Post is generally regarded as a successful business. Promoted as one of Australia’s top ten major companies, it employs 35,762 full-time and part-time staff, handling 4.9 billion articles of mail every year and services 9.2 million delivery points nationally. In 2001/02 Australia Post delivered a pre-tax profit of $407.2 million and

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paid tax and dividends to the Commonwealth of $285.3 million. Over the period 1989-2002/2002 the percentage of letters delivered on time increased from 88 per cent to 96 per cent. The basic postage rate increased in January 2003 from 45 cents to 50 cents which represented the first price adjustment in 11 years.

However in the view of the National Competition Council (NCC) Australia Post’s performance has been too good, in that it reflects a lack of competition in postal services. The NCC noted that in recent times Australia Post’s return on equity has been about three times higher than the highest average for publicly listed companies.

Reserved Services

Under section 51(v) of the Constitution the Commonwealth Parliament has power to make laws with respect to ‘postal, telegraphic, telephonic and other like services.’ Since 1901 the Commonwealth has used this power to ‘reserve’ certain postal services to be conducted by government owned postal authorities. The Postmaster-General’s Department was originally granted reserved services protection to carry all letters weighing up to one pound (500 grams).

Section 29 of the Act currently reserves to Australia Post the exclusive right to carry letters within Australia, whether the letters originate within or outside Australia. A ‘letter’ is defined broadly in the Act to mean any form of written communication that is directed to a particular person or address. A lengthy list of exceptions from the scope of Australia Post’s ‘reserved services’ is contained in section 30 of the Act. Generally speaking the principal services reserved to Australia Post are: the collection and delivery of all letters weighing no more than 250 grams, letters carried for a fee of less than $1.80 and all inward bound international letters.

Australia Post uses its monopoly over the reserved services to cross-subsidise its community service obligations (CSOs). CSOs arise when the government requires a business to provide services which a private company would not choose to provide without compensation. Section 27 of the Act sets out the CSOs. The section requires Australia Post to supply a letter service for the principal purpose of carrying within Australia, letters that Australia Post has the exclusive right to carry; and to carry letters between Australia and places outside Australia. The letter service is to be available at a single uniform rate of postage for standard postal articles.

Subsection 27(4) is concerned with access and performance issues. It requires Australia Post to ensure that:

- the letter service is reasonably accessible to all people in Australia on an equitable basis, wherever they reside or carry on business, and
- the performance standards (including delivery times) for the letter service reasonably meet the social, industrial and commercial needs of the Australian community.

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The CSOs are further defined by regulations. Regulation 5 of the Australian Postal Corporation (Performance Standards) Regulations 1998 provides that Australia Post must service 98 per cent of delivery points daily and 99.7 per cent of delivery points at least 2 days a week. Regulation 6 deals with delivery times, 94 per cent of reserved services letters must be delivered within the specified time. This time ranges from 1 to 4 working days.

Australia Post must also maintain a physical presence throughout Australia. Under regulation 9 of the regulations there must be at least 4000 retail outlets with at least 50 per cent in a rural or remote zone.

Australia Post estimated the cost of the CSOs to be $88.2 million in 2001-02.9

**Competition in Postal Services**

The scope of Australia Post’s reserved services monopoly was reduced by the previous Labor Government in 1994 with the passage of the *Australian Postal Corporation Amendment Act 1994*. This Act opened Australia Post to competition in six product areas namely:

- domestic letters weighing between 250 and 500 grams
- domestic letters carried for between $1.80 and $4.50, including
  - products linked to domestic letter prices, such as bulk discounts
  - newspapers, magazines, books, catalogues and leaflets directed to a particular person or address and enclosed in a cover
- letters moved within document exchange networks Express Post, and
- international outward bound mail.10

Postal industry deregulation did not appear to damage Australia Post’s performance, between 1994-95 and 1996-97 record profits were reported.11

In 1995, Commonwealth, State and Territory Governments signed the Competition Principles Agreement. Amongst other matters, the parties agreed to review all legislation containing provisions restricting competition. In 1998, the National Competition Council conducted a review of the *Australian Postal Corporation Act 1989*. Its recommendations included that:

- the price element of the reserved services monopoly be reduced by requiring competitors to charge two times the standard letter rate (90 cents) rather than the existing four times ($1.80)
there should be open competition in business letter services with Australia Post being free to offer discounts to business customers but with no business paying more than the uniform rate to post a standard letter

all international mail services should be open to competition, and

postal services should be subject to an access regime.

