

**INDUSTRY
COMMISSION**

**MAIL, COURIER AND PARCEL
SERVICES**

**Report No. 28
30 October 1992**

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INDUSTRY COMMISSION

30 October 1992

The Honourable J S Dawkins M P
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

In accordance with Section 7 of the *Industry Commission Act 1989*, we submit to you the report on Mail, Courier and Parcel Services.

Yours sincerely

Keith J. Horton-Stephens
Presiding Commissioner

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Associate Commissioner

COMMISSIONER

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TERMS OF REFERENCE

Industry Commission Act 1989

I, RALPH WILLIS, in pursuance of Section 7 of the Industry Commission Act 1989 hereby:

1. refer public and private mail, courier and parcel services (including electronic services) for inquiry and report within twelve months of the date of receipt of this reference;
2. specify that the Commission report on institutional, regulatory or other arrangements subject to influence by governments in Australia that inhibit efficient resource use, and advise on courses of action that could remove such inhibitions and facilitate improved efficiency;
3. without limiting the scope of the reference, request that the Commission give priority to areas where the greatest efficiency gains are in prospect and areas where early action is practicable, having regard to:
 - (a) the obligation to Australia Post to provide a letter service as specified in Section 27 of the Australian Postal Corporation Act 1989, and the present and likely future costs of providing a reasonable service as efficiently as practicable;
 - (b) the scope for, and extent of, competition in the various segments of the mail, courier and parcels industry;
 - (c) whether there are places or groups that do not receive adequate access to mail, courier and parcel services, and options for servicing their needs; and
4. specify that the Commission is to have regard to the established economic, social and environmental objectives of governments.

RALPH WILLIS
30 October 1991

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ABBREVIATIONS

ABS	Australian Bureau of Statistics
ACS	Australian Customs Services
ADMA	Australian Direct marketing Association
AOTC	The Australian and Overseas Telecommunications Corporation
AP	Australia Post
APTU	Australian postal and Telecommunications corporation
ATO	Australian Taxation Office
AUSDOC	Australian Document Exchange Pty Ltd
AUSTEL	Australian Telecommunications Authority
CPI	Consumer Price Index
CSO	Community Service Obligation
CTTA	Courier and Taxi Truck Association
CWU	Communication Workers' Union (previously APTU)
DOTAC	Department of Transport and Communications
EC	European Community
GBE	Government Business Enterprise
GDP	Gross Domestic Productivity
IAC	Industries Assistance Commission
IC	Industry Commission
MMUA	Major Mail Users of Australia Pty Ltd
POAA	Post Office Agents Association
PSA	Price Surveillance Authority
RASS	Remote Air Services Subsidy Scheme
TFP	Total Factor Productivity
The Act	Australian Postal Corporation Act 1989
TPA	Trade Practices Act 1974
TPC	Trade Practices Commissions
TWU	Transport Workers Union
UBR	Urban Base Rate
UK	United Kingdom
UPU	Universal Postal Union
US	United States

OVERVIEW AND RECOMMENDATIONS

Mail, courier, and parcel services provide essential links for the transfer of written communication and parcels around Australia.

This is a diverse and rapidly changing sector of the economy. The development of communications technology has the greatest potential to provide substitutes for Australia Post's letter service. Although these choices are expanding rapidly, especially electronic means of communication, it will be many years before their coverage is comprehensive enough to provide a complete alternative to the letter service.

There is substantial government regulation of the letter service. The Commonwealth Government has, with some exceptions, reserved to Australia Post the exclusive right to carry letters. This limited monopoly has been considered necessary so that Australia Post can meet the Commonwealth Government's social objective that all people in Australia have reasonable access to a letter service on an equitable basis and at a uniform rate of postage for standard letters.

There is substantial private involvement in providing mail services through mailing houses, document exchanges, and letterbox distribution networks. The courier and parcel services industry is operated largely by the private sector and is characterised by dynamic growth and few government imposed impediments. Most concerns about the efficiency of all these private sector activities stem from the fact they are affected by Australia Post's operations.

This report therefore examines closely the role and activities of Australia Post. It looks at options to improve the efficiency and quality of services provided by public and private sector operators.

Australia is not the only country reviewing the provision of mail, courier, and parcel services. In a changing postal environment, the United Kingdom, Sweden, Canada, New Zealand, and the European Community are re-assessing the need for government involvement in, and regulation of, postal services.

The terms of reference direct the Commission to identify those reforms which offer the greatest efficiency gains and those where early action is practicable. Changes which can be implemented within the existing legislative framework are typically those where early action is practicable. It is possible to implement these changes now. They would allow Australia Post to take maximum

advantage of reform to date. However, in order to achieve greater gains, it is necessary to push the reform process further and change the legislative framework within which the industry operates. Only then will the full benefits of a dynamic, flexible, and innovative industry be realised.

Australia Post's performance

Since the 1988 reforms, which required all Commonwealth Government business enterprises to operate on a commercial basis, the performance of Australia Post has improved significantly. Delivery performance is better, as are productivity and financial results. Nevertheless, the Commission considers there is scope to provide services more cost effectively without compromising their quality, and to improve the pricing of some services.

Increasingly, Australia Post is approaching its business in a more commercial manner. In order for it to operate fully as a corporatised government business enterprise, it should be put on a par with firms operating in the private sector. One step in this process is to reduce the constraints that Government policies place on Australia Post. The Commission recommends:

1 Australia Post no longer be subject to direction relating to general policies of the Commonwealth Government such as in borrowing, employment, and purchasing, and that Section 48 of its Act be repealed. (see Section 3.2.3)

Mail services are relatively labour intensive. For that reason Australia Post must continue to pursue increased labour productivity. Cooperation between management and labour, achieved through industrial participation, has led to substantial improvements in work practices and reductions in industrial disputes in Australia Post. This approach has been extended in the recent enterprise agreement between Australia Post and its principal unions over pay bonuses linked to productivity at individual workplaces. In return for increases in remuneration the unions have agreed, in principle, to greater use of part-time workers, more flexibility in working time arrangements, and performance evaluation of individual workplaces. The Commission welcomes these developments.

Final postal sorting and delivery is one operation, however, where work practices appear to have changed little. It is difficult to find a meaningful benchmark against which to judge whether current practices are the most cost-effective way of sorting and delivering mail. The Commission therefore recommends:

-
- 2 **In order to establish productivity benchmarks, Australia Post offer through open tender the final sorting and delivery of mail from selected metropolitan post offices in each State, and have the successful tenderers undertake the tasks for a trial period of, say, two years. An evaluation of the outcome should be published promptly. (4.1.4)**

Australia Post has a long tradition of employing contractors to provide many mail services. This approach has worked well and should be continued. The Commission recommends:

- 3 **Urban post offices operate on the most cost-effective basis. This is likely to require that more official post offices be contracted out as agencies. These agencies should be stand-alone or in-conjunction with other businesses, whichever is the more cost-effective. (4.1.5)**

The Commission acknowledges that this recommendation is being implemented, in part, through Australia Post's marketing initiative, Retail Post.

The Commission's inquiry has drawn criticism of Australia Post's level of consultation with customers and its handling of complaints. In rural and remote areas, in particular, there was criticism of the level of consultation and the availability of relevant and timely information about proposed changes to services. To address these problems, the Commission recommends:

- 4 **Australia Post consult openly with a broad cross-section of the community about service requirements and well in advance about proposed changes in service standards. It should also ensure the public is well informed on its complaint handling procedures. (4.4.1)**

Several participants have argued that, so long as Australia Post has the letter service reserved to it, it should not use resulting revenue to undercut private providers of non-reserved services, such as parcel services. There is no evidence that cross-subsidisation is in fact occurring. Nevertheless, the Commission is of the view that such cross-subsidisation, should it occur, would be an unfair practice and would impose costs on Australia Post's competitors, customers, and the community. To help ensure that the practice does not occur, and to reduce the concerns of Australia Post's competitors and customers, the Commission recommends:

5 Australia Post publish in its Annual Report separate financial data for its reserved and non-reserved services. (4.3.4)

During the inquiry the price and delivery of some of Australia Post's services have been criticised. Not all of these complaints seem justified. The Commission did see merit in the case put by many remote area customers that the use of a mail bag in the collection and delivery of roadside mail by a contractor should be a normal part of their letter service. Accordingly the Commission recommends:

6 Australia Post's annual fee for handling a private mail bag in the acceptance and delivery of mail at a roadside point be abolished for those households receiving less than three services a week. (4.3.1)

Australia Post has indicated that the current \$50 fee for a private mail bag service for those households receiving up to three deliveries a week covers the additional costs of providing that service. Should all eligible households opt for this service, the net cost would be up to \$1 million a year.

Community service obligations

Governments have long considered that there are social benefits in ensuring that all people in Australia have reasonable access to a letter service at a uniform rate of postage for standard letters. This view is shared by governments across the world. Australia Post is required to provide a letter service which is not only commercial but also meets such social objectives. Inevitably, conflict arises in trying simultaneously to run a commercial business and to provide non-commercial services.

This conflict, combined with uncertainty and differing opinions about what is required to meet the Government's social objectives, is creating problems for both Australia Post and the community generally.

- Many regard all non-commercial services as community service obligations (CSOs). As a result it has often been difficult to discontinue those non-commercial services which are not necessary to meet the Government's social objectives.
- Access to the letter service, which is required to meet the Government's social objectives, is being reduced in some rural and remote areas because of the pressure on Australia Post to operate commercially.

Registered publications was one service which some participants considered should be treated as a CSO. The current legislation requires Australia Post to provide only the letter service, not other

services such as registered publications. In 1991 Australia Post announced -- after consultation with the Government -- the phasing out of the registered publications service which it claimed made a loss of \$24 million in 1990-91. To ease the transition for many organisations sending registered publications, Australia Post has provided a long phasing-out period and has relaxed the eligibility limit for the replacement service, Print Post.

Against this background, the Commission recommends:

- 7 **The Commonwealth Government more clearly specify and make public the extent of the community service obligations it expects Australia Post to satisfy. (5.4.4.)**
- 8 **The costs incurred by Australia Post in meeting the community service obligations under its Act be funded by direct budgetary payments. (5.8.4)**
- 9 **Should Australia Post be required to provide services to meet other social objectives of governments, those services be made public and funded directly by the relevant government department (as occurs now with the Freepost service for the visually impaired). (5.5)**

As required by the terms of reference, the Commission has considered places and groups that do not receive adequate access to mail, courier, and parcel services. Submissions from rural and remote area residents emphasised the importance of the mail delivery service to them and that there are no viable substitutes available to them. The ability to send school correspondence material is considered vital for the education of children.

For those households not presently receiving a mail delivery service, the Commission was unable to obtain sufficient information on which to base a policy recommendation. For households that do get mail delivery services, there appears to be scope to improve the equity of the delivery frequency/cost guidelines applied by Australia Post. The Commission has provided examples of possible improvements (Section 5.7.3) but has inadequate information on which to base a specific recommendation.

To ensure reasonable access on an equitable basis for people in rural and remote areas, the Commission recommends:

- 10 **Where roadside delivery is now only once a week, it be increased to at least twice a week. (5.7.2)**
- 11 **The Commonwealth Government, in consultation with Australia Post, undertake a full and urgent assessment of the need for mail delivery services for those households not presently receiving a roadside delivery service. (5.7.2)**

12 The Commonwealth Government, in consultation with Australia Post, consider ways of improving the delivery frequency/cost guidelines for mail services in rural and remote areas. (5.7.3)

Australia Post estimates the cost of moving from one to two services a week to be at least \$3.7 million a year.

International mail

Australia Post has the exclusive right under its Act to carry international letters. It claims to have been making substantial losses (some \$30 million in 1990-91, but less in 1991-92) on delivering incoming international mail. Part of this loss is recovered by increasing the postage on outgoing mail.

The loss arises from an international convention, administered by the Universal Postal Union (UPU), which provides inadequate compensation -- through a system known as terminal dues -- for the cost of delivering incoming international mail. Since the Commonwealth Government is responsible for Australia's international treaty obligations, the cost of such obligations should be met through the Commonwealth budget rather than being imposed on users of mail services.

More and more mail is being moved around the world by private companies. Large corporations such as DHL and TNT are involved in international document services and remail. TNT and the postal administrations of five countries have set up a joint venture to provide an international parcels and an express post service. Australia Post has established its own business alliance with DHL to provide express international mail services.

In New Zealand the carriage of international mail is no longer reserved to NZ Post. This has not undermined New Zealand's ability to meet its international obligations. In Australia there would be benefits for consumers and businesses if private operators were allowed to handle and deliver mail that has originated in another country or mail that is destined for final delivery overseas.

Against this background, the Commission recommends:

13 Australia Post's exclusive right to carry letters between Australia and places outside Australia be withdrawn. (6.5.3)

At the same time, there is every reason for Australia to continue to operate within the UPU framework, so as to ensure access for its mail to all countries. Consequently, the Commission recommends:

- 14 **Australia Post should still be required to provide a service which connects with overseas postal administrations. It should be compensated by direct budgetary payment by the Commonwealth Government for consequent losses. (6.5.1)**
- 15 **The Commonwealth Government, in consultation with Australia Post, seek modifications to terminal dues set by the Universal Postal Union to better reflect the cost of delivering mail in different countries. (6.3.1)**
- 16 **Australia Post's charges for outgoing international mail be no more than the cost of collecting and sorting that mail in Australia (including an appropriate profit margin), plus the cost of line-haul to the destination, plus the terminal due. (6.4)**

Competition and structural reform

The largest gains from reforming mail, courier, and parcel services will be achieved by making substantial changes to the legislative environment in which the services are provided in order to allow greater competition.

Many services such as couriers, document exchanges, and telephones compete indirectly with Australia Post's services. However, the reserved services protection restricts competition in Australia Post's core business, the letter service, and gives Australia Post substantial market power. So the community forgoes the benefits which could be gained from competition in the provision of the letter service. If competition were increased:

- customers would have more choice of carriers and services;
- there would be more competitive pressure on Australia Post;
- Australia Post would not have the opportunity to cross-subsidise or abuse its market power; and
- new technology and alternative supply methods could be developed freely.

The simplest way for the benefits of competition to be realised would be to repeal the legislation which reserves to Australia Post the right to carry letters. The level of competition which would result would vary between markets. Competition would be strongest in those areas which are densely populated and generate large volumes of mail. In areas of low volumes the threat of competition should still encourage Australia Post to improve its overall performance.

It is unlikely that there will ever be more than one letter network covering the whole of Australia. Without government assistance, even this national network would not meet the Government's social objectives with respect to letter services.

The Commission is not in any way suggesting that the Government abandon its social objective of providing a letter service which is reasonably accessible to all people in Australia. In theory it could meet its objective by putting the service to competitive tender and engaging the successful tenderer, a private company or Australia Post, to provide the service. However, in practice, the administrative costs of contracting out the service would be prohibitive. Therefore, the Commission recommends:

17 The Commonwealth Government continue to use Australia Post to meet its social objectives for the letter service. (9.8)

Under a deregulated market letter prices would vary. It would not be possible to meet the objective of a uniform rate of postage for standard letters. The Government could pursue an alternative objective of providing reasonable access at a maximum 'affordable' charge. This would involve the Government paying Australia Post for part of the cost of providing higher-cost services so that no member of the community would have to pay more than the maximum charge. Other providers could offer services at more than the maximum charge but customers would only use these suppliers if they offered a superior service. All customers would have the option of using the Australia Post service at the maximum affordable charge. Prices for lower-cost services would fall in response to competition.

Initially, the maximum charge could be set at the current uniform charge for a standard letter of 45 cents. This would ensure that nobody was worse off compared with the situation today. Accordingly the Commission recommends:

18 The Commonwealth Government consider replacing its objective of providing the letter service at a uniform charge for standard letters with a maximum affordable charge for standard letters. (9.8)

If the maximum charge objective were acceptable, the Commission would recommend:

19a Reserved services protection no longer be afforded to Australia Post from 1 January 1995. (9.8)

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- 19b **The maximum charge for a standard letter be set initially equal to the uniform charge (currently 45 cents). (9.8)**

The Commission recognises that implementing these recommendations would affect the level of the Government's budgetary payment to Australia Post for fulfilling its CSOs. However, there would be more than offsetting gains to the community in eliminating the use of cross-subsidies to fund CSOs and from increasing competition in the provision of letter services.

If the maximum charge objective were not immediately acceptable, and the uniform charge were maintained, there would still be benefits to the community in moving towards that objective by increasing the competitive pressure on Australia Post now. In this case the Commission would recommend:

- 20a **Reserved services protection continue to be afforded to Australia Post, but at a reduced level. (9.8)**
- 20b **The minimum amount which other providers must charge to carry a letter be reduced from 10 times the standard rate (that is \$4.50) to \$1.20 from 1 January 1994. This amount should be reduced by 10 cents each year thereafter for five years. There should be a review in 1997 to determine the system to apply from 1 January 2000. (9.8)**
- 20c **The weight limit for exceptions to reserved services be reduced from 500 to 250 grams from 1 January 1994. (9.8)**
- 20d **Section 30 of the Australian Postal Corporation Act be amended to except the operation of document exchanges (7.2.3), the transfer of mail within an organisation (7.3.4), and advertising material (7.3.5) from the reserved services.**

Of these two approaches the Commission strongly prefers the first. Removing rather than reducing the reserved services protection would generate large additional benefits.

- The size of and the speed with which the benefits of competition are realised would be greater.
- It would remove the need for administrative disciplines, which are not only time-consuming and resource-intensive but also not as effective as competitive pressure.
- It would remove the need to define and police the services that are reserved to Australia Post.

-
- It would reduce the scope for the Government to interfere in the operations of Australia Post and its performance.

Australia Post has claimed that removing reserved services protection, or even reducing it as outlined above, would have massive adverse impacts on its profitability and would force it to retrench a large number of staff in order to restore its profitability.

On the basis of the information available to it, the Commission considers that the claimed losses in profitability by Australia Post lack credibility. And, since they are dependent on the claimed loss of profitability, the predicted staff retrenchments also lack credibility.

Even if Australia Post were to lose volume, the Australian community as a whole would not be worse off by the extent of any consequent reduction in its profitability. On the contrary. Letters not carried by Australia Post would be carried by other providers. These other providers would be supplying letter services at a lower cost, or at a higher standard for the same price. It is wrong to equate a lower Australia Post profit with a loss to the community.

Furthermore, should Australia Post lose volume to other providers and introduce cost saving measures to restore profitability, this may not represent a loss to society. The basic issue is the total cost to the community of providing letter services which meet its needs. If that cost can be reduced by others providing letter services that were previously supplied by Australia Post, the Australian community as a whole will be better off.

Regardless of whether reserved services protection is retained or not, other organisations need to inter-connect with Australia Post's network. This need will grow as the level of competition increases. There is little commercial incentive for Australia Post to allow its competitors to gain access to its network. By refusing inter-connection it would gain the advantage of being the only service able to provide nationwide coverage. Therefore, if the benefits of increased competition are to be fully realised, it will be necessary for the Government to ensure inter-connection. The conditions of such inter-connection must be fair to Australia Post and to the organisation seeking inter-connection. In cases where abuse of market power might occur, both public pressure and general competitive measures, such as the Trade Practices Act, would keep it in check. The Commission recommends:

- 21 Inter-connection with Australia Post's network be allowed, under fair terms and conditions, at any point between sender and receiver up to the location of final sort before delivery to receiver. (9.8)**

Timetable for implementation

The Commission's recommendations should be implemented quickly, so that the Australian community gets the benefits as soon as possible. However, because of the costs to Australia Post and private companies in adjusting to the new environment, it is not practicable to implement all of the Commission's recommendations immediately. Recommendation 19 would require all organisations to adjust to very different market conditions. To allow time for this adjustment, the Commission considers that one to two years would be required to implement that recommendation.

Less adjustment time would be required under Recommendation 20 because it largely entails modifications within the existing framework for providing letter services through Australia Post. The recommendations made in this report could be implemented in one of three timeframes, set out in the table.

Finally, the Commission draws attention to its comments on the following issues.

Post office agents: The type of services provided should not depend on the status of the office -- office or agency -- but on the demand for the different services that might be offered. (Section 3.5)

Bulk discounts: Australia Post may be able to be more flexible in offering discounts for bulk mailers which would benefit both Australia Post and its customers. (4.3.5)

Heritage: Australia Post should be free to meet heritage obligations as would a comparable private sector organisation. (5.4.1)

Freepost: The Commonwealth Government should examine, in the context of its disability policy, the apparent anomaly in the provision of the Freepost service for the visually impaired compared with services for people with other disabilities. (5.5.1)

Customs: Several examples of different treatment by the Australian Customs Service regarding Australia Post compared with private companies have been brought to the attention of the Commission. This matter should be examined by the Commonwealth Government with a view to correcting any inequities. (6.6)

Electronic mail: If the benefits of innovation in electronic communication are to be realised, businesses and consumers should have unrestricted access to the innovations. Such access might be achieved if all services with an electronic component were excepted from Australia Post's reserved services. But this exception could lead to an alternative service which would be so comprehensive as to undermine Australia Post's reserved services protection. That could be avoided, and some of the advantages from developments in electronic communication realised, by reducing the minimum price which other providers must charge to carry a letter. Other suppliers would then have more flexibility in what services they provide and the prices they charge. (7.2.4)

Regulating trade practices: There is a role for pro-competitive regulation both when there is government legislation which prevents more than one firm providing letter services and in circumstances where, even without legislation, there would be little actual competition in the provision of letter services. There are advantages in providing such regulation through general competitive measures such as the Trade Practices Act. (7.5)

Labour restrictions: There appears to be a practice in some parts of the parcel/courier industry whereby self-employed carriers are required to become members of a particular union. The Commission is firmly of the view that there are benefits to be gained by increasing competition and flexibility in labour markets. In this case, carriers should be free to decide whether or not to join a union and free to choose who should represent them in negotiations concerning wages and other working conditions. (7.8.1)

Contract Determination: Rates of pay in the courier industry in New South Wales are set in a formal industrial relations instrument called a "Contract Determination". There are strong doubts whether its provisions are consistent with maximum efficiency and consumer benefit in the courier industry. A more detailed review of Contract Determination is needed. (7.8.2)

Prices Surveillance Authority: The need for the Prices Surveillance Authority to continue its current role will depend on the extent of competition in the provision of letter services. (9.4.3)

Ownership of Australia Post: The greatest efficiency gains from reform will come from increasing competition. This is the reform priority. Once competitive networks have been established, the Government could — and should — review whether Australia Post should remain in public ownership. (9.7)

Timetable for implementing recommendations

Category A	Category B	Category C
Immediate implementation – no legislative changes required	Implementation by 1 January 1994 -- legislative changes required	Implementation by 1 January 1995 – adjustment time and legislative changes require
<p>In order to establish productivity benchmarks, Australia Post offer through Open tender the final sorting and delivery of mail from selected metropolitan Post offices in each State, and have the successful tenderers undertake the tasks for a trial period of, say, two years. An evaluation of the outcome should be published promptly. (2)</p> <p>Urban post offices operate on the most cost-effective basis. This is likely to require that more official post offices be contracted out as agencies. These agencies should be stand-alone or in-conjunction with other businesses, whichever is the more cost-effective. (3)</p> <p>Australia Post consult openly with a broad cross-section of the community about service requirements and well in advance about proposed changes in service standards. It should also ensure the public is well informed on its complaint handling procedures. (4)</p> <p>Australia Post publish in its Annual Report separate financial data for its reserved and non-reserved services. (5)</p> <p>Australia Post's annual fee for handling a private mail bag in the acceptance and delivery of mail at a roadside point be abolished for those households receiving less than three services a week. (6)</p> <p>The Commonwealth Government more clearly specify and make public the extent of the community service obligations it expects Australia Post to satisfy. (7)</p> <p>The costs incurred by Australia Post in meeting the community service obligations under its Act be funded by direct budgetary payments. (8)</p>	<p>Australia Post no longer be subject to direction relating to general policies of the Commonwealth Government such as in borrowing, employment, and purchasing, and that Section 48 of its Act be repealed. (1)</p> <p>Australia Post's exclusive right to carry letters between Australia and places outside Australia be withdrawn. (13)</p> <p>The minimum amount which other providers must charge to carry a letter be reduced from 10 times the standard rate (that is \$4.50) to \$1.20 from 1 January 1994. This amount should be reduced by 10 cents each year thereafter for five years. there should be a review in 1997 to determine the system to apply from 1 January 2000. (20b)</p> <p>The weight limit for exceptions to reserved services be reduced from 500 to 250 grams from 1 January 1994. (20c)</p>	<p>The Commonwealth Government consider replacing its objective of providing the letter service at a uniform charge fir maximum affordable charge for standard letters. (18)</p> <p>Reserved services protection no longer be afforded to Australia Post from 1 January 1995. (19a)</p> <p>The maximum charge for a standard letter be set initially equal to the uniform charge (currently 45 cents). (19b)</p>

Timetable for implementing recommendations

Category A	Category B	Category C
Should Australia post be required to provide services to meet other social objectives of governments, those services be make public and funded directly by the relevant government department (as occurs now with the Freepost service for the visually impaired. (9)		
Where roadside delivery is not only once a week, it be increased to at least twice a week. (10)		
The Commonwealth Government, in consultation with Australia Post, undertake a full and urgent assessment of the need for marl delivery service for those households not presently receiving a roadside delivery services. (11)		
The Commonwealth Government, in consultation with Australia Post, consider ways of improving the delivery frequency/cost guidelines for mail services in rural and remote areas. (12).		
Australia Post should still be required to provide a service which connects with overseas postal administrations. It should be compensated by direct budgetary payment by the commonwealth Government for consequent losses. (14)		
The Commonwealth Government, in consultation with Australia Post, seek Modifications to terminal dues set by the Universal postal Union to better Reflect the cost of delivering mail in different countries. (15)		
Australia Post's charges for outgoing international mail be no more than the cost of collecting and sorting that mail in Australia (including an appropriate profit margin), plus the cost of line-haul to the destination, plus the terminal due. (16)		
The Commonwealth Government continue to use Australia Post to meet its social objectives for the letter service. (17)		
Reserved services protection continue to be afforded to Australia Post, but at a reduced level. (20a)		
Inter-connection with Australia Post's network be allowed, under fair terms and conditions, at any point between sender and receiver up to the location of final sort before the delivery to receiver. (21)		

Section 30 of the Australian postal Corporation Act be amended to except the operation of document exchanges, the transfer of mail within an organisation, and advertising material from the reserved services. (20d)

1 INTRODUCTION

This inquiry is about how to improve the efficiency of mail, courier, and parcel services provided by both public and private operators. It is part of the Commonwealth Government's ongoing program of micro-economic reform, which seeks to improve the functioning of markets and to enhance the performance of industry and government throughout the economy.

The Industry Commission has already reviewed a range of industries in which government enterprises operate. For example, in 1991 the Commission released reports on rail transport and on energy generation and distribution. This inquiry extends the Commission's work to cover the mail, courier, and parcel services industry, in which the Australian Postal Corporation plays a major role. Australia Post, which is fully owned by the Commonwealth Government, ranks as one of the largest government-owned business enterprises in Australia.

Australia is not the only country reviewing the provision of mail, courier, and parcel services. In a changing postal environment, the United Kingdom, Sweden, Canada, New Zealand, and the European Community are re-assessing the need for government involvement in, and regulation of, postal services.

1.1 The terms of reference

The terms of reference (see page v) ask the Commission to inquire into, and report on, factors leading to inefficient resource use in the mail, courier, and parcel industry, and to recommend action to reduce or remove such inefficiencies.

The terms of reference specify that the Commission is to have particular regard to:

- the costs of the obligation placed by the Commonwealth Government on Australia Post to provide a uniform priced letter service which is reasonably accessible to all people in Australia on an equitable basis;
- the scope for competition in the mail, courier, and parcel markets; and
- whether there are places or groups in Australia that do not receive adequate access to mail, courier, and parcel services.

1.2 Recent developments in the provision of services

There have been substantial changes in mail, courier, and parcel services in Australia over recent years. Changes to Australia Post, a growing letterbox distribution industry, and development of a

highly competitive courier market have all contributed to better and more varied services for customers.

Since its creation in 1975, Australia Post has undergone a continuing process of reform. This accelerated in 1988 with the implementation of Commonwealth Government reforms for its business enterprises. Freedom from most government controls and a requirement to operate on a commercial basis are reflected in Australia Post's improved performance. Australia Post's real rate of return on assets increased from 2.5 per cent in 1986-87 to nearly 6 per cent in 1990-91. Labour productivity improved by 8 per cent between 1986-87 and 1988-89, a result of workforce restructuring and efficiency initiatives; labour productivity has been increasing steadily since then. Australia Post's improved performance has been achieved by a combination of commercial management, adoption of new technology, and improved industrial relations.

These achievements have all been made in a rapidly changing postal market. Technological developments, such as the telephone, facsimiles, and electronic data interchange networks, are reducing the demand for Australia Post's traditional services, while expanding alternative mail distributors are also capturing some of its market.

1.3 The Commission's approach

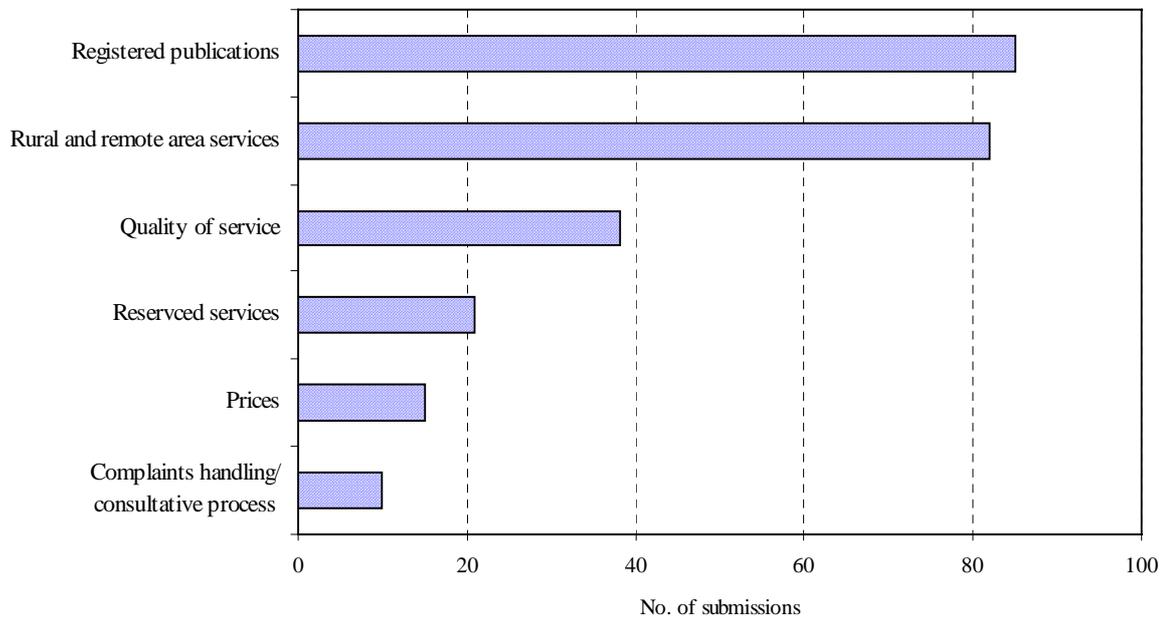
The Commission's approach in this inquiry has been to assess whether continuing benefits to the Australian community are likely to be achieved in the mail, courier, and parcel industry as it evolves under the present institutional and legislative arrangements. Particular attention has been given to whether or not Australia Post's reserved services protection for the supply of the letter service is impeding the achievement of further benefits. The Commission has considered other possible structures for this industry and the role that increased competition can play in improving its performance.

In making its recommendations, the Commission has observed the general policy guide-lines set out in the *Industry Commission Act 1989*. These guidelines require the Commission to have regard to the desire of the Commonwealth Government to encourage the development of efficient industries, facilitate structural adjustment, reduce unnecessary industry regulation, and recognise the interests of other industries and consumers generally. The Commission is also required to report on the social and environmental consequences of any recommendations it makes.

1.4 Participants' views of the principal issues

In preparing this final report into mail, courier, and parcel services, the Commission drew on 300 submissions from a wide range of participants. The six most dominant issues raised are illustrated in Figure 1.1.

Figure 1.1: Submissions received and issues raised



Over one quarter of submissions received by the Commission expressed concerns about the replacement of the **registered publications** service with Print Post. Many commercial publishers and not-for-profit organisations believed that the price increases were excessive and that insufficient time had been allowed in which to adjust. A number of publishers, including those of regional newspapers and the newsletters of special-interest groups and not-for-profit organisations, stated that the viability of their operations was threatened by Print Post.

Some 80 submissions were received about the standard of **rural and remote area mail services**. Submissions from rural residents emphasised the importance of the mail to them and that there are no viable substitutes available to them. Some rural residents stated that, while they are generally happy with the service offered by Australia Post, any reduction would be unacceptable. The ability to send school correspondence material was considered to be vital for the education of children in rural and remote locations; a minimum of two deliveries a week was suggested as acceptable. Rural organisations and individuals stressed the importance of an accessible, frequent, and reliable mail service to facilitate the operation of business.

Rural participants claimed that Australia Post's commercial goals conflicted with its community service obligations, and that such goals should not be met at the expense of rural services. The closing of post offices, conversion of official post offices to agencies, and cuts in the number of deliveries a week were all described as downgrading of the mail service and as a further reduction in the quality of rural life. Given the importance of rural industries in the Australian economy, the

maintenance of rural mail services was perceived as a far more important goal for Australia Post than achieving a profit or a target rate of return.

The general **quality of service** provided by Australia Post was the focus of some 37 submissions. There were complaints, mainly from businesses which use Australia Post for the delivery of large consignments of mail, about its inflexibility in providing discounts for bulk, pre-sorted mail. Others complained about missing articles, late delivery, and the trading hours of post offices.

Australia Post's **reserved services** were addressed in a number of submissions, both for and against their retention. Some providers of mail, courier, and parcel services (other than Australia Post) argued that the reserved services should be abolished or reduced to allow more competition in letter services. However, some users argued that they should be retained so that Australia Post could fulfil its community service obligations. Some participants expressed concern that Australia Post may abuse its monopoly position to cross-subsidise services open to competition with revenue from reserved services, and by exerting its market power in markets where it is dominant. Some large businesses felt that, as a consequence of some services being reserved to Australia Post, they were not treated in a manner which recognised their extensive use of, and demand for, Australia Post's services.

Most criticisms of **prices** pertained to Australia Post's parcel service. The charges for an article above 500 grams were seen as inconsistent with flat rates for parcels under 500 grams. Recent increases in, and the complexity of, international parcel and letter rates were described as excessive. The use of volume instead of weight as a pricing criterion for parcels was described by some participants as discriminatory against bulky, light items.

Several participants criticised Australia Post's **complaint handling** procedures. They felt that there was a lack of information about how to lodge a complaint, while some of those who had complained considered that they had not received adequate redress. Other participants were critical of Australia Post's **consultative processes**, especially with respect to service changes such as removing street posting boxes or reducing the frequency of services to rural and remote areas.

It should be noted that Australia Post attended all of the Commission's public hearings, had representatives in attendance during the Commission's visits to rural and remote areas, and has been sent copies of all public submissions. As a result, Australia Post is aware of most, if not all of the issues raised and, in several cases, has already acted to address the concerns of participants.

1.5 Conduct of the inquiry

The mail, courier, and parcel services industry was referred to the Commission for inquiry on 30 October 1991. Following preliminary discussions with interested parties, an issues paper was released in December 1991 to assist participants in the preparation of submissions to the inquiry.

The Commission held informal discussions with relevant government bodies, unions, representative organisations of business and individual mail users, and providers of mail, courier, and parcel services in Australia. It also had talks in New Zealand, the United Kingdom, and the Netherlands, as well as with officials of the Commission of the European Communities and the Universal Postal Union. A list of organisations consulted by the Commission is at Appendix A.

An initial public hearing was conducted in Melbourne, Sydney, and Canberra in late February and early March 1992 to enable participants to present submissions to the inquiry.

In order to gain a first hand appreciation of the role and adequacy of mail services in rural areas, the Commission toured the area around Crookwell, Rugby, Narrawa, Golspie, and Taralga in New South Wales. That process of discussion and consultation was extended to remote areas of Queensland and New South Wales in April 1992 when the Commission visited Winton, Longreach, Jundah, Quilpie, Thargomindah, Wanaaring, and Bourke.

These trips by the Commission gave individuals and community groups in rural and remote areas an opportunity to explain their concerns about postal services.

The Commission released its draft report on 21 July 1992. A public hearing was again held in Melbourne, Sydney, and Canberra in September 1992 to allow public discussion of the issues raised in the draft report.

The Commission received around 230 submissions prior to releasing the draft report and a further 70 since. Lists of participants who made submissions and those who spoke at the public hearings are also in Appendix A.

1.6 Structure of the report

The report first outlines the characteristics of the mail, courier, and parcel markets of Australia in Chapter 2. The structure and activities of Australia Post are discussed in Chapter 3. Chapter 4 assesses the performance of Australia Post and Chapter 5 examines the community services provided by Australia Post. International mail is covered in Chapter 6, while competition in the industry is discussed in Chapter 7, with particular reference to government intervention and the services reserved to Australia Post. Presented in Chapter 8 is a consideration of how letter services

might be provided in a fully competitive market in which there were no reserved services or community service obligations. Options for increasing competition whilst still fulfilling the Commonwealth Government's social objectives for letter services are presented in Chapter 9.

Appendices A to F contain background information and more details of some specific issues encountered during the inquiry, such as industrial relations and work practices, and the impact of technology on the reserved services. The appendices also provide details of developments in postal services in a selection of other countries.

2 CHARACTERISTICS OF THE MAIL, COURIER AND PARCEL MARKETS

Mail, courier, and parcel services constitute a diverse industry. For mail services, Australia Post has a comprehensive nation-wide collection and distribution network, made possible because a letter service has been reserved to Australia Post. Other mail networks have evolved, such as document exchange and letterbox distribution systems, but they are limited in scope either by choice or because of Australia Post's reserved services. Outside the letter service reserved to Australia Post, in the market for unaddressed mail, and in courier and parcel services, there has emerged vigorous growth in a competitive environment.

The mail, courier, and parcel sectors constitute an industry diverse in nature, both in the markets serviced and in the multitude of services provided. The network extends internationally and, in the case of Australia's mail services, delivers not only letters but printed matter and parcels throughout Australia. Combined, telecommunications, mail, parcel, and courier services provide an extensive communications and distribution network and are a vital element in the infrastructure of the Australian economy.

This chapter provides background information on the size and structure of the industry, the standard and range of services provided, and the incentive environment facing major providers of services. The chapter outlines the role of the providers, particularly Australia Post, then looks at the various markets and how the providers interact within the market segments. This information gives an insight into some of the problems associated with service provision and use.

2.1 Industry structure

There is no clearly defined industry providing mail, courier, and parcel services. Official (ABS) statistics cannot provide an overview of the industry because courier and parcel services are not separated from the much broader "road freight" category. Additionally, the separation of postal from the ABS "communication" category is not possible. Neither can industry-sourced statistics serve to provide a summary of the industry. In both cases, either the information is not compiled or is not published in order to protect commercial confidentiality. The Commission can, therefore, present only a broad description of the structure of the industry.

The largest organisation providing mail, courier, and parcel services within Australia is the Australian Postal Corporation, trading as Australia Post. It is a government business enterprise wholly owned by the Commonwealth Government and operates as a statutory corporation in accordance with *the Australian Postal Corporation Act 1989*, referred to in this report as the Act. The Act imposes the following community service obligations on Australia Post:

-
- the provision of a letter service for the domestic carriage of standard letters at a uniform postage rate;
 - the provision of a letter service that is reasonably accessible on an equitable basis to all people living in Australia;
 - an achievement of performance standards which reasonably meet the social, industrial, and commercial needs of the Australian community; and
 - the provision of letter services between Australia and places outside Australia.

With some exceptions, Australia Post holds the exclusive right to carry letters in order to facilitate fulfilment of these obligations.

In certain regions Australia Post is the only carrier simply because its network extends nationally. For this reason people in rural and remote areas of Australia depend more on the network than do people in urban areas. Although reliance on written communication has declined in relative terms, Australia Post's network still plays a major role in the domestic and international message market. Key features of Australia Post's network are summarised in Box 2.1.

Australia Post is under no legal requirement to provide services outside its statutory obligations. However it offers other services, such as parcel delivery, because this type of business complements its letter services. Providers of some niche services, such as couriers and document exchanges, compete directly with Australia Post. Others such as telephone, facsimile machines, and computer networks provide indirect competition. The extent to which these services compete with Australia Post's letter service is discussed in Chapter 7.

Numerous companies operate in the communications market. In the sector that concentrates on printed matter, direct mailers organise the distribution of material, mailing houses provide addressing and sorting facilities to businesses, line-haul companies provide transportation, and document exchanges and letter box distributors link despatchers with receivers. These companies provide alternative networks to that of Australia Post for moving printed matter and other mail between addresses.

Chart 2.1 contrasts the official and private sector networks and shows how they mesh. The official postal network is set up for both acceptance and delivery of mail from and to persons, and it operates continuously. It is an open, universal access network. Private sector distribution networks are designed to accept mail in bulk from a limited number of users, typically businesses, and can deliver to about 85 per cent of households; mail may be placed into the official network if the remaining households are to be serviced. These private networks have some of the features of Australia Post but each is less comprehensive. They tend to operate on an 'on demand' basis.

Box 2.1: The Australian Postal Corporation's network, 1990-91

Articles handled	4.1 billion
Households served	6.4 million
Businesses served	707 000
Total delivery points delivery	7.1 million (includes 360 000 roadside points and 790 000 private boxes)
Delivery points receiving five points) deliveries or more per week	7.0 million (98.3 per cent of all delivery points)
Number of customers through post offices	235 million (in 1990-91)
Number of street posting boxes	13 900
Persons employed	
Staff (full and part time)	39 500 (includes 4600 part time)
Agents (full and part time)	4 300
Mail contractors	3 300
Retail outlets	
Post offices	1 350
Post office agencies	3 200

Source: Submission 82, p. 10

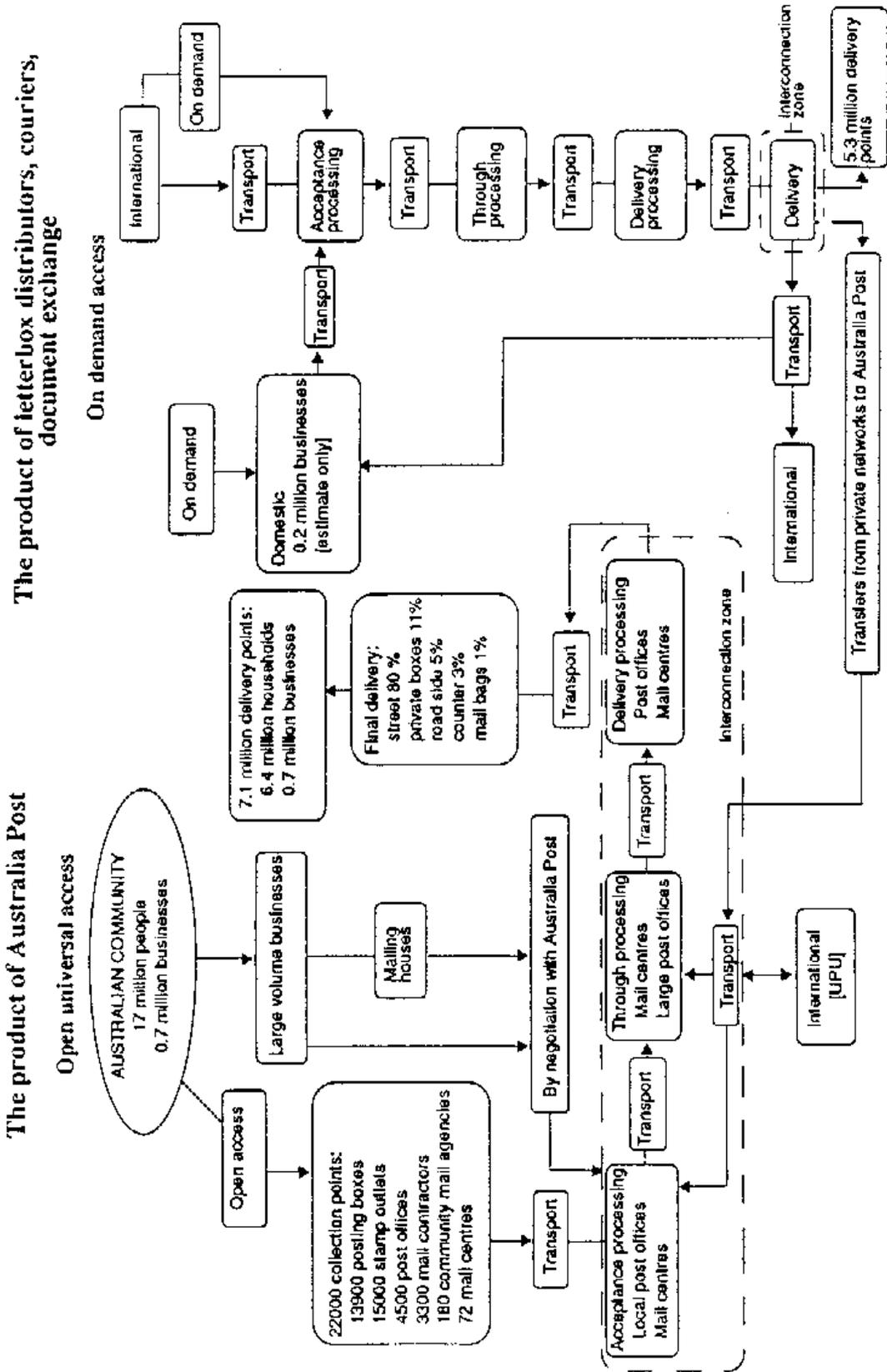
Companies in the private sector therefore mirror some of the activities of Australia Post, but none engages in direct competition across all services. Companies such as TNT, News Limited, and Mayne Nickless undertake many of these services but legislation is aimed at preventing them from competing against Australia Post's letter service.

