
POSTAL SERVICES LEGISLATION AMENDMENT BILL 2000

LABOUR SENATORS MINORITY REPORT

SUMMARY

AUSTRALIA POST HAS A UNIQUE ROLE IN OUR COMMUNITY

- Labor Senators recognise that Australia Post is a critical part of Australia's communications infrastructure, and plays a unique role in ensuring that Australians everywhere have access to a quality, reliable postal service.
- Labor Senators believe that Australia Post must be able to continue and extend its unique role in the emerging digital age.

THE GOVERNMENT'S DEREGULATION PROPOSALS

- Labor Senators are opposed to both the scope and scale of the Government's proposed deregulation of Australia's postal environment.
- Labor Senators believe that deregulation on the scale proposed by the Government can only lead to an increased focus by postal operators on profitable areas, with a corresponding decline of services or increase in the costs of non-reserve services in marginal areas, such as remote, rural and regional Australia.
- Labor Senators oppose the Government's proposed deregulatory changes on the basis that these changes would significantly reduce the capacity for Australia Post to provide existing and potential future communications services.

POSTAL NETWORK ACCESS

- Labor Senators believe that an appropriate postal network access regime can be part of a healthy competitive industry.
- Labor Senators, however, believe that this must not be to the detriment of universal access to reliable and dependable postal service standards.

AUSTRALIA POST IS AN IMPORTANT PART OF OUR NATIONAL COMMUNICATIONS INFRASTRUCTURE

Postal services are a necessary part of social and economic life. These services constitute the common act of carriage of messages, documents and objects from one point to another.

Australia Post is clearly committed to fulfilling that service, as reflected by Australia Post's corporate vision, which states in part:

Australia Post is committed to providing high quality mail and parcel services to all Australians.

We will meet our customers' changing needs by providing:

- *innovative and easy-to-use products and services;*
- *friendly service by knowledgeable staff;*
- *consistent on-time delivery;*
- *value for money; and*
- *modern, efficient networks.*

(Australia Post corporate vision – <http://www.austpost.com.au/>)

The 21st century may well be dominated by those who can access and harness information, communications and intellectual property. If Australia is to generate high skill, high wage jobs for the future, then we must invest in the infrastructure of the knowledge based industries – our information and communications infrastructure.

Across Australia, communities use the services provided by Australia Post to undertake many activities that we daily take for granted, and, according to most accounts, Australia Post provides these services efficiently and effectively.

Australia Post is generally regarded by our constituents as providing a good postal service. We get remarkably few complaints from our constituents compared with some other communications modes.

(National Farmers Federation – ECITA Committee Hearings 8th May 2000)

Australia Post is a public sector organisation, incorporated under legislation, the Australian Postal Corporation Act (1989). Australia Post plays an important role in communications infrastructure. It maintains a national addressing and delivery system for the transportation of physical mail articles, thus providing a universally accessible, reliable public carriage network for carrying mail and

parcels. This historic role is also viewed with respect, particularly by those who live in rural and regional areas.

The National Farmer's Federation see postal services as one of the essential services or rights that people have in Australia and that everybody should have the right to have reasonable access at a reasonable price to postal services.

Australia Post provide not only a good postal service but also additional services, which are obviously important to people in rural and regional Australia.

(National Farmers Federation – ECITA Committee Hearings 8th May 2000)

- ***Labor Senators recognise that Australia Post is a critical part of Australia's communications infrastructure, and plays a unique role in ensuring that Australians everywhere have access to a quality, reliable postal service.***

AUSTRALIA POST HAS AN IMPORTANT TASK FOR THE FUTURE AS WELL AS THE PRESENT

As the global economy moves from an era in which trade in physical resources was the prime generator of wealth to an era where trade in services and ideas grow to dominate business, the basis for national investment in the relevant infrastructure supporting services and ideas must also change.

The scope of Australia Post's current postal infrastructure is vast, consisting of public postal outlets, freight logistics, mail sorting procedures, electronic networks and a massive national vehicle fleet.

The nature of this infrastructure is subject to change, as global developments in digital communications and information technology transform the way we communicate, transact and interact.

Providing world class delivery standards in the face of increasing mail volumes has necessitated change to our mail network. That transformation is known as FuturePOST.