The Government Response to the NCC Report

The Government in its response\(^2\) rejected the NCC’s recommendation that all business mail should be deregulated and instead stated that it would legislate to reduce Australia Post’s reserved service for Australian origin/destination mail from 250 grams and four times the standard letter rate to 50 grams and one times the standard letter rate.

In addition, the Government stated that it would remove Australia Post’s monopoly on incoming international mail with safeguards to prevent this being used to circumvent Australia Post’s domestic reserved services.\(^3\)

The Government also proposed ‘arrangements that [would] provide for access by competitors to Australia Post on terms and conditions no less favourable than Post offers its own customers.’\(^4\)

The Postal Services Legislation Amendment Bill 2000 (the 2000 Bill) was intended to implement this response by:

- reducing the scope of the services reserved to Australia Post, thereby increasing the opportunities for competition in postal services, and

- providing a postal services access regime under the *Trade Practices Act 1974* to facilitate access to Australia’s Post’s network by other market participants.

The 2000 Bill also proposed to convert Australia Post from a statutory corporation to a public company under the Corporations Law, wholly owned by the Commonwealth. However both parliamentary opposition and perceived fears of the Bill’s impact on regional and isolated areas of Australia meant that the Government withdrew that Bill in March 2001, 12 months after the Bill was first introduced.\(^5\)

The 2003 Bill proposes to implement some of the arguably less contentious aspects of the 2000 Bill and also proposes new procedures of accountability involving oversight of Australia Post by the ACA. The Government in its Explanatory Memorandum argues that as the reform package in the 2000 Bill was not adopted, the rationale for the 2003 Bill is to again take up the impetus to drive improvements in the delivery of Australia Post services.\(^6\)

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Further background about the current Bill is found under the Main Provisions section of this Digest.

**Main Provisions**

Australian Communications Authority and Oversight of Australia Post

Oversight of Australia Post’s performance in its delivery of services is currently undertaken by the Auditor-General. Section 28 of the APC Act requires the Auditor-General to monitor Australia Post’s performance against the prescribed performance standards. The Minister in his Second Reading Speech argues this regulation by the Auditor-General is not adequate given Australia Post’s monopoly over certain services and the limited competitive pressure on Australia Post’s performance in the supply of services. The Bill will therefore give the ACA an oversight role in relation to Australia Post by providing for the ACA to monitor and report on Australia Post’s performance in the supply of postal services.

The Australian Communications Authority (ACA) is a government regulator of radiocommunications and telecommunications. Established in July 1997, the ACA falls within the portfolio of Communications, Information Technology and the Arts. Its functions include reporting on telecommunications industry performance and monitoring telecommunications industry compliance with universal service and digital service obligations. The Minister in his Second Reading Speech argues that the ACA is the most appropriate organisation to oversee and monitor Australia Post because of its current role in relation to overseeing the delivery of telecommunications.

Clause 4 of the Bill is a transitional and saving provision. Its effect is to allow the current accountability processes undertaken by the Auditor-General to continue until the ACA and the ACCC commence their new reporting functions as set out in the Bill.

**Australian Communications Authority Act 1997 Amendments**

Items 1-5 of Schedule 1 amend the Australian Communications Authority Act (ACA Act) to take account of the ACA’s new functions in relation to Australia Post.