Some private sector companies provide key inputs to the Australia Post network. The most important are mailing houses which act as agents for businesses with large volumes of mail by printing, enveloping, and sorting it before lodgement with Australia Post.

It is difficult to compare private sector operations with similar services provided by Australia Post. Private operators provide a wide range of different services and the data are not sufficiently disaggregated to compare those that are similar. For example, TNT is not only involved in the freight business, but in bulk cartage, industrial waste disposal, airline operations, and other activities.

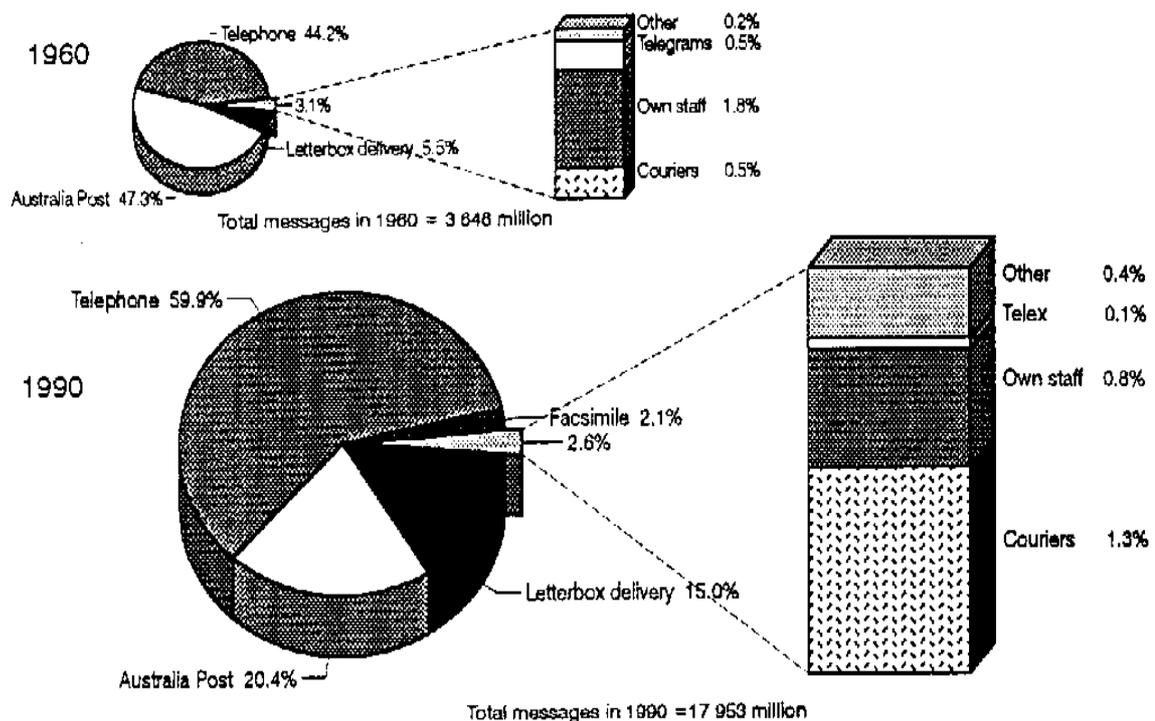
Companies also use the resources of their own subsidiaries, of other unrelated companies, and of Australia Post when they find it cost-effective to do so.

Chart 2.1: Comparison of official and private sector postal networks



Changes in the structure of the industry since 1960 are largely a consequence of developments in message transmission. Figure 2.1 shows that the volumes of telephone messages, facsimile transmissions, and unaddressed mail deliveries have increased; and that telegrams and telex facilities have dwindled into insignificance. The telephone has surpassed letter services as the major form of communication. Nevertheless, the total volume of mail sent through the postal system has increased.

Figure 2.1: Domestic message market share, 1960 and 1990



Source: Submission 82, p. 3 (1990 figures have been updated.)

Over the past 30 years growth in the message market has averaged 5.5 per cent a year across all sectors. Australia Post's growth rate for the same period was only 2.5 per cent a year so that Australia Post's share has declined from around 50 to 20 per cent.

The market for mail, courier, and parcel services can be divided into four segments. The directed message sector (basically addressed letters), a general broadcast segment (unaddressed mail), a parcel and goods sector (small freight deliveries), and an international segment (transporting letters and parcels internationally). This segmentation is convenient, but somewhat arbitrary. Firms that operate in one field may provide a degree of service in another. Also, the directed messages and parcel sectors both have international aspects. The following sections examine each segment in turn.

2.2 Directed messages

Addressed or ‘directed’ physical messages are processed and delivered by a range of service providers, principally Australia Post. Document exchanges, letterbox distributors, and couriers also provide networks capable of delivering mail articles.

Service charges, speed, and reliability of delivery determine the choice between different providers. In the case of Australia Post the time it takes for a letter to be delivered from one point to another is a function of the time needed to access the network, the time it takes to travel in the system from a source post office to the destination post office, and the time needed to deliver to the addressee. The necessity to get a hardcopy message to its destination in a shorter time allows private companies to compete in the industry, albeit at a higher price. Couriers can deliver across town within hours, whilst Australia Post’s standard mail network needs at least a day. Australia Post’s express service guarantees delivery overnight to the major centres around Australia.

2.2.1 Australia Post

Australia Post is the principal collector and distributor of printed correspondence between households and businesses within Australia. The reserved services protection has given it a dominant position in the printed message market, particularly in the directed or letter sector. Under Section 29 of the Act, Australia Post has the exclusive right to carry letters within Australia, and between Australia and places outside Australia.

Section 30 grants exceptions to the reserved services that allow other companies to carry letters under certain conditions. The most important exceptions are:

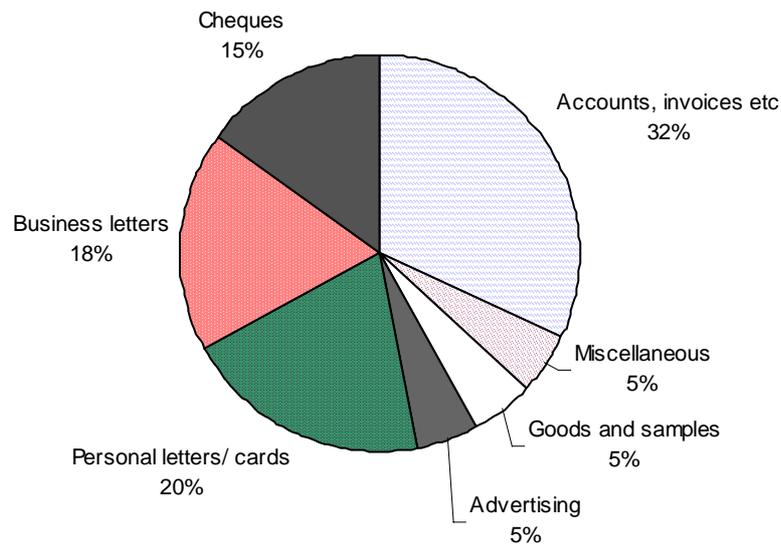
- carriage of heavy letters (over 500gm);
- newspapers, magazines, books, catalogues and leaflets; and
- when a competitor charges at least 10 times the standard postage rate for each letter carried.

Australia Post’s directed mail service

The Commission understands that more than half of the total volume of mail placed into Australia Post’s network originates from businesses, mailing houses, and government agencies. Less than half of these lodgements qualify for the bulk discounts on mail rates offered by Australia Post. The preponderance of mail lodged in bulk has important implications for how alternative postal networks might operate.

As is illustrated in Figure 2.2 personal mail accounts for only about 20 per cent of all mail passing through the network. The remainder is commercial mail.

Figure 2.2: What's in the mail carried by Australia Post^a



a Based on 1985 data; Australia Post was unable to provide up-to-date information. The share of cheques in the mail is likely to have declined since 1985, due to the cessation of social security and welfare payments by cheque. Most of these payments are now credited directly into recipients' bank accounts.

Source: Australian Knowledge 1985

The Australian Direct Marketing Association (ADMA) represents 192 firms engaged in direct marketing. These firms not only use direct mail but also other media such as television, radio, magazines, newspapers, and telecommunications. ADMA said that:

In 1990 the Commercial Economic and Advisory service estimated that direct marketing accounted for \$4.1 billion of merchandise and services sold. In 1988/90 Australia Post direct marketing (advertising mail) amounted to 235 million or 6.3% of the total mail of 3,722 million articles. (Submission 101, p. 2)

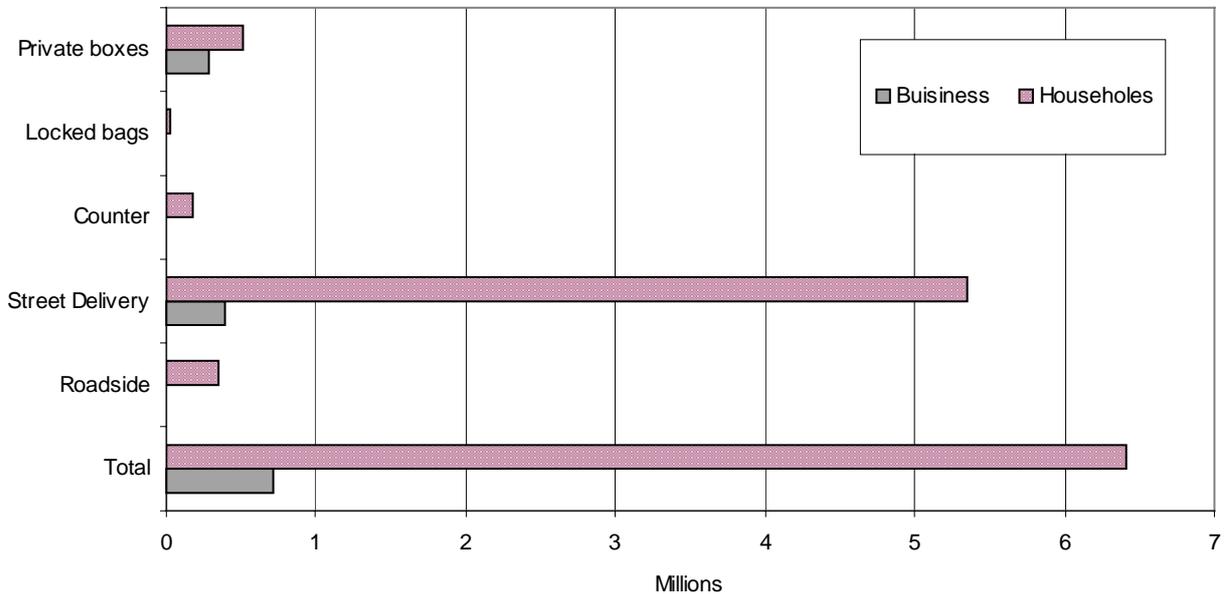
ADMA added that:

... between 1984/85 and 1988/89 whilst the total mail volume increased by 24.6% advertising mail increased by 44.2%. The direct marketing industry is therefore a key market for Australia Post and represents an absolute and relative growth. (Submission 101, p. 2)

Reserved services protection gives Australia Post a market advantage in the directed mail segment. It can use its network to deliver advertising material in the form of a letter. Its competitors are not able to do so because "letters" are reserved to Australia Post.

In the year ended 30 June 1991, Australia Post delivered over 4 billion articles to approximately 7 million delivery points. These delivery points included household and business addresses, private boxes, roadside delivery points, counter deliveries, and private, 'locked' and community mail bags. Figure 2.3 shows how many households and businesses receive mail for each different type of delivery.

Figure 2.3: Numbers of households and businesses receiving mail by type of delivery, 1991



	Private boxes	Locked bags	Counter	Street delivery	Roadside	Total
Households	0.51	0.03	0.18	5.34	0.35	6.41
Businesses	0.28	0.01	0.01	0.39	0.01	0.71

Source: AP 1991, p. 69

The vast majority of delivery points are households, serviced mainly by street delivery to a mail box. In rural and remote areas private boxes, roadside deliveries, and private 'locked' bags are the dominant form of delivery. Businesses generate vast amounts of mail but delivery points are few by comparison with households.

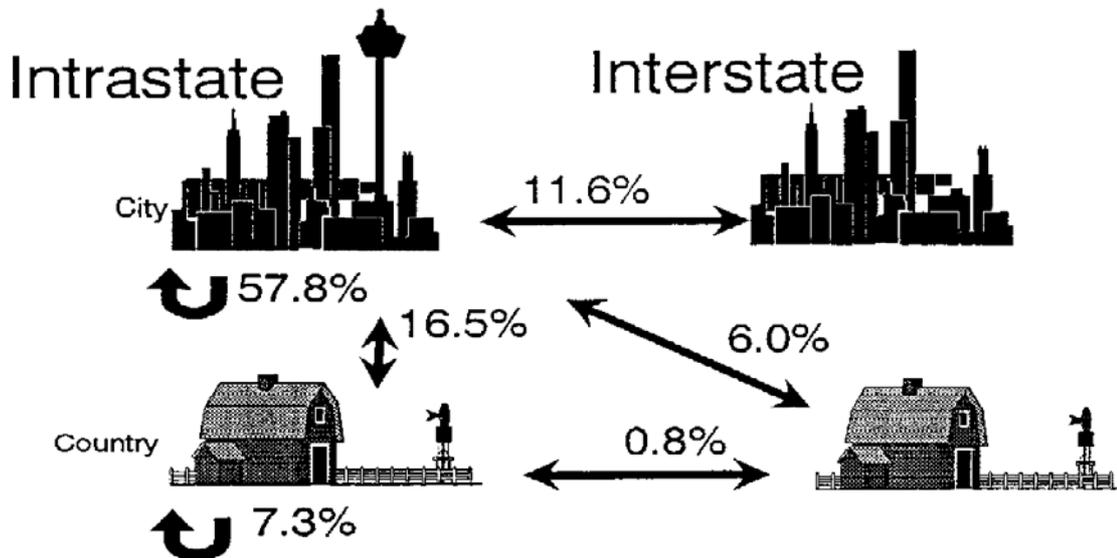
Of households and businesses, 98.3 per cent receive five mail deliveries a week. Australia Post's 'posties' each deliver on average to around 800 delivery points five days a week.

Most of the volume in directed messages is in the more densely populated areas. The cities within each State generate over 90 per cent of the total domestic volume. Nearly 60 per cent of the total volume is mail delivered within the city in which it was despatched, or to other cities within the same State. Figure 2.4 shows volume shares of the mail in the domestic market. For the purpose of this diagram, cities are defined as all capitals plus Newcastle, Wollongong, and Geelong.

Publications

An important part of directed message mail delivered by Australia Post is periodical publications, mostly magazines. Australia Post delivered approximately 125 million publications, about one quarter of the market, in 1990 (Submission 82, p. 5). Many of these were "registered publications" for which there has been a long-standing tradition of delivery at concessional rates.

Figure 2.4: Shares of the total volume of domestic mail within and between city and country areas



Source: AP 1992a, p. 8

With the concurrence of the Commonwealth Government and consistent with its requirement to operate commercially, Australia Post is now phasing out the registered publications service. The phasing out of this subsidised service, seen by many users as a community service obligation, has emerged as an important issue in this inquiry.

2.2.2 Document exchanges

The Australian Document Exchange Pty Ltd (AUSDOC) provides a service for its members to transfer documents between each other. Members can lodge the document either directly into the box of another member in the same area or into the exchange box to be delivered to another region and lodged there in the box of the addressee.

The Exchange allows its 12 000 members to move documents between any of the 320 exchanges located in all capital cities, major suburbs, and country regional centres. For an annual fee based on expected usage, members are entitled to unlimited use of the exchange system within their own State. The Exchange estimates that 40 tonnes of documents pass through its system each day. The Commission estimates that the weight of mail handled by the Exchange may be equivalent to 10 per cent of that handled by Australia Post.

The Exchange has been operating since January 1970. It began by transferring documents between solicitors because the mail service was too slow or disrupted to meet their requirements. Its membership is growing, which indicates that it is providing a valuable alternative service to Australia Post. As the system has grown, other types of business have joined the network, mainly government agencies and financial institutions.

Through a subsidiary company, AIRDOC, the Exchange provides overnight services between Australian capital cities and has links internationally through affiliations with document exchanges in the USA, Europe, Asia, and New Zealand.

The document exchanges that operate overseas, such as in the United Kingdom and New Zealand, do so under a licence that specifically excludes their operation from the reserved letter service in their country. This is not the case in Australia. AUSDOC commented on the licensing of those overseas exchanges as follows:

In both ... cases, the document exchanges were relatively new businesses. The process of deregulation recognised the benefits of document exchanges, and the granting of a licence enabled their subsequent development in each respective country. (Submission 174, p. 8)

In contrast, the Australian exchange has been operating for over 20 years and is therefore firmly established. AUSDOC considers licensing unnecessary but, wishing to operate without fear of encroaching on Australia Post's reserved services, it proposes that the operation of document exchanges be included in the exceptions to reserved services (see Section 7.2.3).

Australia Post has recently introduced a similar service, directed at businesses that require fast delivery. Known as BoxLink, the service operates at 28 post offices in Brisbane (6), Sydney (10), and Melbourne (12). BoxLink charges are 30 cents for standard letters, and 60 cents for large letters — the only two letter sizes handled by the service. These charges are lower than the rates for the standard letter service. BoxLink links private boxholders within each city and has no membership fee, but requires users to access the service through designated BoxLink post boxes. Australia Post has published three directories, listing approximately 13,000 businesses that are potential participants in the BoxLink service.

2.2.3 Letterbox distributors

The major portion of letterbox distributors' operations involves delivering unaddressed or broadcast messages rather than directed messages. Section 2.3.2 covers the unaddressed mail market. This section is about the directed mail portion of their business.

In direct competition with Australia Post, Melbourne-based Progress Press, and Sydney-based Salmat, deliver publications addressed to businesses and households. The Act restricts these companies in delivering certain types of letters. They can only deliver primarily catalogues,

magazines, and leaflets, and letters over 500 grams, all of which are exceptions to reserved services. Australia Post is currently removing subsidies on its registered publications (the subsidised delivery of magazines and journals), and the scope for the private sector to compete in this market is therefore increasing.

Streetfile, a firm associated with Progress Press, employs sophisticated computer systems in conjunction with a new print technology developed in Australia, and a national network of contractors and sub-contractors, to offer a targeted delivery service:

- using demographic and research information, advertisers can target the distribution of catalogues, consumer samples and other material to specific census sub-districts, each of roughly 200 houses.
- using computerised customer lists provided by clients, specific labels can be printed and attached to advertising material, allowing targeted delivery to individual homes.
- using similar data bases in conjunction with modern inkjet printing and wrapping techniques newly developed in Australia, advertising catalogues, magazines, leaflets and brochures can be printed, folded, wrapped or enveloped and individually addressed as a continuous operation, then delivered via the company's national delivery network.

These processes enable Streetfile to meet the growing demand of advertisers to better target their messages, thus making it more effective and reducing costs. (Submission 92, pp. 8-9)

Newsagents are also potential competitors for letterbox or household distribution. It is possible for newsagents to home deliver and distribute other material such as periodicals in conjunction with their newspaper rounds. Australia Post stated:

... newspaper deliverers in the central business districts of capital cities are enlarging their delivery networks. Some newsagents are focussing on the street delivery of periodicals. (Submission 82, p. 5)

The Commission received little information on the size or extent of this practice.

2.2.4 Couriers

Couriers provide relatively fast, reliable, delivery of directed parcels, packages, and letters. Their services are tailored primarily to meet the demands of businesses.

The carriage, by couriers, of some letters contravenes Australia Post's reserved letter services because they weigh less than 500 grams and/or the charge is less than ten times the standard rate, currently \$4.50 a letter.

The Courier and Taxi Truck Association in Sydney stated:

Currently in the Sydney market, clients are being charged as little as \$3.00 per letter (as defined) by principal contractors ... (Submission 96, p. 11)

And added that:

The practice is widespread ... (Initial Hearing Transcript, p. 266)

The reserved letter service of Australia Post is being eroded by companies that can provide an alternative delivery system. The practice is very hard to police. In most cases carriers have little idea of -- nor are they (particularly) interested in -- what they are carrying because the goods are normally sealed in a satchel before pick-up and only opened after delivery.

2.2.5 Electronic services

Telephones, facsimile machines, modems, computer networks, and electronic funds transfer facilities are increasingly being used to transmit messages that previously would have been sent by mail (see Appendix E). Australia Post stated that:

Electronic services now constitute the major competition to Australia Post, and they will erode the traditional physical message market increasingly in the future. (Submission 82, p. 7)

It went on to say that:

The increasing penetration of private facsimile machines and personal computers, and the impending take-off of EDI [electronic data interchange], have reduced the market available for both Australia Post's main electronic services [Telegram and Fax Post]. (Submission 82, p. 7)

The total number of facsimile machine messages in 1990 was approximately 377 million (see Figure 2.1). According to the Australian and Overseas Telecommunications Corporation (AOTC), in the same year there were about 300,000 facsimile machines in operation in Australia. This means that on average every machine would be receiving and sending around three messages a day. The growth in the number of facsimile machines, as illustrated in Figure 2.5, has been strong in recent years.

2.3 Broadcast messages

The unaddressed or broadcast message market encompasses the delivery of catalogues, brochures, samples, circulars, some community newspapers, and appeal envelopes. Normally, any reply generated from a letter box drop is returned to the mailer via the Australia Post system.

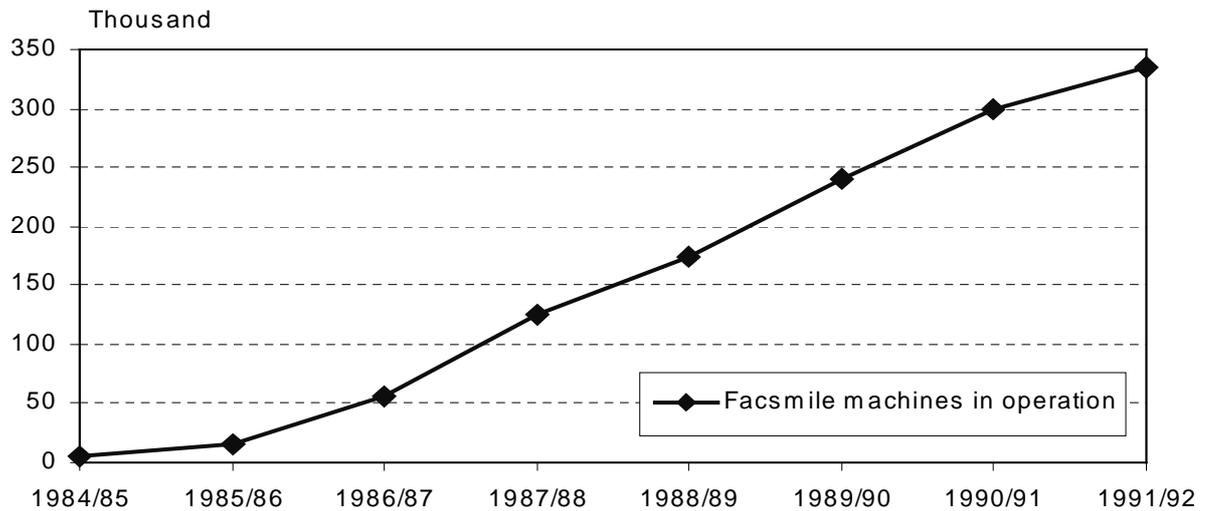
Australia Post estimates that the market for unaddressed mail stands at 2.7 billion articles a year, generating an estimated revenue of approximately \$100 million. The market has expanded rapidly. From 1980 it has grown at an average rate of 9 per cent a year. However, since 1988 the market has contracted slightly, attributable to the downturn in the economy.

2.3.1 Australia Post

Australia Post competes against private firms for the delivery of unaddressed advertising material. Its network can deliver to more households than the private sector. In 1990, 243 million or 9 per

cent of unaddressed items were delivered by Australia Post. Progress Press and Salmat share most of the remainder.

Figure 2.5: Number of facsimile machines in Australia, 1984-85 to 1991-92



Source: Information received from AOTC. The figures since 1989-90 are estimates as no record is kept of the actual number of facsimile machines in operation.

Australia Post's charges for standard and large items of unaddressed mail range from 7 to 17 cents. For customers that lodge more than 100 articles larger discounts are available. Australia Post has not disclosed the average rate that it charges for large volume contracts, but these would be lower than the fore-mentioned range. Section 2.3.2 details the private sector rates for unaddressed mail.

2.3.2 Letterbox distributors

Progress Press, based in Melbourne, can cover 5.3 million of the 6.4 million households serviced by Australia Post. Salmat, based in Sydney, is another private firm delivering principally unaddressed material. The Commission understands that Salmat's network is similar to that of Progress Press. The two firms work independently but in some areas final delivery is shared between the companies' deliverers.

The Progress Press network is capable of delivering within any 48 hour period utilising approximately 23 000 deliverers, each typically responsible for 200 households (Submission 92, p. 8). The network is not limited to the major cities but extends to rural towns and small provincial cities such as Charters Towers, Alice Springs, and Kalgoorlie. Pac-Rim stated that its wholly owned-subsiidiary Progress Press:

... seeks as part of its business plan to further develop this network over time to the same coverage as that of Australia Post to include not only rural areas but also central business districts (CBDs). (Submission 280, p. 6)

Letterbox distributors either deliver the articles themselves using their own 'sub-contractors' or use Australia Post where their networks do not extend, typically in areas of high cost.

Charges imposed by letterbox distributors vary with the volume of articles, the type of article, and the degree of distribution. Average charges for a standard unaddressed article range between 3.5 and 4.5 cents.

2.4 Parcels and small freight

The parcel and small freight market, including courier services, is highly competitive. There are literally thousands of individuals moving packages around Australian cities using many modes of transportation. Some firms are capable of delivering interstate and overseas.

Australia Post's parcel network takes the bulk of the smaller and person-to-person business, for example gifts. Private couriers concentrate on business delivery.

2.4.1 Australia Post

Australia Post is involved in the courier business. Its network for door-to-door delivery covers all capital cities and major country centres. In areas that are not serviced by a specific Australia Post courier, articles can be lodged and picked up at post offices.

Apart from the parcel service that Australia Post provides, its national network is also used as a vehicle for delivery by private companies. Couriers that are either unable or unwilling to provide reliable services to rural and remote areas may use the Australia Post network to deliver parcels. For example, TNT stated that in the current year it expected to use Australia Post's network to the extent of \$13 million (Initial Hearing Transcript, p. 583). Security Express, a company that is contracted to deliver all the Queensland Education Department's intrastate mail, lodges some mail with Australia Post because there are some areas to which its own delivery network does not extend.

2.4.2 General freight carriers

In rural and remote areas some private operators, including inter-town carriers and Australia Post's mail contractors, are willing to pick up and deliver parcels and packages independently of any Australia Post commitments. The volumes of general freight they carry are usually small and unpredictable. The service they provide is particularly important when alternative carriers such as trains or commercial buses are unavailable.

2.4.3 Couriers

During August 1992 the Courier and Taxi Truck Association (CTTA) conducted a survey of the courier and parcel companies operating in Sydney. The CTTA determined that there were 157 courier companies operating in Sydney. Of these, 106 were independent with the remaining 51 controlled by 15 companies (Submission 276, p. 4).

The couriers utilise a range of methods in delivering goods and services. These include runners, bicycles, motor bikes, cars, and small vans. Some of the larger companies employ aeroplanes and large trucks moving goods and packages intra and interstate.

Apart from Australia Post, two companies, Mayne Nickless and TNT, provide the majority of services in the long-distance sector. Mayne Nickless saw the task of the courier and parcels delivery industry as essentially:

... to respond to perceived market demand for a fast, efficient and reliable service for the transfer of a wide range of generally light-weight but high value goods between locations. The markets for this range of services differ within the common theme of time-sensitivity. (Submission 81, p. 6)

The type of operator depends on the density of the population and the market they are trying to service. Entry into the industry is acknowledged to be easy and frequent and:

... often takes the form of employees taking their knowledge and expertise into the market and carving-out their own profitable niche market. (Submission 81, p. 18)

Some goods are time-sensitive, because they are perishable or required urgently. In general, Australia Post dominates the non-time-sensitive sector, while the private sector focuses its effort on the time-sensitive business market. Other movements are determined by volume and weight factors. For example, Australia Post does not accept articles over 20 kilograms through its postal network and therefore specialist companies, couriers, and transport companies moving 'freight' deliver them.

Because the market is highly competitive, particularly in the cities, the Commission has found it difficult to determine its size and the volume of work involved. However, the market segments can be categorised as follows: cross-town courier, overnight door-to-door, and international.

Australia Post valued the urgent cross-town courier market at \$220 million a year. With low entry and exit barriers, this segment of the market has a high turnover of operators. TNT and Mayne Nickless hold a significant share of the market through many subsidiaries.

The overnight door-to-door market generates business worth \$1 billion a year, with TNT and Mayne Nickless having an aggregate market share of 90 per cent.

The international segment consists of both domestic and foreign companies. Australia Post and TNT must compete with each other and against large overseas organisations such as Federal Express, United Parcel Service, and DHL. All these companies have established operations in

Australia. Commercial relationships between line-haul companies and postal administrations are becoming more commonplace; a recent example is that between DHL and Australia Post (see Section 6.5.1).

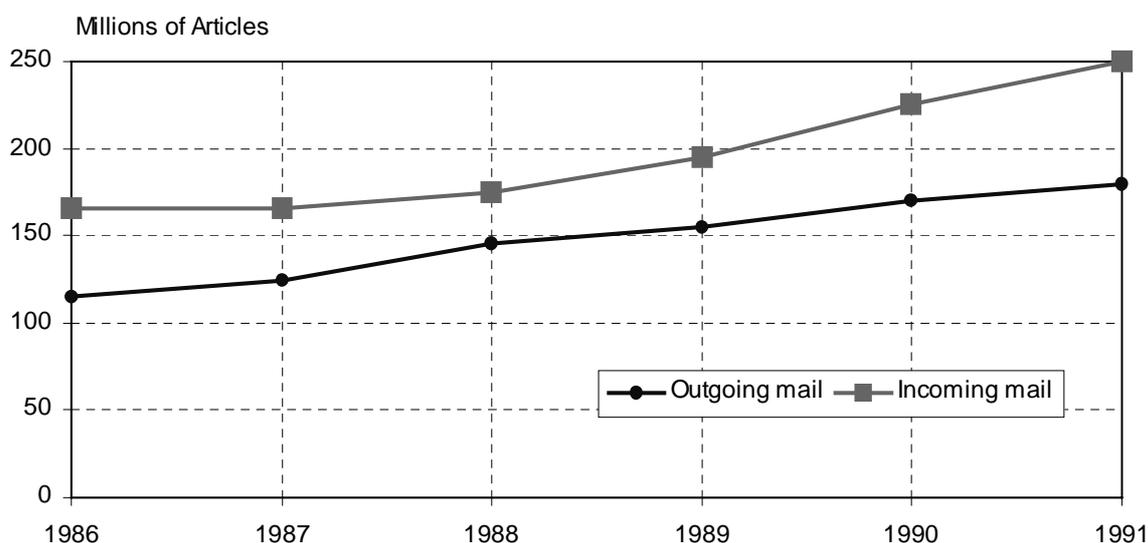
2.5 International mail

The 169 countries that are members of the Universal Postal Union (UPU) comprise a single postal territory for the reciprocal exchange of letters. Freedom of transit is guaranteed throughout the territory. Each country must deliver incoming mail in the same way that it does for its own domestic mail. If a country fails to deliver another country's mail, the postal administrations in other countries may discontinue postal services with that country.

Under the UPU Convention, Australia Post has a number of obligations to fulfil concerning incoming international mail (see Chapter 6).

International mail is substantial in volume terms; it accounted for about 10 per cent of all articles moved through the Australia Post network in 1990-91. Australia is predominantly a net importer of international mail, with incoming mail some 25 per cent higher than outgoing mail in volume terms (see Figure 2.6). The compensation that Australia Post receives for handling this mail is set according to a system of international terminal dues. These are based on the average delivery costs for all member countries.

Figure 2.6: Volumes of international mail, 1986-1991



Source: AP 1991a, p. 72 Annual Report

The composition of the two flows differs markedly: large letters (which include magazines) and small parcels make up about 15 per cent of outgoing mail, but account for around 30 per cent of incoming mail.

Private companies are moving towards providing alternative systems for transporting international mail. Globally, mail moving outside official postal administrations is growing. No statistics are available on the volume of cross-border movement of goods outside the Australia Post network, as much of this traffic is combined with general freight movements.

3 STRUCTURE AND ACTIVITIES OF AUSTRALIA POST

There have been major changes to the structure and activities of Australia Post since the Government's 1988 reform program for its business enterprises. These changes have been designed to place Australia Post more at arm's length from the Government, to make it more responsive to consumer needs, and require it to act commercially.

The origins of Australia Post can be traced to 1809 when the first official post office was established in Sydney, to the establishment of separate colonial postal systems, and to the establishment of its predecessor, the Commonwealth Postmaster-General's Department, in 1901 with federation. This Department was responsible for both postal and telecommunications services and, like the colonial post offices, it was granted reserved services protection to carry all letters weighing up to one pound (500 grams).

The first major change to the operations of the Department occurred in 1975 when, following the Vernon Commission of Inquiry (1974), the postal and telecommunications functions were separated.¹This saw the establishment of two commissions: the Australian Telecommunications Commission (trading as Telecom) to provide telecommunication services and the Australian Postal Commission (trading as Australia Post) to provide postal services.

The next major development occurred in 1982 when the Bradley Committee of Inquiry considered whether Australia Post's letter reserved services should be retained. It was retained, but the protection afforded was reduced by allowing others to carry letters provided they charged at least ten times the standard letter rate.

3.1 Recent reforms to Australia Post

The Commonwealth Government's micro-economic reform agenda relevant to Australia Post was set out in a statement by the Minister for Transport and Communications on "Reshaping the Transport and Communications Government Business Enterprises" which was released in 25 May 1988 (DOTAC 1988). Eight enterprises were involved including Australia Post.

That package of reforms aimed to alter the relationship between the enterprises and the Government by putting them more at arm's length, making them responsive to consumer needs, and

¹ Appendix B contains a summary of previous Government inquiries/reports into mail, courier, and parcel services.

improving their efficiency. Improved efficiency was viewed by the Government as critical to increasing the performance of the Australian economy.

The reforms to Australia Post were implemented through *the Australian Postal Corporation Act 1989* (the Act). It details the community service obligations (CSOs) of Australia Post, its corporate structure, the responsibility of the Board of Directors, the accountability requirements on Australia Post, and its powers to fulfil its service obligations.

The major changes to the corporate structure and associated accountability requirements, and their impact on the activities of Australia Post, are discussed in the remaining sections of this chapter. In essence these changes:

- replaced the Australian Postal Commission with the Australian Postal Corporation -- an independent statutory corporation with a separate Board of Directors;
- clarified the roles and responsibilities of the Commonwealth Government (as owner and only shareholder), the Board of Directors, and management in respect of the operation and performance of Australia Post;
- introduced new planning and accountability mechanisms, including the setting of financial targets and performance goals;
- removed day-to-day Ministerial controls over the operations of Australia Post; and
- overall, required Australia Post to operate commercially.

Part of the process of making Australia Post operate commercially was to make it liable for the same taxes and charges as its competitors. Australia Post became liable for customs duties in 1987; State payroll tax from 1 July 1988; other State and local government charges from 1 July 1989; and income tax for the 1990-91 financial year. Taxes payable in 1990-91 totalled \$185 million compared with zero in 1986-87.

3.2 Corporate structure and accountability of Australia Post

Australia Post is a large and complex business organisation with assets and annual revenue both in excess of \$2.1 billion in 1990-91. It is wholly owned on behalf of the community by the Commonwealth Government. The Minister directly responsible for Australia Post is the Minister for Land Transport within the Transport and Communications portfolio.

The Board of Directors of Australia Post is responsible for its performance and is accountable to the responsible Minister for that performance. As specified in Section 23 of Act, the role of the Board is:

- (a) to decide the objectives, strategies, and policies to be followed by Australia Post; and

The issues to be covered in the corporate plan are spelt out in Sections 36, 37, and 38 of the Act. Section 36 deals with general matters to be included such as the objectives, strategies, and policies of Australia Post and its subsidiaries; the strategies and policies to be employed by Australia Post in fulfilling its community service obligations (see Section 5.2); and the financial indicators and targets by which to assess the operational and financial performance of Australia Post. The broad objectives, strategies, and policies of Australia Post are reproduced in Box 3.1. Section 37 and 38 deal respectively with the financial matters to be included in the plan and with the matters to be considered in setting financial targets.

Box 3.1: Corporate objectives, strategies, and policies of Australia Post

Objectives:

- to provide high quality mail and parcel services to all in Australia; and
- to build a progressive commercial corporation through a commitment to high levels of customer satisfaction.

Strategies and policies:

- to earn a commercial level of profitability comparable to that attained by private sector firms with comparable characteristics to Australia Post;
- to provide an audited level of service to suit the requirements of all customers; and
- to develop, in conjunction with all employees and their unions, an efficient and responsive workforce consistently achieving high levels of customer satisfaction.

Source: AP 1991a, p. 62

The Board is required to present the corporate plan to the Minister immediately on its completion or when revised. In consultation with the Board the Minister may, within 30 days of receipt, direct the Board to vary its strategies and policies with respect to fulfilling community service obligations and its specified financial targets.

Neither the corporate plan nor the consultation with the Minister is open to direct public scrutiny. However, Australia Post has made public (in July 1992) an addendum to the corporate plan covering the period 1992-93 to 1994-95, detailing the strategies and policies it will be pursuing to fulfil its community service obligations, together with the estimated cost of meeting the obligations in 1990-91 (AP 1992a).

The Board must include in the annual report of Australia Post a statutory report on specified aspects covered in the corporate plan. The reporting obligations of Australia Post are discussed in Section 3.2.2.

Community service obligations

In responding to the Corporation's revised corporate plan for the three year period 1989-90 to 1991-92, the Minister stated, in a letter to the Chairman of Australia Post dated 22 March 1991:

I believe that the Corporate Plan could contain more information on the strategies and policies of the Corporation for the delivery of its CSO, as required by Section 36 of the Australian Postal Corporation Act 1989. I would like the Corporation to work with the Department to develop a fuller statement. This work should be completed by the end of 1991 at the latest, at which time I would like to receive a report from you containing this information. (Submission 119, attachment 1, p. 3)

The Minister at that time also requested Australia Post to include in its next corporate plan (which was presented in May 1992) a strategy for reducing the real and absolute cost of community service obligations over time within the context of the Government's concern "that quality of service should not be undermined in implementing reforms" (Submission 119, attachment 2, p. 2).

The separate identification and costing of community service obligations is an integral part of the Commonwealth Government's reform strategy for its government business enterprises. As detailed in the May 1988 statement:

Another essential ingredient of the new arrangements is the separate identification and costing of community service obligations (CSOs) and other non-commercial objectives which may have a bearing on financial performance of an enterprise. Clearly, the government expects some enterprises, eg. Telecom and Australia Post, to continue undertaking important CSOs. The progressive separate identification and detailed costing of CSOs is a necessary process so that government can make it clear what CSOs it expects of these enterprises, and allows a clearer understanding of the extent to which social and other non-commercial objectives are being met. It also enables the costs of such obligations to be taken into account in setting financial targets. (DOTAC 1988, p. 5)

Against this background, and in response to a request from the Minister, Australia Post has developed new estimates of the costs of its CSOs based on the avoidable cost methodology. These are documented in an addendum (released in July 1992) to the corporate plan for the period 1992-93 to 1994-95. The estimates provide a useful first step in identifying the high cost areas within Australia Post's network which may provide some insights into where costs can be reduced without compromising service. However, Australia Post has expressed reservations about the usefulness of the results derived from the avoidable cost methodology, saying it:

... has concerns with the implementation of the results which are only valid under current service, volume and pricing conditions. It is expected that the cost of the CSOs will change as either service, access, price, volumes, or regulatory environment changes.

If CSOs are costed on a commercial basis having regard for fully attributable costs the figure would be much higher. No commercial enterprise can operate prudently and maintain an extensive network efficiently while relying on returns which only cover avoidable costs. (Submission 82, p. 46)

The costing of Australia Post's CSOs is discussed further in Section 5.6.

Financial targets and performance goals

Section 37 of the Act specifies a number of financial matters which must be covered in the corporate plan. Included are the financial targets for Australia Post and its subsidiaries; overall financial strategies dealing with, for example, pricing, borrowing, and investment and property management; revenue, expenditure, and capital requirement forecasts; and the cost of fulfilling its community service obligations.

The matters which the Board shall consider in setting the financial targets for Australia Post are detailed in Section 38 of the Act and include:

- the need to earn a reasonable rate of return on the assets of Australia Post;
- the need to maintain the equity of Australia Post and to pay the Commonwealth a reasonable dividend;
- the cost of fulfilling its community service obligations;
- the cost of complying with the general policies of the Commonwealth Government under Section 48 and of any Ministerial directives under Section 49; and
- the cost of meeting any other obligations on Australia Post which require it to act other than in a commercial manner.

The performance indicators and targets for 1991-92 are not publicly available. However, the indicators and targets for 1990-91 are presented in Box 3.2; all were equalled or exceeded (see Section 4.4.2).

3.2.2 Accountability requirements

Australia Post's accountability requirements are detailed in its Act. The main mechanism is the annual report and associated financial statements. General matters for account by Australia Post are specified in Section 43 and include:

- details from its corporate plan covering, for example, the objectives, strategies, and policies of Australia Post and its subsidiaries, its performance indicators and targets, and details of the strategies and policies being pursued in fulfilling its CSOs;
- details of any directives from the Minister and the general policy of the Commonwealth Government applying to Australia Post; and
- an assessment of the strategies and policies Australia Post is using to fulfil its CSOs.