This massive modernisation and upgrade of the mail network will ensure that mail remains a relevant and cost effective communication channel well into the next century.

(Australia Post's FuturePOST minisite – <http://www.austpost.com.au/>)

In Australia, public access to the infrastructure of this emerging digital world will be just as vital for communities as access to the Australian public postal network has been for over a century.

- ***Labor Senators believe that Australia Post must be able to carry on its unique role in the emerging digital age.***

AUSTRALIA POST PROVIDES THE CRITICAL INFRASTRUCTURE FOR BRIDGING THE COMMUNICATIONS GAP BETWEEN CITY AND RURAL AUSTRALIA

Australia Post operates an extensive network of publicly accessible service outlets in communities throughout Australia.

Significantly, these outlets are also spread relatively equitably across rural and regional Australia, a result of Australia Post's historic national role.

The potentially damaging consequences that the Government's postal deregulation proposals may have on Australia Post could jeopardise its role in the delivery of emerging digital services in rural and regional communities, and will risk increasing the disparity in respect of the cost of and access to communications infrastructure.

It is feared that rural and remote people would not receive full service in a competitive market, or costs could increase substantially and lead to a most inequitable situation

(Country Women's Association of Western Australia – Submission no. 2)

Of particular concern for those in rural or regional areas is the possibility that in a deregulated environment such as that proposed by the Government, Australia Post might have to consider basing the prices of non-reserve postal services on a differential basis, that is, charging more for services in rural or remote areas than for those in more profitable urban areas.

We would have to review the market impact, of course, over time and see how our profitability was going to see whether some price differential in competitive non-reserve areas was warranted or not...

Where it might impact is on the small parcels where we do have a universal price. You can send a 250-gram parcel anywhere in Australia for \$2.50. In very remote areas, obviously with \$2.50 we lose; there is cross-subsidisation within that. We may need to review the very small parcels.

(Australia Post – ECITA Committee Hearings 8th May 2000)

Clearly, differentiated pricing would put users of mail services in rural and remote areas at great disadvantage.

While the claim has consistently been made by the Government that services in rural and regional areas will not be affected by the introduction of the proposed legislation, even the Government is unsure about the impact on Australia Post of some aspects of its deregulation Bill, stating in the Explanatory Memorandum to the Bill that:

It is not possible to quantify with certainty the benefits and costs from reduction in the reserved services and the postal access regime

(Page 3 – Postal Services Legislation Amendment Bill 2000 – explanatory memorandum)

Others are not so optimistic as the Government. Of particular concern is the potential impact of the legislation on licensed postal office operators. The Post Office Agents Association Ltd (POAAL) have stated that:

Government wants to change the rules and slash their (postal agents) investments in the business and the community.

Any legislation which changes the current situation will have an adverse impact on the businesses of licences and mail contractors – and could see them bankrupted, which would not be good news to their communities...

(Post Office Agents Association Ltd – Submission no. 15)

- ***Labor Senators believe that maintaining Australia Post as a robust local presence in regional areas for the delivery of both existing and emerging services will help to bridge the growing communications divide that exists between rural and urban communities.***

NO PUBLIC BENEFIT IN WHOLESALE DEREGULATION

Labor is opposed to both the scope and scale of the Government's proposed deregulation of Australia's postal environment.

These proposals come at a time of economic uncertainty for Australia Post, as economic change is accelerated by rapidly developing information technology.

So-called old economy industries are making way for media and technology markets, as international trade in services and information accelerates. This transition is placing pressure on traditional service sectors, including that of the postal sector, as competition to provide both existing and emerging services increases.

Indeed, Australia Post will be placed under even greater pressure after the introduction of the goods and services tax in July of this year. Australia Post estimate that the adverse impact on the profitability of the organisation will be approximately \$90million to \$100million, reducing profit on the last financial year by approximately 26%.

Mr G. Ryan—We estimate that loss of revenue—Mr Short may want to add to this—is around \$90 million to \$100 million per annum.

Senator MARK BISHOP—So you are saying that the impact of the GST on Australia Post—subsequent to July 98—is revenue loss of \$90 million to \$100 million.

Mr Short—That is correct.