The ACA’s postal functions are set out in new section 7A of the ACA Act and are:

- the functions conferred on the ACA under the APC Act (see item 21 below)
- to advise the Minister on the performance of Australia Post in the supply of postal services, and

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• to do anything incidental to the performance of any of the above functions.

**Australian Postal Corporation Act 1989 Amendments**

Division 1A of Part 3 of the APC Act relates to performance standards and audits carried out by the Auditor-General. **Item 10** repeals the Division and **item 21** transfers this monitoring role to the ACA within **new Division 1 of Part 4A**. The Explanatory Memorandum states that it was considered preferable to include all the ACA’s functions relating to monitoring and reporting on Australia Post’s performance in the one Division.20

**New section 50A** confers on the ACA the responsibility of monitoring the supply of postal services by Australia Post. Under **new section 50B** the ACA must report each financial year to the Minister on various matters relating to Australia Post’s performance in the supply of postal services, including its performance against prescribed performance standards, and the cost of the CSOs.

In particular the ACA’s report must include:

• the ACA’s assessment of Australia Post’s performance in the supply of postal services for the financial year (new paragraph 50B(1)(a))

• the ACA’s assessment of the extent to which Australia Post met the prescribed performance standards in the financial year (new paragraph 50B(1)(b))

• a statement as to the methodology used by the ACA in determining the extent to which Australia Post met the prescribed performance standards (new paragraph 50B(1)(b))

• the ACA’s calculation of the cost to Australia Post of carrying out the CSOs for the financial year (paragraph 50B(1)(c))

• a statement as to the methodology used by the ACA to calculate the cost of the CSOs (new paragraph 50B(1)(c))

• any matters relating to the supply of postal services that the Minister has directed the ACA to include in the report (new paragraph 50B(1)(d)), and

• any other matters relevant to the performance of Australia Post in supplying postal services that the ACA considers appropriate (new paragraph 50B(1)(e)).

The ACA must provide the report to the Minister no later than 15 October (new subsection 50B(3)) and the report must be tabled in Parliament within 15 sitting days of the Minister receiving it (new subsection 50B(4)).

**New section 50C** relates to performance standards to be met by Australia Post. **New subsections 50C(1) and (2)** provide that the regulations may prescribe performance

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standards and those standards must relate to the speed, frequency or accuracy of mail delivery or to the availability or accessibility of post boxes or offices of Australia Post. These provisions replicate current section 28C which is to be repealed by item 10. In addition, **new subsection 50C(3)** provides that performance standards may also relate to the methods of determining the level of mail delivery service for a particular area.

**New section 50D** requires the ACA to prepare a service improvement plan that is to be given to the Minister and tabled in Parliament if Australia Post has not met a prescribed performance standard. This is a similar provision to current section 28E but includes a Ministerial discretion to waive the need for a plan if he/she considers it unnecessary.

**New section 50E** provides that the Minister may direct the ACA to monitor and report on specified matters relating to Australia Post’s supply of postal services. These are additional reports to the annual report prepared under new section 50B.

**New section 50F** requires the ACA to calculate the cost to Australia Post of fulfilling its CSOs and report to the Minister and Australia Post on the costs it has calculated. The ACA’s calculation of the costs will be tabled in Parliament as part of the section 50B annual report. CSO costing is currently undertaken by Australia Post itself and details are required to be published in its annual report.\(^{21}\)

**New section 50G** enables the ACA to require Australia Post to keep certain records and give the ACA information about matters in a specified manner and form relevant to the performance of the ACA’s postal functions.