The financial matters to be included in the annual report are specified in Section 44 of the Act. They mainly require Australia Post to assess its performance relative to the financial targets contained in the corporate plan. Specific aspects which must be addressed include the cost of fulfilling its CSOs and of complying with Ministerial directives or the general policies of government (outlined in the next section).

Box 3.2: Performance indicators and targets for Australia Post, 1990-91

- achieve a 9.5 per cent return on assets (earnings before interest and tax and including CSOs, to total assets);
- earn an operating profit of \$120 million (after interest and before adjustment for CSOs);
- make a dividend payment to the Commonwealth Government of 16 per cent of after tax profit;
- improve labour productivity by 1.5 per cent; and
- achieve 94 per cent on-time delivery of enveloped mail.

Source: AP 1991a, p. 62

Currently a consolidated set of financial statements is presented in the annual report covering both the Australian Postal Corporation and its subsidiaries.³ Separate financial data are not presented on, for example, the revenue and expenditure associated with different services such as parcel post, registered publications, and express courier; nor are separate financial details provided for reserved services, compared with non-reserved services. The need to publish separate financial data is discussed further in Section 4.3.4.

The comprehensive statistical data about the size, structure, and operations of Australia Post that used to be included in its annual reports are not covered by the legislative requirements. The Prices Surveillance Authority saw the publication of such information as essential for public accountability which, in turn, the Authority saw as a 'quid pro quo' for relaxing ministerial controls over the day-to-day operations of Australia Post (Initial Hearing Transcript, p. 522).

In its 1991 "Inquiry in Relation to the Supply of Certain Postal Services", the Prices Surveillance Authority made these points:

During the course of the present inquiry, the Authority has become aware that Australia Post is tending to publish less and less information about its operations. This may be seen by contrasting the nineteen tables of detailed information in the Statistical Supplement in the Australian Postal Commission 1985 Tenth Annual Report with the seven tables of less-detailed information in the Statistical Supplement in Australian Postal Corporation Annual Report 1990. (PSA 1991b, p. 94)

³ Until June 1992 Sprintpak Pty Ltd was the only subsidiary of Australia Post. It is wholly-owned by Australia Post and provides "quality assurances and secure finishing services for the production and packaging of stamps, philatelic products and valuable collectables" (AP 1991a, p. 63). A second subsidiary was established in July 1992, Australian Air Express Pty Ltd. This is a joint venture company formed by merging Australia Post's Express Courier division with the Air Cargo Division of Australian Airlines Ltd. Australia Post and Australian Airlines each holds 50 per cent of the joint venture company.

Since then Australia Post has been participating in the performance monitoring exercise for government businesses initiated by the 1991 Special Premiers' Conference (Submission 264, p. 61). The monitoring exercise includes the calculation and publication of such performance indicators as the rate of return on assets, labour productivity, and total factor productivity (see Section 4.4.2 and 4.4.3). All of the information needed to undertake these calculations is publicly available. In terms of making Australia Post accountable, the Commission considers that its participation in the performance monitoring exercise is far more effective than the details that used to be provided in earlier annual reports.

3.2.3 Ministerial and government directives

As already noted, Australia Post is subject to the general policies of government under Section 48 of its Act. It is also subject to written direction from the Minister about its performance under Section 49 if that performance is affecting the "public interest". There have been no directions given under Section 49.⁴

In a letter dated 28 June 1990, the Minister for Transport and Communications notified Australia Post under Section 48 that it should meet the general policies of the Commonwealth Government in respect of:

- Australian Loan Council requirements;
- Government wages and industrial relations policy;
- Executive remuneration policy;
- Australian Traineeship Scheme;
- National Preference Agreement; and
- Offsets Policy (Submission 119, Attachment 2, pp. 1-2).

The Australian Loan Council is a mechanism for coordinating the (global) borrowing requirements of governments and their business enterprises like Australia Post, mainly for the purpose of managing the economy. But such considerations may not coincide with the borrowing needs of Australia Post and, hence, may restrict its ability to act commercially. The Department of Transport and Communications said:

... the [Loan Council] processes involved do tend to weaken Board and Management efforts to inculcate a culture of commerciality and accountability within the enterprise. As technology increases the scope for productivity improvements, and when the market improves sufficiently to warrant more extensive commercial redevelopment of Australia Post's properties, the associated increased demand for capital inputs into the business could be held

⁴ Australia Post is also subject to a number of other Commonwealth Acts including *the Equal Employment Opportunities (Commonwealth Authorities) Act*, *the Human Rights Commission Act*, *the Environment (Impact of Proposals) Act*, *the Administrative Decisions, Freedom of Information Act 1982*, *Judicial Review Act*, and *the Heritage Act* (Submission 82, p. 25); corporations law does not apply to Australia Post.

back by Loan Council processes that may not recognise fully the extent of structural change in the industry's mix of inputs. (Submission 119, p. 14)

In 1991 the Loan Council established conditions which, if met, could allow government enterprises to be exempt from its coverage. Exemptions could be granted for enterprises:

- operating in a commercial manner and with a track record of fully meeting certain commercial criteria; and
- with a substantial private sector equity (of the order of 40 per cent or more) operating in a commercial manner.

Whilst Australia Post is afforded reserved services protection, it would not be eligible for exemption under the first condition. Even if that protection were removed, it would be some time before Australia Post would establish a commercial track record. Whilst Australia Post remains fully owned by the Australian Government, it would not qualify for an exemption under the second condition (see Section 9.7). The Commission understands that no State or Commonwealth Government business enterprise has yet qualified for exemption. The present criteria for exemption do not offer a means to avoid the potential adverse effects of Loan Council requirements on Australia Post's commercial decision making.

The Department of Industrial Relations' oversight of the industrial relations and wages policy of Australia Post has been greatly reduced under the 1988 reform package. Australia Post is now only required to submit details for clearance by the Department if either the Department or Australia Post considers that the guidelines would be breached. Previously Australia Post had to consult on a wide range of wages and industrial issues which restricted its ability to act commercially (DOTAC 1988, p. 37). But the need for Australia Post to continue to consult with the Department of Industrial Relations, means that its ability to act commercially could still be constrained on wages and industrial relations issues.

The Board of Australia Post is now responsible for executive remuneration and is required to consult with the Remuneration Tribunal prior to negotiating remuneration packages and to advise the Tribunal of the outcome. Previously, remuneration was determined by the Tribunal based on the salaries for senior executives within the Australian Public Service. These salaries might have been inappropriate for attracting and retaining staff of appropriate calibre given the need for Australia Post to act commercially. But the continued need for the Board to consult would seem to be in conflict with the Board's other commercial responsibilities.

Under the Australian Traineeship Scheme, Australia Post is required to provide training for some 15 to 19 year old school leavers for twelve months. After this there is no requirement to offer ongoing employment. Participation in the scheme by private companies is voluntary. Thus, the requirement of Australia Post to participate could limit its ability to act commercially. The

Commission considers that, while Australia Post should be free to participate in the scheme, it should not be required to do so.

Both the National Preference Agreement and Offsets Policy of the Government seek to ensure a given local content in major investments such as the purchase by Australia Post of 52 sorting machines. Although it may not have been the case with respect to this investment, such local content requirements could result in the purchase of machines which are more costly or of inferior performance relative to those available internationally. Once again, the need to comply with these requirements could adversely affect Australia Post's ability to compete through what might amount to inappropriate investment decisions.

In its 1991 Annual Report, Australia Post claimed that the cost of complying with these policies was negligible (AP 1991a, p. 63). But that is not the relevant point. Rather, the need for Australia Post to comply with these general policies would appear to be inconsistent with the directive for Australia Post to act commercially. Each of the general policies has the potential to increase costs, reduce service quality, or restrict Australia Post's flexibility in responding to competitive pressure. The Commission therefore recommends that:

Australia Post no longer be subject to direction relating to general policies of the Commonwealth Government such as in borrowing, employment, and purchasing, and that Section 48 of its Act be repealed.

In its response to the Commission's draft report, the Department of Transport and Communications expressed concern about repealing Section 48. It said:

In the absence of s.48 there could be valid concerns about the scope for Australia Post to be held accountable to Government and the Parliament, as well as concerns about the scope for possible non-transparent arrangements that might undermine accountability. (Submission 285, p. 9)

According to the Department, Section 48 is there to ensure that any direction which the Government, as owner, may give Australia Post is made public and accounted for in Australia Post's annual report. Section 48 "allows the Parliament to see what directions specifically the Government has been giving Australia Post ... it has an advantage of transparency" (Draft Report Hearing Transcript, p. 388). Nevertheless, the Commission considers that the objectives mentioned by the Department could be achieved equally under Section 49 of the Act, whereby the Minister can give direction to Australia Post in the public interest and for those objectives to be laid before Parliament within 15 sitting days. It can see no reason to retain Section 48.

3.3 Australia Post and the corporate model

The benefits of corporatisation come from establishing an arm's length relationship between governments and their business enterprises and from dismantling barriers to entry. The Commission has previously published the major components of a model of corporatisation which provide a checklist against which Australia Post can be compared (IC 1991a). Corporatised government business enterprises would have better incentives to operate efficiently if owner governments:

1. provide clear and non-conflicting objectives that relate to commercial performance only;
2. identify, cost, and directly fund any community services from the budget so as to make subsidies transparent;
3. vest management in a commercial board accountable to Parliament through a minister;
4. introduce performance monitoring based on financial and non-financial targets and establish a system of rewards and penalties for managers related to performance;
5. separate out regulatory functions -- an enterprise should not be both umpire and player;
6. make authorities liable for all taxes and government charges;
7. require dividends at levels equivalent to similar private companies;
8. remove constraints such as government employment policies and advantages such as those associated with government borrowing guarantees;
9. require adoption of uniform and commercial accounting practices;
10. make corporatised authorities subject to the Corporations law;
11. introduce effective natural monopoly regulations and remove advantages such as exemptions from the *Trade Practices Act 1974* that do not apply to private companies; and
12. remove regulatory and legislative barriers to entry.

With regard to Australia Post, the Government has satisfied items 1, 3, 4, 6, 7, and 9. It is also likely that the Government has satisfied item 11 because Australia Post is already subject to the *Trade Practices Act 1974* and, as discussed in Section 7.4, does not constitute a natural monopoly. The other items are discussed below.

- **Item 2** - The Government has not yet itself identified and costed community services but has, as a first step, sought and received estimates from Australia Post (see Section 3.2.1 and Chapter 5).

-
- **Item 5** - Australia Post does not have specific regulatory functions but there are conflicts (akin to being both umpire and player) between its role of setting standards of service delivery and then providing those services. These conflicts are most apparent in meeting its community service obligations, especially in rural and remote areas, and are addressed in Chapter 5.
 - **Item 8** - Implementation of the Commission's recommendation above would address this item.
 - **Items 10 and 12** - These items remain to be addressed by the Government. Indeed, the Act provides barriers to entry by reserving letter services to Australia Post. Competitive issues are discussed in Chapter 7.

In summary, Australia Post has only some of the characteristics of a corporatised government business enterprise. However, since the reserved services protection has been afforded to Australia Post in order for it to fulfil the Government's social objectives with respect to letter services, it may not be appropriate to implement the corporate model fully. The need to retain reserved services protection to meet the Government's social objectives is discussed in Chapter 9.

3.4 Range of services provided

Australia Post provides a wide range of services including electronic mail, postal money orders, philatelic, parcel and courier services, unaddressed mail, registered publications, domestic addressed letters, and international mail. In providing these services, the activities of Australia Post are mainly concerned with retail sales and acceptance, and mail collection, processing, transportation, and delivery.

The relative contribution of these different services to total revenue of Australia Post is presented in Table 3.1. As can be seen from this table, data are not publicly available for a significant share of Australia Post's revenue.

3.4.1 Domestic addressed letter service

As illustrated in Table 3.1, the core of Australia Post's business is the domestic addressed letter service which is reserved to it. Total revenue from domestic addressed letters in 1990-91 was estimated by Australia Post at \$1.2 billion, 55 per cent of its total revenue of \$2.2 billion. Addressed domestic letters fall into two main categories: standard letters (46 per cent of total revenue) within specified size and weight limits for which the current uniform charge of 45 cents applies; and large letters (9 per cent of revenue) where charges vary according to destination (intrastate and interstate) and weight (AP 1992f, p. 5). Revenue from international letters, which are also reserved to Australia Post, was estimated at \$131 million, or about 6 per cent of total revenue in 1990-91.

Table 3.1: **Contribution to total revenue by service type, 1990-91**

<i>Service</i>	<i>Revenue (\$ million)</i>	<i>Share of Total (per cent)</i>
Reserved services		
Domestic addressed letters	1195	55
<i>Standard letters</i>	991	46
<i>Large letters</i>	204	9
International letters	131	6
Total reserved services	1326	61
Non-reserved services		
Registered publications	47	2
Other mail services - includes: Unaddressed mail (see Section 3.4.4); and Parcel and courier services	576	27
Philatelic	42	2
Postal Money Order service	22	1
Agency services	90	4
Other revenue	63	3
Interest	32	
Fixed assets sale	8	
Other	23	
Total non-reserved services	840	39
Combined total	2166	100

Source: AP 1991a and AP 1992a

Overall, Australia Post offers the same level of service for both standard and large letters with the main variant in service standard being time taken to effect delivery. Australia Post has published a delivery schedule based on a 6 pm clearance, six days a week. For example, the delivery time for intrastate metropolitan to metropolitan is advertised as the next working day; for interstate metropolitan to metropolitan, two working days; and for interstate metropolitan to country, three working days. Australia Post has set the performance goal that 94 per cent of addressed mail will be delivered within the advertised times. Section 4.4.1 contains details of performance achieved.

Australia Post also offers a number of auxiliary services including Priority Paid, a premium letter service to specified intrastate and interstate areas; Certified Mail, proof of posting and record of delivery; Security Post, secure handling of valuable items; Express Post, guaranteed next day delivery between specified locations (mainly capital cities and major regional centres); and BoxLink, enhanced delivery service between boxholders introduced in March 1992 initially to the

business districts of Sydney, Melbourne, and Brisbane. To facilitate the delivery of mail Australia Post also offers, for a fee, services such as private mail boxes, locked bags, and mail bags.⁵

3.4.2 International mail

Australia Post is obliged to provide an international letter service, but not necessarily at a uniform charge. The nature and effects of its international obligations are discussed in Chapter 6. Aerogrammes can be sent anywhere in the world for the one charge, currently 70 cents. But all other international mail incurs charges which increase with weight and with distance (there are five different zones for charging purposes). For other than aerogrammes, postcards and standard letters, three different standards of service are available: air mail, economy air mail, and sea mail. All of this results in an extensive range of charges.

International mail is substantial in volume terms, with outgoing and incoming mail together accounting for about 10 per cent of all articles passing through Australia Post's network.

3.4.3 Registered publications and Print Post

Australia Post has traditionally provided a lower priced service for registered publications -- regular publications produced by a wide range of commercial, professional, and community organisations.⁶ To be eligible for the lower price, publications have to be registered with Australia Post, for which an application and annual fee is payable, and have to comply with a number of other conditions such as at least four circulations a year and be presorted by postcode. Although there are no minimum lodgement numbers, a minimum lodgement fee of \$28 a title in each state applies.

There are two categories of registered publications: Category A applying to certain country publications and those produced, for example, by religious, welfare and ex-service organisations; and Category B applying to publications serving the commercial purposes of special interest groups including small clubs, unions, and professional organisations. A higher discount applies to Category A publications.

Australia Post has consistently claimed that it has incurred losses in respect of registered publications, the greater share of which is due to Category B publications (PSA 1991b, p. 75). In response to these losses, and after consultation with the Commonwealth Government and publisher organisations, Australia Post announced that it would be phasing out the registered publications

⁵ Details of the prices and other terms and conditions applying to these services can be found in the publication of Australia Post (AP 1992f), entitled *Postal Charges Effective 1 April 1992*.

⁶ The Commission understands that the original rationale for the lower price was to assist the dissemination of cultural and educational material not readily available to the general public.

service and replacing it with 'Print Post', a service specifically designed for the carriage of periodical publications.

The registered publications service is scheduled to cease on 31 December 1994 and is being phased out in two stages: publications of commercial organisations commencing in January 1992 and fully during the 1993 calendar year; and publications of other, not-for-profit organisations commencing in January 1993 and fully during the 1994 calendar year. The pricing of the registered publications service and its replacement, Print Post, is discussed further Section 4.3.3.

3.4.4 Unaddressed mail and publications

Revenue received by Australia Post from unaddressed mail, which is provided in direct competition with private operators, is estimated in the range of \$10 to \$15 million for 1990-91. This estimate is derived from information provided by Australia Post that the total market for unaddressed mail is estimated at \$100 million a year; its share by volume in 1990-91 was 9 per cent; and it had concentrated on the higher priced segment of the market (Submission 82, p. 5).

3.4.5 Parcel and courier services

Australia Post provides its parcel and courier services, trading respectively as Parcel Post and Australian Air Express Pty Ltd (previously Express Courier), in competition with a number of private suppliers. Although the total parcels/courier market (small freight up to 30 kilograms) is estimated by Australia Post at \$1.4 billion a year (Submission 82, p. 5), details are not available as to its share. However, because of the mutual benefits of providing a parcel service in conjunction with its national letter service, the Prices Surveillance Authority claims that "Australia Post operates as a virtual monopoly supplier of small parcel services" (Submission 120, p. 4). This is discussed further in Section 4.3.4. Information is also not publicly available on the share of revenue earned by Australia Post from its parcel and courier services, including its auxiliary range of Postpak packaging products.

Apart from the services provided by Australian Air Express, Australia Post has also established a commercial alliance with DHL for international express services.

3.4.6 Electronic mail

Australia Post provides two electronic mail services: the Lettergram (originally the telegram service) and FaxPost. Compared with its letter and parcel services, these two services are minor, with combined revenue in the order of \$10 million. Due to the Lettergram service, Australia Post incurred a combined loss of around \$3 million in 1990-91 and has presented a proposal to the Commonwealth Government to withdraw the service (Initial Hearing Transcript, pp. 16-17). In

addition to these services, Australia Post has recently introduced a new service, called Lettergram ComputerLink, mainly for business customers, to allow customers to lodge letters electronically from their own computers.

3.4.7 Retail services

Australia Post provides a range of retail services through its national network. In terms of contribution to revenue, the two largest were the philatelic and money order services, with respective contributions of \$42 million (2 per cent of total revenue) and \$22 million (1 per cent) in 1990-91.

Australia Post also provides several services through its network on behalf of third parties including the Commonwealth Bank, Bureau of Meteorology (recording weather details), and the Department of Foreign Affairs and Trade (passport applications). It also offers account payment facilities for a number of businesses and government agencies and authorities including Telecom, AMP, and in some cases water and electricity authorities. Revenue earned from these activities in 1990-91 was \$90 million, or 4.2 per cent of total revenue.

3.5 Service delivery by Australia Post

The national network operated by Australia Post to fulfil its obligation of providing all people in Australia reasonable access to a letter service is integral to the delivery of all of its services. Details of that network are shown in Chart 2.1.

Of the 4545 post offices, 1352 are official post offices staffed by employees of Australia Post. The other 3193 post offices are operated under contractual arrangement with Australia Post and are known, except for the 180 community mail agencies, as post office agencies. The range of retail services provided varies between post offices and post office agencies. The Commission understands that bulk post and passports, for example, are services generally not available through agencies (see Appendix C).

According to Australia Post, the availability of retail services is often determined by the third party for whom Australia Post is providing the service (Initial Hearing Transcript, p. 83). However, as a matter of principle, the range of retail services provided should depend on the demand for the services, not on the status of the outlet as an official post office or agency.

According to Australia Post, its retail network of post offices (30 per cent of network) and agencies (70 per cent) has operated for some years at a loss; the reported loss for 1990-91 was around \$80 million (Submission 82, p. 33). To redress the loss on its retail operations, Australia Post has

embarked on a market-based initiative named 'Retail Post'. Under the Retail Post agreement, the operating conditions for agencies will change: agents will operate licensed outlets under franchise for Australia Post, and they will be known as Licensed Post Offices.

3.5.1 Retail Post

As stated by Australia Post, the new approach embodied in Retail Post:

... will be to provide modern outlets and services and merchandising methods and technology appropriate to the 1990s. Outlets will be reduced, customers will find it easier to select and purchase products, and the range of post-related products will be expanded. Costs will be reduced through the introduction of new technology such as bar-coded products and point of sale bar code scanners, and through greater use of self-selection. (Submission 82, p. 33)

Underlying the Retail Post initiative are the problems created by using a network of post offices, most of which were established before 1939. Many of these properties are poorly located in terms of customer access, occupy real estate property which is not suited to the type of services provided, or are of poor internal design in respect of both service delivery and customer convenience.

Against this background, Retail Post is directed at:

- increasing the productivity of Australia Post's real estate portfolio (estimated 1991 value of \$1200 million);
- improving the range, standard, and availability of services and related postal products, hence customer convenience and satisfaction;
- reducing the costs of delivering retail services; and
- increasing labour productivity.

Strategies being employed to increase the productivity of the real estate portfolio include separating the sorting and delivery activities from counter services and the relocation of the former to industrial areas; the relocation of retail outlets to shopping malls and centres; and the sale of excess or inappropriate real estate relative to the requirements for service delivery.

Examples of strategies to improve customer convenience and satisfaction (in addition to relocating retail outlets) include establishing separate centres to handle business mail; the introduction of self-service 'postal points' offering a limited range of postal products in places like convenience stores and newsagents; and the installation of electronic facilities to handle counter activities such as bill payments on behalf of third parties and banking transactions.

Aspects of Retail Post concerned with reducing service delivery costs and increasing labour productivity are discussed in the next chapter.

4 PERFORMANCE OF AUSTRALIA POST

Pressure on Australia Post to improve its performance has come mainly from the growth of competing services (such as facsimiles and letter box distributors) and from the 1988 reforms which required all government business enterprises to operate on a commercial basis. Australia Post has responded well to these pressures. Productivity has improved, as have financial returns. Nevertheless, there remains scope for more cost-effective provision of services without reducing their quality, for improved customer relations, and for more appropriate pricing of some services.

Three major aspects of Australia Post's performance are discussed in this chapter: the costs of providing services, pricing of services, and various measures of performance.

4.1 Costs of providing services

The major items of expenditure incurred by Australia Post in 1990-91, totalling \$2022 million, are shown in Table 4.1; total revenue was \$2166 million (see Table 3.1). Labour is by far the largest cost item -- some two-thirds of total operating expenditure, illustrating the labour-intensive nature of providing mail and parcel services. Although shown separately, a significant share of the cost for post office agents would also be due to labour. Of the amount shown, which accounted for around 3 per cent of total expenditure, a large proportion would be agents' return on labour and management. Similarly, a substantial proportion of the amount paid to contractors for the carriage of mail (9 per cent of total) would be for labour and management. Overall labour related costs are likely to account for around 75 per cent of Australia Post's total costs.

Table 4.1: **Operating expenditures for Australia Post, 1990-91**

<i>Item</i>	<i>Expenditure</i> <i>(\$ million)</i>	<i>Share of Total</i> <i>(per cent)</i>
Labour	1344	66
Post office agents	60	3
Carriage of mail by contractors	172	9
Accommodation (inc. maintenance, rent, and furniture)	124	6
Stores and supplies (inc. transport fleet, and printing costs)	111	5
Depreciation	54	3
Interest expense	2	..
Other (inc. payments for international mail delivery)	154	8
Total	2022	100

Source: AP 1991a, pp. 46-53

4.1.1 Labour costs and industrial relations

Labour is Australia Post's largest input, making labour performance important if postal services are to be provided at least cost with continuing increases in productivity. Since 1987 three reform stages have been instrumental in improving labour productivity. These three stages of reform are discussed in some detail in Appendix D.

- Restructuring and efficiency initiatives: these were introduced in 1987 as part of the four per cent, second tier national wage decision. The initiatives involved changing work practices, introducing key coding and machine sorting, introducing part-time employment in sorting, and improved training.
- Structural efficiency principles (SEP): application of these principles of the Australian Industrial Relations Commission resulted in the simplification of postal awards during 1989 and 1990. The implementation of these changes was facilitated by greater cooperation between management and labour through industrial participation.
- Enterprise bargaining: an agreement between Australia Post and its principal unions based on enterprise bargaining was reached in 1992.

The greater cooperation between management and labour achieved through industrial participation has allowed for substantial improvements in work practices and reduced industrial disputes in Australia Post.

The generally cooperative industrial climate has been achieved against the background of a 1985 'modernisation' agreement. Australia Post and the Australian Postal and Telecommunications Union (APTU) -- which covers over 70 per cent of Australia Post's employees -- agreed that there would be no compulsory redundancies or retrenchments as a result of any modernisation initiative, and that total employment levels would be maintained.¹ The policy of no compulsory redundancies remains in effect. Since 1985 there has been little change in Australia Post's total employment (see Appendix D).

Two particular aspects of industrial relations in Australia Post have helped to reduce labour costs. First, there has been substantial growth in part-time employment, by some 40 per cent in the past four years. While there is a long history of part-time counter staff, the use of part-time mail sorting staff is a recent development negotiated as part of the second tier national wage decision. Second, reflecting increased reliance on industrial participation, there has been a devolution of accountability and responsibility for labour management to local managers (Initial Hearing Transcript, p. 199).

¹ The APTU combined with ATEA/ATPOA (Telecom) on 6 August 1992 to form the Communication Workers' Union (CWU). Membership is approximately 80 000

This latter development is a key feature of a new Enterprise Agreement announced in early July 1992. In return for pay rises of 8 per cent over 18 months, the agreement includes:

- relaxation of restrictions on part-time employment;
- more flexible working time arrangements;
- performance evaluation of individual workplaces; and
- bonuses linked to work performance at individual workplaces (see Appendix D).

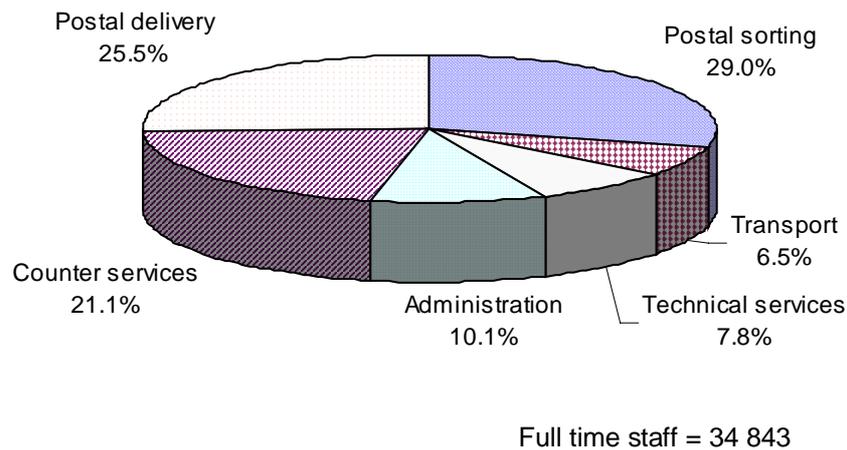
The Agreement between Australia Post and the principal unions was finalised on 8 September 1992 and was certified by the Australian Industrial Relations Commission on 8 October 1992. The Industry Commission welcomes these developments which should improve further Australia Post's labour force productivity.

Apart from Australia Post employees, many people work directly or indirectly under contract to Australia Post. Most contractors operate post office agencies (see Appendix C), or deliver mail in rural and remote areas, but some provide other services. For example, the line-haul of some mail from Sydney to Perth is contracted to Finemores, and Australian Airlines is contracted to carry 80 per cent of the mail transported by air. Information systems development, cleaning and property maintenance, engineering workshops, and fleet management are other services which are commonly contracted out.

While 9 per cent of total expenditure by Australia Post is on mail contractors (Table 4.1), the share rises to 13 per cent when all contractors are taken into account (Submission 82, p. 39). The significant role of contractors demonstrates Australia Post's recognition of the benefits to be gained from contracting out. Although the role of contractors increased substantially during the early 1980s, there has been no further growth (based on expenditure data in real terms) during the past four years (Submission 82, Supplement 1).

Australia Post considers that, for tasks where the quality of service and image are important, it is often better to use employed staff. However, mail delivery in remote areas and post office services in agencies are both important to Australia Post's image and have been successfully contracted out. Submissions to this inquiry indicate that, particularly in rural and remote areas, mail contractors and post office agents are held in high regard and seen as providing a valuable, quality service. Figure 4.1 shows that the three largest employment areas in Australia Post are postal sorting (29 per cent), postal delivery (26 per cent), and counter services (21 per cent). The use of labour in each of these three areas will now be examined.

Figure 4.1: Australia Post full-time staff by function, 30 June 1991



Source: AP 1991a

4.1.2 Postal sorting

In 1991 there were 10 059 full-time staff employed by Australia Post to sort and process mail. From 1989 to 1991 the volume of mail processed increased by 5 per cent and the number of people involved in sorting mail fell by 1 per cent. Superficially it appears that the efficiency with which Australia Post uses labour to sort mail has improved. However, over the same period a program of installing optical character recognition (OCR) sorting machines was commenced. These machines can sort between 25 000 and 35 000 letters per hour, compared with 1500 per hour by manual sorting. Although to date OCRs are used to sort only part of the mail, given the capabilities of these machines, larger reductions in the numbers of employees sorting mail should have been achieved.

As part of the second tier agreement in 1987, the APTU agreed to allow some part-time employees to do letter sorting. An initial limit of 380 part-time staff was set nationally and Australia Post agreed that no full-time jobs would be converted to part-time. The majority of sorting in Australia is done by full-time staff, but the recent Enterprise Agreement includes increases in the quotas of part-time staff allowed. In Australia, only 4 per cent of sorting staff are part-time. By contrast, the use of part-time staff is much higher in New Zealand. At the Wellington Mail Centre, which has a low proportion of part-time workers relative to the New Zealand average, up to one third of sorters are part-time (Submission 277, p. 10).

Much final sorting is done at post offices. Appendix E notes that the effectiveness of automatic sorting close to the delivery point is limited. The over-use of automatic sorting in the United States during 1990 led to a marked decline in service levels (USGAO 1991). It is difficult to determine whether the efficiency of sorting at post offices could be improved. There are no appropriate benchmarks to compare current practices and performance. There is very little contracting out of postal sorting, except in some rural post offices where the post office agent sorts the mail before delivery. Operations in these small outlets are not comparable to metropolitan post offices.

4.1.3 Postal delivery

Postal delivery is carried out by Australia Post employees and mail contractors. In 1991 there were 8892 full-time workers employed by Australia Post to deliver mail and 3269 contractors. About 5.7 million delivery points are serviced by Australia Post employees and 1.4 million by the contractors.

The delivery task undertaken by Australia Post employees in a typical suburban area is outlined in Box 4.1. Wage costs for such a service are approximately \$13 per hour. Labour on-costs (such as superannuation and leave entitlements), overheads, and vehicle running costs are additional, in the range of 35 to 40 per cent.

Box 4.1: A day in the life of a 'postie'			
Start:	6am		
Primary sort: 750 to 950	6 - 7.30am	Sort to match the individual rounds; on average delivery points per postie.	
Secondary sort: within each	7.30 - 10.30am	Sort to match street order and delivery order street.	
Meal break:	10.30 - 11.00am		
Deliver mail: Christmas.	11.00am - 2.15pm	Normal day; plus one hour for Mondays; often longer during peak periods, for example	
Finish:	2.30pm		
Method of delivery		Bicycle	Motorbike Walker
Average number of delivery points		765	836 501

Contractors are involved in collecting and delivering parcels throughout Australia, and in delivering mail in rural and remote areas. In these areas the contractor provides the vehicle, fuel, and labour required to deliver the mail. A typical run in a closely settled rural area might involve:

-
- a 300 km trip lasting 6-7 hours five days per week;
 - the servicing of 100 delivery points; and
 - a contracted price of 40 cents a kilometre which equates to approximately \$20 per hour to provide the service.

Indeed, the average contract price across a wide range of mail runs is around 40-50 cents per kilometre. This covers labour, vehicle depreciation, maintenance, and fuel. In contrast, for deduction purposes the Australian Tax Office will allow approximately 25 cents a kilometre for a 2-3 litre vehicle used in earning income and travelling the distances covered by the average mail contractor. This is intended to cover only vehicle depreciation, maintenance, and fuel costs. Thus, those contractors who carry nothing but mail appear to provide their labour at around \$10 an hour. Most supplement their income by providing courier and delivery services in conjunction with their Australia Post contracted deliveries.

There is a substantial difference in the task of remote area mail contractors compared with Australia Post employees. Hence it is not sensible to use these contractors as a benchmark to assess the efficiency of Australia Post's mainly urban delivery service.

Over the period 1985-86 to 1990-91 the number of street delivery points serviced by Australia Post increased by 14 per cent. At the same time the number of full-time staff employed by Australia Post to deliver mail increased by 17 per cent, and there was a 26 per cent increase in the volume of mail handled. As Australia Post pointed out, productivity increased (Submission 264, p. 29).

4.1.4 Postal sorting and delivery: establishing a performance benchmark

The productivity of labour employed in postal sorting and delivery is very important for the performance of Australia Post. It is in these areas where the use of labour is the most intensive, and where productivity gains can result in substantial benefits to customers, Australia Post, and the Government. In recognition of this, Australia Post has introduced OCRs to increase labour productivity in primary mail sorting.

However, final sorting and delivery remains a major labour intensive area where practices appear to have changed little, especially when compared with reforms elsewhere in the network. In its draft report, the Commission suggested that a benchmark for final sorting and delivery could be provided by contracting out these services for a trial period (of, say, two years) at selected metropolitan post offices in each State. Such a benchmark would help establish that Australia Post's operations leave little scope for further productivity improvements or would expose areas where productivity gains are possible.

This proposal was strongly opposed by Australia Post and the Communication Workers' Union (CWU). The CWU emphasised the need to maintain the integrity of the sorting and delivery process:

Delivery Officers are required to be interchangeable between rounds. There is a need for proper monitoring and control of the network to ensure balance in loads, coverage of absenteeism and other staff problems. (Submission 277, p. 11)

For any benchmark to be meaningful, the Commission understands that the quality of work done would need to be maintained, especially over the long term, at the level expected by both management and customers of Australia Post .

The CWU suggested that a more appropriate benchmark for labour costs and efficiency in final sorting and delivery would be world best practice. However, such a benchmark would be difficult to identify given the wide variety of population densities and urban structures faced by postal authorities around the world. In addition, all postal authorities are government-owned monopolies and world best practice may not necessarily represent the most cost-effective method of providing letter services. Indeed, given that no postal authority operates in a fully competitive environment, it is unlikely that the incentives to sort and deliver as cost-effectively as possible would be present in any postal system.

In response to the Industry Commission's draft report, Australia Post stated that a system of internal benchmarking is already operating between final sorting and delivery operations. The Delivery Analysis System (DAS) provides guidelines, based on national performance standards, on the times by which key sorting and delivery phases should be completed. These national standards are based on system-wide averages that have been adjusted to local conditions where appropriate. The guidelines vary each day depending on the volume of mail received, its composition, labour actually on duty, and mail remaining from the previous day. These parameters are entered into the system by the controlling postal officer to establish the performance guidelines that are to apply for that day. Daily performance achieved can then be compared with the guidelines.

The Commission commends Australia Post's concern with the monitoring of labour productivity for final sorting and delivery, but there are some shortcomings:

- while DAS may be an important management tool, it does not provide an independent benchmark against which to assess Australia Post's performance in these areas;
- the system itself does not promote the gradual pursuit of productivity gains over time -- there is little incentive to operate consistently better than the national average; and

-
- the DAS would be unlikely to reveal the need for, or appropriate nature of, any fundamental change that might enhance productivity.

A workplace quality accreditation scheme is included in the new Enterprise Agreement struck between Australia Post and the principal unions. Under the scheme, if a workplace meets certain standards associated with a high level of service, employees in that workplace will be rewarded. These standards will have to be developed by Australia Post and the unions, since no objective assessment of potential productivity gains is available.

Contractors are used to provide services efficiently and cost-effectively. One way to set an objective benchmark for postal sorting and delivery would be to contract out these services. The resultant benchmarks could then be incorporated into the DAS guidelines to provide a daily check of performance and productivity. In conclusion, the Commission considers that there is still a need to establish an independent and objective benchmark on which to assess the final sorting and delivery phase of Australia Post's operations. It therefore stands by the recommendation made in the draft report.

The Commission recommends that, in order to establish productivity benchmarks, Australia Post offer through open tender the final sorting and delivery of mail from selected metropolitan post offices in each State, and have the successful tenderers undertake the tasks for a trial period of, say, two years. An evaluation of the outcome should be published promptly.

Similar approaches are under consideration and have been recommended in other industries. For example, the Commission was told by the State Electricity Commission of Victoria that it was considering a trial involving the separate franchising of the management of some of its electricity distribution units (IC 1991b, vol. 2, p. 129). For the railway industry, the Commission recommended the removal of all restrictions on the contracting of tasks so that the industry could take every opportunity to attain maximum efficiency (IC 1991c, vol. 1, p. 162).

4.1.5 Counter services

The Retail Post initiative, discussed in Chapter 3, was designed to reduce the loss on retail operations. It involved altering the location and presentation of post offices and reforming labour practices. There are two main approaches to reducing the costs of retail service delivery and increasing labour productivity.

The first involves an agreement between the then APTU and Australia Post dealing with staff training and development, career structure, introduction of new technology, industrial participation, staffing structure and numbers, and terms and conditions of employment. The agreement seeks to

balance the objective of Australia Post to increase labour productivity with the Union's objective of providing for the professional development of, and career advancement for, its members.

The second approach will rest on new arrangements being developed to cover the relationship between Australia Post and post office agents. The agents will operate licensed outlets under franchise arrangements with Australia Post rather than on a contractual basis; their remuneration will be based on the volume of business rather than on allocated work units for different types of work performed (see Appendix C).

Retail Post is one reform which is expected to result in a substantial reduction in the labour force. In 1991 there were 7300 people employed in counter services at post offices. Under Retail Post this is expected to be reduced by 20 per cent. Also, most cleaning services will be contracted out, thereby reducing the number of part-time cleaners from 1500 to 500.

Chapter 5 discusses Australia Post's estimate of the cost it incurs in meeting community service obligations (CSOs) for letter services. Contrary to common understanding, by no means are all of the costs of CSOs attributable to rural and remote areas. Over one third of the costs result from mail services within and between cities. This is mainly due to some city and suburban post offices, and possibly some post office agencies, operating at a loss (see Section 5.6).

One aspect of Retail Post is to establish new conversion guidelines for determining whether a postal outlet will operate as an official post office or as a licensed agent. Because of the relatively low operating costs of agencies, the aim of Australia Post is to have an increasing share of postal outlets operating under franchise by a licensee. However, the Commission understands that any conversion from an official post office to a Licensed Post Office (franchise) is subject to negotiation with the CWU. These aspects are discussed in more detail in Appendix C.

There seems to be a good case for all high-cost post offices to be converted to agencies. If a stand-alone agency is not profitable, a postal service could be provided in conjunction with other business: indeed, some 1500 in-conjunction agencies already exist across Australia. This would substantially decrease the cost of providing urban postal services and is likely to be the most cost-effective means of maintaining Australia Post's extensive network.

By using the term cost-effective, the Commission is not suggesting that postal services should be provided by the 'cheapest' possible means without regard for service quality. On the contrary, a very important part of Australia Post's operation is the integrity of its network of postal outlets and the high quality of service that they provide. In making the following recommendation, the Commission emphasises that the quality and range of services should at least be maintained whilst the cost of providing services is minimised.

The Commission recommends that urban post offices operate on the most cost-effective basis. This is likely to require that more official post offices be contracted out as agencies. These agencies should be stand-alone or in-conjunction with other businesses, whichever is the more cost-effective.

4.2 Pricing principles and practices

In this section some pricing principles are set down, together with reasons why an organisation such as Australia Post should adopt them. Also discussed are some pricing practices which should be avoided. The consideration of these issues provides a framework for Section 4.3 in which the pricing of particular services is assessed.

In a market economy like Australia's, prices have a key role to play. They are the signal by which individuals make decisions concerning the types and quantities of goods and services to consume. In turn, this affects decisions about what and how much to produce, and about the required investment in resources. Thus, if the price for a particular good or service is not set correctly, this will distort decisions about how much to produce and consume of that good or service. It will also distort decisions about how much of that good or service is produced and consumed compared with other goods and services. Such distortions impose efficiency costs on the Australian community in terms of too little or too much production and consumption, compared with the levels if prices were set correctly.

Prices are generally considered to be set correctly if they are equal to marginal cost, as that will most likely lead to an efficient allocation of resources. However, in practice, there are a number of difficulties in estimating marginal cost. This arises from the difficulties of defining marginal cost and then estimating the marginal cost of, say, sending an extra letter or of being able to service an extra household. Further difficulties arise with separating short-run marginal cost (associated with existing productivity capacity) from long-run marginal cost (associated with investment in future capacity), and with treating joint and common costs. Despite these difficulties, the principle of pricing according to short-run marginal cost provides a guide for assessing the pricing policies of Australia Post.

4.2.1 Cross-subsidisation: uniform pricing

Prices will not be set according to short-run marginal costs as a result of cross-subsidisation, such as in the case of charging a uniform price for standard letters (currently 45 cents). This involves charging some users more than it costs to supply the service to them in order to raise revenue to offset the higher costs of supplying the service to other users. For example, it would cost Australia Post less to send a standard letter across a city than it would to send that letter from the city to the outback.

Another form of cross-subsidisation occurs when the price for one service is set higher than its marginal cost, in order to offset the cost of supplying another service where the price has been set below marginal cost. Once again, some customers are paying more than they should, others less; that is, cross subsidisation results in one group of customers being taxed and another group being subsidised. By distorting prices in this way, cross-subsidisation can impose costs on the Australia community in terms of too little or too much consumption of particular goods and service. Prices should therefore be set to avoid cross-subsidisation.

However, cross-subsidisation is frequently employed in setting prices commercially. This arises for two main reasons. Firstly, it is often very difficult or too costly to determine the short-run marginal cost for, say, each type of letter service. And secondly, if prices for these services were set according to their respective short-run marginal cost, the resulting pricing schedule would most likely be complex and difficult to administer and understand. Such difficulties could increase the costs incurred by both the supplier and its customers; costs which are known as transaction costs.

For example, if a firm were to vary the charge to post a letter according to different locations, this may result in additional costs being incurred in assessing the correct charge for each letter. Likewise, additional costs including loss of convenience, may be incurred by customers in having to have letters assessed individually. In these circumstances, the appropriate pricing strategy for the firm may be a simpler, perhaps uniform, charging policy that is easy to administer and understand, instead of a complex multi-tiered structure based on short-run marginal costs.

Thus, despite the need to set prices according to short-run marginal costs for efficiency reasons, it may not always be feasible to do so. Trade-offs must be made between the costs of obtaining the information required to price in this way, and the gains of not distorting prices to consumers. In addition, other trade-offs must be made between these gains and the transaction costs incurred by both the producer and consumer in operating a complex pricing schedule based on marginal cost. Furthermore, if a simpler charging structure were adopted because of transaction costs, anomalies may arise in the pricing schedule in moving, for example, from one weight category to another in a schedule based on broad weight bands.

Government involvement

Government involvement can increase the extent to which firms are able or obliged to cross-subsidise or would be prepared to do so based on commercial considerations. In the case of Australia Post, for example, the reserved services protection enables it to impose a uniform charge which it could not maintain in a competitive environment (see Chapter 8).