(Australia Post - ERCITA Committee hearings – 8th May 2000)

As well, in total, the postal competition changes proposed by the Government, including the introduction of an access regime, will result in a further decline in Australia Post's profits, estimated by Australia Post to be around \$200million. This figure represents over half of Australia Post's total profit for the last financial year.

Mr Short—In revenue terms, we think the loss purely from competition will be around \$160 million. We think the effect of aggregation will add another \$40 million to that, so in total it will be about \$200 million.

(Australia Post - ERCITA Committee hearings – 8th May 2000)

This figure, when combined with the estimated \$90million to \$100million impact of the introduction of the goods and services tax, means that Australia Post's profit would decline by over \$290million if the Government's proposals go ahead. When compared to Australia Post's record 1998-99 financial year profit of \$370million, this would leave less than \$80million for Australia Post to re-invest in infrastructure, or to subsidise service obligations.

Australia Post have stated that the erosion of the organisation's profit necessarily means a reduction in investment in the postal network infrastructure, again placing services and, ultimately, prices, at risk.

We have provided substantial financial returns to our owner—around \$4 billion—and we have been able to reinvest about \$2.3 billion over the past 10 years to remain at the forefront of postal performance, and that ability to reinvest will be crucial to our future as well.

(Australia Post - ERCITA Committee hearings – 8th May 2000)

Clearly, the erosion of Australia Post's profits will have two immediate effects. Firstly, Australia Post will have less profit to re-invest in its own postal network infrastructure, and secondly, the company will return less by way of dividend to the Commonwealth.

The Government has not provided quantitative data about the potential risks and benefits of its proposals. The National Farmers Federation stated in their submission to the inquiry that:

At a time of high compliance burdens with taxation reform, combined with a loss of services in regional Australia in a range of areas and changes in telecommunications service provision, the implications of any new reform...must be carefully considered and communicated.

(National Farmers Federation – ECITA Committee Hearings 8th May 2000)

Labor Senators support the maintenance of the existing reserved service postal regulations and the continued development of Australia Post's robust national postal and communications infrastructure in the existing competitive environment, on the basis that this will guarantee universal communications services now and for the future.

Labor Senators believe that deregulation on the scale proposed by the Government can only lead to an increased focus by postal operators on profitable areas, with a corresponding decline of services or increase in prices in marginal areas, such as remote and rural Australia.

This view is echoed by a range of organisations.

Ms Nicholl—Our organisation is concerned that if deregulation occurs, prices for services may fall in the high volume areas but will increase in the lower density and remote areas. As many of our members live in rural and remote areas, this would be a concern.

(Country Women's Association of Western Australia – ECITA Committee Hearings 8th May 2000)

Australia Post's already efficient business practices have meant that it has been recognised internationally, and consistently ranks highly in comparisons of cost efficiency, despite operating in a competitive environment. (See appendix 1 – graphs relating to Australian postal pricing and protection compared to other OECD countries)

When asked about the cost efficiency of Australia Post's pricing for standard letter articles, Australia Post provided the following comparisons:

Mr G. Ryan—I do have a few that might be of interest. The basic postage rate in Sweden is fully deregulated - this is on a purchasing parity basis - at 68c, remembering that ours is 45c. In Finland where it is fully deregulated the rate is 68c. In Germany the rate is 75c. In Holland the rate is 52c.

(Australia Post - ERCITA Committee hearings – 8th May 2000)

Viewed in this light, it is difficult to see how further deregulation of reserved services could provide much in the way of appropriate price falls. Any change to pricing would simply come off Australia Post's profit margin, thereby reducing Post's capacity to re-invest in infrastructure, and return a dividend to the Commonwealth for use in other areas.

Australia Post are of the view that the Government's proposals go further than their own plans to open the postal sector to more further competition.

There have been areas of difference between our originally preferred proposals and the final provisions that are in the bill. They relate to the reserve service weight threshold of 50 grams—we had proposed 125 grams—the deregulation of incoming international mail—we had opposed that—and a proposed access regime which we felt goes further than necessary.

(Australia Post - ERCITA Committee hearings – 8th May 2000)

While recognising Australia Post's concerns, Labor Senator do recognise that an appropriate third-party access measure in the existing competitive framework could minimise unnecessary duplication of material infrastructure.