**Record Keeping by Australia Post and the Monitoring Role of the ACCC**

In recent years there have been concerns, particularly from newsagents, that Australia Post unfairly competes in the market place by cross-subsidising its competitive services with revenue from its reserved services. The Australian Newsagent’s Federation (ANF) in its submission to the Senate Environment, Communications, Information Technology and Arts Legislation Committee (ECITA) inquiry into the 2000 Bill raised this issue suggesting that Australia Post was using its reserved services revenue to cross-subsidise its retail activities such as selling greeting cards, stationery and postcards. The ANF submitted that ‘In general the selling price of many Australia Post retail items is lower than what any competitive retailer would consider sustainable if he is to remain in business.’\(^ {22}\) Australia Post in evidence to the ECITA Committee in 2000 denied that the retail service is being cross-subsidised.\(^ {23}\)

The NCC examined this issue in 1997-98. While it found no evidence to substantiate the claims of newsagents it recommended that there be a requirement for detailed auditing and accounting information to provide for transparency of the financial relationship between different elements of Australia Post’s business.
In order to allay concerns that such cross-subsidisation is occurring **new sections 50H-50K** will require the ACCC to make record keeping rules for Australia Post. Under **new subsection 50H(2)** the ACCC **must** require Australia Post to keep records about its reserved services and in addition, it **may**, but is not obliged, to require Australia Post to keep records that are relevant to the ACCC’s functions in relation to prices surveillance and to inquiries into bulk mail services. Australia Post must give the ACCC copies of those records when requested (**new subsection 50H(3)**) and the ACCC may then prepare and publish reports analysing the information (**new section 50I**). The Minister may also direct the ACCC to prepare and/or publish such reports (**new section 50J**). A claim of commercial-in-confidence by Australia Post in relation to the information to be published can be overridden if the ACCC is satisfied that the claim is not justified or that it is in the public interest to publish the information (**new section 50K**).

By way of comparison the 2000 Bill contained a similar requirement that the ACCC make record keeping rules for Australia Post’s reserved services.

The ACCC has indicated that these powers are broadly similar to those the ACCC has in relation to telecommunications carriers, and would allow the ACCC to obtain information which would assist it in carrying out its functions in relation to prices surveillance, or inquiring into disputes under section 32 of the APC Act.24

**ACCC and Bulk Interconnection Service Disputes**

Section 32B of the APC Act currently provides that the regulations may provide for the ACCC to inquire into disputes about certain bulk services. These provisions were introduced in 1994 but to date, no such disputes have been notified to the ACCC.25 The Bill will broaden the scope of the ACCC’s powers to inquire. Currently the ACCC can only make recommendations in relation to the amount of a rate reduction offered by Australia Post for these services. **Item 16** repeals and replaces subparagraphs 32B(1)(a)(i) and (ii) in order to allow the ACCC to inquire more generally into the terms and conditions on which the services are offered. According to the ACCC the proposed change is broadly consistent with other legislation under which the ACCC is required to resolve disputes, and recognises that consideration of an appropriate charge (or rate reduction) for a service necessitates consideration of the terms and conditions upon which it is offered.26

**Recovery of Costs Incurred by the ACA and ACCC**

**Item 22** inserts **new section 56A**. It has the effect of allowing the Commonwealth to recoup from Australia Post the costs in administering the new postal powers and functions imposed on the ACA and the ACCC under the Bill. In evidence to the recent Senate ECITA inquiry into this Bill27, Australia Post advised that an amount of around $3.5 million a year would be levied from Australia Post on an ongoing basis.28

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Reducing the Scope of Reserved Services: Mail Aggregation

As discussed above, section 29 of the APC Act currently reserves to Australia Post the exclusive right to carry letters within Australia regardless of whether the letters originated within or outside Australia. The exclusive rights conferred by section 29 are subject to exceptions listed in section 30. For example paragraph 30(1)(a) provides that the reserved services do not include the carriage of a letter weighing more than 250 grams.