In addition, if the reserved services protection enabled Australia Post to increase prices for letters, and the additional revenue were used to cross-subsidise the cost of non-reserved services, such as parcels, a number of price distortions would result which would not occur commercially. If Australia Post were to cross-subsidise in this way (and there is no direct evidence that it does), it would be taxing users of its letter service and subsidising users of its parcel services. Should it occur, such behaviour would provide Australia Post with an unfair advantage over other suppliers of parcel services. This would mean that the cost of providing parcel services to the community would be higher than it need be, particularly if the other providers could supply parcel services at a lower cost compared with Australia Post. Both Mayne Nickless and TNT expressed concerns during the inquiry, but were unable to provide any evidence to the Commission, that Australia Post may be cross-subsidising in this way (see Section 4.3.4).

4.2.2 CPI-X pricing

Reserved services protection for Australia Post means that it does not face competitive pressure on the costs and prices of its letter services. Thus, even if Australia Post were to price its services according to marginal cost, this would not mean that the prices would be efficient from the community's perspective. If the costs of providing those services were higher than would occur in a competitive environment, people would be paying more than they should. Higher costs would arise if the inputs used to produce a given service, mainly labour and capital, were greater than the inputs that would be used by Australia Post if it were subject to competition. This would mean that there were productivity gains to be made by Australia Post in its use of resources (see Section 4.4.3).

In the absence of competition, Australia Post could choose not to seek productivity gains by reducing inputs and hence costs. Rather, it could decide to maintain profitability by increasing prices to consumers; this would enable Australia Post to achieve a required rate of return on its assets. But letter services would not be provided in the most cost-effective manner to the Australian community.

To impose some discipline over pricing behaviour in the absence of competition, and to encourage productivity gains, the pricing strategy of CPI-X is sometimes used. If applied to Australia Post, this would mean taking the increase in prices generally within the economy, as measured by the Consumer Price Index (CPI), and reducing that by the factor X which is an estimate of the greater productivity improvements that could be achieved by Australia Post compared with the rest of the economy. In essence, therefore, CPI-X seeks to mimic the determination of prices that would prevail in a competitive environment.

In the case of charges for standard letters, the Prices Surveillance Authority has been urging for several years that Australia Post adopt the CPI-X approach and "informally, since 1989, the PSA has considered CPI-2 as being a not unreasonable guide" (Submission 120, p. 17). Under a 'Deed of Understanding' with the Government, New Zealand Post was subject to a CPI-X price cap between July 1989 and July 1991. According to the PSA, price increases were:

... to be no more than CPI-2 for the first instance and CPI-1 for any subsequent increase. Since then there has been only one rate increase [for standard letters] of 12.5 per cent in 1991. This was well below the 28.82 per cent rise in CPI over the same period. (Submission 120, p. 18)

The use of a formula approach to pricing such as CPI-X is designed to ensure ongoing pressure on organisations such as Australia Post, which has effective monopoly powers, to achieve productivity gains and pass those on to consumers.

The Department of Transport and Communications considered that CPI-X was preferable to surveillance in the regulation of prices. It said:

The Department considers that as a matter of practice, CPI price capping can be applied, and in a regulatory sense is more satisfactory and efficient than periodic regulatory "surveillance". (Submission 285, p. 12)

The Department viewed the CPI-X formula as more satisfactory because of the greater degree of certainty that would be provided by setting the X factor a number of years ahead. Once set, X would not be subject to influence by a range of political and economic considerations which could prevail in setting prices based on surveillance. The Department also argued that the (transactions) costs to Australia Post in providing information are likely to be less with CPI-X. Overall the Department considered that:

CPI-X just seems to be a bit more objective, definitive and provides certainty compared to the Prices Surveillance Authority method. (Draft Report Hearing Transcript, pp. 393-394)

Such a formula, however, is clearly an inadequate substitute for market determined prices which reflect the interaction of the changing patterns of production and consumption. By definition formula prices are less flexible.

Moreover, as the CPI base figure for the CPI-X formula must be presumed already to reflect the productivity gain in the economy as a whole, any X factor should be calculated on the basis of the extra productivity expected from Australia Post over the same period. The X factor, which passes productivity gains to consumers through lower prices, should not necessarily be equal to the full extra productivity gain expected. Some of the gains should be distributed to Australia Post's workforce, to the shareholder (the community), and be used as internal funding for new investment. The difficulty in calculating and balancing all these competing elements, and the impossibility of estimating beforehand the CPI itself and the productivity gains for Australia Post compared with the general economy, illustrate the major uncertainties of any CPI-X calculation.

Rather than use such a crude form of discipline to achieve price restraint, it would be better, under the present reserved services arrangements, to continue the existing practice of surveillance which at least has the merit of taking a wide range of considerations into account.

4.3 Pricing of services

Many participants raised issues about Australia Post's pricing of its services. It is not possible to discuss in this report each of the issues raised.² Instead, the discussion will be limited to those raised most frequently, namely:

- charges for mail bags and private boxes;
- increased charges for registered publications and the change to Print Post;
- claims of cross-subsidisation between reserved and non-reserved services;
- discounts for pre-sorted bulk mail; and
- charges for parcels.

The uniform charge for standard letters (currently 45 cents) and the frequency of mail delivery services in rural and remote areas were also often raised. As these issues are concerned more directly with the community service obligations met by Australia Post, they are discussed in Chapter 5. International mail charges are examined in Chapter 6.

4.3.1 Mail bag charges

Many rural and remote households and businesses receive mail by roadside delivery (see Section 5.7.1). As part of the mail service, items to be posted can be picked up from the roadside delivery point at the same time as the contractor delivers the mail. Items can be left unprotected in a mail box, often quite a distance from the business or household and subject to weather damage and loss, or be protected in a private mail bag which Australia Post will handle for a fee. During the Commission's visits to remote areas it found that almost a third of households use such private mail bags for convenience and to avoid the loss of mail. (Some had two bags so that mail could be delivered and picked up at the same time.) In fact, of the Isolated Children's Parents' Association's 3119 members, approximately two thirds use private mail bags (Submission 292, p. 1). Private bags are easier for the contractor to handle than loose mail items, especially since mail is often not all that is carried on a run. In some cases, the use of private mail bags can facilitate the sorting of mail.

² It should be noted that Australia Post attended all of the Commission's public hearings, had representatives in attendance during the Commission's visits to rural and remote areas, and has been sent copies of all public submissions. As a result, Australia Post is aware of most if not all of the issues raised and, in some cases, has already acted to address the concerns of participants.

Most private bags used for roadside delivery are purchased from Australia Post for \$35 (small) or \$40 (large), although that charge can be avoided by providing one's own bag. However, for Australia Post to handle a private mail bag, an annual fee must be paid. For one to three delivery services a week the fee is \$50; for more services a week, \$100. This is regarded as unacceptable by rural and remote users and some refuse to use a mail bag entirely on the grounds that such a fee is discriminatory. The NSW Farmers' Association argued against the fee:

... mail bags and locks can be purchased, however, the owner has to pay rent on the bag after it is bought. This rent is an unreasonable charge. (Submission 11, p. 3)

From Australia Post's viewpoint, the annual fee is for services additional to the standard letter service whereby mail is simply placed in roadside mail boxes. The additional service is said to be the ability of bag users to conduct many of their postal transactions from home simply by enclosing the appropriate money and papers in the bag. Based on its observations and discussions with users and contractors, the Commission has formed the view that mail bags are not often used for such additional services.

In response to the draft report, Australia Post stated that costs are not due to any additional services associated with the bags, but rather to the additional costs of handling the bags. It said:

Sorting methods differ between bags and ordinary letters. The bag service thus has a different cost structure which accounts for the \$50 per annum handling fee. These costs include the installation costs of sorting frames and bag racks etc. (Submission 264, p. 24)

The Commission considers that the use of a mail bag in the collection and delivery of roadside mail by a contractor should be a normal part of the letter service. Particularly for those in remote areas, mail bags increase the security of letters in transit and improve access to the network via mail collection, thereby helping Australia Post to provide a letter service closer to that available in urban areas. Where the mail is carried in a satchel by an Australia Post postman/woman it is both secure and protected from the elements. Similarly, posted mail picked up from an Australia Post post box is placed in a secure sack for transit to a sorting facility. With these parts of the letter service in mind, the Commission recommends that the fee for a mail-bag service be abolished for those in remote areas. The imposition of an annual fee appears inconsistent with Australia Post's legislated obligation to provide that service on an equitable basis.

The Commission recommends that Australia Post's annual fee for handling a private mail bag in the acceptance and delivery of mail at a roadside point be abolished for those households receiving less than three services a week.

Australia Post pointed out that, if the use of a private mail bag attracted no fee, demand for that service would increase. The additional cost, if all households presently receiving less than three mail services a week were to use a private mail bag, is estimated at around \$1 million. (Australia Post's estimate of \$4 million was wrongly based on the recommendation applying also to those getting three services a week -- see Submission 264, p. 24). This would include the initial cost of installing more bag sorting racks in rural post offices and agencies and some element of extra sorting costs. Since these costs would arise as a direct result of Australia Post's legislated obligation to provide a letter service on an equitable basis, they should be directly funded by Government as part of Australia Post's community service obligations (see Section 5.8).

4.3.2 Private box charges

The charges for the use of a private box located at a post office were questioned by some participants in the inquiry. Canberra Consumers pointed out that the charge for a small private box at a suburban post office has increased by 61 per cent since 1989 (Submission 145, p. 2).

Private boxes provide a different service from the street delivery of mail. They offer security, continuity of service if the renter moves, the ability to pick up mail outside business hours, and the delivery of mail by a set time (normally 9 am).

The servicing of private boxes incurs additional costs which are not offset by savings in street delivery costs. As Australia Post said:

... cost benefits that could be made from not having that individual [the postman/postwoman] deliver to a particular household on the route may not in fact be recoverable. (Initial Hearing Transcript, p. 22)

The Commission considers that the private box system provides a service additional to standard street delivery. Since 1989 Australia Post has been obliged to charge for such additional services on a commercial basis. The move to that basis underlies the recent substantial price increases of which Canberra Consumers and others complained. The Commission notes that, while Australia Post has an advantage in the delivery of letters to private boxes located at post offices, it does not have a monopoly on the provision of private boxes. Private competitors, such as Mailbox Pty Ltd and Keep Me Posted Pty Ltd, install private boxes at newsagencies over which Australia Post has no control. This development will help contain Australia Post's prices to commercially competitive levels.

In summary, the Commission is of the view that if a private box is used instead of (or additional to) available street delivery, it is quite appropriate for Australia Post to charge on a commercial basis. Nevertheless, for some rural and remote towns, no street delivery is provided and the use of private boxes may be unavoidable for people not able to collect their mail over-the-counter during post office hours. The charge for private boxes in these circumstances is discussed further in Section 5.7.

4.3.3 Registered publications and Print Post charges

Over one quarter of submissions received during the course of this inquiry addressed the replacement of the registered publications service with Print Post and the associated price rises. While that reflects the presence of an active lobby group, it is clearly a broad issue that affects a large number of people. The nature of the service was described in Chapter 3. The registered publications service provided by Australia Post is wrongly perceived by many as a community service obligation, and this is discussed in detail in Chapter 5. Pricing aspects of registered publications and Print Post are examined in this section.

Australia Post has consistently claimed that it has incurred losses in respect of registered publications. The losses were estimated at \$24 million in 1990-91, equivalent to an impost of about half a cent for each standard letter sent (AP 1992g, p. 2). Some participants have suggested that the actual losses for the registered publications service may not have been as high as reported. Australia Post has strongly refuted these assertions by assuring that:

... this loss is not, as suggested, the product of "creative accounting". Our cost allocation system has been scrutinised by a reputable private accounting firm, our annual accounts are subject to close audit by the Auditor General and our Registered Publications loss has been accepted by the Prices Surveillance Authority. (Submission 296, p. 2)

Since 1984-85 Australia Post has sought to reduce the loss by substantially increasing prices. Since its first inquiry into Australia Post in 1984, the Prices Surveillance Authority (PSA) has supported Australia Post in its efforts to reduce losses by allowing prices for registered publications to rise at a significantly faster rate than the CPI, and by encouraging a full review of the service. The PSA considered this appropriate because:

... charges have not even covered direct costs according to Australia Post's data, which the PSA has not found reason to criticise. (Submission 190, p. 7)

And in its 1991 inquiry into postal services the PSA stated that:

It has been clear to the Authority for some years that measures other than price will be necessary to eliminate the loss by restricting access to the services. These proposals include the introduction of a new service specifically for printed matter. The Authority expects to see an early resolution of the matter. (PSA 1991b, p. 101)

The phasing out of registered publications was foreshadowed in a letter dated 30 July 1991 from Australia Post to users of the service. That letter included advice that commercial publications would be those first to be phased out of the registered publications service, and that an alternative service for the carriage of periodicals would be introduced.

In December 1991 Australia Post announced that, following consultations with the Government and publisher organisations, it would commence the phasing out of the registered publications service. Key aspects of the new system, Print Post, include:

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- substantial price rises compared with the subsidised registered post system;
 - some reductions in prices for lighter weight items and greater discounts for pre-sorting and line-hauling;
 - differential pricing based on weight, destination, level of pre-sorting, and place of postage -- for example, the price of posting a 200 gram magazine to a country address is 13.5 per cent higher than to a city address;
 - no lodgement fees or restrictions on the advertising content of publications;
 - a phasing period of at least one year for commercial publications and up to three years (to 1994) for not-for-profit organisations; and
 - a minimum lodgement of 50 copies for local distribution and 100 copies otherwise (originally 500 copies).

As could be expected with the withdrawal of a subsidy, many publishers have complained to the Commission about the introduction of Print Post. Their main concern is about large price increases: Newsagents Direct Distribution quoted an example where the price could rise by 223 per cent for some magazines sent to interstate country destinations (Submission 181, p. 2). Some publishers submitted that price increases associated with Print Post, on top of increases greater than CPI in registered publications charges since 1984, will force them to close titles or move printing and posting operations overseas.

Australia Post has based the pricing of Print Post on the costs of providing services: those costs vary mainly with weight and distance. This is an appropriate commercial strategy and is consistent with the efficient pricing principles set out in Section 4.2. Exceptional price rises, such as that quoted above, simply indicate the extent to which other postal users have subsidised some users of the registered publications service. Australia Post has said that, on average, price rises will be in the range of 30-35 per cent. (Confidential details provided to the Commission by Australia Post are consistent with this claim.) Thus, in general, the consequences of the pricing structure for Print Post will not be as great as some have claimed.

The changes to the registered publications service and its replacement with Print Post are consistent with the requirement for Australia Post to operate in accordance with sound commercial practice (see Section 3.1). In March 1991 the Minister responsible for Australia Post urged it to:

... move quickly to move prices to a fully commercial level. (PSA 1991b, Appendix 6, p. 122)

This was substantiated by the Minister in a speech to MMUA in August 1991 when he said:

In fact, continuation of the subsidy could be seen as anti-competitive as well as inconsistent with Post's commercial charter. (Minister for Land Transport 1991)

The Commonwealth Government has reaffirmed its position on ending the losses incurred on registered publications. The then Minister for Transport and Communications, Senator Richardson, told the Parliament on 1 April 1992:

The losses amount to many millions of dollars; they are very considerable indeed. When we give Australia Post a charter that says, 'You shall operate as a commercial organisation; you'll organise yourself on proper business lines', it is very difficult then to say to it, 'But where you're making losses you're not allowed to fix it'.

The truth is, of course, that the ordinary users of postal services have been subsidising the rates for these magazines for many years ... I do not believe that the Government ought to sanction the kind of cross-subsidy that makes every person who uses the postal service across Australia subsidise the loss-making parts of the business. So I think really what Australia Post has done is live up to the charter. I do not really think we can ask it to do any more than that. (Australia 1992, pp. 1486-87)

Newsagents Direct Distribution submitted that the introduction of differential charging would discriminate against "those Australians with least access to the media, namely those who live in the country" (Submission 84, p. 5). In response, the Commission notes that there is no obligation on Australia Post to subsidise the distribution of printed material to rural residents. Its obligation is to provide access to the letter service at a uniform charge only for standard letters.

Other publishers complained about the lack of distinction between types of publishers and the eligibility minimum initially set at 500 copies for Print Post discounts. The Australasian Religious Press Association submitted that a special category for charitable and religious publications should be created as an additional community service obligation to the letter service (Submission 191, p. 9).

The Western Publishers Group also submitted that:

... an exemption from the minimum quantity regulation under Print Post should be made available to country newspapers. The regulations clearly hinder access to vital community information for residents living in rural communities. (Submission 149, p. 1)

In response to the draft report, the Australasian Religious Association submitted that increases for religious and charitable publications under Print Post will be greater than average increases estimated by Australia Post.

... many religious and charitable periodicals ... face average increases ranging from 50 - 100%. Australia Post officials accepted our figures based on a survey of our member publications. (Submission 289, pp. 2-3)

As stated above, the greater increases faced by some groups of publishers or types of periodicals is an indication of the extent of subsidisation currently associated with different registered publications.

Australia Post has come under a great deal of criticism over the initially proposed minimum number of 500 copies to qualify for Print Post discounts. This has been mainly from publishers of

items with a circulation of less than 500, such as rural newspapers and newsletters of special-interest and not-for-profit organisations. During the course of this inquiry, Australia Post has responded to this criticism by reducing the minimum lodgement for Print Post from 500 to 50 or 100 copies, for local and out-of-area delivery respectively. As a result, a number of publishers such as the Stanthorpe Border Post (Submission 139) and the Nelen Yebu Missiological Unit (Submission 99), which previously faced the prospect of full postal rates for distribution, are now eligible for Print Post. The Commission acknowledges Australia Post's response to the difficulties associated with the introduction of Print Post.

The Commission understands the position of those not-for-profit and community based organisations which have been dependent for many years on subsidised Australia Post services to distribute information. Nevertheless, the concealment of such subsidies in the services provided by a government business enterprise is an inappropriate way for the community to support such organisations. The long phasing period, until 1994 for not-for-profit organisations, should help to ease the transition. In addition, the reduction of the eligibility limit from 500 to 50/100 items, means that far fewer organisations will now be excluded from the Print Post service. Beyond that, it is up to the Government to decide whether it wishes the mailing of any publications to continue to be subsidised as a community service. The Commission offers no comment on this question which is one of social policy. However, the Commission is of the view that any such community service should be funded by the Government through direct budgetary payments, as happens in Canada and Sweden (see Appendix F), rather than by other postal users through cross-subsidies (see Section 5.8).

4.3.4 Cross-subsidy from reserved services

It has been alleged by some participants that Australia Post cross-subsidises services which are open to competition, by drawing on revenue from reserved services. Both Mayne Nickless and TNT expressed concerns that Australia Post may be pricing -- and certainly has the potential to price -- some non-reserved services at rates lower than could be sustained if it operated on a purely commercial basis. TNT stated that it:

... is concerned that the monopoly may give Australia Post a special advantage in providing unfairly competitive non-reserved services. That advantage may accrue from the fact that the reserved services provide Australia Post with a guaranteed revenue which could be drawn on to fund non-reserved activities. In other words, there is the very real potential to subsidise courier and parcel activities from the revenue received through reserved services. Put alternatively, losses in non-reserved activities could be funded by income from the reserved activities. (Submission 121, p. 12)

In particular, the relatively low price for small parcels up to 250 grams (\$1.80) has been questioned. Australia Post has refuted these allegations:

The parcel group operates in a freely competitive market with no protection as a reserved service. It is not cross-subsidised from other products or services and parcel services are set to achieve a commercial rate of return for the parcels business group. (Submission 82, p. 38)

It is not possible, based on the information made public by Australia Post, to ascertain whether cross-subsidisation is occurring. Although anecdotal information was provided by companies competing with Australia Post, they were unable to provide the Commission with proof of cross-subsidisation of competitive services. When specifically asked if it had hard evidence that Australia Post was cross-subsidising non-reserved services from reserved services, TNT said it could not provide any evidence (Draft Report Hearing Transcript, pp. 165-166).

Australia Post strongly refuted any implication that it was cross-subsidising from reserved to non-reserved services (Submission 264, p. 2). Furthermore, there do not appear to be any representations on this matter to the Minister for Transport and Communications.

Some participants criticised the lack of transparency (or full disclosure) in Australia Post's financial reporting. Mayne Nickless stated:

Unless there is full transparency in Australia Post's monopoly activities, there will always be doubt in the minds of private sector operators of Australia Post's true position. (Submission 81, p. 17)

Greater transparency would help to ensure that Australia Post made public the extent to which overhead, or fixed, costs are allocated to reserved services. This information could be used to assess whether too large a share of costs had been allocated to reserved services, and Australia Post would be required to justify its cost allocation.

The Commission shares the view that any cross-subsidisation between reserved and non-reserved services would be an unfair practice and would have adverse effects on efficiency (see Section 4.2.1). It would also be a departure from the requirement for Australia Post to operate commercially when providing competitive services. The publication of separate financial data in Australia Post's annual report for reserved and non-reserved services would assist in ascertaining if cross-subsidisation between services was occurring.

The Commission recommends that Australia Post publish in its Annual Report separate financial data for its reserved and non-reserved services.

In response to the Commission's draft report, Australia Post said that it had no in-principle objection to publication of separate financial data. It felt that:

... it might help allay concern about the alleged practice of cross-subsidisation between services if separate financial details are published. (Submission 264, p. 34)

However, in publishing separate financial details, Australia Post cautioned that its commercial position should not be weakened relative to its major competitors. The Commission notes that in the United Kingdom, the Post Office publishes separate financial data for each of its three business centres: Royal Mail (reserved letter services); Parcelforce; and Post Office Counters (retail network).

The Commission's draft recommendation with respect to the publication of separate financial data was widely supported by a number of participants including the Major Mail Users of Australia, Mayne Nickless, and TNT, with the latter stating that it:

... strongly endorses the Commission's draft recommendation that Australia Post publish in its Annual Report separate financial data for its reserved and non-reserved services ... (Submission 273, p. 2)

The Department of Transport and Communications, whilst supporting the publication of separate financial data, expressed the reservation that:

Publication of data broken up into broad reserved and non-reserved services would also be unlikely to achieve the Commission's implicit objective of ensuring that Australia Post does not cross-subsidise non-reserved from reserved services. (Submission 285, p. 11)

Of concern to the Department was the continued potential for cross-subsidisation to occur between reserved services, such as between standard letters and Express Post, and for this to be equally damaging in terms of competition (Draft Report Hearing Transcript, p. 392).

The Commission acknowledges that, by itself, the publication of separate financial data for reserved and non-reserved services will not eliminate the potential for cross-subsidisation. Nevertheless, the publication of such data would make the allocation of costs and revenues by Australia Post between reserved and non-reserved services more transparent. Compared with the present situation, in which the allocation of costs and revenues are not made public, Australia Post would be required to defend its allocation.

4.3.5 Bulk mail charges

Australia Post offers discounts for the delivery of mail lodged in bulk under certain conditions. Mailers may be given a discount for lodgements of 2500 or more letters, based on the extent of pre-sorting and whether delivery is regular or deferred. Lodgements of over 1000 advertising articles are also eligible for discount; a greater discount applies to articles containing a mail response card or envelope. These discounts are provided by Australia Post on the commercial basis that pre-sorting by others reduces its costs and that some mail may generate additional revenue. Therefore, such discounting is consistent with both Australia Post's commercial objectives and its obligation to impose a uniform charge for standard letters. However, the terms and conditions of these discounts, and the inflexibility of Australia Post when dealing with them, have been criticised by some bulk mailers.

As a major direct marketing client, Franklin Mint considered that the direct mail industry was being inadequately served by Australia Post's bulk discounts. An area of particular concern was the inability to combine different, smaller mailings in order to qualify for the bulk discounts. It said:

Commingling mailings (i.e. the practice of amalgamating smaller mailings together) is not allowed under the current rulings. However in overseas countries (Canada) it is encouraged by way of additional discounts. (Submission 182, p. 3)

In response, Australia Post indicated that the aggregation of mail by individual mailers is allowed by prior arrangement and stated:

If prior agreement is reached with Australia Post, the articles need not be identical in appearance or contents, or of the same dimensions. Even the weight of each article does not have to be identical provided that the quality and postage can be checked satisfactorily by Australia Post. (Submission 264, p. 53)

The Commission considers that such agreements are largely a matter for commercial negotiation between Australia Post and the individual mailer. However, given the potential that Australia Post has to exercise market power, it is important that the terms and conditions of the agreement are fair to both parties. This should be achieved through general competitive measures such as the Trade Practices Act 1974 in cases of dispute (see Section 9.2.3).

Mailing houses are unable to aggregate mail from different customers in order to gain greater discounts. Australia Post has argued that, if aggregation were allowed, it would no longer process large volumes of mail and this could increase unit costs and reduce total revenue.

Australia Post is the largest mail aggregator in the market, and the economies of its sorting and aggregation systems depend on the handling of mail in very large volumes. (Submission 264, p. 53)

As long as the aggregated letters were within the same classification (standard or large letter), the cost savings for Australia Post would be similar to those achieved by pre-sorted mail from the one source. The Commission considers that Australia Post would be unable to sustain the practice of disallowing the aggregation by mailing houses of similar-sized mail for pre-sort discounts if it were subject to competition for these services.

Australia Post offers no quantity discounts beyond those mentioned above despite the large volume of mail that is lodged by some clients. For example the New South Wales State Mail Service sends 19 million articles per annum (Submission 146, p. 3) without receiving any discounts above those published, or any better level of service. It has been suggested to the Commission by some large clients of Australia Post that the discounts made available to them do not accurately reflect the resources put into pre-sorting or the large amounts of mail posted and generated by them. The MMUA stated:

Whilst there are some customer benefits to be gained from bulk pre-sort lodgement, there is concern that customers are not being sufficiently rewarded for their effort. (Submission 48, p. 46)

Australia Post responded:

... customers with larger volumes do benefit more because the larger the volume in a particular mailing the higher the percentage of that mailing which can be pre-sorted into the high discount categories. This system ensures that the discounts given reflect the savings that pre-sorting by customers provide to Australia Post. (Submission 264, p. 53)

The Commission suggests that, while the provision of discounts must be based largely on commercial considerations, Australia Post may be able to offer discounts for bulk mailers with a greater degree of flexibility that would benefit both Australia Post and its customers.

Further concerns expressed by bulk mail users included:

- the MMUA's criticism of restrictive lodgement times, for example, mail for next day delivery now has to be lodged by 3 pm, not 5 pm, which requires some companies to start work earlier, thereby increasing wage costs;
- Australia Post's requirement that some users specify in advance their annual volume of mail and, if that volume is not reached, the right of Australia Post to recover the discounts allowed for the period; and
- Australia Post's account facilities -- these require a security deposit equal to two billing cycles and accounts must be paid within 14 days.

In respect of the last concern, Mail Management Australia stated that no other mail carrier in Australia made this demand and that:

Australia Post has brought considerable pressure to bear on various groups of account holders to upgrade their security, with no identifiable justification when viewed in light of the account holder's credit worthiness. (Submission 87, p. 2)

Australia Post subsequently claimed that it was operating within normal business practices. Firstly, the lodgement of mail by 3 pm is required only on Fridays for the deferred delivery service. Early lodgement is encouraged to ensure that customer delivery requirements are met and, in some areas, Australia Post will pick up mail throughout the day to speed up processing for large volume customers.

Secondly, specifying expected mail volumes in advance applies only to contracts for the carriage of non-reserved mail such as publications, parcels, and unaddressed mail. Australia Post said:

These contracts incorporate special prices geared to the competitive market in which they operate ... If the volumes for which the discounts have been set are not achieved, it is considered reasonable to claim reimbursement of the cost savings not realised. (Submission 264, p. 54)

Thirdly, Australia Post claims that its credit requirements are based on normal prudent business practice. Where credit requirements appear stringent, it is likely that Australia Post is compensating for the relatively low asset backing that characterises many mailing houses. In addition, Australia Post claims:

All efforts are made to accommodate the particular circumstances of the account holder, including offering increased billing frequencies in lieu of increasing guarantees. (Submission 264, p. 54)

Another concern about bulk mail was raised by Cleveland and Associates who drew attention to a clause (within the approval of articles guidelines for bulk discounts) that appears to discriminate against government departments by excluding from the advertising mail discount articles that:

... give advice about, or make an offer of, allowances, entitlements, benefits, services or goods where it is the function, role or responsibility of the sender to freely provide or distribute or publicise them. (Submission 132, p. 3)

It has been suggested to the Commission that government mail is the only mail to which this clause would apply (Submission 132, p. 3). The exclusion from discount of such mail would appear to assure Australia Post of revenue from this large source of business. The purpose of the discount for advertising mail is to encourage mail that will generate return mail. Much government mail (especially of the type defined in the above clause) would generate a response. Thus, the clause would appear to be inconsistent with the purpose of the advertising mail discount.

However, in response to the draft report, Australia Post said that the purpose of the advertising mail discount is to encourage advertisers to use mail rather than other forms of media to advertise. Where a legal requirement to provide, distribute, or publicise information which generates standard letters exists, the use of Australia Post to do so is mandatory. In this case, the advertising discount would rarely result in increased use of the mail and should therefore not apply to that mail.

Australia Post requires that mail be lodged in the post code in which it is generated, or the one adjacent to it, unless prior agreement has been reached with Australia Post. This effectively prevents bulk mailers (and any other mailers) from line-hauling their mail to a post office nearer to its final destination. Line-haul used to be permitted by Australia Post, and a discount was offered, but this practice was curtailed in 1989 (Initial Hearing Transcript, p. 581). The issues of line-haul and inter-connection with Australia Post's network are discussed further in Section 9.4.2.

4.3.6 Parcel charges

A number of submissions addressed the issue of sharp increases in, and the complexity of, parcel charges. Mr D. E. McCowan demonstrated a price increase of 40 per cent, during a 16 month period, for a parcel of nearly 1 kilogram going overseas (Submission 5, p. 1). The PSA has

expressed concern that Australia Post has significant market power in the small parcels market (Submission 120, p. 22). While Australia Post may take advantage of its existing network in providing parcel services, it is not a reserved service and many competitors operate both domestic and international parcel services.

In 1991 Australia Post introduced a charging system for parcels whereby rates depended on weight or volume, whichever was the higher for certain parcels. This was an attempt to eliminate the cross-subsidisation of bulky, light items by heavier items. In response to questions from the Caucus Consumer Affairs Sub-Committee, Australia Post stated:

Australia Post estimates that overall about 3 in every 10 parcels have a volumetric weight greater than the dead weight. Since 2 December 1991, parcels weighing up to 1 kilogram have been exempt from cubic charging. As a result, and given the non-cubing of irregular items [such as tennis racquets or volleyballs] ... Australia Post estimates that around 10% of parcels are subject to cubic charging. (Submission 296, letter to Mr Keith Wright, MP, from Australia Post dated 16 July 1992, p. 10)

After initial difficulties, the Commission understands that cubing has been introduced to all post offices as a means of pricing commercially. According to Australia Post cubing:

... has been an effective way of dealing with the long-term problem we have had where customers find it convenient to come to us with light items if our price doesn't reflect the work and on-charging into the transport system ... cubing is here to stay. (Draft Report Hearing Transcript, p. 356)

With regard to the complexity of prices, Australia Post must be left to decide on commercial grounds the relative merits of a simple system or one that is more complicated based on destination, weight, or volume (see Section 4.2.1). The Commission considers that the degree of competition in the international and domestic parcel market is sufficient to limit Australia Post's ability to increase charges above commercial levels.

4.4 Performance indicators

It is widely acknowledged that the performance of Australia Post has improved markedly, particularly over the past few years. Pressure for improved performance has come from the increasing competition to its core letter business from electronic messages (such as facsimile) and private distributors and couriers.

But the greatest pressure in recent years has come from the changes to the structure and internal operations of Australia Post as a result of the Commonwealth Government's reform strategy announced in May 1988 (see Section 3.2). This strategy resulted in Australia Post being required to act commercially and to include in its corporate plan certain indicators and targets, and to account for its performance against them.

There is no single measure by which to judge precisely the performance of Australia Post. However, a guide to its overall performance can be gained through a number of different performance measures including service quality, financial indicators, labour productivity, and total

factor productivity. To place these measures in perspective, benchmarking is frequently used to compare the performance of Australia Post with, for example, the overall performance of the Australian economy, other similar Australian businesses, and its overseas counterparts. Table 4.2 presents a selection of performance measures which show Australia Post in a generally favourable light by international standards.

Table 4.2: Australia Post's performance: international comparisons

	<i>Australia</i>	<i>Canada</i>	<i>USA</i>	<i>UK</i>	<i>NZ</i>
Annual no. articles handled per employee ('000)	98.7	169.9a	221.4a	77.2	78.9
Standard domestic letter rate (Australian cents)b	45	46	43	54	37
Delivery service standard (days)c	1	2	1	1	1
Delivery performance (per cent of standard times met)	94	97d	80	86	97-99
Retail outlets per 10 000 people	2.7	3.3	1.6	3.6	3.0
Return on assets (per cent)	8.4	0.9	-2.3	1.2	9.6

a A significant proportion of this is unaddressed mail.

b Estimates, adjusted for purchasing power parity, provided by Australia Post.

c Number of working days for delivery between and within cities in any State. For other areas longer delivery standards apply in all countries. In general, Australia Post's delivery standards compare favourably.

d Advertised delivery times are one day longer than in Australia.

Source: Submission 82, pp. 20-2

4.4.1 Service quality

In its vision statement, Australia Post states it:

... is committed to providing high quality mail and parcel services to all Australians. (Submission 82, p. 30)

The Commission has gained the clear impression that the community in general is well-satisfied with the quality of service provided by Australia Post. Many instances have been quoted informally of remarkably short despatch/receipt times between distant locations. There is a perception that the quality of service has improved in recent years. Nevertheless, this inquiry has brought out a host of complaints about the quality of service. There were three main areas of concern:

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- inadequate consultation between Australia Post and its customers with respect to changes in services or facilities;
 - inadequate complaints handling procedures; and
 - reliability in terms of delivery delays and frequency of delivery.

Consultation with customers

The Commission's attention was drawn on many occasions to the lack of consultation on the part of Australia Post with its customers, mainly in connection with the letter service. Indeed a consistent message conveyed directly to the Commission during its visits to rural and remote areas (see Chapter 1) was the absence, or inadequate form, of consultation by Australia Post. The inability to obtain relevant and timely information was a frequent complaint; so too was finding out 'on the grape vine' that services were to be altered.

Comments about lack of consultation centred around three issues: removal of street posting boxes; changes to delivery frequency or times; and a change in status of an official post office to a post office agency.

With respect to street posting boxes, Australia Post has a process of consultation with the community if changes are to be made to the network.³ It said:

There is a procedure whereby a notice is put on the box [for 4 weeks] before there is any removal of it so there is an opportunity for people who use that box to let us know why there would be a problem for them to use an alternative box or the alternative arrangements put in place. (Initial Hearing Transcript, p. 19)

However, Mr M. J. Smith, West Pennant Hills (NSW) informed the Commission that:

Early in 1991 the street posting box in Dean Street, West Pennant Hills was removed by Australia Post. The box was taken suddenly and without notice or any consultation with local residents. Users of the box felt aggrieved by being deprived of an essential public facility which had stood for over 30 years. ... (Submission 9, p. 2)

Then in Sydney at the Initial Hearing, Mr Smith said:

³ The withdrawal policy of Australia Post with respect to street posting boxes is:
'A street posting box may be considered for withdrawal when it yields, on average, less than 25 articles a day.'

Note: The Division Manager should be satisfied that no special circumstances exist which justify the retention of the facility. For example a posting box near hospitals or elderly people's homes, which caters for and is used by aged or disabled persons should not normally be withdrawn.

... Wherever practicable, consult with community bodies including local Federal and State Members of Parliament, before taking a final decision to withdraw or relocate a posting box.

After a decision has been taken to withdraw or relocate a posting box, inform users of the box of the impending withdrawal/relocation and the location of alternative posting facilities, by displaying a suitably worded notice on the box for at least 4 weeks prior to taking withdrawal/relocation action.' (AP 1992b)

... I used the local posting box every day and I went down one day and it was gone and to my certain knowledge and others in the area, there was no notice on that box whatsoever. (Initial Hearing Transcript, p. 456)

The Commission was later advised that the posting box has been reinstated in Dean Street, West Pennant Hills, for a trial period of three months. While it is difficult to be sure, it seems that the reinstatement was due to incorrect procedures being followed in removing the posting box initially and the Commission's inquiry provided the avenue for senior management of Australia Post to become fully aware of the case.

Another example of Australia Post's lack of consultation over the removal of a posting box is presented in Box 4.2. It concerns the removal of the posting box at Golspie (just north of Goulburn) in New South Wales shortly after the post office was closed there.

Box 4.2: Removal of the posting box at Golspie without consultation

Shortly after the closure of the post office at Golspie in September 1990, the posting box was removed without consultation. The President of the Golspie Progress Association said:

They [Australia Post] just removed the mail box without any warning whatsoever. And it was not until I went down there one day to post a letter that I rang them and said, like, "Where has the mailbox gone?" And he said, "Oh, well, that's gone." I sort of said, you know, "What do you mean, its gone?" He said, "It will be down the coast." (Initial Hearing Transcript, p. 564)

The approach of Australia Post was then contrasted with that of Telecom with respect to a telephone box that was co-located with the mail box:

... Telecom rang one of the residents and said, "You fellows still want your phone box?" We said, "Oh, yes, we need it for the fire season." "No Problems ", he said, "it's on private property. We have got to move it. We will move it over the road next to the fire shed." Now, that was a completely different attitude. (Initial Hearing Transcript, p. 565)

During the Commission's visit to Wanaaring (NSW), the residents complained that Australia Post had not consulted them adequately before reducing from three to two the number of services a week from Bourke to Wanaaring; the reduction was taken at the initiative of the current mail contractor. Although Australia Post had consulted, many residents felt that those selected for consultation were not representative of the community and that there should have been a public meeting. Annoyance was also expressed at the short time between being advised officially of changes by Australia Post and when those changes were to take effect.

Box 4.3 reflects the disturbing story concerning a change to the Wanaaring to Urision and Merintu roadside mail service stemming from the reduction in services from Bourke to Wanaaring.

According to P. and J. Hughes, Thurloo Downs, Wanaaring via Bourke, there was no consultation with landholders about the change (Submission 89, p. 1); nor was there any explanation in Australia Post's letter to householders notifying them of the change. Although dated 10 February 1992, the letter was not received until a week before the change commenced on 4 March 1992. In the meantime residents learned unofficially through the newsletter from Wanaaring's general store, dated 5 February 1992, that the mail services were to be changed.

Box 4.3: Consultation over changing Wanaaring's mail services

Letter from Australia Post dated 10 February 1992

Dear Householder,

WANAARING TO URISION & MERINTU ROADSIDE MAIL SERVICE

Please note it has been necessary to alter the days your mail service runs.

The service will now run each Wednesday and Saturday commencing Wednesday 4 March 1992.

Trust this will not cause you any inconvenience.

Yours faithfully

R J McLean
Controlling Postal Manager [Bourke]

Extract from Wanaaring General Store's Newsletter dated 5 February 1992

It looks like we are having two mails a week commencing March. Fresh vegies, bread, milk, etc, will be in each Tuesday and Friday evenings. The Urision and Merintu mail runs are to go out each Wednesday and Saturday. Being an ex-Australia-Post guy all I can say is 'No Comment'.

Source: Wanaaring Community

Based on information presented to the Commission, Australia Post also failed to consult adequately with residents on the Crookwell to Rugby mail run, about 50 kilometres north of Goulburn in New South Wales. In its planning to reduce the frequency of delivery from five to three times a week, Australia Post did not seem to take the people that would be affected into its confidence. Insufficient explanation was provided as to why the reduction was necessary and the reaction of the people as to whether their needs would still be met with the reduced frequency was not sought. Any consultation that did occur was at the initiative and request of the residents. As stated by the Narrawa Progress Association:

... we received a letter in October [1991] saying that the mail run would be reduced for cost purposes on 1 July and we became agitated as a group along that run. So we asked for these meetings and so we had the consultations but there has been no guide-line [in respect of the determination of frequency of delivery]. There has been no indication of consultation, ... it has been very difficult to go from one level to another to try and find out who held some responsibility for this action ... we had to initiate every move that was made [to consult]. (Initial Hearing Transcript, p. 557)

Postal Services Consultative Council

The Postal Services Consultative Council was established in 1991 by Australia Post to provide a means for it to consult with customers about their needs with respect to letter services. The Council is chaired by the Deputy Chairman of Australian Post and consists of 10 other members to represent the views of urban, rural and remote area consumers, of large and small business, and of the postal unions. The Council is not a policy making or management body.

A number of inquiry participants commented on the membership of the Council.⁴ Canberra Consumers for example were critical of the lack of direct consumer representation and the dominance of business people on the Council (Initial Hearing Transcript, p. 638). In respect of the standard of mail services in rural and remote areas, the President of the Country Women's Association of Australia as a member of the Council said:

... I am bringing these areas of concern to the Council because I am virtually the only person on the Council representing rural, isolated and the small consumer. (Initial Hearing Transcript, p. 187)

The Major Mail Users of Australia were also critical, especially given the advice from Australia Post that it was looking for people involved in consumer affairs and said:

It was disappointing to find that the broad cross section representation of users did not eventuate which would make this council effective. Of the 9 members, 4 of them are from the publishing industry and there is a union representative occupying a valuable place on a consultative council which was created for customers. (Submission 48, pp. 47-48)

However, Australia Post stated that the Council was established to represent its customers and that members of the Council:

... were selected by Australia Post from a list of suitably qualified individuals -- and the emphasis was on individuals and not organisations -- after consultation with a number of interested bodies, like the Department [of Transport and Communications], like consumer associations, like our major customers and so on. (Initial Hearing Transcript, p. 87)

⁴ Current members are Mr Rod Cameron, Deputy Chairman, Australia Post; Mr Geoff Bailey, National Manager, Westpac; Mr John Berrymann, Associate Director, Hallmark Cards; Mr Bill Blair, General Manger, Queensland United Foods; Mrs Ailsa Bond, President, Country Women's Association; Ms Elisa Costoso, Financial Counsellor, Consumer Advocacy and Financial Counselling Association of Victoria; Mr David Harley, Managing Director, Doubleday Australia; Mr Tom Greene, Managing Director, Me Books Pty Ltd; Mr Rod Lane, Managing Director, Small Business Development Corporation, Western Australia; Mr Martin Pearson, Managing Director, Readers Digest; and Mr Paul Watson, General Secretary, Australian Postal and Telecommunications Union.

The Commission considers that membership of the Consultative Council is a matter for the Board of Australia Post. If the customers of Australia Post do not regard the Council as a satisfactory forum to convey their needs and views to Australia Post, they will find alternative ways of doing so. But it is too early to comment on both the role which the Consultative Council will perform and its effectiveness in that role.

Complaints handling

Relative to the volume of mail handled by Australia Post, the incidence of complaints appears quite low. Nevertheless, a wide cross-section of people has expressed dissatisfaction to the Commission at the way in which their concerns and complaints are handled by Australia Post. It seems that this inquiry has provided many people with the opportunity they had been seeking to raise issues about the performance of Australia Post. Two points stand out:

- by and large people are unaware of the procedures for lodging a complaint; and
- the way in which complaints are handled leave too many people dissatisfied __ failure to acknowledge complaint and inadequate explanation and feedback were frequent sources of dissatisfaction.

The meetings held by the Commission during its visits to rural and remote areas provided the opportunity for residents to raise their concerns. On several occasions, Australia Post representatives in the audience acted immediately to correct the cause of complaints. On other occasions, there was mutual recognition of a problem and an agreement between Australia Post and the complainant to work towards its resolution. This experience confirmed the Commission's view that there is no substitute for publicly exposing issues.