Labor Senators believe that an appropriate postal network access regime can be a part of a healthy competitive industry. This, however, must not be to the detriment of the notion of universal access to reliable and dependable postal service standards.

Australia Post have made it clear that uncertainty surrounding the potential impact of the proposed access regime is a factor of some concern.

There will be some reduction in revenues and profit, inevitably, compared with the no-change scenario. We have said, however, that the access regime is a little unclear as to its final outcome because we will not know until a case is taken to the ACCC.

(Australia Post - ERCITA Committee hearings – 8th May 2000)

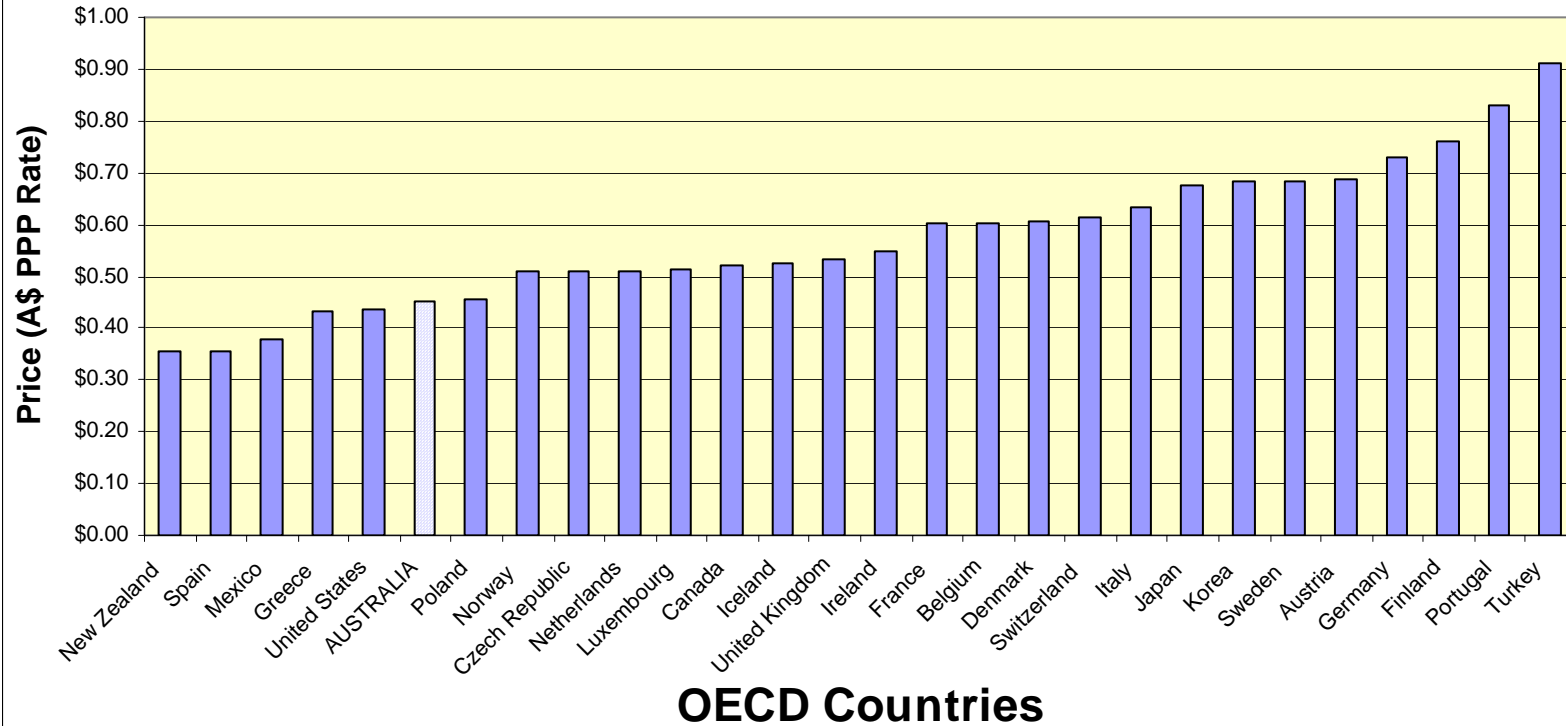
Clearly, then, the Bill represents two major unknowns. Firstly, the Government cannot predict the risks or benefits associated with further deregulation, and secondly, there will be an unknown risk to Australia Post, and therefore their capacity to re-invest in infrastructure and provide a dividend to the Commonwealth.