**Item 11** inserts **new paragraph 30(1)(hb)** which establishes mail ‘aggregation’ as a new exception to the reserved services. Under the new provision a person will be able to take mail from a number of sources, pre-sort it and then deliver it to an Australia Post office for delivery under a ‘bulk service’. This term is defined in **new subsection 30(1AA)** as service provided by Australia Post under which bulk quantities of letters are delivered in Australia at reduced rates if they are sorted and lodged at a Post Office in accordance with the terms and conditions of the service. It is of note that the 2000 Bill proposed a similar amendment and at that time, Australia Post estimated that this new exception would reduce its annual revenue by $40 million.²⁹

Reducing the Scope of Reserved Services: Document Exchange Service Providers

Document exchange services (DX services) provide for the exchange of mail between members of the service in order to provide businesses with speedy delivery of time sensitive material or specialised documents. Currently the carriage of mail within a DX service centre or between DX services centres is excepted from Australia Post’s reserved services (paragraph 30(1)(ma)). However the carriage of mail between the customer and the DX centre is still reserved to Australia Post. **Item 12** inserts **new subparagraphs 30(1)(ma)(iii) and (iv)** with the effect of removing this carriage from the reserved service. The Explanatory Memorandum states that this amendment is proposed to legitimise present industry practices, as document exchange businesses currently include a pick up and delivery of letters to the members as part of their service.³⁰

There have been concerns that this amendment would open up the possibility that the reserved services of Australia Post may be undermined by DX services expanding their customer base in order to establish an alternative delivery network. The Bill attempts to address this danger through the anti-avoidance measure contained in **new subsections 30(1C) and (1D) (item 14)**. Amongst other things DX members must:

- choose to become members of a DX service
- pay a fee to remain a member
- be allocated a unique identifier by the DX service

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• be a government agency, partnership, educational institution, health or community service provider, charity, religious institution or other person carrying on a business or other undertaking not of a private or domestic nature.

**Concluding Comments**

*Senate Environment, Communications, Information Technology and the Arts Legislation Committee Report*

On 25 June 2003 the Bill was referred to the Senate Environment, Communications, Information Technology and the Arts (ECITA) Legislation Committee for inquiry and report. The ECITA Committee reported on the Bill on 19 August 2003.

The Committee’s majority report recommended that the Bill be passed without amendment. The Committee noted that as Australia Post’s reserved service is a monopoly, albeit one that is government owned and operated, the Government is duty bound to implement a system of independent scrutiny of the Australia Post’s activities as a means of assuring the public, the Parliament, and its potential competitors that the company is operating within acceptable bounds. The scrutiny is a cost that must be borne in the interests of transparency, and the Committee accepts that the ACCC and the ACA are the appropriate agencies to perform the important monitoring tasks, given their related expertise in the telecommunications field.  

In relation to aggregation and document exchange services the majority report also considered that it is unacceptable for the Government to be seen to turn a blind eye to these operations which are currently operating illegally. Strict enforcement is equally unacceptable. The report noted:

> The operations of the aggregators and document exchange services are complementary to Australia Post, not in competition. Since their inception they have grown to play an important and legitimate role in the postal services market and they should be relieved of the uncertainty in their business operations that is associated with their current status. The Committee is reassured that the Bill contains appropriate safeguards to ensure that there are no unintended consequences that might otherwise arise.

The Labor Members in their dissenting report recommended that the Bill be amended to remove the provisions legitimising document exchange and aggregation services and the provisions providing the ACA with a regulatory role in regards to Australia Post services.

In relation to document exchange and aggregation services they noted the concerns raised in the submissions that the Bill will essentially legalise activities that are presently illegal,

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thereby eroding the reserved service and setting up part of a regulatory machine that will be needed for further market liberalisation.

The Senators quoted Ms Eason from the Communications, Electrical and Plumbing Union (CEPU) who in evidence to the Committee stated:

> […] the whole process is a form of deregulation by stealth and therefore should be regarded unfavourably by the Senate. But if this legislation were to be proceeding and getting enough support to go through then certainly we would think that you should be looking at mechanisms to tighten the penalties for breaches of the legislation.