The dissatisfaction of people about making complaints to Australia Post is summed up by Mr J. Smith of West Pennant Hills (NSW) when he said:

A number of frequent users had voiced complaints to the postman and to the Post Offices but were unaware of any avenue through which to channel their complaints. Others claimed they felt powerless to influence the situation in face of the monopolistic position of Australia Post. (Submission 9, p. 2)

Dissatisfaction with complaints handling by Australia Post is not new. In its 1991 report, the Prices Surveillance Authority said:

The Authority drew attention in its 1989 report, to dissatisfaction which appeared to exist with Australia Post's complaint handling procedures. It suggested that the Corporation should examine closely the effectiveness of its complaints handling procedures to ensure that these were well publicised and operated efficiently to achieve the prompt resolution of problems. (PSA 1991b, p. 91)

The Authority went on to say that it:

... is concerned at the slow progress made towards implementing what appear to be simple measures directed towards improving complaints handling performance. (PSA 1991b, p. 91)

In its original submission, Australia Post said it had reviewed its complaints handling procedures and, as a result, had made a number of improvements including staff education, developing brochures, clarifying telephone directory entries, and improving systems for measuring and monitoring complaints (Submission 82, p. 36).

Since then, Australia Post advised in its response to the Commission's draft report that two further revisions had been made to ensure adequate community consultation (Submission 264, pp. 31-33). The first is an agreement with the Communication Workers' Union (as part of Retail Post) on the consultative procedures to be followed in converting a post office to a post office agency. These procedures place emphasis on ensuring that the affected local community, and its elected parliamentary representatives, is consulted prior to the final decision being taken.

The second revision is the implementation (by October 1992) of a number of additional measures arising from Australia Post's review of its complaints and enquiry procedures. Included in the additional measures is for post offices to be the primary focus for making complaints and resolving them with customers; giving greater flexibility to complaints handling staff and their managers to resolve issues; and providing training and other support to staff to ensure that complaints are resolved quickly and to the satisfaction of the customer. Furthermore, Australia Post stated that it would be releasing a brochure in October 1992 outlining details of the complaints handling system, telephone access, and forms for making a complaint.

It is too early to judge if the new procedures will be adequate to the task. In this regard, Australia Post has indicated that it will be surveying customers over the coming year to determine the effectiveness of the new procedures (Submission 264, p. 33).

The Prices Surveillance Authority indicated that the Postal Services Consultative Council could provide a vehicle to channel customer complaints (Submission 120, p. 33). However, the Commission suggests that such a role would not be appropriate for the Consultative Council. The Council needs to preserve its consultative function and limit its activities to providing advice to Australia Post on the needs of customers and the type of services required to meet those needs. Included in this advice would be the procedures required to deal with customer complaints; Australia Post noted that the Council has endorsed the above developments and the general approach that it has adopted to complaints handling (Submission 264, p. 33). The Council would also need to monitor the effectiveness of those procedures. If the Council were also to be the vehicle for channelling individual complaints, it would likely become overwhelmed by the associated administrative procedures at the expense of representing the broader needs of Australia Post's customers.

Another means of reducing complaints would be for the Government to specify clearly its social objectives with respect to letter services and the obligations it has placed on Australia Post (see Section 5.4.4). Complaints about the 'appropriateness' of those objectives and obligations could then be directed to the Government rather than Australia Post. Nevertheless, Australia Post would remain the appropriate place to handle operational complaints.

The above discussion indicates that there has existed, and may remain, scope for Australia Post to improve both its consultative and complaints handling procedures. It is too early to judge if the recent initiatives by Australia Post will address the dissatisfaction experienced by many with its past consultative and complaints handling practices. Furthermore, so long as Australia Post is provided with reserved services protection, or is used to fulfil the Government's social objectives for letter services, customers may not have recourse to another supplier in order to obtain the services they require or, indirectly, to seek redress.

The Commission recommends that Australia Post consult openly with a broad cross section of the community about service requirements and well in advance about proposed changes in service standards. It should also ensure the public is well informed on its complaint handling procedures.

Delivery performance

A frequently used measure of the quality of Australia Post's service, in terms of both speed and reliability, is the number of articles delivered within specified times. Australia Post has set itself a target that 94 per cent of enveloped mail will be delivered within its advertised times. These times vary according to the location of the originating posting box and final destination.

As reported by Australia Post, the target of 94 per cent was achieved on average for both intrastate and interstate mail in 1990-91. This achievement is comparable to, or exceeds, the performance of Australia Post's counterparts in other countries -- at least in terms of the comparisons which are available to the Commission. In the United States, for example, advertised/standard times were met on 80 per cent of deliveries: 86 per cent in the United Kingdom; and 97 per cent in Canada and New Zealand. The higher achievement for Canada and New Zealand may be attributable to the longer standard times set for some deliveries compared with those for Australia Post (see Table 4.2).

The procedures used by Australia Post to measure its 'on-time' delivery performance have long been a source of criticism. As stated by the Prices Surveillance Authority:

In a number of its inquiry reports (PSA 1984 and PSA 1986), the PSA pointed out that Australia Post's performance monitoring system did not measure a performance standard that could be readily assessed by Australia Post's customers. Australia Post do their own monitoring and base their performance standards on a sample of mail noting the time elapsed from postmarking to delivery readiness. Customers tend to note the time of lodgement to delivery. As a result, Australia Post's perception of its performance and its customer's perceptions were often out of line. (Submission 120, p. 34)

The Major Mail Users of Australia were also critical of Australia Post's monitoring procedures:

Australia Post's current monitoring of mail deliveries is totally inadequate. Only a limited number of letters which have postage stamps are monitored in a random process each week. At no stage is the enormous volumes of postage and franked business mail monitored at any time. (Submission 48, p. 32)

Australia Post has accepted that "self-appraisal of mail service performance in a monopoly situation would always lack credibility" (AP 1991b, p. 41). Better than that and in line with the practices of many overseas postal enterprises (Submission 82, p. 36) Australia Post has engaged KPMG-Peat Marwick (in consultation with the Australian Bureau of Statistics) to assess independently its delivery performance. Unfortunately for this inquiry, the initial results will not be available until March 1993.

Nonetheless, the changes to the procedures for assessing delivery performance have been well received. For example the Major Mail Users of Australia (MMUA) said it:

... welcomed the 1991 announcement by Australia Post that end-of-day posting standards and independent mail performance monitoring was to be introduced. This is a development urged on Australia Post by MMUA for several years.

The independent monitoring of mail performance may eliminate suspicions of "cooking the books" and other misunderstandings which may occur whenever a service provider measured its own performance. (Submission 48, p. 32)

Immunity from prosecution

Australia Post has immunity from prosecution under its Act for poor delivery with respect to its letter service. Some participants noted the potential for this immunity to provide Australia Post with an unfair advantage. However, this is not likely to be the case since the immunity has been granted as a consequence of the type of letter service it operates.

The letter service is an open access system which means that Australia Post has very little control over the letters that are placed into its network with respect to such matters as standard of enveloping and addressing. Because of this, it would be unreasonable to hold Australia Post fully responsible for those letters and to enforce that responsibility by exposure to legal action. If the immunity were not available, Australia Post might find it necessary to vet all letters before accepting them. That would be completely impractical as Australia Post handles over 10 million letters each working day.

4.4.2 Financial indicators

Since its separation from Telecom in 1975 following the Vernon Commission inquiry, Australia Post has become more financially independent and made accountable for its financial performance. The 1975 changes specifically required Australia Post to raise sufficient revenue to cover all costs incurred in providing postal services and to make a contribution of at least one half to capital expenditure. Previously, any shortfall in income over expenditure realised by Australia Post's predecessor was offset from general revenue (see Appendix B). The changes stemming mainly from the 1988 reforms have required Australia Post to pay all government taxes and charges (it was previously exempt), to earn a profit, to achieve a specified rate of return on assets, and to pay its owner, the Commonwealth Government, a dividend.

For 1990-91, Australia Post reported an operating profit of \$144 million before income tax and abnormal items (but after paying \$70 million in pay-roll tax, \$65 million in sales tax, excise, and other State and Local Government charges, and \$2 million in interest). Its income tax liability on operating profit was reported at \$50 million. This amount represents Australia Post's first liability for income tax. The reported rate of return on assets was 10.7 per cent as calculated from earnings before interest and income tax (\$146 million), plus the \$80 million then estimated cost of meeting its community service obligations, divided by total assets (\$2110 million). A dividend of \$25 million was payable to the Commonwealth Government (Submission 82, Appendix 1).

Although these financial results equalled or exceeded all of the targets and indicators specified in the corporate plan (see Box 3.2), by themselves they do not provide a clear indication of how good Australia Post's financial performance is. For example, the costs incurred by Australia Post, hence the prices it had to charge to meet its profit and rate of return targets, may be higher than they need be. If this were the case, Australia Post's customers would be paying more for its postal services than they should.

There is no clear cut answer to whether Australia Post's financial performance is adequate. This is because the answer is normally provided through the forces of competition operating in the market place, especially through the threat of financial failure or the threat of takeover. These forces do not apply to Australia Post because of its status as a statutory corporation, the services which are reserved to it, and its obligations to fulfil the Commonwealth Government's social objectives with respect to letter services (see Section 5.2.1). The setting of financial indicators and targets, and the subsequent accountability for performance relative to them, have been designed as a substitute for competitive market forces in applying discipline on Australia Post. In the absence of competition, benchmarking is frequently used to compare the performance of government business enterprises like Australia Post with best practice under competitive conditions. The reasons why competition is a superior method for increasing performance are discussed in Chapter 7.

Comparison with the consumer price index

A common benchmark is to compare price increases with movements in general prices within the economy as measured, for example, by the consumer price index (CPI). Just prior to 1975 the uniform postage charge increased at a rate well above CPI increases. However, since the establishment of Australia Post in 1975 (following the separation of telecommunications and postal services), the uniform rate has increased by 2.5 times compared with 3.8 times for general prices based on the CPI.

Given Australia Post's reported profit in 1990-91, and its recent liability for all taxes and government charges, the above rise in standard letter rates indicates that Australia Post has been able to constrain the cost of providing its letter service over a 16 year period compared with general price increases in the economy. Nevertheless, CPI comparisons do not provide any insights into whether the costs of providing services to the same standard, hence service prices, could be lower.

Rate of return on assets

As already noted, Australia Post reported a rate of return of 10.7 per cent on its assets in 1990-91 before interest and income tax, and including the costs of meeting the community service obligations (CSOs) of the Commonwealth Government. This rate was calculated, however, using an estimated cost of meeting its CSOs, of \$80 million. Since then, this estimate has been replaced by another estimate of \$60 million as calculated by the avoidable cost method (see Section 5.6). Based on the latter estimate, the reported rate of return would have been 9.8 per cent. This compares with the target rate of 9.5 per cent. (The reported rate of return for 1989-90 was 7.4 per cent compared with a target rate of 6.7 per cent).

That Australia Post's reported rate of return is higher than its target does not provide any information as such about the financial performance of Australia Post. Such a comparison assumes that both the methodology for calculating the rate of return and the target are correct. This may not be the case. And it is the rate achieved, not the target rate, which is important in assessing the performance of Australia Post.

Several factors need to be considered in assessing the performance of Australia Post based on the reported rate of return, including:

- the appropriate rate of return for Australia Post as a government business enterprise with community service obligations;
- whether the rate of return should be adjusted for the obligations of Australia Post with respect to heritage properties (see Section 5.4.1);
- whether the costs of fulfilling the community service obligations should be included (see Section 5.8.2);
- the dividend payable to the Government; and

-
- the impact of changing property values.

The Treasury has argued that an appropriate target rate of return for a government business enterprise is the government bond rate plus a loading to cover the market risks associated with the activities of the enterprise; the bond rate represents a minimum risk alternative for the money that is tied up in the assets of the enterprise. It also argues that changes in the bond rate should be reflected in changes to the target rate of return, rather than setting a static target rate at the start of the planning period (Treasury 1990b, pp. 29-30).

The use of the long-term bond rate for setting the target rate of return has been adopted by Australia Post and is supported by its responsible Minister and the Department of Transport and Communications (Initial Hearing Transcript, p. 479). However, in his letter to the Chairman of Australia Post dated 22 March 1991, the Minister said:

It is pleasing to note the improved financial targets [9.5 per cent rate of return] included in the Plan. Whilst these targets may not yet be regarded as providing a suitable commercial return on the asset base of the enterprise, I recognise that there has been reasonable progress towards achieving a target rate of return that is sufficiently above the long term bond rate to take into account the risk associated with the Corporation's income streams. (Submission 119, attachment 1, p. 1)

Based on the relatively long life of Australia Post's assets (mainly land and buildings), the Commission considers that the long-term (10 year) bond rate would not be an unreasonable starting point for a rate of return benchmark. This rate was around 12 per cent during 1990-91 (13 per cent in 1989-90). If the risk premium associated with activities of Australia Post is taken to be around one per cent -- it is unlikely to be higher because of its reserved services protection -- this indicates that a more appropriate rate of return for Australia Post in 1990-91 would have been around 13 per cent, about 3.5 per cent higher than the target and over 3 per cent higher than that achieved.

However, these calculations need to take into account the effects of the general downturn in the economy over the past three years. Many companies have reported, or will be reporting, rates of return below the long-term bond rate. To expect Australia Post to achieve the level of the long-term bond rate in such circumstances would seem unrealistic. Moreover, a significant proportion of Australia Post's revenue is subject to de facto control by the PSA. This could act as a further constraint on the achievable rate of return. And with respect to the long-term bond rate, it is affected by both government monetary policy and market forces and, as a consequence, varies over time; in recent years it has been high. Such considerations also indicate that care must be taken in making judgments about the financial performance of Australia Post (or any company) based on the rate of return achieved for a particular year.

Previous work undertaken by the Industry Commission, and extended by Swan Consultants (Canberra) Pty Ltd, estimated the performance of Australia Post relative to the selected benchmark

of a 8 per cent real rate of return (IC 1990, pp. 1-12 and Swan Consultants 1992a, pp. 9-11). This benchmark is based on the real rate of return from long-term government bonds (a riskless asset) plus a small margin for risk. However, in its report on Water Resources and Waste Water Disposal the Commission considered that the rate sought should generally be 5 per cent unless the agency undertaking the investment could demonstrate that the investment entailed a significant element of risk. This assessment was predicated on the view that water and sewerage authorities faced very low investment risks (IC 1992). The Commission considers that the market risk Australia Post faces is also low because of its reserved services protection; a risk margin of perhaps 1 per cent would seem appropriate. This suggests that 6 per cent could be a more suitable real rate of return at present for Australia Post.

The real rates of return achieved by Australia Post over the five years 1986-87 to 1990-91 (including the costs of CSOs) were 2.5, 1.9, 1.4, 1.3, and 5.8 per cent respectively. Representing a marked improvement, the real rate of return of nearly 6 per cent in 1990-91 would not seem unreasonable, particularly as the Australian economy moved into recession in mid 1990 which had an adverse impact on mail volumes. This indicates that a profit of \$144 million was not inappropriate given the resources that are tied up in the assets of Australia Post. Nevertheless, a number of participants were critical of Australia Post for achieving the increase in its profits especially when the profits of other companies were declining. They felt that Australia Post was abusing its reserved services protection and that the high profit was inconsistent with its community service obligations. This apparent inconsistency is discussed further in Section 5.3.

In its submission Australia Post also presented data comparing the rates of return on assets achieved by some of its overseas counterparts. The figures presented were Australia Post 8.4 per cent; Canada 0.9 per cent; United States minus 2.3 per cent; United Kingdom 1.2 per cent; and New Zealand 9.6 per cent (see Table 4.2). These figures suggest that both Australia Post and New Zealand Post are performing better than these overseas counterparts. But care needs to be exercised in comparing the relative performance because of the likely differences in the way in which rates of return were calculated.

Another guide to the rates of return that Australia Post should be setting and achieving are those achieved by private sector businesses in Australia. For this purpose, Australia Post has selected a peer group of seven companies (originally ten) from the transport, retail, and paper and packaging industries with which to compare its performance. Over the six year period from 1984 to 1989, the unweighted average rate of return for the companies was 11.6 per cent; this is slightly higher than the 10.7 per cent reported by Australia Post in 1990-91 (Powrie 1992, Appendix B). This comparison indicates that the rate of return for Australia Post in 1990-91 could be on the low side, and more so with respect to the revised 9.8 per cent, but still not too far out of line.

Dividend policy

Australia Post's financial structure differs markedly from most private sector firms. It has a very low level of debt compared with commercial organisations. Also, its operations are partly subsidised to cover the cost of meeting its community service obligations by the Government accepting a lower rate of return (see Section 5.8). Just as publicly listed companies are expected to pay dividends to their shareholders, it is appropriate for Australia Post to do so. Like private companies, Australia Post should have some flexibility to vary dividend payments according to its financial circumstances and requirements. Given Australia Post's reported operating profit of \$144 million in 1990-91 on assets of \$2.1 billion and negligible debt, the declared dividend of \$25 million for that year appears to be very conservative. The Commission considers that the future dividend policy of Australia Post should be adjusted to provide a total return to the Government closer to that which would be expected from a comparable private organisation.

Changing property values

As already discussed, there are limitations in using the rate of return both as a measure of financial performance of Australia Post, and as a management tool in, for example, setting service charges. If the value of assets is based on current market value, there can be a substantial improvement in the rate of return, simply because the market values of properties have declined; this has been the case over the past two years, especially in the central business districts (CBD) of Melbourne and Sydney.

A further problem would arise if the change in property values were fed back through the target rate of return and used as a basis for setting service charges. As stated by the Prices Surveillance Authority:

Tying postal charges to periodic reassessments of CBD property values, which do not necessarily provide accurate indications of long term trends, does not seem reasonable. (Submission 120, p. 12)

4.4.3 Factor productivity

The task undertaken by Australia Post has increased substantially since 1975-76. At that time for example, the number of articles handled a year was 2.2 billion and the number of delivery points serviced was 4.7 million. This compares with 4.1 billion articles in 1990-91 and the servicing of 7.1 million delivery points.

Another measure of Australia Post's performance is the change in inputs required to service the greater task. This change can be measured by calculating the total factor productivity for Australia Post. Since all inputs are considered, total factor productivity provides the best indicator and measures output produced per unit of input used (IC 1990, pp. 2-3).

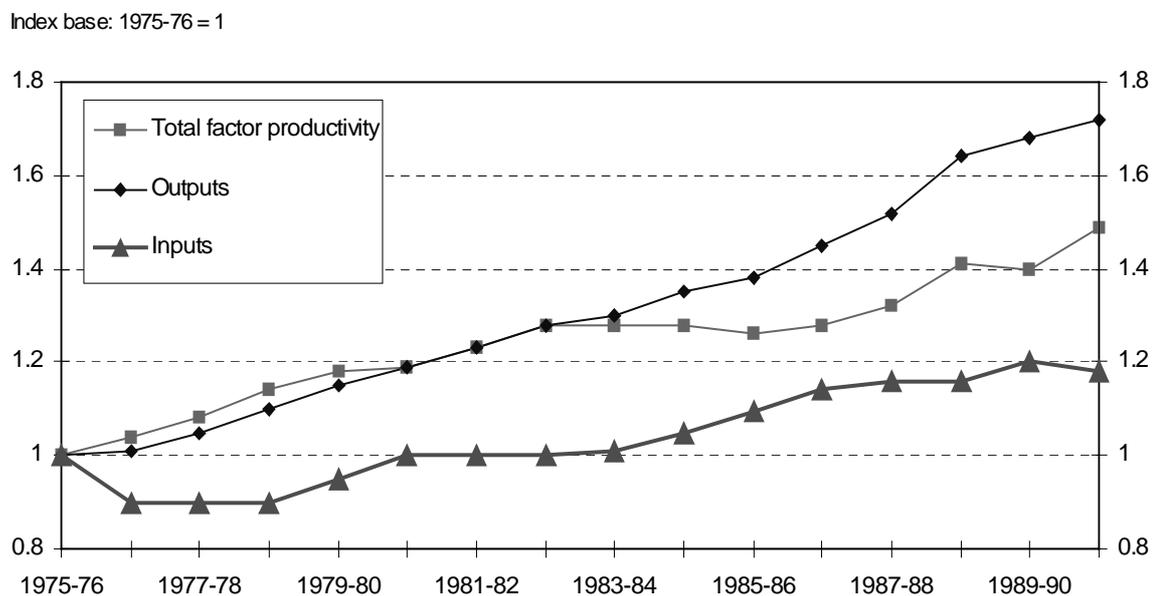
Up-to-date productivity estimates were provided to the Commission by Australia Post. These estimates were prepared on its behalf by Swan Consultants and were updates of previous estimates by the Commission (IC 1990). Based on Australia Post's estimates, its output grew by 3.7 per cent a year over the period 1975-76 to 1990-91, relative to growth in inputs of 1.5 per cent a year (Swan Consultants 1992b, pp. 2-5).

Presented in Figure 4.2 is the growth in output, input use, and total factor productivity achieved by Australia Post for the above period. The greater increase in output resulted in total factor productivity increasing by an estimated 2.2 per cent a year over the period. This compares with the average for the Australian economy as a whole of 1.25 per cent (Submission 82, p. 13).

Total factor productivity in 1990-91 was nearly 50 per cent higher than in 1975-76, and varied significantly over the period. There was a marked improvement during the years 1975-76 to 1983-84. As previously commented by the Industry Commission, this "could reflect the shedding by Australia Post of inefficiencies inherited when Australia Post took over postal services from the Postmaster General's Department" (IC 1990, p. 10).

Total factor productivity did not improve over the years 1983-84 to 1986-87. This was due to the use of increased inputs without a commensurate rise in output.

Figure 4.2: **Output, input use and total factor productivity of Australia Post, 1975-76 to 1990-91**



Source: Swan Consultants 1992b, p. 4

As stated by Swan Consultants:

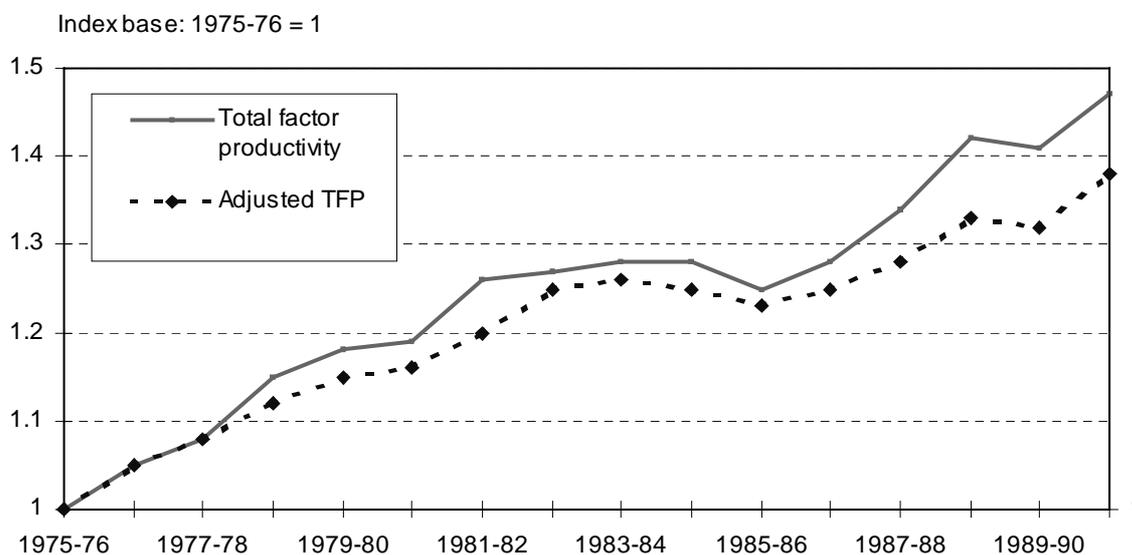
... a period of significant industrial disruption within Australia Post when the efficient operation of the postal network was disrupted by industrial disputes and poor industrial relations. During this period substantial investments were made in mail handling equipment but the equipment was never commissioned because of union restrictions ... (Swan Consultants 1992b, p. 4)

Improved industrial relations, the second tier initiatives, and the changes stemming from corporatisation, have resulted in a further marked improvement in total factor productivity since 1987; Appendix D discusses improvements in labour productivity.

Part of the growth in total factor productivity shown in Figure 4.2 is due to changes in the structure of the market serviced by Australia Post; more mail is now being delivered to each delivery point. Unless an adjustment is made to reflect this change in structure, measured productivity will be overstated as shown in Figure 4.3. After adjustment, total factor productivity was about 40 per cent higher in 1990-91 relative to 1975-76 compared with 50 per cent unadjusted.

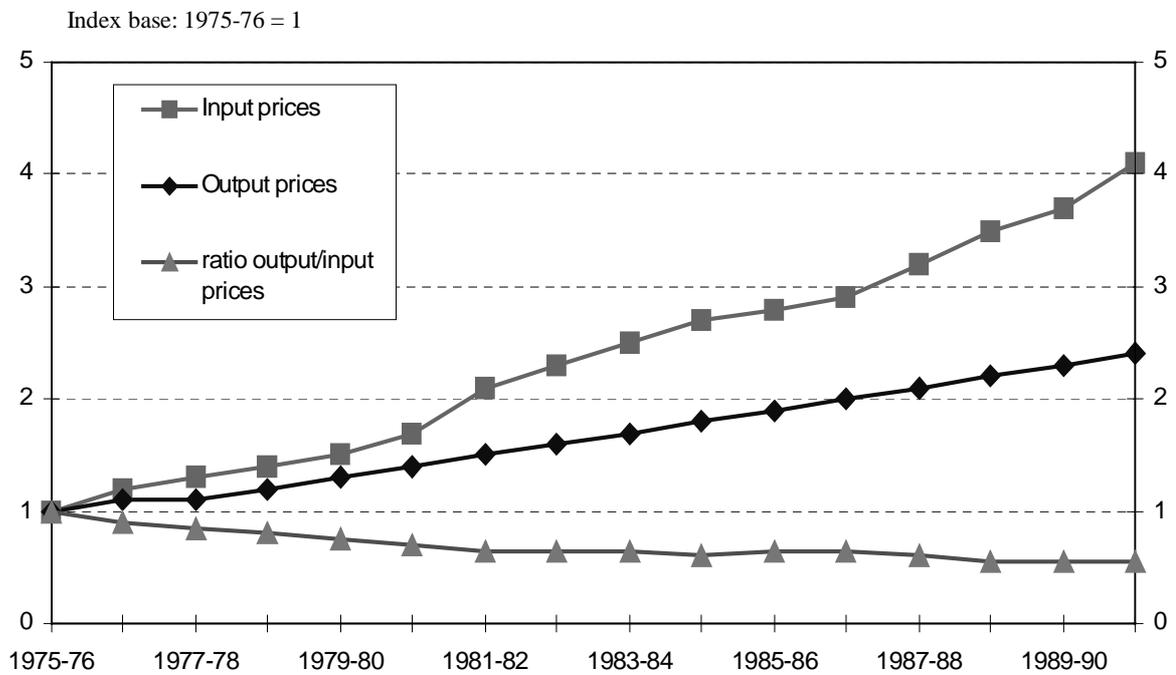
A further insight into the performance of Australia Post can be gained by contrasting changes in input prices relative to output prices; the relative changes are presented in Figure 4.4.

Figure 4.3: **Adjusted and unadjusted total factor productivity for Australia Post, 1975-76 to 1990-91**



Source: Swan Consultants 1992b, p. 8

Figure 4.4: **Output prices received and prices paid for inputs by Australia Post, 1975-76 to 1990-91**



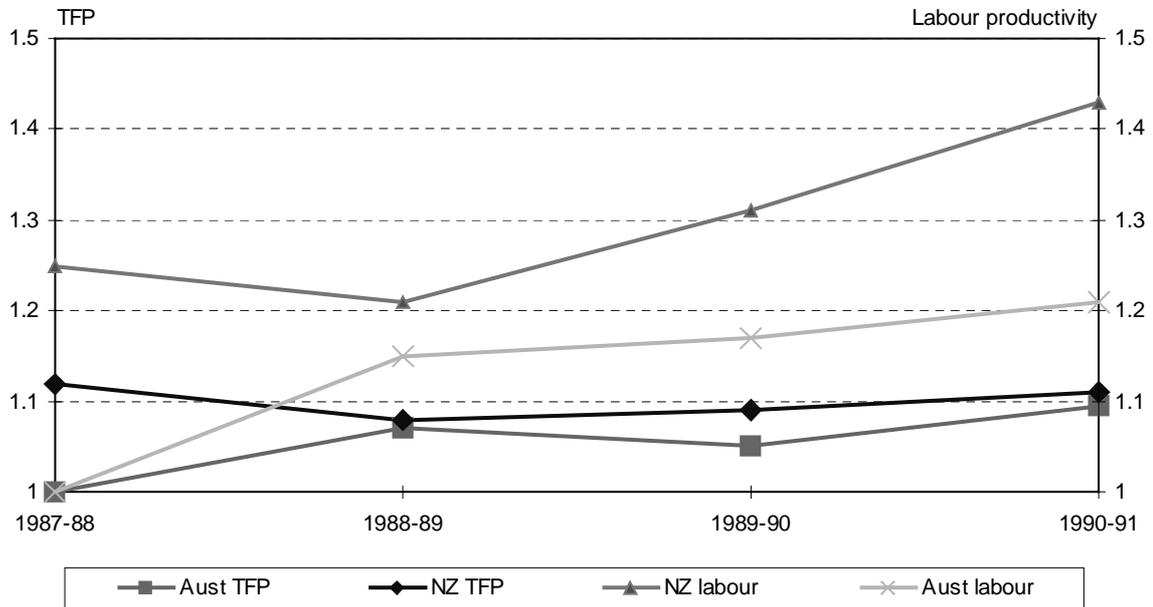
Source: Swan Consultants 1992b, p. 4

For the period 1975-76 to 1990-91, output prices fell 2.9 per cent a year relative to input prices. Given the low rates of return on assets achieved by Australia Post prior to 1990-91, Figure 4.4 indicates that Australia Post has been passing on most of the gains in productivity to consumers in terms of lower charges (Swan Consultants 1992b, pp. 4-5).

On behalf of both New Zealand Post and Australia Post, Swan Consultants have undertaken a comparative study of the total factor productivities of both enterprises. The organisations are similar in nature: both have recently been corporatised (in 1987 and 1989 respectively), rely on significant revenue from their letter services, and have labour as a major input cost.

The results of the study are shown in Figure 4.5. They indicate that New Zealand Post has achieved a higher total factor productivity compared with Australia Post, but that this advantage is being closed by Australia Post. The better performance by New Zealand is due mainly to its labour productivity being about 10 per cent higher than for Australia Post's, also shown in Figure 4.5. However, given the underlying level of accuracy of the data, Australia Post considered that the differences between measured total factor productivity for Australia Post and New Zealand Post would be negligible (Submission 264, p. 50).

Figure 4.5: Total factor productivity for Australia Post and New Zealand Post



Source: Swan Consultants 1992a, p. 5

4.5 Investment appraisal

The present financial performance of Australia Post partly reflects past investment decisions. That performance would be adversely affected if, for example, an investment in sorting equipment had never been commissioned, or if a building had been purchased that did not suit Australia Post's operations. Such adverse effects cannot be readily rectified after the event, or can only be rectified by incurring additional costs. This highlights the critical importance of evaluating future investments before the decision to invest is taken.

In appraising its investments, Australia Post uses a procedure that reflects private sector best practice (Submission 82, p. 42). To reflect the different risks involved, it has set different rates of return for investments associated with its reserved services compared with non-reserved services. In March 1992, Australia Post advised that its discount rate for investments in reserved services was 10.5 per cent and, for non-reserved services, 12 per cent to reflect the higher market risk on investments in a competitive environment (Initial Hearing Transcript, p. 123).

4.6 Summary

Australia Post's performance has improved substantially over the past few years. Improved industrial relations and the introduction of advanced letter sorting technology have both contributed to this improvement. But the most important and fundamental change, which will continue to enhance Australia Post's performance for some time, was implementation of the Commonwealth Government's 1988 reform strategy and the subsequent move towards corporatisation of Australia Post.

However, the improved performance does not mean that services are being provided at least cost. Both prices (revenue) and the value of assets may be too high. If Australia Post wished to retain its current rate of return without increasing service prices, further productivity gains would be required. The Commission notes the encouraging developments along these lines that form part of the Retail Post initiative and the introduction of enterprise bargaining.

At present the main incentives for Australia Post to improve performance are provided through the corporate planning process, and the commercial approach of senior management. Nevertheless, the Commission is concerned that such incentives may not provide sufficient pressure on Australia Post for it to sustain its improved performance, and to provide letter services at least cost to the Australian community.

The reasons why this can only be achieved by exposing Australia Post to more competitive pressure are discussed in Chapter 7. Options for increasing competition are discussed in Chapter 9.

5 COMMUNITY SERVICES

The Commonwealth Government imposes an obligation on Australia Post to provide a letter service. The service must be reasonably accessible to all people living in Australia on an equitable basis and at a uniform charge for standard letters. Australia Post has discretion in implementing this broad objective, and conflicts inevitably arise with its requirement to operate commercially. To reduce this conflict, the Government must clearly specify and make public its social objectives with respect to letter services and the obligations it places on Australia Post to meet those objectives. The cost of meeting the obligations should be funded directly by the Government.

5.1 Introduction

During the course of the inquiry it became apparent that a great deal of confusion surrounds Australia Post's community service obligations. There are three main reasons for this confusion:

- the Government's failure to clearly specify its social objectives with respect to letter services and the obligations this imposes on Australia Post;
- the apparent conflict between Australia Post's requirement to operate commercially and to meet its obligations, especially in light of the reported 1990-91 profit of \$144 million; and
- the mistaken ideas within the community about what services Australia Post has to provide.

Sections 5.2, 5.3, and 5.4 attempt to dispel some of this confusion. Section 5.5 describes the community services provided by Australia Post which are not part of its obligations. These services are provided on behalf of other government departments in order to fulfil other social objectives of the Government. The estimated costs incurred by Australia Post in meeting its obligations are discussed in Section 5.6.

The adequacy of current mail services, particularly in rural and remote areas, is assessed in Section 5.7. And discussed in Section 5.8 are other ways of funding Australia Post's obligations.

5.2 Community service obligations

Community service obligations (CSOs) are imposed by governments on organisations such as Australia Post to achieve specific social objectives. A generally accepted definition of CSOs is as follows:

A community service obligation arises when a government requires a public enterprise to carry out activities (relating to outputs and inputs) which it would not elect to do on a commercial basis, or which it would only do commercially at higher prices.

5.2.1 Australia Post's community service obligations

The CSOs that the Government has placed on Australia Post are specified in *the Australian Postal Corporation Act 1989* (the Act) and detailed in Box 5.1. They relate to the letter service and are fourfold:

- to provide all people in Australia reasonable access to a letter service regardless of where they live or carry on business;
- to provide access at a uniform charge for standard letters;
- to provide a letter service between Australia and places outside Australia; and
- to provide a letter service of a standard such that the social, industrial, and commercial needs of the Australian community are reasonably met.

These obligations are far broader than those that would be covered by the definition in the preceding section. The difference arises because the legislative obligations embody a set of social objectives concerned with the provision of a comprehensive letter service to all people in Australia. These obligations cover the entire letter service and not just that part which Australia Post would not provide if it were acting commercially.

The distinction between these two types of obligations is important to bear in mind: the legislative obligations are relevant for assessing whether the Government's objectives are being met; whilst the more narrowly defined obligations are relevant for calculating the extra cost to Australia Post of providing services which it would not otherwise provide (see Section 5.6).

To be able to fulfil its community service obligations, Australia Post has been granted reserved services protection to provide a letter service. The effects of this protection on the extent of competition in the provision of letter services is discussed in Chapter 7.

5.2.2 Rationale for the community service obligations

The fundamental importance of the postal service is recognised not just in Australia, but around the world. For example, in a recent Green Paper on the future of postal services in the European Community, the Commission of the European Communities said:

In determining what action should be taken, the central guiding principle must be the maintenance and, if appropriate, the development of a universal postal service which would provide collection and delivery facilities throughout the Community, at prices affordable to all and with a satisfactory quality of service. Then, provided that the universal service is secured, there should be as much freedom of choice as possible. (CEC 1992, p. 1)

Box 5.1: Australia Post's community service obligations

- s.27(1) Australia Post shall supply a letter service.
- s.27(2) The letter service shall be for carrying by physical means (both within Australia and between Australia and places outside Australia) principally letters that Australia Post has the exclusive right to carry.
- s.27(3) Australia Post shall 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.
- s.27(4) Australia Post shall ensure:
 - a) 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
 - b) that the performance standards (including delivery times) for the letter service reasonably meet the social, industrial and commercial needs of the Australian community.

Source: Australian Postal Corporation Act 1989

The obligation on Australia Post to provide a letter service has been imposed by successive governments over a very long period. It appears to stem from the benefits to the community of a letter service which is reasonably accessible to all people in Australia. In practice the letter service gives individuals, government, business, and other organisations access to written means of communication within Australia and, for standard letters, that access is at a uniform charge (currently 45 cents).

In the absence of CSOs and the enabling reserved services protection, other letter networks could develop to service the vast majority of people in Australia (see Chapter 8). The justification for government intervention to sustain a service beyond that which would otherwise be provided is usually couched in general terms. The letter service is one means (telephone is another) by which people in Australia can communicate easily with each other and overseas. This promotes participation in community/national life and, in turn, social cohesion. Behind this lie concepts of equity among individuals and organisations and efficient national and regional government. It has also been argued that the comprehensive letter network confers economic benefits by facilitating commercial transactions. This is undeniably true.

The benefits of the letter service cannot be measured simply by the cost of the postage stamp. They will vary widely from individual to individual and from one letter to another and include, not only the benefit to the sender but also the benefit to the receiver.

It would be extremely difficult to measure the total social and economic benefits flowing from the letter network. And it would be even more difficult to measure the additional benefits from

maintaining that proportion of the network represented by the narrowly defined CSOs -- the non-commercial activities. Australia Post is obliged to put a financial cost on these CSOs which, as discussed in Chapter 4, is used to adjust the rate of return earned by Australia Post. The costing of CSOs, which is a difficult exercise and subject to differences of view, is discussed later in this chapter.

Furthermore, the financial comparison of costs and revenues is clearly not a proxy for comparing net social and economic benefits and costs. The comparison of benefits and costs which would reveal whether the rationale for CSOs is justified cannot therefore be made in anything other than very broad terms -- almost as broad as the Government used in establishing the CSOs when the letter service was set up.

As a practical matter, the limits to the CSOs are determined by the operational guidelines of Australia Post described later in this chapter. At the end of the day the decision whether the CSOs are justified is a social value judgement which is made through the political process.

5.3 Other obligations of Australia Post that impinge on CSOs

In 1989 the Minister for Transport and Communications stated that Australia Post still had a social responsibility to provide a universal letter service even though it now had to function in a manner consistent with sound commercial practice (Australia 1989, p. 1611). It is expected to make after-tax profits from overall operations (including reserved services) sufficient to pay dividends to the Government. But conflicts arise between the requirement for Australia Post to operate commercially and at the same time to fulfil its CSOs which are loosely defined. For example, Australia Post said:

... while GBE [government business enterprise] reform requires that the enterprise behave 'commercially', the public expectation is that it maintains all its current services and the accessibility of those services. (Submission 82, p. 44)

In addition, many participants considered that Australia Post's reported profit for 1990-91 of \$144 million was too high, and inconsistent with its community service obligations. For example, the Major Mail Users of Australia submitted that:

At a time when Australians found themselves in a severe recession Australia Post managed to generate profits higher than those of its peer group companies which it selected to follow a few years ago. All this profit has been funded by the customers of Australia Post. They are the ultimate share holders in the enterprise who are being forced to pay higher than necessary prices. (Submission 48, p. 17)

But the story is not so simple. Australia Post is required by the Government to operate commercially and to pay all taxes and charges, like other businesses. In addition, the Government requires it to earn profits so as to achieve a given rate of return on its assets and to pay a dividend. The \$144 million profit reported by Australia Post gave a rate of return on its assets of 10.7 per

cent if the then estimated cost of \$80 million of meeting CSOs is included. As discussed in Section 4.4.2, over time this rate could be slightly on the low side compared with similar businesses. So a profit of \$144 million is not inconsistent with Australia Post's overall obligations.

Box 5.2 details other provisions within the Act which impose obligations on Australia Post. The Act specifies certain ministerial powers with regard to Australia Post. In effect the Minister has the power to determine the way in which CSOs are delivered (Section 40), although Section 40 does not appear to give the Minister power to redefine CSOs which are specified in Section 27. Section 48 does not appear to impinge on CSOs, while Section 49 gives the Minister a general power of direction, which has not been used explicitly to date. In addition, the Minister can affect the financial results of Australia Post by disapproving an Australia Post proposal to the PSA to increase charges (Section 33(3)).

5.4 Perceived obligations of Australia Post

Many in the community perceive Australia Post as having wider obligations than its legislated CSOs with respect to the letter service. Australia Post claims the public believes that the CSOs encompass all services traditionally available at post offices (Submission 82, p. 44), a claim which is supported by the Country Women's Association of Australia:

Our members wonder who makes these decisions [of determining Australia Post's social obligations] and on what basis when they, the members, were under the opinion that all the services of Australia Post carried a social service obligation as long as it had the monopoly on mail services throughout Australia. (Submission 26, p. 2)

Within the services provided by Australia Post, three are widely considered by the community to be obligations: heritage protection of post office buildings; delivery of registered publications; and the lettergram service.

5.4.1 Heritage requirements

Background

The maintenance of post offices in a historic state, or at a particular location, has been perceived as a community obligation for Australia Post. The Minister's formal response to its 1989-90 to 1991-92 Corporate Plan could be seen as strongly encouraging Australia Post to adhere to heritage legislation:

I note that the Corporation has taken a responsible attitude to such matters as the maintenance and protection of heritage properties and I would encourage a continuation of this approach. (Submission 119, Attachment 1)

Box 5.2: Other relevant legislative provisions contained in the Act

- s.26 Australia Post shall, as far as practicable, perform its functions in a manner consistent with sound commercial practice.
- s.28(c) Australia Post shall perform its functions in a way consistent with Australia's obligations under any convention.
- s.29(1) Subject to Section 30, Australia Post has the exclusive right to carry letters within Australia and between Australia and places outside Australia.
- s.29(2) The reservation of services to Australia Post under subsection (1) extends to the collection and delivery of letters within, but not outside, Australia, and applies in relation to letters irrespective of whether they originated within or outside Australia.
- s.33(3) The Minister may, within 30 days after receiving notice of a proposed determination, give the Board written notice disapproving it.
- s.36(c) Each corporate plan shall include a statement of the strategies and policies that Australia Post is to follow to carry out its community service obligations.
- s.37(d) Each corporate plan shall estimate the cost of carrying out Australia Post's community service obligations.
- s.38(g) In preparing or revising a financial target, the Board shall have regard to the cost of carrying out Australia Post's community service obligations.
- s.40(a) When the Board prepares or revises a corporate plan and gives a copy of the plan to the Minister, the Minister may, within 30 days after receiving the copy of the plan and after consultation with the Board, direct the Board to vary ... the statement included in the plan of the strategies and policies that Australia Post is to follow to carry out its community service obligations.
- s.48(1) The Minister may notify the Board of general policies of the Commonwealth Government that are to apply in relation to Australia Post.
- s.49(1) ... the Minister may, after consultation with the Board, give such written directions in relation to the performance of Australia Post's functions as appear to the Minister to be necessary in the public interest.

Source: Australian Postal Corporation Act 1989

Moreover, the Communication Workers' Union (CWU) stated that:

... people ... really believe that the GPOs should continue to be operated as Post offices, as a significant, if you like, historical and cultural part of the society. (Initial Hearing Transcript, p. 231)

At the moment [the cost of heritage legislation] is being paid for in a particular way which I think generally the community would probably accept, because it is related to the postal service. All the users of the postal service are paying for that and very few people in the community would not use at some time the postal service. (Initial Hearing Transcript, p. 232)

The *Australian Heritage Commission Act 1975* imposes obligations on Commonwealth ministers, departments, authorities, and enterprises with respect to national estate properties which they own or for which they are responsible. Specifically, Section 30(3) requires that, before a Commonwealth minister, department, or authority such as Australia Post or the Australian Maritime Safety Authority, takes any action which might significantly affect the National Estate value of a place listed in the Heritage Commission's Register (or on the Interim List), that the Commission be informed of the proposal and given reasonable opportunity to consider and comment on it.