- *Labor Senators oppose the Government's proposed deregulatory changes on the basis that these changes would significantly reduce the capacity for Australia Post to provide existing and potential future communications services.*

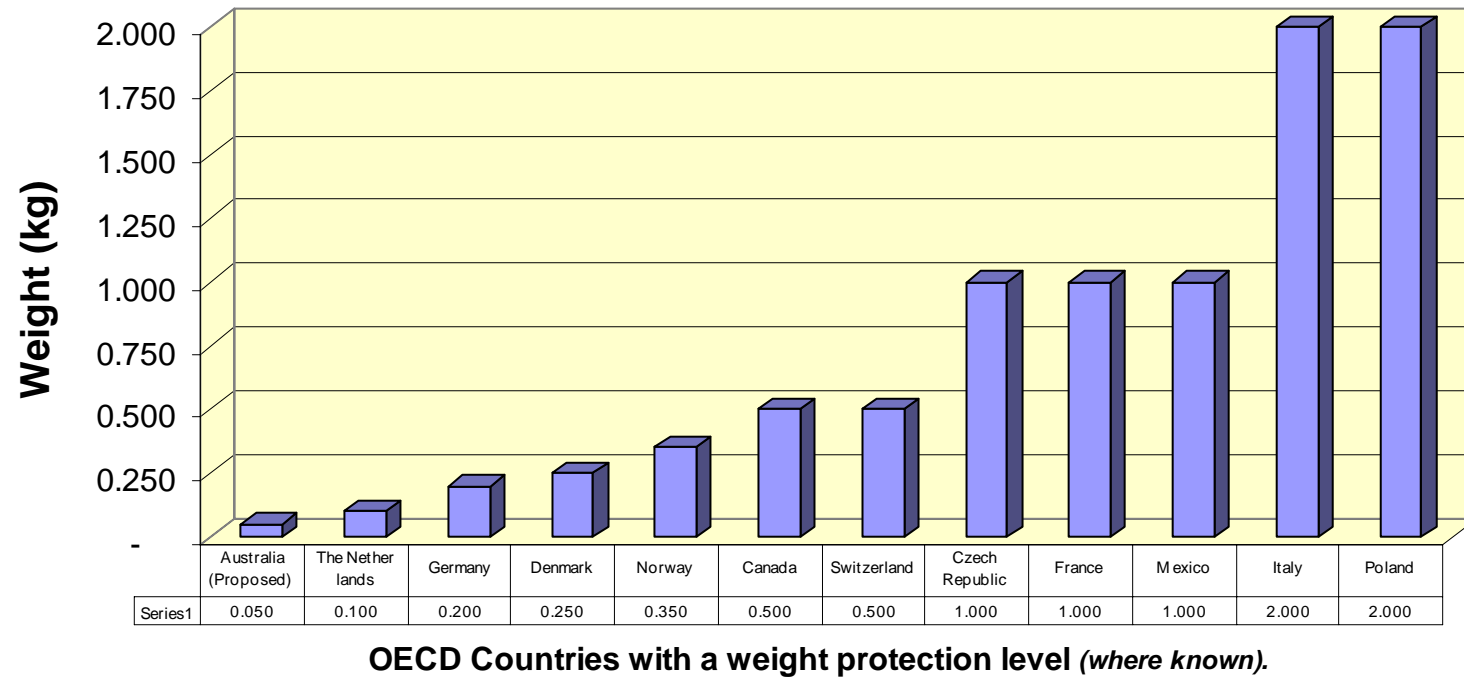
Senator Mark Bishop
Senator for WA

Senator the Hon Nick Bolkus
Senator for SA

Standard Letter Prices in OECD Countries Comparison using A\$ PPP Rates



Postal Monopolies in OECD Countries Weight Protection Levels (*where known*).



Note: USA has exclusive rights over all mail delivered into letter boxes – of unlimited weight – save for some specified urgent mail.