In relation to the new role of the ACCC the Labor Senators also noted that there is concern about the duplication of accounting activities, as the ACCC would be collecting much the same information that Australia Post already collects. They noted:

> There is also a concern of the ability of the ACCC to impose new accounting methods and to ensure there is no cross subsidisation, particularly as it was found by the National Competition Council that there is no evidence of any cross subsidisation occurring. It is therefore essential to determine whether this duplication of activity between Australia Post and the ACCC will have any actual benefit to either Australia Post or the industries in which it operates.33

While the role of the ACCC is considered to be generally positive, the Labor Senators noted that there were some serious reservations about the role of the ACA. In particular they noted that the ACA would effectively take over the monitoring of Australia Post’s prescribed service standards and Labor Senators are concerned the ACA is not sufficiently independent of the Minister to perform these functions. They noted:

> The ACA is considered to be an organisation that has been captured by the Government and has been criticised for publishing overly positive reports on the telecommunications industry in the lead up to the Government’s push for the privatisation of Telstra. The concern is that the ACA’s Australia Post role would aid any further Government’s attempts to deregulate Australia Post.34

A further concern about these regulatory provisions was that in order to cover the costs of the ACCC and the ACA there would be the imposition of new levies on Australia Post, which would undoubtedly be incurred by the public whether through increased postal costs or reduced Government dividends.35

The Democrat Senator in his supplementary report on the Bill also questioned the need for these new regulatory provisions given that no evidence was found by the National Competition Council or submitted by the Government that the current regulatory oversight by the Auditor-General is failing to identify any improper use of market power by Australia Post. The Senator also expressed some concern about the aggregation of services proposal but concluded that the Democrats, would reserve their position on the Bill until
the Senate debate, allowing the Government to expand in more detail what impact it expects the reform to have on small businesses operating as postal agents.36

Endnotes

1 The Background section of this Digest draws on material in the Bills Digest, No. 1 2000-2001 Postal Services Amendment Bill 2000.
2 Australia Post, Annual Report 2001-02, p. 4.
3 ibid., p. 7.
4 This figure was reported in ‘Big post office dividend on the cards’, Australian Financial Review, 24 October 2002. Dividends to the Commonwealth were $175.1 million. (Australia Post, Annual Report 2001-02, p. 8.)
5 National Competition Council, Review of the Australian Postal Corporation Act, 1998 p. 35.
6 House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform, Keeping Rural Australia Posted, August 1996, p. 10.
8 Subsection 27(3). Standard Postal Article is defined in section 4. It is an article that weighs no more than 250 grams and is not more than 5 millimetres thick. There are also size and shape restrictions. The definition generally excludes parcels.
11 ibid, p. 33.
14 ibid.
15 The Postal Services Legislation Amendment Bill 2000 was discharged from the House of Representatives Notice Paper on 29 March 2001.
16 Explanatory Memorandum, p. 12.
18 The universal service obligation (USO) is a legislative requirement designed to ensure reasonable and equitable access throughout Australia to the standard telephone service, payphones and certain carriage services. Under the USO, the universal service provider—currently Telstra—is obliged to provide a standard service to all Australians, no matter how

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remote or isolated they may be. The cost of delivering the universal service is shared between all carriers in proportion to their revenues.

20  *Explanatory Memorandum*, p. 22.
21  This requirement will be removed by item 20 which repeals subparagraph 44(1)(g)(i).
22  Australian Newsagents Federation, Submission to the Senate ECITA Committee, May 2000, p. 6.
23  Mr Ryan, Senate ECITA Committee, *Hansard*, 8 May 2000, p. 49.
25  ibid.
26  ibid.
27  See the Concluding Comments of this Digest for information about the ECITA Committee inquiry.
28  Mr McCloskey advised the Senate ECITA Committee of this figure on 8 August 2003.
29  Mr Short, Senate ECITA Committee, *Hansard*, 8 May 2000, p. 53.
30  *Explanatory Memorandum*, p. 25.
32  ibid., para 1.38.
33  ibid., para 3.7.
34  ibid., para 3.16.
35  ibid., para 3.18.
36  ibid., Democrat Senator’s Supplementary Report.