In 1991, Australia Post advised the Australian Heritage Commission (AHC) of its plans for 11 registered properties. The Commission agreed to proposals for seven, after Australia Post satisfied certain requirements (AP 1991a). The four unresolved issues relate to the Australian capital city GPOs (AHC, Submission 288, p. 2).

The *Australian Heritage Commission Act* imposes on Australia Post substantial obligations in terms of its level of freedom to upgrade or replace many of its buildings, but has no legal power to prevent actions being taken that would alter the heritage value of places on the Register.¹ The AHC regards the following as examples of actions which would have a significant effect on registered historic places such as some post offices: restoration of the building; redesign or reconstruction of parts of the building; and the installation of services such as air conditioning.

Most States and Territories also have, or are working towards, legislation to protect their portion of the National Estate, complementing the *Australian Heritage Commission Act*. In 1991 Australia Post bound itself to State heritage legislation. Consequently, Australia Post is bound to both Commonwealth and State heritage legislation, while private organisations are subject only to the National Trust and legislation of the States and local councils.

According to the AHC:

... State and local laws that bind comparable private sector organisations are often more restrictive for owners of heritage listed properties than the AHC Act. At the same time, there are deficiencies in some State and Territory legislation, and Tasmania has no heritage act, so that protection of the national estate by levels of government other than the Commonwealth is at best uneven. (Submission 288, p. 1)

What are the costs of heritage requirements for Australia Post?

Heritage listed properties constitute about 15 per cent of Australia Post's owned outlets. Australia Post has estimated the annual cost of its obligations for heritage listed properties at \$13 million.

¹ The Register of the National Estate lists 91 properties (and more are under consideration for listing) owned by Australia Post. A further 55 post offices are listed by the National Trust and local councils. The National Trust is a private organisation without legislative backing or recognition, so that the inclusion of a property in its list would not impose legal obligations on enterprises.

Costs comprise both the additional expenditure from higher operating costs associated with these properties (which often cannot be adapted for changes in retailing, or modern building and operational standards), and the higher costs incurred in maintaining historic buildings, over and above the cost of normal repairs and maintenance for buildings which are not listed. According to the CWU:

These buildings in today's terms are inappropriate and inefficient for conducting a modern postal service. Community concerns about preservation of our history render them incapable of being adequately modified to lift the returns available. They therefore remain a drain on Australia Post's resources. These post offices also require an extraordinary amount of the available resources for upkeep and preservation funding.

In the last several years approximately 10% of Australia Post maintenance funding was allocated to refurbish these 10% of assets. Continued investment in the maintenance of these buildings does not produce increased value in the asset base, and in a commercial sense are wasted funds. (Submission 79, p. 15)

Australia Post said:

Many of these outlets are now poorly located and presented to customers. Being located in "high street" sites away from both modern shopping areas and industrial estates, they often lack adequate customer parking facilities. They also occupy real estate which is inappropriate for industrial type operations such as mail processing and delivery. (Submission 82, p. 32)

A specific example of the costs incurred in fulfilling heritage requirements was given by Australia Post at the Initial Hearing in Melbourne:

For instance, you may not be able to have a loading dock and therefore you cannot use your mechanised means of handling materials so you have to use manual methods and this kind of cost burden is not specifically addressed in the costing of the CSOs. (Initial Hearing Transcript, p. 81)

Additional heating costs were another example given by Australia Post since, with a 10 metre high ceiling, an historic building costs more to heat than a modern building with a 3 metre high ceiling (Submission 264, p. 62).

In response to the costs incurred in meeting its heritage obligations claimed by Australia Post, the AHC commented that the evidence was "far from conclusive" that the burden of heritage obligations for Australia Post was greater than that of comparable commercial enterprises (Submission 288, p. 3).

Limited evidence available to the Commission from two large banking networks (with comparable numbers of heritage properties) indicates that heritage listing decreases the value of a property, and imposes additional maintenance costs on the owner. As with all large organisations, commercial considerations are paramount in the management of heritage properties, with due consideration to the sensitivity of conservation issues.

In its response to the Commission's draft report, Australia Post said:

... it should be exempted from the provisions of the Australian Heritage Commission (AHC) Act 1975 on the grounds that that Act does not apply to private organisations ... Australia Post considers that State legislation is adequate to safeguard the heritage interest of the community while enabling Australia Post to discharge its commercial obligations. (Submission 264, p. 63)

The Australian Heritage Commission was concerned that if Australia Post were exempted from the AHC Act, this would result in a situation where:

... a considerable part of the national estate would be unprotected from wilful or ignorant destruction. It was this very threat that led to the establishment of the AHC Act in the first place. (Submission 288, p. 1)

However, the AHC was also concerned with the additional inconvenience and costs which may be incurred by Australia Post because it had to comply with both Commonwealth and State heritage requirements. It said:

One option for streamlining approval processes under heritage and planning legislation at all levels of government would be for Australia Post to develop a Memorandum of Understanding with AHC and relevant State and Territory bodies. This would be in the spirit of the *recent Intergovernmental Agreement on the Environment*. (Submission 288, p. 3)

Such a Memorandum of Understanding is essentially a written agreement between government entities or authorities. According to the Australian Heritage Commission, the memorandum would alleviate duplication between State and Commonwealth legislation and heritage bodies, and would develop a systematic framework for examining proposals, rather than giving advice on ad hoc referrals (Submission 295, p. 1).

In terms of eliminating duplication, the success of such an agreement would depend on which heritage legislation prevailed. Should Commonwealth legislation prevail, but be less stringent than State legislation, Australia Post would have a competitive advantage since adherence costs would be less than for its competitors. Alternatively, if Commonwealth legislation still prevailed, but was more onerous, then Australia Post would be disadvantaged. If State legislation prevailed, Australia Post would be treated the same as comparable private businesses.

It is not clear to the Industry Commission whether Australia Post carries a greater heritage burden than comparable organisations. The Commission considers that Australia Post should not be subject to more onerous heritage obligations than its private sector counterparts. It should be free to maintain those buildings seen as corporate 'flagships', adapt those which are unsuitable for present use, and sell those it does not wish to retain.

If, however, governments choose to impose greater heritage requirements on Australia Post than those imposed on comparable private sector organisations, those obligations should be declared and appropriate compensation should be given to Australia Post.

5.4.2 Australia Post's registered publications service

The registered publications service was introduced in 1908 when the Commonwealth Government introduced reduced rates for printed papers, books, and magazines following the repeal of State postal rates and regulations. The long tradition of treating the service as a CSO was reflected in Australia Post's 1986 Annual Report.

The financial and service performance success has been achieved in spite of Australia Post's CSOs ... Two of these community services are the carriage of registered publications at reduced rates, and, consistent with Government policy, the delivery of ordinary letters on unprofitable (mainly rural) mail paths, at the same price charged for letters on profitable urban mail paths. Losses on these two factors, which are cross-subsidised by Australia Post, were estimated at \$85 million in 1984-85, and were even higher in 1985-86. (AP 1986, p. 4)

This service is still perceived by many as a community service obligation. For example, the Youth Hostels Association (YHA) said:

Our understanding is that the registered publication service was established in part as a community service for non-profit making organisations. YHA wonders what will happen to this role if Australia Post is conducting services purely on a returns basis. (Submission 80, p. 1)

As an additional example, Country Press Australia challenged the notion that:

... the local newspaper does not service the social needs of Australians to a far greater degree than industrial and commercial mail, bearing in mind that the newspaper covers all sections of the community, all interests and all aspects of human endeavour when a commercial or industrial document contained in an envelope is unlikely to affect more than the sender and the recipient. (Submission 279, p. 8)

Country Press Australia went on to clarify its position at the Draft Report Hearing.

We contend that the community obligations should extend to the country newspaper industry because the country newspaper is an integral part of the community life in the country. (Draft Report Hearing Transcript, p. 182)

Australia Post estimated that losses in respect of registered publications were \$24 million in 1990-91 (AP 1992g, p. 2). In December 1991 it made a formal announcement that, following consultations with the Commonwealth Government and with publisher organisations, it would commence phasing out the service and replace it with a service known as Print Post. These changes have been a principal complaint in many submissions mainly because of the increased charges for many that would apply under Print Post (see Section 4.3.3).

The registered publications service is not defined as a CSO under *the Australian Postal Corporation Act*. Given this and the requirement to operate commercially, it is appropriate for Australia Post to set charges for Print Post (registered publications) that cover the costs incurred in providing the service. Those costs should not be subsidised by other users of Australia Post (see Section 4.2.1).

5.4.3 Australia Post's lettergram service

Australia Post's lettergram service is a complete message preparation and delivery service for single and bulk messages. Messages are carried electronically, printed, and delivered by post to most places in Australia on the next working day.

The International Telecommunications Union (ITU) Regulations and Conventions encourage Australia to provide an international telegram service. Article 4.3 of the ITU regulations states that, subject to national law, members shall endeavour to ensure that administrations provide and maintain to the greatest extent practicable, a minimum quality of telecommunication service which is reasonably accessible to the public, including those who may not be subscribers to a specific telecommunications service (WATTC 1988, p. 8).

Section 28(c) of the Act obliges Australia Post to comply with any convention. The ITU regulations effectively extend Australia Post's obligations beyond the letter service, since it is the only organisation capable of fulfilling Australia's international obligation to maintain a telecommunications service. The hard copy telegram is delivered by Australia Post as an ordinary letter (courier arrangements apply for 'express' telegrams), once the electromagnetic form of a telegram has been processed by the Australian and Overseas Telecommunications Corporation (AOTC).² Australia Post indicated at the Melbourne public hearing that the lettergram service was not profitable (Initial Hearing Transcript, p. 16).

Some participants expressed concern about the proposed removal of the lettergram/telegram service. For example, the Communications Workers' Union was concerned that, if the lettergram service were withdrawn:

... then the ability of Australian business people to receive urgent hard copy confirmation of their arrangements will be significantly reduced.

... [This is because] a significant number of countries currently do not have any facility to receive facsimile transmission nor will they have this facility in the near to mid-term future. In addition, a number of countries only receive Faxpost at the principal post office in their capital cities. (Submission 79, p. 16)

In addition the CWU said that:

... the [Industry Commission] inquiry should seriously consider the provision of the lettergram service as a Community Service Obligation because of the contribution it makes to fulfilling our Government's treaty obligations, assisting in the conduct of business, the provision of private/family communications to friends and relatives in overseas countries. (Submission 89, p. 16)

The Act does not define the lettergram service as a community service obligation. Hence, the Commission considers that Australia Post must be free to make decisions about the continued

² The telegram service is provided by linking Australia Post's lettergram service with AOTC's computer-based message gateway and an extensive network of international circuits to overseas destinations.

provision of lettergram/telegram services based solely on its commercial judgement. If, however, in order to meet Australia's international obligations, Australia Post is forced to continue to provide the service against its commercial judgement, it should be compensated by direct budgetary payment for consequent losses.

5.4.4 Conclusion

Australia Post would only constitute a community service obligation if they imposed a greater burden than that imposed on private businesses; the Commission has not being able to establish whether this is the case. Even if the Commission had done so, the heritage obligations imposed would be different from, and should not be confused with, the obligations on Australia Post to fulfil the Government's social objectives with respect to the letter service. The current letter service obligations on Australia Post are detailed in Section 27 of the Act. They do not include services such as registered publications, the replacement service Print Post, or lettergram services. Such services should be priced and delivered according to commercial considerations.

The Commission recommends that the Commonwealth Government more clearly specify and make public the extent of the community service obligations it expects Australia Post to satisfy.

5.5 Other community services performed by Australia Post

The Commonwealth Government uses Australia Post to provide other services to the community in order to meet more of its social objectives. These objectives are different from those with respect to letters and include, notably, "Freepost" for visually impaired people, and concessional mail for Australia's Defence Forces. The costs incurred by Australia Post in providing these services are funded through direct budgetary payments by the relevant government departments.

5.5.1 Freepost

Australia Post provides a service free of charge for the distribution of literature to visually impaired/blind people; the costs incurred by Australia Post are met by the Department of Social Security and totalled \$2.38 million in 1990-91. The Queensland Talking Book Library outlined the service that is provided.

The Queensland Talking Book Library is a recreational library lending four track cassettes to blind/vision impaired readers throughout Queensland. To become a member of the library an applicant must be so visually impaired that they are unable to read printed matter for a sustained period of time. Proof, in the form of a doctor's certificate, must be supplied.

The library uses the "Articles for the Blind" free post service to distribute talking book titles and players to vision impaired members across the State. On average the library sends approximately 170 titles per day. The majority of our membership are elderly and/or have disabilities additional to their vision impairment, many are housebound. (Submission 49, p. 2)

The Commission received submissions from several organisations concerned that this free service may be discontinued. However, Australia Post stated that it has no plans to charge for the service (Initial Hearing Transcript, p. 130).

The Commission is concerned at the apparent anomaly in the provision of the Freepost service. It seems that other services for people with disabilities, which are provided through the postal network, are not receiving a subsidy. For example, the National Library suggested that there were good arguments for extending this privilege to all print-handicapped people (Submission 74, p. 4).

In addition, the Association for the Blind of WA (Incorporated) submitted that:

Whilst some print disabled people are not blind the outcome of their disability is the same as that for blind people - they cannot read (in the conventional sense). As a consequence these people face similar constraints and difficulties in obtaining suitable reading matter and accessing a library service that can fully satisfy their needs. (Submission 249, p. 1)

The Commission draws the apparent anomaly in the provision of the Freepost service to the attention of the Commonwealth Government for examination in the context of its disability policy.

5.5.2 Concessional mail for Australia's Defence Forces

The Department of Defence reimburses Australia Post for carriage of concessional Navy mail sent to and from HMA Ships at sea, and mail sent to Army contingents deployed overseas. The reimbursement for 1990-91 was \$281 000, all of which related to naval mail. The reimbursement for naval and army mail in 1991-92 was \$193 000 and \$59 000 respectively.

5.5.3 Other community services

The letter delivery network to rural and remote areas is also used for medical supplies and for the regular delivery of educational material which is essential to children's schooling. These services are delivered to recipients, sometimes (where a letter is involved) as part of the CSO or sometimes at commercial rates. In these cases it is the regular access (both collection and delivery) to the network which is regarded as vital. The existence of the network and regular delivery to service them is regarded as satisfying an important social need (see Section 5.7).

To the extent that educational and medical needs drive the frequency of delivery, it could be said that part of the cost of access to the letter network is attributable to specific social objectives rather

than the broader social and commercial underpinning of the letter service. It could be argued that such extra costs ought properly to be paid out of specific Commonwealth, State, and Territory government education and health budgets. In practice, measurement of these costs and attribution to the correct authorities could be difficult. Section 5.7.1 discusses the most cost-effective method of providing mail services in rural and remote areas when education is a major deciding factor.

5.5.4 Conclusion

A common characteristic of these other social services is that they are explicit and the costs incurred by Australia Post are compensated fully through budgetary payments. The arrangements are subject to public scrutiny, the costs are borne appropriately by the government department concerned and not other postal users, and the scope for confusion about responsibility for the services is minimised.

The Commission recommends that, should Australia Post be required to provide services to meet other social objectives of governments, those services be made public and funded directly by the relevant government department (as occurs now with the Freepost service for the visually impaired).

5.6 Costs of fulfilling the letter community service obligations

As a result of the 1988 reforms relating to government business enterprises, the Act now contains a number of provisions requiring Australia Post to estimate the cost of CSOs and to take that cost into account in its financial management (see Section 3.2.1).

According to the Minister for Land Transport:

For too long, Governments have swept under the carpet the true costs to the nation of the cross-subsidies operated by Telecom and Australia Post.

[The Government's] approach now is to specifically give Australia Post an obligation to provide CSOs, to ensure that the cost of providing these services is transparent and that they are provided as efficiently as they can be. In that way, the Government exercises control over the provision of such services. (Minister for Land Transport 1991, p. 1051)

Australia Post has been developing estimates of the cost of CSOs as part of the implementation of its first corporate plan. This work has been carried out in close consultation with the Department of

Transport and Communications. It uses the long-run avoidable cost approach and is consistent with the approach approved by Government for AOTC (Submission 82, Appendix 2).³

CSOs are calculated for reserved services which include letters carried within Australia up to 500 grams, and international letters. The current approach takes the existing network, standards, and traffic as given, and identifies the facilities and traffic which Australia Post would not provide if it acted on purely commercial grounds. The domestic network is broken up into 350 000 mail paths (between Australia Post's approximately 4500 offices and 76 mail sorting divisions).⁴

The cost components of mail paths, or long-run avoidable path costs, considered by Australia Post include acceptance, postal processing, through processing, transport, delivery processing, and delivery. For each official post office or post office agency the revenue contribution above long-run avoidable cost is measured. Similarly, local overhead costs are established for each centre.

Based on this approach, CSOs were estimated to have cost Australia Post \$60 million for the financial year 1990-91. This estimate may well not reveal the full cost of meeting the Government's social objectives with respect to letter services. Certainly, Australia Post has strong reservations about the methodology used to obtain the \$60 million estimate, and about its usefulness as a basis for policy and strategic decisions (Submission 82, p. 46). In particular, the estimate may be on the low side because it is based on avoidable costs which typically would be less than the average costs of providing the services in question. On the other hand it may be an overestimate as the methodology does not make provision for any commercially motivated response that Australia Post might make if it were unconstrained.

The avoidable cost approach is not the only method that could be used to estimate the costs incurred by Australia Post in fulfilling its obligations. Other costing concepts include marginal cost, fully distributed cost, and stand-alone cost. Marginal cost is essentially the same as avoidable cost and refers to the cost of producing one extra unit, instead of the cost that would be avoided by producing one unit less.

Fully-distributed cost includes the average variable costs of producing all units of output plus a mark-up to cover fixed costs. As such fully-distributed cost does not reflect the relationship between the extent of cost increase and the supply of additional quantities of service. Stand-alone cost measures the total cost of supplying a service by itself. In doing so savings from producing, say, two similar services using the same resources will be ignored (that is, there are no economies

³ Under this approach, the avoidable cost of a product or service is the net cost that could be avoided if the last unit of the product or service was not produced. Costs are calculated over the long term within which Australia Post would be able to adjust the resources (capital) it uses to provide letter services.

⁴ A mail path is a scheduled route linking an acceptance point to a point of delivery for each product/service.

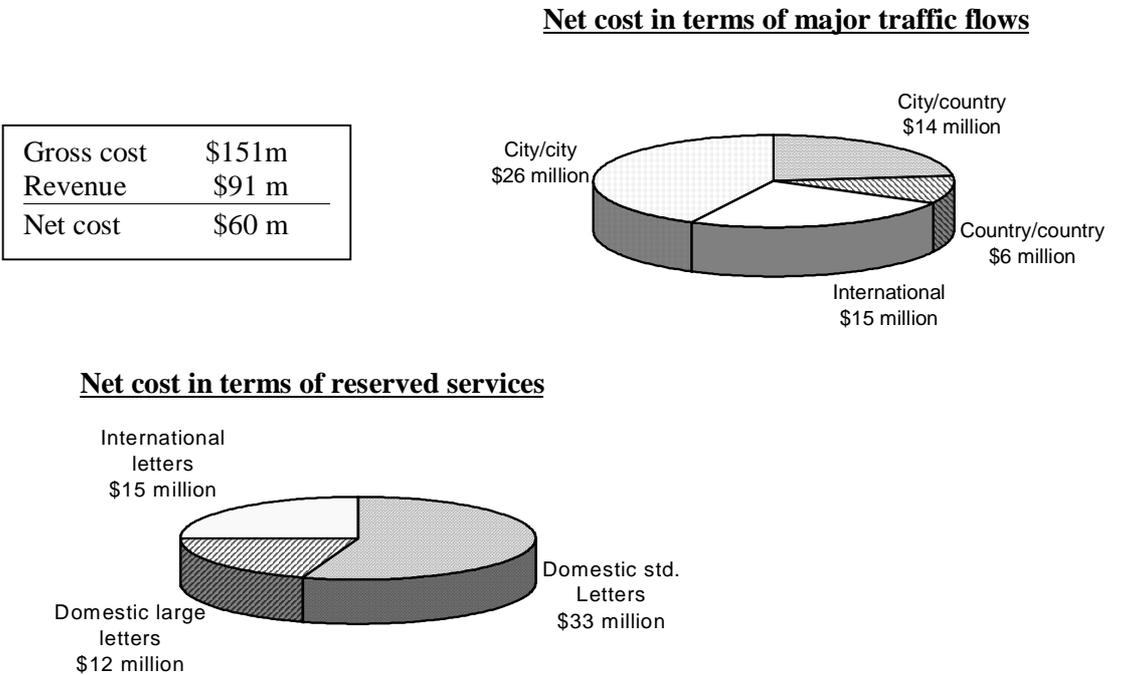
of scope). Because of the way in which costs are determined, the estimated costs of CSOs would tend to be overestimated if calculated based on either fully-distributed cost or stand-alone cost concepts. Hence, the Commission's preferred method is to use the avoidable cost approach.

Nevertheless, there are difficulties in determining the costs that would be avoided in the absence of CSOs, particularly in cases where a number of costs are common to several services provided, in this case, by Australia Post (see Section 4.2). Given the difficulties in allocating and measuring costs, tradeoffs between precision and the time and resources devoted to estimating the cost of CSOs will have to be made.

The Commission considers that the \$60 million cost estimate provides a useful insight into who benefits from these CSOs, whether the obligations are adequately specified by the Government, and whether they are being met in a cost effective manner by Australia Post. Figure 5.1 presents a two way disaggregation of the \$60 million estimate:

- into three types of reserved services -- international letters (\$15 million), domestic large letters (\$12 million), and domestic standard letters (\$33 million); and
- into major traffic flows -- city/city (\$26 million), city/country (\$14 million), country/country (\$6 million), and international (\$15 million).

Figure 5.1: **Estimated cost of CSOs by reserved service and major traffic flows, 1990-91**



Note: Cities are all capital cities, plus Geelong, Newcastle, and Wollongong.
 Source: AP 1992a

The cost of international CSOs accounted for a surprising 25 per cent of the total CSO cost. This proportion is high given that international mail accounted for only 10 per cent of the total volume of mail in 1990-91 (see Section 2.5).

Contrary to general expectations, city-to-city mail accounted for \$26 million of the total CSO cost compared with mail going to and from country areas of \$20 million. According to Australia Post, there were three main causes of the costs involved for city-to-city mail:

- High acceptance costs at small post offices and post office agencies due to low throughput;
- An opportunity cost of capital which results in high amounts for large/valuable properties in the cities, for example GPOs; and
- High local overhead costs at post offices where "profitable" mail traffic is insufficient to provide the contribution margin to justify continued operation of the office. (AP, 1992h)

The estimate of \$60 million is considerably less than that for the previous year, 1989-90, which was \$96 million. (Both estimates were based on the avoidable cost methodology.) The principal factors which reduced the cost of CSOs were the lower cost of capital and lower asset values in 1990-91; these were outside Australia Post's control. However, about one third of the reduction was attributable to Australia Post's lower overhead costs and higher revenues.

In summary, these estimates indicate that government-imposed CSOs benefit people living in both cities and rural and remote areas. The change in the estimates for CSO costs also indicates the difficulties involved in their estimation and the sensitivity to changes in key variables. They are, at best, a guide only to the cost of CSOs of Australia Post. The CSO costs of international mail are considered further in Chapter 6.

5.7 Reasonable access to the letter service

Although submissions show that there are specific complaints about the letter service, the overall level of satisfaction with the service for the majority of users appears to be high. In that broad sense Australia Post can be said generally to be fulfilling its legislated CSOs with regard to the quality of the letter service.

Access to Australia Post's network is provided through street posting boxes, official post offices, and post office agencies, plus designated centres for lodgement of bulk mail. Official post offices are staffed by Australia Post employees, while agents operate under contract with Australia Post. Aboriginal settlements and Mission Stations with more than 600 people have post office agencies irrespective of whether the agency work unit criterion is met. (Appendix C outlines the normal criterion for placement of agencies in the community.)

In respect of mail delivery the Australia Post network consists of street delivery, roadside (or homestead) delivery, community bags, private boxes, and counter delivery.

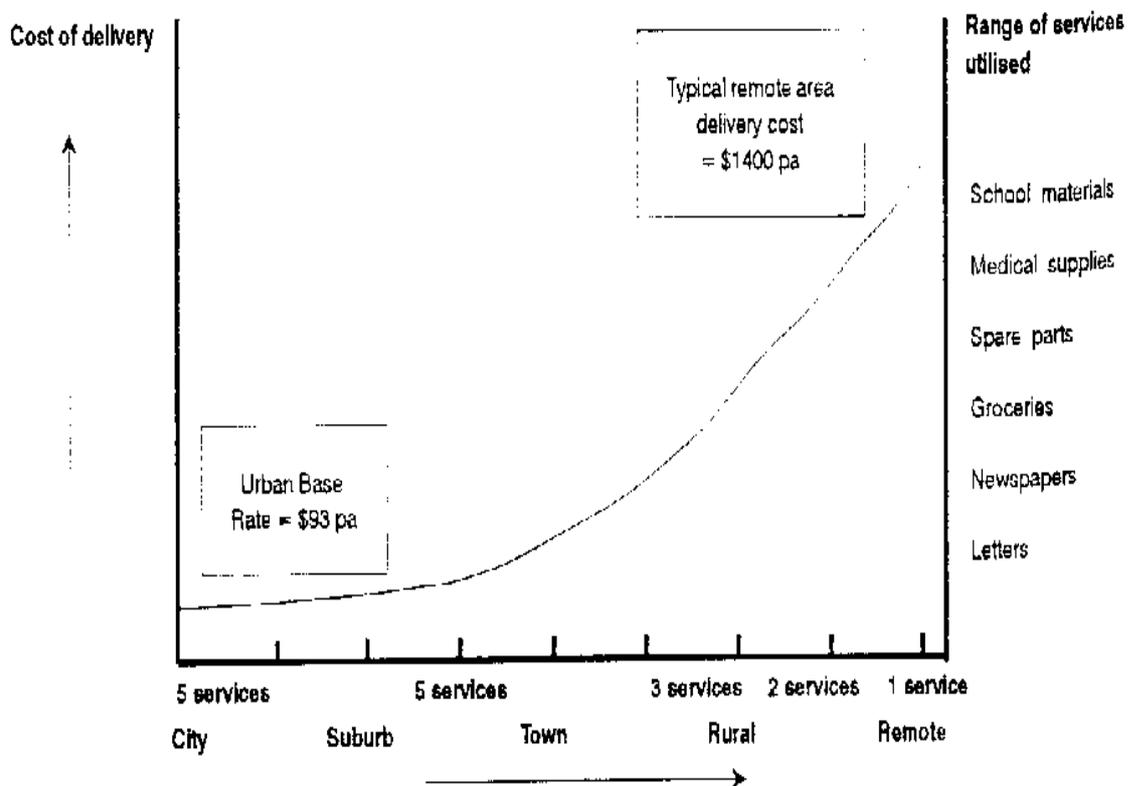
Adequate access to Australia Post's letter network can be assessed by establishing the needs of users and determining whether the service provided by Australia Post is meeting these needs. In

urban areas the major issue of concern, with respect to access, was the removal of street posting boxes (see Section 4.4.1). That is, access to collection rather than delivery. Most of the specific complaints were received from rural and remote users. The Commission notes that the appropriate level of service perceived as necessary for these areas varies according to individuals' expectations, and the level of service to which they are accustomed.

Figure 5.2 illustrates that the reliance of rural and remote areas on postal services increases as communities become more remote. That is, remote users are more dependent on the letter service since they receive additional items through the service, such as school materials and medical supplies.

In its terms of reference the Commission has been requested to have regard to places or groups which do not receive adequate access to mail, courier, and parcel services. The principal matters relating to adequate access concern the needs of people living in rural and remote areas. Issues to be discussed include: the letter services currently provided in these areas; the dependence of people living in these areas on the letter service, and whether their needs are being met; and the current method by which Australia Post determines frequency of delivery -- the Urban Base Rate (UBR).

Figure 5.2: Dependence on postal services and costs of delivery



5.7.1 Services in remote and rural areas

In response to its terms of reference, the Commission has given special attention to the adequacy of service in rural and remote areas. Representatives from the Commission visited the Crookwell and Taralga rural area in New South Wales, and remote areas in Central Queensland and northern New South Wales (see Box 5.3). These regions were visited because of the strong response from people in the areas to the inquiry and because they were considered as generally representative of rural and remote areas.

The letter network in rural and remote areas operates through a system of official post offices, postal agencies, community mail bags, and mail contractors. Australia Post employs 3300 mail contractors to deliver mail in these areas. In some situations, mail services are provided by air to places which are inaccessible by road or when it is the most cost-effective way of providing service.

What proportion of households receive roadside delivery?

When examining whether all people in Australia have adequate access to the letter service on an equitable basis, the focus must be on those households which receive roadside delivery -- they do not have close access to a post office or street posting box. There are some 346 000 such households involved and the frequency of delivery which they receive is summarised in Table 5.1. The remainder of the 7.1 million delivery points in Australia typically have 5 deliveries a week and postal facilities within reasonable proximity.

It can be seen from Table 5.1 that, if we exclude households which receive no delivery (see below), there are only 80 000 households in Australia (1.3 per cent of all households) which receive mail deliveries less frequently than 5 times a week. Around that average, State percentages range from 2.1 per cent in Queensland to 0.4 per cent in Victoria. Less than one tenth of one per cent of all households receive the minimal roadside service of one delivery a week.

Table 5.1: Australian households receiving roadside mail deliveries, by frequency of service

<i>Deliveries per week</i>	<i>No. of households receiving delivery</i>	<i>Percentage of households Australian households</i>	<i>Percentage of all</i>
Five or more	279 122	77.4	4.4
Four	5 256	1.5	0.1
Three	53 385	14.8	0.8
Two	19 896	5.5	0.3
One	3 157	0.9	0.1
Total	360 816 a	100.0	5.6

a This figure includes approximately 14 000 businesses which receive roadside delivery.

Source: Compiled from mail contract details provided by Australia Post

Box 5.3: Remote area mail services -- central Queensland/northern New South Wales

In order to examine the adequacy of services for people receiving only one or two mail services a week, the Commission visited remote areas of central Queensland and northern New South Wales. The towns visited were Winton, Longreach, Jundah, Quilpie, Thargomindah, Wanaaring, and Bourke.

Public meetings were attended by up to 30 per cent of the local population. Groups represented included the Country Women's Association and the Isolated Children's Parents' Association. Discussions were also held with post office officials, mail contractors, and local councils. The Commission also visited the Longreach School of Distance Education and appreciated the opportunity to talk to parents and children over the radio.

The major issues raised at these meetings were:

- the long turnaround times associated with 1-2 deliveries;
- dependence on the letter service for school correspondence lessons;
- charges for the use of mail bags (see Section 4.3.1); and
- contractors' terms and conditions.

Table 5.2 outlines details of some typical mail service runs in central Queensland.

Table 5.2: Examples of central Queensland mail services

<i>Service</i>	<i>Services a week</i>	<i>Distance a trip</i>	<i>Delivery Points</i>	<i>Annual no. of postal articles delivered</i>	<i>Annual cost a delivery</i>	<i>Annual cost an article point^a</i>
Quilpie to:						
Ray	1	470kms	7	7590	17.9 UBR	\$1.45
Windsorah	2	664 & 556kms	15	35400	15.3 UBR	\$0.56
Thargomindah	2	406kms	14	15600	9.4 UBR	\$0.74
Thargomindah to:						
Bullo Downs	1	245kms	4	9763	10.9 UBR	\$0.39
Nocundra	1	307kms	4	6734	16.7 UBR	\$1.14
Kilcowera	1	216kms	6	1629	5.9 UBR	\$0.32

a UBR = Urban Base Rate: see Section 5.7.3.

Source: Controlling Postal Manager, Charleville, Qld

On 9 April 1992 Commission representatives joined the mail run from Quilpie to Thargomindah starting at 4 am and ending at 10 am. They experienced first hand the delivery process, and observed users' dependence on the service: grocery delivery was prominent; and other goods carried included fuel and irrigation pipe.

During May 1992 Australia Post conducted a survey to determine the number of Australian households not receiving any mail delivery to their property. Preliminary results of this survey are outlined in Table 5.3. Figures in that table exclude the 118 000 households located within 1.2 kilometres of a postal facility and which, under existing guidelines, pick up their mail from that facility.

Table 5.3: Households not receiving any mail deliveries to their property

State	Urban	Fringe/Urban	Rural	Total
New South Wales	6335	1483	16078	23896
Victoria	4253	4221	27236	35710
Queensland	1293	619	24894	26806
Western Australia	4042	848	16912	21802
South Aust/NT	3851	4346	34333	42530
Tasmania	520	305	5098	5923
Totals	20294	11822	124551	156667

Source: Submission 264, p. 64

Australia Post's survey indicates that 2.4 per cent of all households do not receive any mail delivery to their property. However, these figures do not provide any insight into the number of households which would like a delivery service and currently do not receive one. This information is necessary when estimating the cost of altering services for those rural and remote users who do not currently receive an adequate service (see Section 5.7.2).

The Remote Air Services Subsidy Scheme

The Remote Air Services Subsidy Scheme (RASS) is a government program for providing remote communities with regular delivery of correspondence school material, medical supplies, general and passenger freight, and mail. RASS is funded by the Department of Transport and Communications, and has been under review since 1988. The RASS serves 224 'ports' over 21 routes. Services radiate from Katherine (Tennant Creek), Port Augusta, Mount Isa, Cairns, Wyndham/Kununurra, and Alice Springs. The subsidy for the contract period 1 October 1991 to 30 September 1992 was \$1.19 million.

Eligibility for service via the RASS scheme is totally independent of Australia Post (see Gerritsen 1991, p. 31). Once a port has been accepted under the RASS scheme, Australia Post will service it. However, Australia Post contributes only an amount equivalent to 13 times the Urban Base Rate (see Section 5.7.3), and the Department funds the remaining cost. Australia Post's contribution was 13 per cent of total RASS costs for the period 1 October 1991 to 30 September 1992.

5.7.2 Dependence on the letter service

Rural and remote users rely heavily on mail services and consequently consider both post office agencies and mail contractors as the 'life blood' of their communities. For example, Mr Due of Cheepie, Queensland, submitted that:

I cannot stress too strongly how the services of the Postal Agent and Mailrun contractor are interwoven with all other aspects of families living in sparsely populated areas, with everyone depending, to some degree, on everyone else. (Submission 63, p. 2)

Many rural and remote residents considered their current level of service adequate, even some who were receiving the minimum of one delivery a week. Others claimed that the present letter service did not meet their educational, business, health, and social needs to varying degrees.

There are a number of children in remote areas whose educational needs cannot be satisfied by central schools. Instead, education is provided at home in the form of correspondence lessons from the Schools of Distance Education. Box 5.4 describes the operations of the Longreach School of Distance Education as an example of how education materials are distributed through the letter service in the outback.

Many participants emphasised that a regular and reliable mail service was essential for their education requirements. Turnaround time has an effect on the progress of students since immediate feedback on a child's performance is essential to maintain interest in school work, and to establish continuity in studies. This point was stressed by the Isolated Children's Parents' Association (Winton Branch).

Out of the nine mail runs departing from the Winton Post Office, two are twice-weekly and seven are weekly. We have forty-two children on these runs who receive their correspondence lessons from the Longreach School of Distance Education. The average turnaround time of lessons to Longreach and return, assuming the lessons are marked within a day of receipt is: for three services [runs] one week; and for six services [runs] two weeks ... We would like to see all mail runs from Winton twice-weekly ... The current weekly service is inadequate for modern educational, commercial and social needs. (Submission 154, pp. 1-2,5)

According to the Isolated Children's Parents' Association (NT State Council Incorporated):

Often families with children on correspondence, and with no mail service, have a turnaround time of up to six weeks for educational materials. This is extremely detrimental to the students' progress ... No high cost runs should be withdrawn if children are on correspondence education. The importance of a weekly mail delivery for these students cannot be over stressed. (Submission 267, pp. 4-5)

And the Bourke Public School said:

Parents felt overwhelmingly that those children who had more than once weekly mail were benefiting more. Lesson material was delivered quickly and children's return lessons are received more quickly so that didactic conversation between teacher and students is more efficient and effective. (Submission 189, p. 1)

Box 5.4: Longreach School of Distance Education

Schools of the air help to meet the educational needs of children in the outback. In Queensland, for example, such schools operate from bases at Longreach, Charters Towers, Mt Isa, Charleville, Cairns, and Emerald.

There are approximately 200 families and 340 students using the Longreach School of Distance Education in an area twice the size of Victoria and Tasmania combined. Each year there are four major mailings from the School when all the term's basic material is sent out. As each week's work is completed, the students return material to the School of Distance Education for marking. Continual and prompt feed back from teachers to students is essential to maintain the educational value of the lessons which are conducted over two-way radio and supplemented by visits by teachers and short residential courses in Longreach.

Until recently the delivery of educational material throughout Queensland was by Australia Post. Delivery is now contracted by the Queensland Department of Education to a private firm, Security Express, after Australia Post failed to retain the contract after tendering. Security Express has a comprehensive network throughout Queensland, established to move documents on a daily basis to and from all banking branches throughout the State. This network is now also being used to deliver documents for others, including all mail of the Department of Education of which Distance Education material forms a relatively small segment. Because the network does not extend to some remote areas, material from the Schools of Distance Education is still being lodged with Australia Post for final delivery through its letter network.

It has been suggested that facsimile machines could be an alternative for the delivery of educational material, or could operate as an adjunct to the mail service. Rural and remote users do not perceive such machines as a substitute due to problems associated with poor line quality (that is, long telephone lines and older rural exchanges) which mean the facsimile service is slow and has a high rate of error, and power accessibility and quality.

The Isolated Children's Parents' Association (Federal Council) submitted that:

[Facsimile machines] are not an alternative to the ordinary mail for receiving and sending data. School of Distance Education correspondence lessons are quite bulky and involve many pages and packages containing education aids such as tapes. The papers are not suitable for transmission by Facsimile because of their bulk, except perhaps in special circumstances. (Submission 72, p. 2)

In addition, the Isolated Children's Parents' Association (Winton Branch) proposed that:

... from a Distance Education viewpoint, the use of a Facsimile machine would be totally impractical and very expensive due to the amount of paper involved in a correspondence lesson. In addition, the use of teaching aids such as audio and video tapes, textbooks etc. requires a regular postal service. (Submission 154, p. 4)

The Commission accepts that facsimile machines do not, at this stage at least, provide a satisfactory alternative to, for example, a twice weekly mail service for the delivery of education material so as to ensure prompt turnaround on lessons.

The importance of a regular and reliable mail service was also stressed by rural participants since the majority of mail is business mail and 'time is money'. The Richlands Progress Association submitted that:

... it is often overlooked that the man and woman on the land are engaged in a business and it is incidental to that business that they reside on the land. The first and foremost objective is to see that the business is run as effectively and efficiently as possible. Unless this objective is achieved they will fail and will no longer reside on the land ... The success of any business is the speed with which communication can be made and requests of the business operator be met. While it is true that such requests can be made by telephone, the compliance with such requests cannot frequently be so met as it often entails the forwarding of goods. (Submission 38, p. 3)

Remote area residents face still more difficult circumstances. The Commission learned on its visit to the Queensland and NSW outback that, for example, by the time accounts are received, they are often overdue. Penalty charges can result -- and these can rise if there are further delays in mailing payment. The inflexibility of government departments and businesses, which do not appreciate the delays involved, was mentioned as a major problem.

The timely delivery of mail is also considered important for health and social reasons. The supply of medicines to families without regular access to town was seen as critical to the survival of people in remote areas. Kate Schubert (Numery Station, Northern Territory) submitted that:

Health issues also need to be considered. Health services are being reduced, and people are dependent on the mail service for the delivery of medical supplies. People with chronic conditions cannot always go to town in order to have a script filled ...

The value of a letter service as a social function should not be overlooked - even though rural and remote Australia is finally being connected to a reasonable phone system, this is not always available to employees on stations or settlements. (Submission 17, pp. 1-2)

The overriding concern of remote area residents appears to be that any downgrading of mail services is part of a continuing reduction in a range of essential services which will render their communities unviable. As an example, Mr Brian Rutledge, Quilpie, Queensland, advertised the Commission's public meeting in Quilpie on 8 April 1992 by stating:

... [The Commission] called for submissions a couple of months ago and was surprised by the number of replies from the bush, hence [their] visit. No doubt Cheepie will close as a Post Office, but what about Eromanga or even Quilpie ... My interpretation of that is that they [Australia Post] want to shut down as many as possible. Please attend, especially mail contractors because I believe your jobs are on the line. (Submission 155, p. 1)

In similar vein, Mr Gourlay from rural Araluen, New South Wales, was concerned about the downgrading of official post offices to post office agencies:

... then the next step is ... [to] cut back the runs from 5 days to 3 days a week. Where does the continual downgrading stop? ... Are they going to cut out all the outlying areas and then say, "Right, we will prune those off so we lift our profitability a little bit further". How far do they want to lift their profitability? ... I think we have got to accept - everyone has got to accept that Australia Post is more than just a commercial enterprise; it is an essential service. (Initial Hearing Transcript, pp. 631,633)

The role and viability of contractors in rural and remote communities were raised repeatedly in the inquiry. The Richlands Progress Association submitted that:

When considering the obligations of Australia Post and the way it should meet its obligations consideration should be given to the ancillary benefits the remote rural occupier receives by a regular mail service effected by a contractor. It is, of course, common knowledge that the applicants for contracts to deliver mail in remote areas give a low figure when tendering, which, at first appearance, would appear so low as to be untenable. However, such overlooks the income the tenderer expects to receive by the ancillary service such as the delivery of parcels and goods which are effected by the contractor for remuneration. (Submission 38, pp. 2-3)

The tendering process for mail contracts was another concern of some participants. Bargaining power was seen to be weighted unfairly against contractors in tendering with Australia Post. However, the Commission did not receive sufficient evidence to establish whether Australia Post has an unfair advantage which may warrant a reappraisal of the current tendering system.

Section 3(c) of its terms of reference require the Commission to take into account whether there are places or groups in Australia that do not have adequate access to mail, courier, and parcel services and to consider options for servicing the needs of these places or groups. With respect to the frequency of mail services to rural and remote areas, the Commission concludes that the most critical requirement is to meet the needs of student's receiving distance education. To ensure a prompt turnaround on lessons, which is vital for a student's progress, a minimum of two services a week would seem to be required for those areas which already receive one roadside (or homestead) delivery a week. Hence, the preferred option might be that all households receiving educational material once a week get two roadside mail services a week. But attempts to isolate such households on a particular run would be impractical, and subject to continuous change. In any event, there are other reasons apart from education, namely business, health, and social needs, which may necessitate more frequent roadside delivery than once a week.

The Commission recommends that, where roadside delivery is now only once a week, it be increased to at least twice a week.

According to Australia Post the cost of upgrading to two services a week for those now receiving only one service would be at least \$3.7 million a year (or \$1162 a year for each of the 3000 households). The doubling of the service would result in a three fold increase in the present cost of providing mail delivery services. This arises because the full cost of providing the extra run would be attributable to the mail since contractors are unlikely to receive any increase in earnings from the carriage of other goods. The Commission notes that, if CSOs were explicitly defined and funded through direct budgetary payments, Australia Post would not have to bear the additional cost (see Section 5.8.4).

The above recommendation is consistent with Australia Post's drive, announced in March 1979, "to provide a minimum of twice weekly service to rural customers where it is practicable to do so" (AP 1980, p. 56). Before 1979 the standard service in remote areas was one delivery service a week. However, this was changed to two services a week following a visit by the Deputy Prime Minister and Minister responsible for Australia Post to outback areas (Initial Hearing Transcript, p. 25). Australia Post remains committed to the long-term objective of:

... a minimum of 2 deliveries per week throughout Australia as far as possible, providing that residents are reasonably accessible by road for most of the year, or are located on regular airline service routes. (AP 1992a, p. 6)

In its draft report the Commission left open what action might be taken for those households receiving no mail delivery services. As discussed above, Australia Post has recently identified 157 000 households (2.4 per cent of all households) in Australia which do not receive a delivery to their property. However, the information obtained by Australia Post does not provide details on the number of households that currently do not receive a delivery service but would like to do so. The Commission acknowledges that some people choose not to have a delivery service (or have a preference for once a week mail delivery), and sees no reason why the service these people receive should change. However, various submissions received by the Commission indicate that many people currently without a service, mainly in remote areas, are keen to have one. The Isolated Children's Parents' Association (Federal Council) said that preference should be given firstly to those households which do not currently receive any service (Submission 269, p. 4).

An example is Andrea James, via Alice Springs, Northern Territory, who does not have a mail delivery service. She lives 450 kilometres from town, has two children receiving correspondence material and "would be very grateful to receive only a weekly mail service" (Submission 268, p. 1). Other people included families from the properties of Yenloora and Wombula (Cunnamulla, Queensland): in one case access to the mail service involved a 98 kilometre, 18 gate, 2.5 hour

round trip to a 'nearby' homestead once a week. According to the Aboriginal and Torres Strait Islander Commission (ATSIC), 60 per cent of discrete Aboriginal communities (such as outstations and homelands) in rural and remote areas do not receive a postal delivery service. About 30 per cent of the total Aboriginal population in rural and remote areas live in these communities (Submission 303, p. 2).

Unlike those users receiving one delivery service, households which are not receiving any delivery service but want one are not easily identifiable. Australia Post claimed that the cost of providing a twice weekly service for all rural and remote householders not receiving any delivery service would be approximately \$80-110 million.

The estimate by Australia Post includes many households which do not want or need a service because of other delivery arrangements they have in place such as poste restante counter delivery (where mail is picked up over the counter). When adjustment for these households is made, the Commission considers that the costs involved in providing two delivery services, to the other households currently not receiving delivery services, would be substantially less than that claimed by Australia Post.

Furthermore, for some of these other households, the cost may be judged to be prohibitive. In some instances, the only practical option may be to provide once a week delivery. In other instances, even once a week may be impractical. Because of the lack of information on the number of households (and on the costs of servicing them) that would be involved, and the limited resources available to the Commission to pursue this matter during this inquiry, the Commission considers that it is not able to make any policy recommendations. Rather, it proposes that the Commonwealth Government, in consultation with Australia Post, undertake a full and urgent assessment of households receiving no roadside delivery service. That assessment could begin with the data on the 157 000 households surveyed by Australia Post. It said:

... the data from the survey is very complex. It covers many different situations, even from the same area, and there's a lot of work to be done in trying to nail down exactly what the data means in terms of cost in a specific sense ... there's a much more detailed process that we need to do to come to grips with the data and also with what it means in terms of genuine need ... (Draft Report Hearing Transcript, p. 355)

The Commission recommends that the Commonwealth Government, in consultation with Australia Post, undertake a full and urgent assessment of the need for mail delivery services for those households not presently receiving a roadside delivery service.

Once the households have been identified, and the costs of servicing them determined, the Government would then need to decide if the provision of delivery services to such households was necessary in order to fulfil its social objectives for letter services.

Apart from those households receiving no roadside delivery services, there are a number of households which do not receive a street delivery service in some small rural and remote towns where there are less than 150 delivery points within a radius of 1.2 kilometres of the official post office or post office agency. In such cases, Australia Post either provides residents with over-the-counter delivery during post office hours (*poste restante*) or delivery through private boxes which also provide access to mail after hours. At present, the charge for private mail boxes where there is no street delivery is substantially less (as low as \$10 a year for a small box) compared with the charge applying in urban areas (\$30 a year) where boxes can be used instead of available street delivery.

Nevertheless, for those people who cannot collect mail over the counter during post office hours, the Commission considers that the imposition of a charge is not consistent with the obligation upon Australia Post to provide access to a letter service on an equitable basis (compared with urban households). This suggests that private mail boxes should be supplied free of charge where there is no street delivery and mail cannot be collected during post office hours.

But, if there were no charge in such cases, Australia Post could face the prospect of providing all households in such towns with a private box, even though over the counter delivery may not be inconvenient for many of them. In these circumstances, Australia Post should be able to impose a charge for private boxes in order to avoid the expense of having to supply a box when it is not really necessary. The Commission concludes that the current reduced charge for private mail boxes, for households not receiving a street delivery, is appropriate even though it results in some people who genuinely cannot collect their mail over the counter having to pay a small fee.

5.7.3 Australia Post's operational guidelines: the Urban Base Rate

While the Government has placed the obligation on Australia Post to provide a letter service which is reasonably accessible on an equitable basis to all people in Australia, it has not provided explicit guidance on how this should be achieved. In practice Australia Post determines what constitutes a "reasonable" service, and uses a measure known as the Urban Base Rate (UBR) to establish the frequency of services in rural and remote areas. The UBR is the average annual cost for each delivery point (household or business) of providing street mail delivery in the cities and towns of Australia, five days a week. Since the UBR is the cost applicable to the vast majority of the population, Australia Post believes it provides a fair basis to judge "equitable" access. The UBR is examined below in terms of whether the community's needs are being satisfied at present, and whether such a measure can be used to establish reasonable access.

The frequency of delivery in rural and remote areas is decided by Australia Post and depends on the cost of delivery (that is, of the final delivery phase) to each destination compared with the UBR. Revised annually, the UBR is currently \$93 a year compared with \$80 in 1989 and \$88 in 1991.

The following guidelines have been adopted by Australia Post to determine an appropriate frequency of delivery in non-urban areas:

- delivery points that can be serviced for a cost less than twice the UBR should get 5 deliveries a week;
- 3 deliveries a week for points costing between 2 and 3 times the UBR;
- 2 deliveries a week from 3 to 8 times the UBR;
- 1 delivery a week from 8 to 13 times the UBR; and
- no delivery if the cost exceeds 13 times the UBR.

If delivery frequency is less than 3 times a week, field managers can take into account a number of special circumstances to maintain or support a higher frequency. These include:

- children undertaking correspondence lessons;
- the service being the regular means of receiving medical supplies;
- telephone or equivalent services not being available; and
- roads being untrafficable for part of the year. (Submission 82, p. 45)

Local managers can load the accepted scale by 50 per cent. For example, if children rely on correspondence lessons, the annual cost of delivery to that household can be up to 19.5 times the UBR (\$1813) before it is stopped completely. If a combination of the above circumstances exists, and the 50 per cent loading has been applied by the local manager, but a roadside service is still not permitted, the State Manager may approve a loading of the scale by 100 per cent. Hence, costs of up to 26 UBR are permissible in exceptional circumstances.

Frequency of delivery versus costs

Estimates of the actual delivery costs (as multiples of the UBR) for the various service frequencies and for each State are compared with the appropriate UBR guideline in Table 5.4. The estimates summarise the costs of some 3600 delivery services provided by mail contractors to 360 000 households throughout Australia.

The table is best explained by examples.

- For households in New South Wales receiving two deliveries a week, the average annual cost of delivery is 3.8 times the UBR. That average cost is within the guideline range adopted by Australia Post of 3-8 UBR.
- The average cost of delivery to Western Australian households that qualify for only one service a week is 5.7 UBR, well below the guideline range of 8-13 UBR.

Table 5.4: **Cost of delivery (multiples of UBR) by frequency of delivery to rural and remote areas - guidelines compared with practice**

<i>Frequency (deliveries a week)</i>	<i>5</i>	<i>3</i>	<i>2</i>	<i>1</i>	<i>State average</i>
<i>UBR guideline</i>	<i>up to 2</i>	<i>2-3</i>	<i>3-8</i>	<i>8-13</i>	
NSW	1.0	1.9	13.8	10.4	1.3
Victoria	1.0	1.7	2.6	7.3	1.1
Queensland	0.7	1.3	3.4	7.5	1.2
Western Australia	0.7	1.5	2.1	5.7	1.6
South Australia ^a	1.5	3.3	2.5	5.9	2.1
Tasmania	0.8	1.7	1.0	-	0.9
Australia	0.9	1.7	3.1	7.3	1.2

a Includes details for Northern Territory.

Source: IC estimates based on data provided by Australia Post

The two States with unusual results are Western Australia and South Australia. In Western Australia actual delivery costs are consistently below the guidelines, a matter which would seem to warrant examination by Australia Post. The only explanation the Commission has been able to obtain from Australia Post is that in Western Australia there is an unusually high proportion of 'indefinite term' contracts which have no provision for price adjustment and "most contractors are reluctant to terminate their agreements and risk losing the work to obtain a higher price" (Submission 264, p. 55). For South Australia, services of three deliveries a week cost 3.3 times the UBR, which is high relative to the other States and in excess of the guideline. However, disaggregated data suggest that those deliveries included a high incidence of transporting mail between towns in addition to final delivery.

Leaving aside those unusual results, two points emerge from the data which are pertinent to assessing if rural and remote area residents get reasonable access, on an equitable basis, to the letter service. First, there is considerable variation between States in the costs of implementing the guidelines common to all. The Commission has not received a satisfactory explanation from Australia Post for these discrepancies.

Second, the costs of delivery tend on average to lie below or on the low side of the guidelines. The following discussion shows that it is the UBR mechanism which is responsible for this tendency.

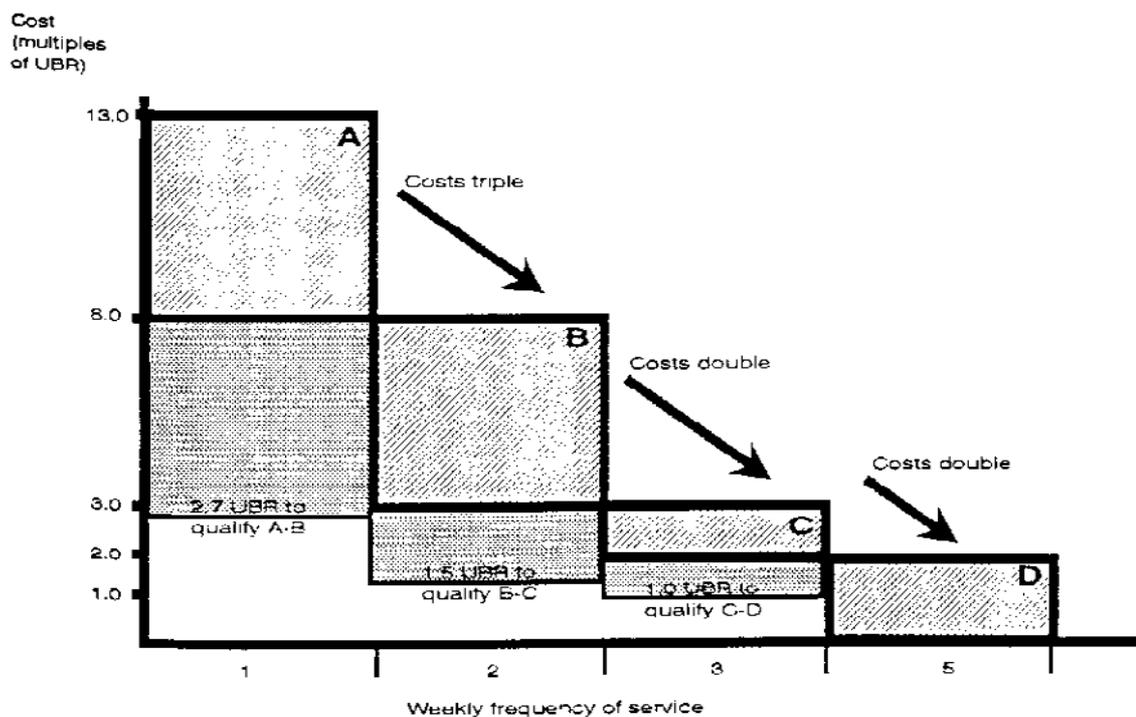
The etched areas of Figure 5.3 show the guideline cost ranges for services of different frequencies. For each frequency of service, there are households where the cost of provision is well below the bottom of the guideline range for that service frequency, denoted by the shaded areas. The cost of provision to some households is above the etched area since managers can load the accepted scale by 50 per cent, although the proportion of people in this category is minimal in comparison with the area below. This explains why, for example, the Australian average cost is only 6.8 UBR for those getting only one service a week.

The explanation lies in the effect on costs of moving from one to two services a week, from two to three services, and so on. Australia Post has advised the Commission that delivery costs triple in upgrading a service from once a week to twice a week; this is depicted in Figure 5.3. This is so because other delivery services provided by mail contractors would increase little, if at all, if mail deliveries became more frequent, so that virtually all the costs of the second delivery fall on the postal contract. For illustrative purposes, it is assumed that delivery costs would double for those runs where frequency is increased from two to three services a week, and also would double in moving from three to five services a week. The consequences are as follows:

- costs for those households on a particular run getting only one service a week must fall as low as 2.7 UBR in order to qualify for two services a week when the costs would triple to 8.0 UBR, just within the guideline;
- costs for those getting only two services a week must fall as low as 1.5 UBR in order to qualify for three services a week when costs would double to 3 UBR;
- costs for those getting three services a week must fall as low as 1.0 UBR in order to qualify for five services a week.

Thus, the nature of the guidelines is such that it would be unusual for any run to qualify for a more frequent service.

Figure 5.3: **Bias in the frequency/cost guidelines**



Any downgrading of service would appear to give somewhat perverse results. For example, suppose a mail run three times a week incurs costs of 2.8 UBR but a decline in the population served leads to a rise in costs to 3.2 UBR. If that is assessed as a permanent change in costs to a level which exceeds the guideline range for three services a week, Australia Post may downgrade the service to twice weekly. The annual cost of the reduced service could conceivably halve to 1.6 UBR, well below the lower bound for twice weekly service.

Thus, even if the guidelines were implemented fairly by Australia Post, the way they are structured would seem to be biased towards less frequent mail services for rural and remote area residents. In particular, the stringent cost requirement (2.7 UBR or less) before frequency of service would be upgraded from once a week to twice a week is likely to make that a rare event. This analysis supports the Commission's conclusion that more 'equitable' access to the letter service would result if those presently receiving one delivery a week were to receive two deliveries a week (see Section 5.7.2). The Commission has insufficient information on which to make a recommendation any more specific than the following.

The Commission recommends that the Commonwealth Government, in consultation with Australia Post, consider ways of improving the delivery frequency/cost guidelines for mail services in rural and remote areas.

One way to improve the guidelines, which the Commission proposes for further examination, would be to broaden the UBR ratios for determining the frequency of delivery and to make the ratios overlapping.

The Commission has examined Australia Post's contract data. Based on this examination it would seem that there are approximately 20 000 households presently under-serviced according to the guidelines. These households lie below the shaded areas of Figure 5.3 and so should be upgraded even if there is a tripling of costs in moving from one service to two, and a doubling for other service upgrades. The cost of upgrading all of these households to the next level of service is estimated at \$2.9 million. This estimate has been calculated assuming that all costs will either triple or double as the frequency of service increases. The Commission acknowledges that in some cases cost increases may be a higher multiple and, hence, could prohibit an increase in frequency.

Those households on the margin of moving up or down a service level could be more appropriately treated by specifying broader guidelines. For example, the guidelines could be extended so that:

- households which can be serviced for a cost less than 3 UBR (currently 2 UBR) would get five deliveries a week; and

-
- households which cost between 2 and 4 times UBR (currently between 2 and 3 UBR) would get three deliveries a week.

The Commission estimates the annual cost of moving to these illustrative broader guidelines at \$2.5 million and \$0.9 million respectively.

Even then, some households would still be serviced at a cost below the guidelines but would not qualify for more frequent service. For example, those getting three services a week at an annual cost of 1.7 UBR (below the guideline of 2 - 3 UBR) would not qualify for five services a week because the cost would double to 3.4 UBR (above the extended limit of 3 UBR). Thus, even broader guidelines with more overlapping than in these illustrative examples may be appropriate.

5.7.4 Other considerations in determining reasonable access

The UBR measure is seen by some participants as unacceptable because they believe the money going towards infrastructure and cost reduction in city areas effectively reduces the UBR. Therefore, since infrastructure in remote areas is not improving at the same rate (if at all), the viability of frequent delivery is declining and services are being reduced. According to the Narrawa Progress Association:

... one of the great fears of country people and [people of] Taralga and Crookwell in particular is that, as the urban base rate in real terms drops, country services will be decimated even more. (Initial Hearing Transcript, p. 570)

The Commission understands such concerns but notes that the 16 per cent increase in the UBR (to \$93 per annum) between 1989 and 1992 implies only a minor decline in real terms which is not likely to have disadvantaged country users.

A further matter of concern in remote areas is the point of delivery. Changing from homestead to roadside (or property boundary) delivery leads to quite a reduction in the level of service. For example, according to a mail contractor in the Wanaaring (NSW) area, a change from homestead delivery to roadside delivery would mean that people would have to travel round-trip distances of between 14 and 74 kilometres to collect their mail (Submission 93, p. 1).

Australia Post is given the task of meeting obligations which are vaguely specified. The legislated obligations imposed on Australia Post do not define either the service standard or the degree of accessibility required. It must use considerable judgement in arriving at clear and simple operational procedures in order to meet its obligations. It uses the UBR measure as a guide to an acceptable trade-off between frequency and cost of services. A major deficiency with the mechanism is that it appears to give Australia Post an inordinate degree of freedom to determine the standard of service provided, and the process is not sufficiently open to allow users to challenge the decisions of Australia Post officials that implement the guidelines. This problem is exacerbated

due to the overly vague specification by the Government of the obligations it has placed on Australia Post. This problem was recognised by the Country Women's Association in its response to the draft report.

This is an area that definitely needs specific rulings. One of the problems with legislation is that the end result is not always that which the government of the day intended. It is the grey area known as delegated and sub-delegated legislation. Once an Act is passed delegated legislation allows public officials to determine how an Act shall apply to a specific department. That interpretation is not necessarily in keeping with Parliament's intent and, unless challenged when presented, becomes that department's interpretation of the law. (Submission 256, p. 4)

An alternative method for establishing service standards has recently been proposed in the United Kingdom. Rather than service standards being determined by the UK Post Office, in future they will be set by the Secretary of State for Trade and Industry, and be subject to scrutiny by the proposed independent regulator (Lilley 1992, p. 6).

5.8 Funding options

Australia Post's community service obligations are currently funded by the combined use of two methods: cross-subsidisation arising from the uniform charge for standard letters (which Australia Post is able to apply because of its reserved services protection) and indirect funding whereby the Government, as owner, is willing to accept a lower rate of return on the assets of Australia Post. This section discusses the relative merits of these funding options compared with cross-subsidisation through the use of a trust fund (similar to that used for telecommunications), and with direct funding through budgetary payments either to consumers targeted for concessional treatment or to Australia Post.

5.8.1 Cross-subsidisation

Cross-subsidisation involves some users paying less for a service than the cost of its provision; others pay more. By paying more, these users contribute the revenue required to offset losses where the charge is less than costs. Thus, cross-subsidisation is equivalent to imposing a tax on some users and subsidising others.

Rather than raise the required revenue in this way, an alternative would be to raise it through general taxes and then make a direct budgetary payment to Australia Post; this alternative is discussed in Section 5.8.4. If raised through general taxes, the burden imposed would be spread over all taxpayers and not just over the users of lower-cost letter services.

In raising a given amount of revenue, this means that the price distortions will be greater if that revenue were raised by imposing, through cross-subsidisation, a tax on a much smaller group of people. Such price distortions will incur greater efficiency costs compared with the raising of revenue through general taxes and should be avoided (see Section 4.2). Furthermore, the costs incurred by Australia Post in meeting its obligations are not made explicit with cross-subsidisation, and this is another reason why cross-subsidisation should not be used for funding CSOs.

However, cross-subsidisation is currently used to fund CSOs (known as Universal Service Obligations [USOs]) in telecommunications. Under the *Telecommunications Act 1991*, all carriers are required to contribute to a Trust Fund on the basis of their share of timed traffic. However, AOTC is the only designated provider of services to meet the Government social objective for telecommunications; it is therefore the only carrier currently entitled to receive payments from the Fund.⁵

The Fund is administered by the Department of Transport and Communications. But the size of contributions to, and payments from, the Fund are determined by AUSTEL. At the beginning of the financial year all carriers nominate what they believe will be the net-cost (loss making) areas. After taking these nominations into account, AUSTEL determines the net-cost areas.

At the end of the year AOTC is eligible to apply for a community service Fund credit if the avoidable costs of fulfilling community service obligations exceed revenues forgone so that there are net costs.⁶ Provision is made under the *Telecommunication Act 1991* to ensure that AUSTEL reimbursements do not exceed Fund deposits by all carriers.

This mechanism provides an avenue for costs to be identified and accounted for in a transparent way. But there would be two major problems in using this method for offsetting the costs of meeting the Government's social objectives for letter services. Firstly, it involves cross-subsidies between users; that is, users of timed-traffic services are being taxed to raise the funds required to offset the costs of providing higher cost services within the telecommunications network. Thus, the problem of cross-subsidisation which arises under a uniform charge remains. Secondly, difficulties would exist in finding a suitable base or activity (similar to timed traffic) within postal services on which to impose a tax.

5.8.2 Indirect funding: accepting a lower rate of return

Indirect funding involves a notional payment to Australia Post for the costs incurred in meeting its obligations. The payment is in the form of an adjustment to the rate of return earned by Australia Post on its assets, based on an estimate of the costs of its obligations. For example, if the Government were not willing to accept a lower rate of return, the uniform charge for standard

⁵ The Government's social objective for telecommunications is to ensure that standard telephone services and payphones are reasonably accessible to all Australians on an equitable basis, wherever they reside or carry out business (*Telecommunications Act 1991*, s.288, p. 133).

⁶ The credit allowance is the amount by which total operating costs incurred by the carrier during the financial year exceed what could reasonably be expected if the carrier had not supplied community services, with allowances for the opportunity cost of capital and depreciation.

letters would be higher than 45 cents. Given the estimated cost of meeting its obligations of \$60 million in 1990-91, the standard charge would have to increase to approximately 47 cents for Australia Post to achieve the same rate of return as that adjusted for the cost of meeting its obligations.⁷

The adjusted rate of return for Australia Post in 1990-91 based on the estimate of \$60 million was 9.8 per cent, compared with 6.9 per cent prior to the adjustment.⁸ This means, therefore, that the rate of return the Government received on its assets was 6.9 per cent and, by accepting this return, the Government provided lower-priced access to the letter service as a means of meeting its social objectives.

As long as the estimate of the cost of meeting its obligations is accurate, the adjusted rate of return can be used to compare the performance of Australia Post with that of other enterprises. The adjustment prevents Australia Post from being disadvantaged because of the higher asset base required to meet its obligations. To this extent, the indirect funding of CSOs with respect to assessing the performance of Australia Post is the same as if the Government were to make a direct budgetary payment to Australia Post.

However, there are a number of important differences between the indirect and direct funding approaches. Firstly, the cash flow position for Australia Post could differ under indirect funding, depending on cash flow timing. And because total revenue would be lower for indirect funding, the dividend payable to the Government would be less. Secondly, the extent of public scrutiny of the cost estimate used to adjust the rate of return would probably be less, compared with the scrutiny of the estimate that would apply during the budgetary process of allocating funds to make a direct payment. And finally, the indirect funding approach would remove the possible need to raise additional tax revenue to make a direct budgetary payment to Australia Post. These considerations are discussed further in Section 5.8.4.

5.8.3 Direct budgetary payments to eligible consumers

The Government could decide to meet its social objectives by making a direct budgetary payment to the consumers of the CSO service (consumer subsidy). This would require the Government to specify the basis of the subsidy unambiguously. In practical terms, the effect of the payment would be to reduce the cost to recipients of higher-priced services provided commercially. This would allow Australia Post to operate commercially and would leave the consumer free to decide how to spend that money.

⁷ This increase is calculated by dividing the \$60 million cost estimate by the total number of standard articles carried in 1990-91 of 2.9 billion (AP 1992d).

⁸ In its 1990-91 Annual Report Australia Post reported an adjusted rate of return of 10.7 per cent. This was based on an estimate of \$80 million for the cost of meeting its CSOs. Since then Australia Post has adopted the avoidable cost approach for estimating the cost of its CSOs. The use of this method resulted in the \$80 million estimate being replaced with an estimate of \$60 million.

Some remote area residents were against direct subsidies since they were considered to be a welfare payment. For example, Kate Schubert of Numery Station, Northern Territory, said:

To suggest that the Government compensates individual users directly for higher costs involved, again reduces an essential service to a welfare payment. (Submission 17, p. 2)

These residents believe they are entitled to a service and, so long as the service is provided through cross-subsidisation, they believe they are not receiving any 'hand-outs'.

A consumer subsidy would be a feasible and preferred option provided it were possible to identify easily the group for which the subsidy was intended and the amount required. In the case of letter services, defining who should receive any subsidy would be difficult -- especially since CSOs are not well defined at present, the number of people using the letter service is large, and the extent to which they rely on the service varies considerably.

The Commission concludes that whilst, in principle, direct payments to consumers is the preferred approach, it is not a feasible option because of the prohibitive administrative costs -- and inevitable arbitrariness -- that would be associated with defining and paying the appropriate consumer subsidy. The option is not considered further in this report.

5.8.4 Direct budgetary payments to Australia Post

Direct funding involves offsetting the costs incurred by Australia Post in meeting its obligations by making a budgetary payment to it. In the context of the objective of providing reasonable access at a uniform charge, direct funding would have involved a payment of \$60 million in 1990-91 to Australia Post -- the estimated cost of meeting its obligations. This payment would have enabled Australia Post to retain the same uniform charge as under indirect funding (see Section 5.8.2).

However, because the payment would have been equivalent to an additional \$60 million revenue, Australia Post would have been liable to pay more income tax and expected to pay a higher dividend to the Government -- perhaps totalling \$60 million; that is, a full offset. In this case the net financial result would have been equivalent to the Government accepting the same lower rate of return as for indirect funding.

But there are major differences between the two funding approaches. This lies in the public scrutiny that would apply to the estimated cost of Australia Post in meeting its obligations. Under direct funding, the cost estimate would be subject to examination as part of the Government's budgetary process. This would put pressure on the Government to specify clearly its social objectives -- so that both the reason for the payment and what Australia Post had to do to meet its obligations, were clear. And it would put the spotlight on the accuracy of Australia Post's cost estimate.

Based on current practice, there is no guarantee that the same disciplines would apply with indirect funding. There has been, for example, no public examination of the estimate of \$60 million for the costs incurred by Australia Post in meeting its obligations in 1990-91. Nor has there been any public scrutiny of Australia Post's policy and strategies that are employed in meeting those obligations.

The cost of the obligations should be calculated according to the avoidable cost methodology where costs are determined relative to the least-cost method of providing services. If not based on 'least cost', an incentive would be provided for Australia Post to overestimate the cost of meeting its obligations. This could allow the rate of return to increase whilst, for example, still using older equipment or inefficient work practices to fulfil its obligations.

By funding CSOs on the basis of the 'least cost' method of service provision, the Government could put pressure on Australia Post to reduce costs. To take an example from another area, the New South Wales Government only compensates the State Transit Authority (STA) for approximately 75 per cent of costs incurred in meeting its CSOs because of remaining inefficiencies in the operations of the enterprise (Brew 1991). The 75 per cent level has been established on the basis of world best practice as representing the least-cost method of providing services. This approach has had the effect of forcing STA to reduce its costs.

Direct budgetary funding ensures the costs of CSOs are fully transparent through the budgetary process, and eliminates any price distortions associated with cross-subsidisation. However, in the short run funding on the basis of 'least cost' may result in Australia Post resorting to cross-subsidisation in order to cover losses if its cost structures are in fact higher. In order to ease Australia Post through the transitional period where any remaining efficiencies are eliminated, a phasing mechanism may be necessary whereby CSO funding is reduced annually towards 'least cost' methods of service provision.

As discussed in Section 5.8.1, the current estimate of \$60 million does not reveal the full cost incurred by Australia Post in meeting its CSOs because part of the cost is being met by cross-subsidisation. If the cross-subsidisation were removed, the direct payment to Australia Post could be significantly higher than \$60 million. But the amount of revenue required to meet the costs of Australia Post's obligations would be the same regardless of the method by which it were raised. However, for reasons also discussed in Section 5.8.1, direct funding (in the absence of the uniform charge) would make explicit the full cost of Australia Post's obligations. In addition, the price distortions and efficiency costs of raising the required revenue through general taxes would be less than through cross-subsidisation.

The case for directly funding Australia Post for the provision of CSOs was challenged by various participants. The uncertainty associated with this form of funding was identified by both the Communication Workers' Union (Submission 277, p. 13), and Australia Post. Australia Post asserted that:

... as different pressures come to bear on governments, available funds would diminish and lead inevitably to a progressive reduction in services to rural and remote areas. (Submission 264, p. 35)

The extent to which direct funding could be used to cover the full cost to Australia Post of meeting its obligations is, in any case, influenced by the Government's social objective of having a letter service provided within Australia at a uniform charge for standard letters. This is because some of the costs are being funded through cross-subsidisation arising from the uniform charge. If, for example, the uniform charge were set at 35 cents instead of 45 cents, more of the cost of funding the community service obligations would be met through direct budgetary payments rather than by cross-subsidisation between users. The adverse effects of the greater price distortions associated with cross-subsidies would then be reduced (see Section 5.8.1).

The Commission acknowledges that, as with direct budgetary funding for other purposes, changes in the level of funding to Australia Post could occur and result in a reduction in services if the Government's social objectives were to change. However, the same could happen under the current system if the Government were to change its social objectives for the letter service, or force Australia Post to cut costs, which could result in a reduction in services or service quality. There is also the evidence that in fulfilling its commercial charter Australia Post has reduced services. Thus, the Commission considers that the risk of a reduction in services with direct budgetary funding would be no greater than at present.

Australia Post predicted that direct budgetary payments would result in a "ceaseless round of haggling" between it and the Government over the nature and size of the costs incurred in meeting the Government's social objectives. This was seen to be a costly and time consuming process (Submission 264, p. 35). And, as already noted, Australia Post considered that the funds received would be insufficient to compensate it for the costs incurred in fulfilling its CSOs. By contrast, the Department of Transport and Communications saw "considerable risk of cost escalations and loss of control if CSO services were to be subject to reimbursement by Government" (Submission 285, p. 14). Furthermore, the Department said:

... where a GBE has a de facto monopoly and the particular [CSO] requirements are embedded in its core business, such arrangements may create inefficient and perverse incentives for management in respect of cost allocation and cost minimisation. (Submission 285, p. 14)

The Commission acknowledges that direct funding would involve negotiations between Australia Post and the Government. That is as it should be. The negotiation process would involve the estimate being subject to scrutiny through the budgetary process, while allowing for public discussion on the associated costs and benefits.

The Commission recommends that the costs incurred by Australia Post in meeting the community service obligations under its Act be funded by direct budgetary payments.

5.9 Summary

Currently, confusion surrounds the coverage of Australia Post's community service obligations. But these obligations are specified in Section 27 of the *Australian Postal Corporation Act 1989* and relate only to the letter service. They do not include services such as registered publications and the replacement service, Print Post. The pricing of these services should be based on commercial considerations. Similarly, the heritage requirements on Australia Post do not constitute a community service obligation unless the requirements are greater than those placed on comparable private sector businesses. The Commission has not been able to establish if this is so.

The Commission has concluded that, in order to meet the educational, business, health, and social needs of people living in rural and remote areas, a minimum of two roadside mail services a week should be provided for those currently receiving one service. Before any policy recommendation can be made regarding a practical delivery service for people not receiving any delivery service at present, the Commission recommends that the Commonwealth Government, in consultation with Australia Post, undertake a full and urgent assessment of their needs. Furthermore the current frequency/cost guidelines used by Australia Post in determining delivery to rural and remote areas, appear to be biased towards reducing the frequency of services. To achieve greater equity (in access), the Commission recommends that the Government, in consultation with Australia Post, consider ways of improving the guidelines.

At present, the costs incurred by Australia Post in meeting its obligations are being met through cross-subsidisation and indirect funding, whereby the Government accepts a lower rate of return on the assets of Australia Post. The method of funding clearly preferred by the Commission is for the Government to make direct budgetary payments to Australia Post to cover these costs. Under this method greater pressure would be placed on the Government to make explicit its social objectives and the obligations it has placed on Australia Post, and the estimated costs incurred by Australia Post would be subject to public examination through the budgetary process.

6 INTERNATIONAL MAIL

Australia Post has an exclusive right to carry letters between Australia and places outside Australia. Australia receives more international mail than it sends, particularly from the United Kingdom and the United States. Australia Post receives inadequate compensation from the dispatching countries for delivering that mail. The practice of recouping the loss by driving up the rates on outgoing international mail should cease. So long as Australia is party to an international agreement which prevents it from receiving adequate compensation for incoming mail, the Commonwealth Government should treat international mail in the same way as other community service obligations. The loss should be funded by direct budgetary payment to Australia Post. Australia Post should continue its links with other postal administrations, but its exclusive right to carry international mail should be withdrawn. Private operators should be allowed to handle international mail, including its delivery in Australia.

6.1 Introduction

In many respects, international mail differs from domestic mail. Handling procedures, customs clearance, and the reliance on others to deliver (to addresses abroad) are the principal differences. International mail has a key role in furthering economic, social, and cultural links between nations. Postal administrations throughout the world depend on each other to ensure that international mail reaches its destination. The international network ensures that all individuals and businesses can communicate by letter, almost anywhere in the world.

The operation of the Universal Postal Union (UPU) assists the exchange of mail between countries (see Box 6.1). The total volume of international mail is equivalent to about twice Australia's domestic volume. Mail leaving Australia accounts for about 1« per cent of the total volume of international mail.

6.2 International mail and Australia's obligations

As a signatory to the UPU Convention, Australia has certain obligations to handle international mail (see Box 6.1). Essentially, they are to deliver all international mail in the same way as domestic mail. In practice, the obligations are met by the Commonwealth Government requiring Australia Post to provide an international letter service (under Section 27 of the Act). It has also given Australia Post the exclusive right (under Section 29) to provide the inter-connection between other postal administrations and Australian addresses.

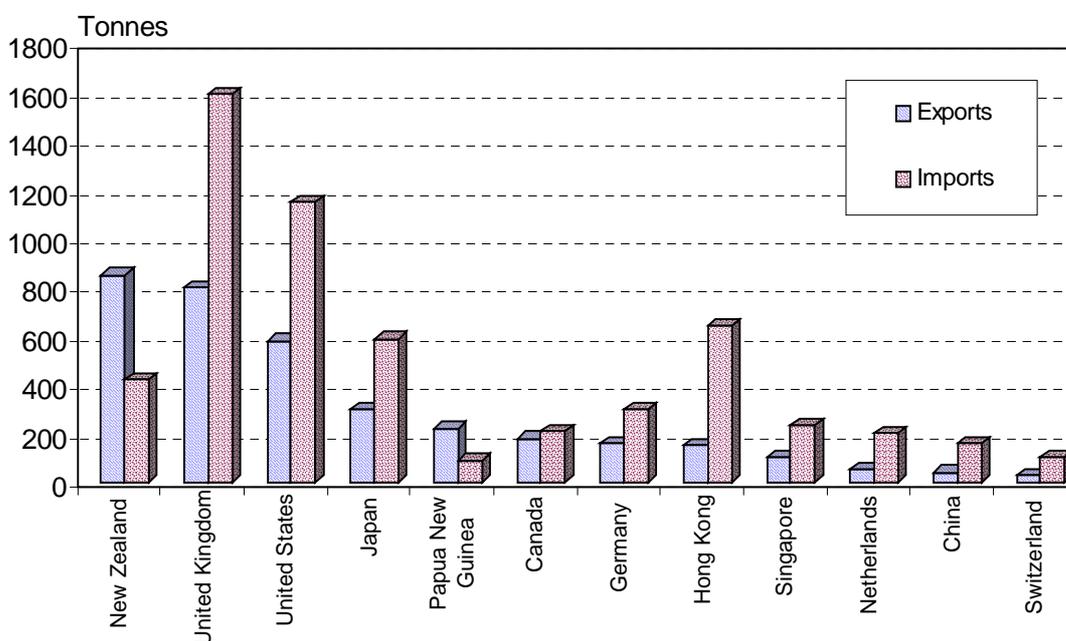
Section 29 of the Act states that:

- (1) Subject to Section 30 (concerning exceptions to reserved services), Australia Post has the exclusive right to carry letters within Australia and between Australia and places outside Australia.
- (2) The reservation of services to Australia Post under subsection (1) extends to the collection and delivery of letters within, but not outside, Australia, and applies in relation to letters irrespective of whether they originated within or outside Australia.

A carrier other than Australia Post is allowed to move letters if that carrier operates within Section 30(1)(f) or (j) of the Act. That is, if the charge or fee levied is at least ten times the rate of postage for the carriage by air of a standard postal article weighing 20 grams, or if the carriage of a letter is on behalf of Australia Post under agreement.

Australia is predominantly a net importer of international mail. Figure 2.6 shows incoming and outgoing volumes over the past six years. The imbalance appears to have declined during the 1980s until 1986-87 but has changed little since: the volume of outgoing mail remains about 25 per cent above the volume of incoming mail.

Figure 6.1: **Australia's international mail: sources and destinations a, 1990-91**



a These are airmail figures only and include letters, postcards, magazines, small packets, parcels, and literature for the blind.
 Source: Submission 82, Supplement 2, p. 12

Figure 6.1 details the major destinations and sources of Australia's international mail. By weight, these countries accounted for 73 per cent of Australia's exports and 71 per cent of its imports of international mail. This mail consists principally of letters, printed matter, and parcels.

Australia Post said at the Initial Hearing in Melbourne :

We have about a two to one imbalance with the United States and we have something nearing that with our exchanges with Great Britain and probably a small block in Europe ... Canada is a growing trading partner postally in imbalance terms. We are, of course, heavily in debt to some other countries with whom we trade, notably in the reverse direction, New Zealand. We send about twice as much to New Zealand as we get back and we do likewise in the case of New Guinea. (Initial Hearing Transcript, p. 105)

6.3 The Universal Postal Union and terminal dues

The UPU was founded in 1874 in Berne, Switzerland, and has virtually universal membership. Australia joined the UPU in 1891. The UPU operates under the auspices of the United Nations and participation in it involves international treaty commitments. These are summarised in Box 6.1.

Box 6.1: The role and power of the UPU

The aims of the UPU include the development of communication between peoples through the efficient operation of postal services. To this end, its members form a single postal territory, agreeing both to deliver letters originating in other member countries and to guarantee the freedom of transit for that correspondence. Member countries must deliver all international items in the same way they deliver their domestic mail. When a member country fails to observe freedom of transit, postal administrations of other member countries may discontinue their postal services with that country.

The UPU seeks to lower the costs of delivering international mail by establishing rules for the safe passage of mail between countries. It has helped establish and maintain an international network by integrating the postal systems of different countries, and by transferring the responsibility of delivery to the organisations it deems to be best suited – the domestic postal authorities.

Until recently, the Commonwealth Government has had limited involvement in UPU matters, leaving the task of negotiation and representation to Australia Post. There are two main strands to the UPU's work: the development of policies and agreements dealing with mutual recognition and compensation, and the technical agreements regarding the methods and standards of delivering mail. Since much of the work of the UPU is concerned with technical matters, Australia Post has been, and remains, actively involved in the UPU. However, because of the international treaty

status of the UPU, the Commonwealth Government also needs to be involved. It is the Government that is responsible for Australia's international obligations, not Australia Post. Direct representation by the Commonwealth Government is through the Department of Transport and Communications (DOTAC). The Department is now taking an active interest in UPU matters:

... not only in terms of attending as much of anything which is of relevance to reform of the UPU, but also in making sure that we talk closely to Australia Post. ... They too see a need for reform of the UPU. So we have been working very closely with them, both in terms of briefing and in terms of attending meetings and [DOTAC] will continue to do so. (Draft Report Hearing Transcript, p. 381)

6.3.1 Terminal dues

Between 1874 and 1969 each country retained the postage it collected on outgoing international mail so that the foreign country to which the mail was sent obtained no payment. This approach was based on the supposition that a letter normally generated a reply and, hence, the need for a complex set of accounts was not warranted. Certain countries, however, found themselves at a considerable disadvantage under this rule, because of substantial imbalances between their incoming and outgoing mail. Since 1969, the UPU has authorised payment to be made to countries suffering a letter-mail imbalance. This system of settlement involves payments known as terminal dues.

Article 73 of the UPU Convention states that, when a postal authority receives a larger quantity of letter-mail than it sends, it has the right to collect from the dispatching administration a payment for the costs of delivering the excess international mail received.¹ Terminal dues are only paid on the imbalance of items, minimising the number of transactions needed. The settlement of accounts occurs once a year.

Box 6.2 outlines the system of terminal dues, including the amount of compensation available depending on weight received and dispatched. The UPU Articles state that all postal administrations are entitled to the same rates of compensation.

Australia's loss on international mail

Australia Post has estimated the total cost of handling all incoming mail in 1990-91 was \$90 million. If terminal dues had been paid on all incoming mail, the revenue received would have been \$61.4 million, leaving a shortfall of \$28.6 million (AP 1992c). This shortfall is recovered by increasing the price of outgoing mail (see Section 6.4).

¹ The major components of Australia's international mail consists of LC (letters and cards) and AO (printed matter, literature for the blind, and small packets) and 'M' bags (newspapers, books, and other printed matter for a single addressee).

Box 6.2: Terminal Dues – UPU Article 73

1. Each administration which, in its exchanges by air and surface means with another administration, receives a larger quantity of letter-mail items than it sends shall have the right to collect from the dispatching administration, as compensation, a payment for the costs it incurs for the excess international mail received.
2. The payment provided for in paragraph 1 shall be fixed as follows:
 - a) when two administrations exchange with each other, by air and surface mail a total weight of LC/AO mail less than or equal to 150 tonnes a year in each direction, the rate applied per kg shall be 2.940 SDR for LC/AO items (uniform rate);
 - b) when two administrations exchange with each other, by air and surface a total weight of LC/AO mail greater than 150 tonnes a year in each direction, the rate applied per kg shall be 8.115 SDR for LC items and 2.058 SDR for AO items (two-tier);
 - c) when the threshold of 150 tonnes a year is exceeded in a single direction, the administration receiving this traffic in excess of 150 tonnes may choose, for the accounting of the terminal dues relating to the mail received, one of the two payment systems described in subparagraphs a) and
 - d) above. In the absence of bilateral agreement, the mail sent by the administration dispatching less than 150 tonnes a year shall in all cases be brought to account in accordance with the single rate laid down in subparagraph a); and
 - d) for printed papers sent in M bags, the rate to be applied shall be 0.653 SDR per kg, irrespective of the annual weight of mail exchanged between the two administrations.

Note: 1 SDR = \$A1.88, as at 30 June 1992.

Source: UPU 1991, Article 73.

However, not all international mail imposes a cost on Australia Post. Arrangements under the UPU allow approximately full cost recovery on mail such as parcels, International Express Post, and non-standard articles. The loss thus occurs predominantly in the LC/AO class.

Australia incurs a loss because the terminal due is set at an average cost of delivery across all countries, well below Australia's actual costs of delivery. The basic terminal due is based solely on weight and does not take into account other factors which affect the cost of delivery such as the volume of mail.

It is only in recent times that Australia has moved away from obtaining terminal due payments at the single rate specified in paragraph 2a of Box 6.2.

The bilateral two-tier terminal dues system (see paragraph 2b of Box 6.2) is presently operating only with the United Kingdom, but starting in 1993 it will be extended to Japan, the United States, and New Zealand for both incoming and outgoing mail, and to another seven nations solely for incoming mail. According to Australia Post, once the two-tiered system is in use, the overall loss on incoming international mail will be reduced.

The UPU terminal dues system assumes that, on average, LC items weigh about 21 grams. Australia Post estimates that, while LC items leaving Australia meet that assumption, those arriving are much lighter, approximately 12 grams.² Australia Post may therefore be incurring delivery costs for moving more items of mail than allowed for in the terminal due.

There is a correction mechanism (UPU Article 187) to compensate for losses incurred because the terminal dues are insufficient to cover the delivery costs of light mail.

Australia Post has recently commenced using this correction mechanism with two countries (Italy and Singapore), therefore obtaining a greater terminal due for mail identified as lighter than the world average. In practical terms, on mail to which it can be applied, this mechanism could increase the terminal dues received for LC mail per kilogram from 2.94 SDR (uniform rate) or 8.115 SDR (two-tier) to a rate of approximately 13 SDR.

Australia Post stated:

... for the 1992 calendar year, Australia Post expects to achieve a modest gain by invoking the two-tier system including, where appropriate, the "correction mechanism". (Submission 290, p. 2)

At the Draft Report Hearing, Australia Post stated that the expected annual cost saving on international mail would be \$10 million; that would reduce last year's loss of \$28.6 million to about \$20 million in 1991-92. This improvement is attributable not only to the wider application of the two-tier terminal dues system and the correction mechanism for weight discrepancies, but also to general savings in operational aspects of international mail handling. The Commission urges continuing action by Australia Post to seek more gains within the existing terminal dues system and to pass these on to domestic users of the international mail system.

Additionally, Australia must do more to ensure that the system is changed so as to provide reasonable compensation for delivering incoming mail. The UPU Congress reviews the level of terminal dues every five years. The Commission understands that a UPU working party is currently examining options for reform, including the possibility of setting terminal dues as a fixed proportion of domestic delivery rates. This review provides the Commonwealth Government with an opportunity to seek changes to a system that has disadvantaged Australia for too long. The Department of Transport and Communications and Australia Post have recognised the need for remedial action. DOTAC commented that:

² Approximately a standard envelope containing three A4 pages.

... the uneconomic level of international settlement rates is a matter that warrants increased Government attention in the context of micro-economic reform ... (Submission 119, p. 25)

While Australia Post said:

A basic revision of the total existing Terminal Dues system, to reflect more adequately the cost of delivering mail in the destination country, is widely supported by many of the developed countries' postal administrations and by the European Commission. ... [Australia Post] has been pursuing changes through the UPU working party ... which has been charged by the UPU Executive Council to review the present system. This work is expected to lead to the introduction of cost-based Terminal Dues following the next UPU Congress in Seoul in 1994. (Submission 264, p. 36)

Any change in the current terminal dues system requires the support of at least two-thirds of member countries. DOTAC stated that:

... strong opposition to change can be expected from developing countries (with low delivery costs compared to the level of terminal dues received) that rely on the terminal dues system to earn foreign exchange. (Submission 285, p. 13)

Australia Post underlined the difficulty of achieving change through the UPU when its Chief Manager for Mail and Network stated:

... one important factor about the UPU is that it is a very slow bureaucratic organisation, it doesn't respond very fast to marketing needs, in fact it only meets every five years to set down the rules which we all operate under. (Ludlow 1992)

The Commission acknowledges this difficulty. Australia has only one vote, as does each member country, and the fact that many of the 173 member countries benefit from the current levels of compensation indicates that achieving more realistic terminal dues is an arduous task.

Nonetheless, Australia Post must take full advantage of the current UPU regulations, by continuing to obtain maximum available terminal dues for mail which is lighter than the world average, and by further pursuing payments under the two-tier terminal dues structure. Finally, the Commonwealth Government and Australia Post must continue do everything possible to change the terminal dues system, and seek more appropriate compensation arrangements.

The Commission recommends that the Commonwealth Government, in consultation with Australia Post, seek modifications to terminal dues set by the Universal Postal Union to better reflect the cost of delivering mail in different countries.

6.4 Postage rates for outgoing international mail

To recover the loss on incoming international mail, Australia Post has a pricing policy that inflates the price of outgoing international mail. It said:

Within the overall context of the international mail service, outgoing international letter mail prices are set by Australia Post on the basis of both costs and the need to recover losses on the delivery of incoming mail. (Submission 82, p. 38)

The Department of Transport and Communications stated that:

Because terminal dues are set without reference to the actual cost of delivering mail in the country concerned, substantial pricing distortions occur. In Australia terminal dues payments fall far short of the cost of delivering incoming mail. Many countries, including Australia, seek to recover the losses on inwards mail from higher profits on outward mail, rather than in some other way (for example spreading them over the entire mail business or direct Budget funding). This practice exacerbates the economic distortions of below-cost terminal dues. (Submission 119, p. 24)

Setting artificially high prices on outgoing mail (which accounted for 5 per cent of Australia Post's reserved mail in 1990-91) sends the wrong signals to Australian users of international mail services. The Commission estimates that on average an extra charge of 28 cents is imposed on outgoing letters and cards.³ This is the amount over and above the cost of collection, the delivery cost to the destined nation, the terminal due, and the profit margin. This additional charge discourages the use of mail for outgoing correspondence. Section 4.2 discusses some principles for the efficient pricing of postal services and the need to avoid such price distortions.

The Commission recommends that Australia Post's charges for outgoing international mail be no more than the cost of collecting and sorting that mail in Australia (including an appropriate profit margin), plus the cost of line-haul to the destination, plus the terminal due.

Ideally, the terminal due should reflect the cost of delivery in the country of destination. There is support among developed county members of the UPU to reform the terminal dues system in this way.

In response to the draft report, DOTAC said:

... the Department sees no validity in the arguments for outgoing international mail revenues to subsidise losses on international mail, regardless of the terminal dues arrangements. (Submission 285, p. 13)

³ The extra charge on outgoing international mail that is needed to cover the shortfall between terminal dues received and the total cost of delivery of incoming mail.

The Act requires Australia Post to behave in a commercial manner. As implementation of this recommendation would reduce the cross-subsidy to incoming mail, any loss on international mail must be addressed in other ways. This loss, estimated at \$28.6 million in 1990-91, could be considered as one measure of the community service obligation (CSO) for international mail. As reported in Chapter 5, however, Australia Post estimates that its international CSO is \$15 million. This CSO estimate is derived in a different way. The former figure is the difference between terminal due receipts and the domestic delivery costs for all international mail; the latter is an estimate of the long-run avoidable cost of international mail letter services which would not be provided solely on commercial grounds (see Section 5.6). To determine the appropriate extent of funding, Australia Post would need to provide to the Commonwealth Government full details of the costs of international mail services.

6.5 Increasing competition for international services

Several other countries are addressing the issue of the whether international mail should continue to be reserved to national postal authorities (see Appendix F). Article 25 of the UPU Convention (UPU 1991) states that member postal administrations may forbid the movements of mail outside their direct control. However, a growing number of postal administrations are allowing private operators to move mail between administrations.

In New Zealand, the international movement of letters is no longer reserved to NZ Post and, because the charge for international mail is normally greater than the cut-off point on reserved services (80 NZ cents), a growing proportion of international mail is being delivered by private companies to New Zealand addresses.

In this environment the Commission regards the removal of Australia Post's reserved services protection on international mail as an option worthy of consideration.

6.5.1 The UPU framework versus private operators

There is every reason for Australia to continue to operate within the UPU framework, so as to ensure access for its mail to all countries. But it is possible to allow other operators to work in direct competition to the UPU arrangements, or alongside those arrangements.

There are many examples of private sector involvement in international mail. Australia Post has recognised the advantages of operating alongside specialist carriers by announcing recently an alliance with DHL under which the two will cooperate in the delivery of express documents and parcels across the world.

Our customers will be able to send International Express Post articles to any country in the world with enhanced services such as track and trace, while still retaining the convenience of post office lodgement. (AP 1992e)

Another example of a joint venture in the changing climate for international mail is GD Express Worldwide N.V., an association between TNT Express Worldwide and the postal administrations of Canada, France, Germany, the Netherlands, and Sweden. Businesses are demanding not only the ability to inter-connect with other postal administrations but also additional services such as track and trace.

Private operators must rely to some extent on the services provided by a postal administration willing to cooperate in allowing commercial transactions. As private companies become capable of providing distribution networks, and as postal administrations accept the challenge of this competition, the interface between private operators and postal administrations will change. The UPU, as an inter-governmental organisation represented principally by postal administrations, may need to rethink its approach to international mail operations as private companies begin to increase their involvement in the market and with member postal administrations.

If Australia Post were to turn completely away from the UPU, the resulting disruption to our international mail could be immense. The worst scenario is that all other countries could refuse to accept Australian sourced mail, and Australia Post could retaliate only by not accepting their mail.

Without UPU involvement Australia Post would have to negotiate bilateral agreements with other postal administrations. This would be a time-consuming and expensive task. The negotiation of mutually beneficial arrangements is difficult, because many countries would be made worse off (as they are now over-compensated by terminal dues). By remaining within the UPU, Australia retains the terminal dues option and is compensated for some of the cost of delivering incoming international mail. The official postal system must retain the ties with the UPU, if a truly international letter network is to continue to be available to all people in Australia.

The Commission recommends that Australia Post should still be required to provide a service which connects with overseas postal administrations. It should be compensated by direct budgetary payment by the Commonwealth Government for consequent losses.

In 1990-91 the loss on international mail was estimated by Australia Post to be \$28.6 million. This loss was recovered by increasing the price on outgoing mail. With the removal of this cross-subsidy Australia Post would now need to justify to the Commonwealth Government the costs of operating in the international sector so that it would treat and subsequently fund that loss as a CSO. As discussed in Section 6.3.1 the loss on providing international services through the UPU system is expected to fall.

Adoption of the recommendations concerning international mail would result in significant changes in the flow of incoming and outgoing mail. The Commission has insufficient information to estimate these changes and, therefore, the extent of the funding necessary to meet this CSO obligation in the future.

6.5.2 Remail

In addition to providing postal services, as discussed in the previous section, private companies are involved in remail. There are three main types of remail which are described in Box 6.3. All three involve the international movement of letters, in conjunction with post offices (that are subject to reserved services protection), by the private sector in order to obtain benefit from postage rate differentials between countries. The system of terminal dues creates price distortions that add to the opportunities to profit from remail activities. Remail involves private operators securing the collaboration of post offices to achieve the combination of cost, speed, and service that is demanded by international businesses sending bulk mail.

Box 6.3: Types of remail:

- A-B-C private operators collect the mail from their own country (A), and freight it to another country (B). It is then posted in B's network to be sent through the international mail system to be delivered in its destination country (C);
- A-B-B private operators collect the mail from their own country (A), and freight it to another country (B). It is then posted in B's mail system to be delivered in country B; or
- A-B-A private operators collect the mail from their own country (A), and freight it to another country (B). It is then posted in B's mail system to be sent through the international mail system to be delivered back to country A for delivery there.

The destination administration that delivers the items would receive terminal dues only on the imbalance for delivering A-B-C or A-B-A remail. For A-B-B remail, the destination postal administration would receive the appropriate domestic tariff.

Remail of the type A-B-A, where mail originating in Australia and bound for Australian addresses is deposited in a postal system abroad (at prices lower than Australia's domestic rates) is particularly burdensome for Australia Post which delivers such mail with insufficient compensation. However, under the UPU regulations, Australia Post is under no obligation to accept this type of mail, and can and does refuse to accept it (Initial Hearing Transcript, p. 112).

The Chief Manager of Mail and Network at Australia Post stated recently:

... we've advised those countries involved in the practice that from the 1st of July this year we will ... be sending it back.

... the mail that the remailer ships off will get there, but it won't be delivered, it will be simply put into a shipping container and sent back. (Ludlow, 1992)

Under the current legislation the remailing of articles reserved to Australia Post is illegal, unless sanctioned by Australia Post. The extent of remailing activities has therefore been difficult to estimate.

Australia Post accepts mail deposited by companies such as TNT and DHL that gather mail in other countries and ship it to Australia. This type (A-B-B mail) is accepted but, for mail leaving Australia, Australia Post requires all items that are part of the reserved services to be lodged with it. It is because Australia Post receives a higher tariff domestically compared with the terminal due that it accepts incoming mail from private operators. This action, in combination with the refusal to allow companies to carry outward mail, raises the issue of whether international mail should be excepted from the reserved services specified in the Act.

6.5.3 Removing Australia Post's reserved services protection

If the reservation of international letters to Australia Post were removed, by repealing Section 30(1)(f) of the Act and modifying Section 29, private companies would have the capacity to expand their activities. DHL International, for example, specialises in the express delivery of all types of consignments on a world-wide basis. It has an international remail service to collect, sort, and then lodge mail with the postal service in the destination country, for delivery.

If inward and outward inter-connection between postal administrations were allowed by private entities, Australian consumers, businesses, and Australia Post would benefit by:

- having alternative carriers for their correspondence. Some private companies provide services such as tracking facilities and alternative express services;
- placing competitive pressure on Australia Post. If it wished to maintain market share, it would have to compete on service and price;
- relieving some of the burden that Australia Post suffers because of inadequate terminal dues;
- having Australia Post receive a payment for inter-connection which is greater than the terminal due; and

-
- reducing remailing activity which is detrimental to Australia Post, because of the terminal dues system.

These benefits are discussed, in order, below.

Allowing private companies access to currently reserved international letters should result in net benefits to users. Australia Post's tight control of mail leaving Australia prevents customers from choosing the type of mail service that best meets their needs at least cost. It also restricts the companies involved in remailing from providing the type of service their customers would like. If private operators were allowed to carry international mail, customers would be able to choose whether to place their mail with a private contractor or with Australia Post. TNT Mailfast offers an outwards-based remail service that is not as efficient or effective as it could be because of Australia Post's monopoly. TNT stated:

In the marketing of its services, Australia Post uses its monopoly over the carriage of standard letters. For example, it has insisted to TNT Mailfast's customers that they may only send outgoing international standard letters by Australia Post. Whatever the legal merits of this point, customers do not see the reason for having to split their mail between two carriers, depending on whether items are standard or non-standard. As a result, some customers have believed that they were legally obliged to use Australia Post as the carrier of all their international mail. (Submission 183, p. 4)

TNT and DHL are companies that provide an inter-connection service between postal administrations. If allowed, TNT has expressed interest in extending the limit of its network to final points of delivery.

Where domestic regulations permit, TNT Mailfast may also hand deliver items. (Submission 183, p. 1)

These private sector companies provide a service in moving non-reserved postal items around the world. They compete for volume on price and service criteria. If private companies were also allowed to provide service in the currently reserved area, customers would have a wider choice among a range of cost and service options when sending letters overseas. TNT stated:

The withdrawal of AP's exclusive rights on outward mail would undoubtedly generate many benefits for senders of international mail, such as enhancing customer choice, provision of a wider range of services, upgraded service and improved efficiency. (Submission 273, p. 3)

Increasing competition would not only result in private operators providing customers with a choice of services, but also encourage Australia Post to improve its service and reduce its price to remain competitive in the market.

If international services continue to be reserved to Australia Post, mail that travels under the UPU system will impose net costs on Australia under the current terminal dues arrangements. As noted in Section 6.3.1 the terminal dues received by Australia Post are insufficient to cover the cost of delivering incoming mail. Freeing up the international sector would encourage more private companies to deliver incoming international mail.

Even if private companies were to lodge incoming international mail with Australia Post, the price received would be well above the average existing terminal due. Therefore, Australia Post would be better off.

Remail of the type that is injected into other postal administrations and has originated from another postal administration, for example A-B-A and A-B-C, is treated as illegal mail and is not carried by Australia Post. Because it is practically impossible to check all mail arriving in Australia, some of this mail is placed in Australia Post's system. The volume of such mail is low compared with the overall size of the market. As private operators begin carrying increasing amounts of mail, remail of the type A-B-A and A-B-C should fall.

If international reserved services were removed, private contractors would, depending on the service and legal position in the foreign country, deliver mail either to the destination postal authority or to the specified address (door-to-door delivery). In New Zealand for example, it seems that because the reserved price of letters is set at 80 NZ cents, most mail would be eligible for final delivery outside of the statutory monopoly.

Should door-to-door delivery by any company be allowed, the current penalties under Section 31 of the Act would be sufficient to protect the domestic mail market should any international carriers attempt to deliver domestically generated mail bound for Australian addresses. In essence, companies would be still restricted by the Act for the delivery of mail that has no international component.

Rather than allow uninhibited door-to-door delivery of international mail, a slightly more competitive scenario than at present could evolve by amending Section 30 of the Act. For incoming mail, domestic delivery is subject to the normal reserved services protection. For outgoing mail, Section 30(1)(f) of the Act prohibits the carriage of letters unless the fee charged is at least 10 times the then air mail rate, for a standard postal article weighing 20 grams, from a place in Australia to a place outside Australia. Repealing this subsection would free up the international component of the mail network for outgoing mail, but still impose domestic inter-connection with Australia Post on inward mail once it arrived in Australia, subject to the prescribed reserved services protection.

But the Commission can see no compelling reason why any component of international mail should be reserved to Australia Post. Private companies are already providing services in the non-reserved sector for both outgoing and incoming mail. Australia Post has been happy to accept the domestic tariff from private companies that bring mail into Australia. Reliability and speed of service are areas where the private sector and Australia Post could compete. Private companies wishing to inter-connect with Australia Post's network would face terms and conditions as fair as those operating in the domestic market (see Section 9.4.2).

The Commission recommends that Australia Post's exclusive right to carry letters between Australia and places outside Australia be withdrawn.

6.6 Administrative aspects of international mail

Policing international mail is a responsibility of the Australian Customs Service (ACS). Some participants have drawn the Commission's attention to perceived inequities between the administrative treatment of Australia Post and of private companies. TNT stated:

Mailfast's consignments, which are classified as air freight, must be cleared by Customs before being posted. Parcel Post, Australia Post's service, must also be cleared through Customs. However, there is a significant difference, to the advantage of Australia Post, in the treatment afforded to both services.

A formal Customs entry is required for air freight consignments with a value for duty in excess of \$250. In the case of Parcel Post, the value for duty rises to \$1,000. (Submission 121, pp. 8-9)

DHL stated that there are government requirements affecting the industry that are not imposed on Australia Post, thereby giving it both a cost and operating benefit denied to other service providers. These included:

- Postal authorities are not required to manifest inbound document consignments for customs purposes. Other service providers are required to manifest inbound document consignments at a greater cost. This requirement is almost unique to Australia ... indeed, it has not been required in New Zealand for many years.
- Postal authorities have dedicated customs officers for the processing of its consignments at a facility not available to the industry in general.
- Australia Post has been conceded access to airports for the handling of their own material not available to other service providers, which results in undue delays to the customers of the other providers. (Submission 104, p. 2)

The response of the ACS to these issues is summarised below. While the Commission has not been able to examine them in sufficient detail to recommend any changes to the current system, it is concerned at the different treatment afforded Australia Post compared with private companies and considers that the Commonwealth Government should review the matter.

Formal entry clearance

The requirement for a formal customs clearance for goods valued over \$250 for private carriers and \$1000 for Australia Post seems inequitable. Obtaining a clearance is both time consuming and imposes a cost on any business or individual seeking such a document.

ACS states:

By not requiring a formal Customs entry for consignments valued at less than \$1000, any inconveniences or delays can be kept to a minimum, especially for persons who do not have ready access to the [International Mail Centre] IMC. (Submission 236, p. 6)

This argument can equally be applied to consignments arriving at private carriers' depots. The customs requirement should be consistent between Australian and private carriers.

Manifests

Australian customs procedures are progressively moving towards a system, whereby electronic lodgement of manifests can provide a quicker clearance of goods on arrival in Australia.

However, it is not normally possible to manifest material that arrives through Australia Post as the majority of this material does not identify the sender. This is due to the very nature of the consignments and the open access by overseas users to the international network. For this reason ACS requires all of Australia Post's consignments to be physically screened. If private companies begin to move a greater proportion of material of a similar nature, then it would be expected to be necessary for ACS to provide services similar to those provided to Australia Post.

Availability of Customs officers

The presence of ACS officers at Australia Post's two IMCs is considered appropriate because of the very nature of the screening that is required for non-manifest articles arriving in Australia. ACS stated that:

For Customs it is a matter of whether it is warranted to station Customs Officers permanently at depot or wharf. This is primarily determined by the workload at the particular establishment. ... Those establishments which are not permanently staffed usually have ready access to Customs Officers. (Submission 236, p. 8)

6.7 Summary

International mail arrangements are changing. Postal administrations are becoming more international in their outlook and are entering into joint ventures and collaborative arrangements. This has meant that the amount of international mail carried by private companies is increasing. Australia must adapt to this global challenge.

The Commission recommends that:

- Australia Post's exclusive right to carry letters between Australia and places outside Australia be withdrawn;
- Australia Post still be required to provide a service which connects with overseas postal administrations. It should be compensated by direct budgetary payment by the Commonwealth Government for consequent losses;
- the Commonwealth Government, in consultation with Australia Post, seek modifications to the terminal dues set by the Universal Postal Union to better reflect the cost of delivering mail in different countries; and
- Australia Post's charges for outgoing international mail be no more than the cost of collecting and sorting that mail in Australia (including an appropriate profit margin), plus the cost of line-haul to the destination, plus the terminal due.

Adoption of these recommendations would have the following results:

- for mail passing within the UPU arrangements, higher terminal dues may be obtained, so that Australia Post's loss on incoming international mail (around \$20 million in 1991-92) would be reduced;
- prices for outgoing mail would change to reflect the cost incurred in delivery, so giving the appropriate price signal to consumers of international mail services;
- the Commonwealth Government would make an explicit budgetary payment to Australia Post for remaining losses on incoming mail, so as to retain a global network; and
- private companies would provide door-to-door delivery of mail items in Australia or inter-connect with Australia Post on fair terms and conditions (see Chapter 9). Countries that eventually discontinue providing their domestic mail authorities with reserved services protection could find private companies providing final delivery, much as they do now for parcels and other non-reserved services.

Several examples of different treatment by the Australian Customs Service regarding Australia Post compared with private companies have been brought to the attention of the Commission. This matter should be examined by the Commonwealth Government with a view to correcting any inequities.

7 COMPETITION AND REGULATION

With some exceptions, letter services are reserved to Australia Post. There is confusion about what qualifies as a letter and this is discouraging innovation in competing services. Many other services, including couriers and telephones, compete indirectly with the letter service. But the lack of direct competition reduces the pressure on Australia Post to minimise prices and costs and to provide high quality services to its customers. It has also generated concern among participants about the ability of Australia Post to cross-subsidise its competitive services from its reserved services, and to exert unfair pressure on its customers and its competitors in other markets. To tackle these problems the legislation which reserves certain services to Australia Post needs to be amended to at least reduce, if not remove, the protection it provides.

For courier and parcel services there is either strong competition or the potential for new firms to enter the market, ensuring that services are provided efficiently and prices are kept as low as possible. The one area where competition is constrained is in the supply of labour, primarily due to the dominance of the Transport Workers Union.

7.1 Reserved services

The level of competition in the message market is affected by the legislation which reserves to Australia Post the collection and delivery of addressed letters. The extent to which this legislation suppresses competition depends on the coverage of the reserved services and the potential for competition in this market if the legislation were repealed.

The *Australian Postal Corporation Act 1989* (the Act) gives Australia Post the exclusive right to carry "letters" within Australia and between Australia and places overseas (Section 29). The reserved services also include the collection and delivery of letters, and the issue of postage stamps, within Australia. There are specific exceptions to the reserved services which are listed in Box 7.1.

It is clear from participants, however, that there is confusion about what types of written material are reserved to Australia Post. World Vision Australia said:

There appears to be a great deal of confusion as to what qualifies as a letter. Under the act it is a "directed" message. This is open for interpretation. (Submission 25, p. 3)

Pac-Rim believed that:

... Australia Post has exploited uncertainty regarding the extent of its monopoly due to the broad nature of the letter definition incorporated in the new Postal Act, the illdefined nature of the exceptions to the reserved services (such as "catalogue" and "leaflet"), and the fact that the relatively recent passage of this Act means it has not yet been subject to any judicial interpretation. (Submission 92, p. 19)

Box 7.1: Exceptions to reserved services

Section 30 of the Act specifically excepts some articles from the reserved services.

- Letters weighing more than 500 grams, unless consisting of packaging containing 2 or more letters.
- A letter relating to goods which is sent and delivered with those goods, for example an invoice.
- The carriage of newspapers, magazines, books, catalogues, and leaflets.
- Letters which are carried without payment, or when the payment is at least 10 times that charged by Australia Post for a standard postal article by ordinary post (for domestic carriage) or by air for an article weighing 20 grams (for international carriage).
- Letters carried by an employee of the sender.
- Letters carried to or from the nearest post office or another post office authorised by Australia Post, or under an agreement with Australia Post.
- Writs, warrants, or other documents sent for the purposes of any court or tribunal.
- Letters carried by electromagnetic or other non-physical means.
- The carriage of letters by or on behalf of a foreign country under a convention.
- Any service that, according to either the regulations under the Act or Australia Post's terms and conditions, is not covered by the monopoly.

Problems in the interpretation of the Act have also arisen in the area of advertising material and other publications. The Mailing House stated:

... we have had problems in recent times and I know that other mailing houses have had these problems, in particular with the presentation of registered publications and supplements, with regard to the definition of a letter. (Initial Hearing Transcript, p. 282)

Such problems are addressed in Section 7.3.5.

Section 3 of the Act describes a letter as "any form of written communication directed to a particular person or address". Accordingly, letters sent to a specific address but directed for example, 'Dear Householder' or 'Dear Cardholder', are reserved to Australia Post; but not unaddressed letters deposited in all the letterboxes in an area.

According to the definitions in Section 3 of the Act, a "letter" includes any "standard postal article".¹ The wording of this sub-section of the legislation is not clear and there are several

¹ A standard postal article is specified in the Act to include items which weigh less than 500 grams, are not more than 5mm thick, and are rectangular with the shorter sides between 88mm and 122mm and the longer sides between 138mm and 237mm.

possible interpretations. It appears that Australia Post has interpreted this sub-section as deeming that a "standard postal article" is a "form of written communication", but the requirement that such mail be "directed to a particular person or address" remains if it is to be reserved to Australia Post.

Further, according to Section 3 of the Act, a written communication directed to a particular person or address is a letter even if it is not enclosed in any form of package. If the letter is enclosed in a package, the whole package is reserved to Australia Post. Catalogues and leaflets are specifically excepted from the reserved services. But a parcel containing a catalogue, for example, would be reserved to Australia Post if it also contained a separate letter to the reader, provided the parcel weighed less than 500 grams.

If Australia Post believes that another person has provided or is proposing to provide a service which breaches its exclusive right to carry letters, it can apply for relief to the Federal Court. The Federal Court determines whether the service offered by the other person is reserved to Australia Post. If the Federal Court rules that the other person has infringed or may infringe Australia Post's exclusive right to carry letters, it may grant an injunction restraining that person from providing the service, award damages to Australia Post, or award compensation to Australia Post. This process effectively separates the operations of Australia Post from the legal interpretation of the reserved services. Such a mechanism is the appropriate way to enforce the Act.

7.2 Competition in the provision of letter services

The legislation which reserves certain services to Australia Post specifically restricts competition in the provision of a letter service. Despite these restrictions many other organisations have developed services which compete indirectly with the letter service. They include letterbox distributors, courier services, and the document exchange. Advances in technology are also increasing the range of services which compete with the letter service. The first was the telegraph. Other services now include telephones, facsimile machines, and computer networks. The Public Service Union argued that:

The efficiency of AP [Australia Post] is and will continue to be determined by exposure to competition ... AP faces competition for all the services it provides whether reserved or not. (Submission 50, p. 3)

Within the existing legislative framework, it appears that advances in technology have the greatest potential to reduce the demand for standard postal services. Australia Post indicated those market segments which face the greatest risk of replacement by new products (Submission 264, p. 13). In most cases, new technology provides the major alternatives to the postal service. Appendix E of this report notes that the speed and extent to which technology will replace postal services is uncertain. It concludes that:

Technology will continue to reduce the demand for traditional mail services but a core of standard letters and documents will remain. While the effect that technology has on the message market will increase over time, there may be a limit to the extent to which technology can undermine the scope of the reserved services. However, the degree to which new products are developed and new technology is applied, will be limited by the extent to which some services remain reserved to Australia Post. This is a direct cost of the statutory monopoly, borne by the community.

The remainder of this section looks at the extent to which other services and products compete with the letter service reserved to Australia Post.

7.2.1 Letterbox distributors

Letterbox distributors do not compete directly with the letter service. Most letterbox distributors deposit advertising leaflets in all letterboxes in a particular area. The leaflets are not addressed to either an individual person or a particular address, and are therefore not reserved to Australia Post. This activity does, however, exert some competitive pressure on Australia Post in non-reserved areas.

There are also specific exceptions from the reserved services for catalogues and leaflets. As a result, letterbox distributors are increasingly delivering advertising material directly to targeted individuals.

As is noted in Section 2.2.3, Pac-Rim (the parent company of Progress Press) has been developing new technology which lowers its processing costs and expands its ability to deliver addressed mail. Thus, the extent to which it can compete with Australia Post is growing.

Progress Press is capable of delivering to 83 per cent of all delivery points throughout Australia (see Section 2.3.2), making letterbox distributors the most extensive alternative delivery network to Australia Post. However, several participants argued that the coverage of letterbox distributors was not wide enough to meet their needs. For example, Newsagents Direct Distribution commented that:

The enormous cost of setting up a national subscriptions delivery network has to date clearly prevented such letterbox drop services as Progress Press' Streetfile from reaching country residents beyond the cities and towns.

Such services as that therefore suffer an enormous handicap insofar as using them requires of publishers that they divide their work between two carriers and therefore lose the possible bulk discount benefits of what volume they have. (Submission 84, p. 11)

The same point was made by the Major Mail Users.

Delivery of printed matter can be achieved by suppliers who specialise in letterbox drops ... The disadvantage of such systems is that they have not offered comprehensive coverage throughout Australia in the past. (Submission 48, p. 36)

Similarly, the Australasian Religious Press Association indicated that the coverage of letterbox distributors was limited.

Recently a religious magazine with a monthly circulation of 7500 found that, by changing to the letterbox distributor Street File Pty Ltd, 35% of its distribution would still need to be posted because Street File was unable to deliver to those addresses. Effectively, there is no substitute for Australia Post. (Submission 289, p. 4)

Of course, the coverage of letterbox distributors could improve as they develop their networks. Progress Press is planning:

... to further extend this [its delivery] network over time to the same coverage as that of Australia Post to include not only rural areas but also central business districts. (Submission 280, p. 6)

While it seems that letterbox distributors have the potential to expand their delivery network, they may not provide a delivery service as regularly as that of Australia Post. In addition, their mail collection system is very limited compared to that of Australia Post. They currently receive mail in bulk from large customers, but do not have the collection and sorting facilities which would be necessary to process smaller volumes of mail from a larger number of individual customers. It is not clear whether they would be capable of, or interested in, expanding their activities to provide a comprehensive alternative to Australia Post's letter service.

7.2.2 Courier services

The Act is designed to prevent organisations such as couriers from competing with Australia Post's letter service. Private operators are allowed to carry letters so long as they charge at least 10 times the standard postage rate. The standard postage rate is currently 45 cents so that private carriers can deliver letters if they charge at least \$4.50 a letter. This tends to confine couriers to the high security, high speed segment of the letter market and prevents them from competing directly with Australia Post for the collection and delivery of non-time-sensitive items. The Publishers' Group argued:

The growth of private courier services and private addressed printed mail services has already led to new self-reliant, efficient, innovative and internationally competitive industries in Australia. They are presently seriously hampered in free market operation by government regulations such as the ten-times impost placed on some mail services. (Submission 32, p. 2)

However, because of the large number of courier organisations, and the difficulty in determining whether they are carrying letters or other material reserved to Australia Post, this requirement is difficult to enforce.

It appears that couriers are already carrying letters at substantially less than the legislated minimum price (see Section 2.2.4). So they are exerting more competitive pressure on Australia Post than would occur if the reserved services legislation were to be fully enforced. Yet their activities are not completely eroding the protection provided to Australia Post by the reserved services

legislation. Couriers predominantly service businesses operating in the cities so their activities do not affect all of the market supplied by Australia Post's letter service. In addition, the extent of the reserved services protection and the risk of prosecution discourage couriers from competing as aggressively with the letter service as they would if the legislation were to be amended.

7.2.3 Document exchange

The Australian Document Exchange Pty Ltd (AUSDOC) provides a service to its members which competes directly with that provided by Australia Post. It receives documents from one member for collection by another member at the same exchange or delivers them to another exchange for collection there (see Section 2.2.2).

AUSDOC has 12 000 members and 320 exchanges throughout Australia -- the coverage of its network is therefore relatively limited. However, it does concentrate on the relatively profitable intra-city mail market and many of its members generate large volumes of mail. The Exchange estimates that 40 tonnes of documents pass through its system each day. The Commission estimates that the weight of mail handled by the Exchange may be equivalent to 10 per cent of that handled by Australia Post.

Similar exchanges in the United Kingdom and New Zealand operate under licence which specifically excepts them from the legislation which reserves the letter service to the postal authority. This is not the case in Australia. The Exchange is concerned about its legal position under the Act:

... AUSDOC feels it is unable to aggressively market to the business community the relative benefits of its services for fear of bringing upon itself the might of Australia Post. (Submission 174, p. 9)

The licensing system used overseas is one way of clarifying the legal position of the document exchange. An alternative, which would avoid the administrative costs which could be associated with licensing, is to include document exchanges in Section 30 of the Act which stipulates the exceptions from the reserved services. This second approach was supported by AUSDOC:

Furthermore, AUSDOC does not believe that the granting of a licence would be consistent with the Government policy of ensuring the efficient delivery of mail at the cheapest possible cost. A licensing system could potentially increase costs to the consumer without improving the efficiency of mail services.

AUSDOC would therefore prefer to see a softening of the legislation in recognition of the commercial worth of its services. (Submission 174, p. 8)

Without a licensing system it would be necessary to clearly define in the legislation what constitutes the operation of a document exchange. The Commission suggests that the definition cover only the movement of documents between the boxes of its members at, or between, its exchanges. The definition should exclude collecting documents from or delivering them to

members' addresses. Document exchanges would still be allowed to provide courier services for their customers but they would have to comply with the reserved services legislation -- the same as any courier company.

The Commission recommends that, if the reserved services protection is retained, Section 30 of the Australian Postal Corporation Act be amended to except the operation of document exchanges from reserved services.

If the reserved services legislation were amended, it might be possible for a document exchange system to be used for correspondence between small businesses and individuals. However, a greater number of exchanges would be needed to provide a comprehensive communication system. Also, an appropriate pricing system would have to be developed. Few small businesses or individuals would generate the mail volume necessary to make it worthwhile paying an access fee (which is the Exchange's charging method). The most likely outcome of this recommendation would be simply to legitimise the core services which document exchanges are currently providing.

Australia Post recently set up BoxLink in response to the competition from the Exchange. BoxLink provides an exchange service between private postboxes similar to a document exchange (see Section 2.2.2). NZ Post operates a similar system. Given the extent of the Australia Post network and its existing postbox system, the BoxLink service appears to be an innovative way of capitalising on a commercial opportunity. However, as argued by the Major Mail Users Association, there would be cause for concern if Australia Post were to exploit its monopoly position by "... cross-subsidising such a service or misusing its market power to crush a competitive service" (Submission 272, p. 6). There is no evidence that this is occurring.

7.2.4 Electronic services

Technological advances have resulted in the development of various services which compete with Australia Post's letter services for the transfer of messages in Australia. Telephones, facsimile machines, and electronic data interchange facilities are all being used increasingly to transfer messages which previously were sent through the mail. Appendix E discusses the potential for different forms of technology to substitute for letter services, particularly those presently reserved to Australia Post.

Telephones are the most familiar alternative to the letter service. Commercial lines have been operating in Australia since 1878. In the future there may be more use of telephone services if the price of telephone calls declines relative to the cost of postage or if there are developments in new technologies which use the telephone network.

Cross-subsidies occur in the pricing of both letter and telecommunications services. In telecommunications, the cost of local calls is subsidised from long-distance calls. In letter services the cost of long-distance mail is subsidised from local mail. These subsidies encouraged the use of postal services to send messages over long distances and the use of the telephone for local communication. With the restructuring of telephone call charges, the cross-subsidies from long distance to local calls are being reduced. This change may encourage more people to telephone rather than send a letter over long distances.

The telephone based technology which has the potential to make the greatest inroads into letter services is the facsimile machine. Facsimile machines are common in business but very few households own facsimiles, particularly in cities and towns. In remote areas the proportion of households and businesses with facsimile machines is greater. According to Voterlobby:

Of course they [facsimile machines] are a very good alternative to letters for people in the business and government community ... and certainly there are some farm families who, because they are so remote, use fax machines ... if you were to go into the suburban houses in Sydney or Melbourne or Canberra ... you would find that fax machines are not so common in those homes. (Initial Hearing Transcript, p. 360)

However, as discussed in Appendix E, there are many reasons why a facsimile machine is currently only a partial substitute for the letter service. Some documents are too long, the wrong size, or confidential, making facsimile transmission difficult or inappropriate. For example, children's school papers are long, making transmission time-consuming and expensive. Other education material such as tapes, books, and art work must be sent through the mail (Andrea James, Submission 268, p. 2). In addition, lack of access to 240 volt power restricts the use of facsimiles in some rural and remote areas.

Some participants believe that facsimile messages are not legal documents. Therefore, if a contract were faxed, the original would still have to be posted for the contract to be legally binding. This is no longer the case. Once a contract or a quote for work to be carried out is received on a facsimile machine, it is legally binding.

Because of the current technology and the types of articles sent by mail, remote area residents with facsimile machines consider them to be a complement to, rather than a substitute for, mail services. As Michael and Teresa Cobb of Western Queensland said:

Since the installation of an automatic telephone service at the end of 1990 we have invested in a facsimile machine which makes ordering and general business communication more efficient. We consider the facsimile an adjunct to our twice weekly delivery, not a substitute. (Submission 60, p. 1)

Despite the shortcomings of facsimiles in rural areas, as technology advances problems of power supply, speed of transmission, and other limitations will be reduced. Their ability to substitute for a letter service, at least, will improve over time. In addition, as the number of private households with access to a facsimile machine increases, the potential to use a facsimile message instead of a letter will also increase.

Methods of electronic data interchange (EDI) are developing in Australia: for example, local area computer networks, electronic funds transfer, and videotext. It is hard to tell how long it will take for such alternative technologies to cover a wide enough range of services, with sufficient penetration, to rival the letter network. However, their importance is growing and Australia has a history of taking up new technology relatively rapidly. Over time these services will further erode the importance of the letter service as a major form of communication in Australia. Despite these advances in technology it is likely that in the foreseeable future there will still be a substantial role for the letter service.

Australia Post provides electronic lettergram and telegram services. Section 5.4.3 argues that they should be treated as commercial services and that Australia Post should be free to withdraw such services if it so wished.

The lettergram service offers a range of delivery options at different prices: courier delivery within two hours or the same day; mail delivery the next day; and transmission to a facsimile number anywhere in Australia or places outside Australia.

Private companies are free to compete with most aspects of Australia Post's lettergram service or to provide a substitute service if Australia Post were to withdraw its service. The Act specifically excepts from the reserved services letters which are sent by electronic means. Therefore, private companies could set up a service similar to the lettergram facsimile service. Those lettergrams where the hard copy is delivered by Australia Post are potentially covered by the reserved services. However, the Act allows private companies to carry letters if they charge at least 10 times the standard letter rate. The only lettergram service for which Australia Post charges less than \$4.50 is to transmit bulk messages (2 to 1000) which are delivered by mail the following day. The prices for single lettergrams and bulk lettergrams which are delivered by courier are all greater than \$4.50 and thus are open to competition from other operators.

Similar circumstances apply to Australia Post's facsimile service, FaxPost. FaxPost offers to collect and deliver messages and transfer them electronically. Collection and delivery can be by ordinary mail or courier. The lowest prices for this service are \$5 to transmit one page to a private fax and \$6 to transmit one page to a central location for delivery by ordinary mail. These prices are above 10 times the standard letter rate so private operators are allowed to compete with Australia Post's FaxPost service. For documents greater than one page or delivered by courier, Australia Post's prices are much greater than 10 times the standard letter rate.

The legislation excepts from the letter monopoly documents which are transferred only by electronic means. Once a hard copy is produced, its delivery is reserved to Australia Post. As noted for lettergrams and FaxPost, the prices charged by Australia Post mean that competition with these

services is not restricted. The Act does prevent other operators providing electronic services which compete more directly with the letter service. It restricts the ability of newsagents and other small businesses to receive facsimiles on behalf of customers because, once the hard copy is produced, it cannot be delivered to the addressee for less than \$4.50. As technology develops and makes the electronic transfer of information faster, lower cost, and more flexible, these opportunities may not be exploited fully because of the legislated restrictions on delivering messages.

One way of allowing the full benefits of electronic services to be realised is to except from the reserved services the delivery of messages which are transferred principally by electronic means. However, as technology develops, such an exception may result in an electronic-based letter service developing as a comprehensive alternative to Australia Post. If the Government favours the Commission's preferred option of deregulating letter services (see Chapter 9), the development of an alternative electronic network would have many advantages. However, if the Government decides that it wishes to maintain Australia Post's reserved services protection and the uniform charge, such a development could well undermine the Government's policy.

If a specific exception for the delivery of electronically sent messages is not included in the legislation, it is still important to allow businesses and consumers the maximum possible access to future electronic innovations. Because such new developments could be expensive, precluding many small businesses from investing in systems for their own use, small businesses and individuals are likely to receive the greatest benefits from allowing specialist companies to supply electronic-based services. Reducing the minimum price which other providers must charge to provide a service which competes with the reserved services would allow the suppliers of electronic services more flexibility in what services they provide and the price they charge for those services.

7.2.5 Conclusion

All of these activities place some competitive pressure on Australia Post. Some services, such as letterbox distributors and couriers, operate primarily in areas specifically excepted from the reserved services. Others, such as facsimiles and document exchanges, provide more direct competition to the letter service. But these operators tend to supply niche markets and none of them is able to make significant inroads into, let alone replace, the letter service provided by Australia Post.

In the future the development of new technology has the greatest potential to provide substitutes for the letter service. The choices are expanding but it will take some time before their coverage is comprehensive enough to make the reserved services legislation ineffective.

7.3 Impact of the reserved services

It has been established that, while the expansion of services such as document exchanges and couriers, and the development of new technology have increased competition with Australia Post's letter service, none are currently providing a comprehensive alternative. This means that the reserved services legislation is ensuring that Australia Post is the only supplier of a universal letter service. The Government has introduced a range of administrative controls to exert additional pressure on Australia Post to improve its operation. As noted in Chapter 4, the 1988 Commonwealth Government reforms gave the organisation a commercial charter. Other mechanisms used to encourage efficient performance include setting financial targets, the corporate planning process, and annual reporting. In addition the Prices Surveillance Authority is used to monitor and restrict the ability of Australia Post to increase the price of standard letters. As noted in Chapter 4, and argued by Australia Post (in Submission 264), these arrangements have together resulted in substantial improvements in the performance of Australia Post and are likely to continue to do so. However, there are several reasons why these arrangements alone will not achieve the greatest possible efficiency gains and why increased competition is needed.

At best administrative controls can reduce the tendency for Australia Post to become complacent in the market. They cannot replace the discipline of competition. The incentives generated by competition are immediate, whereas administrative controls are subject to time lags while public inquiries or ministerial reviews are taking place. Also, in a competitive market, with no formal mechanisms for government intervention, there is less risk that government interference will give political considerations priority over the need to operate a cost-effective, high quality, letter service.

In addition, the pressure of competition will continue in the long run. With administrative controls there is a risk that government pressure or management resolve will reduce over time causing the organisation's performance to deteriorate.

The benefits which could be gained if there were competition for the provision of letter services include the following.

- More choice would be available to customers. They would be allowed to deal with organisations other than Australia Post when sending material currently covered by the reserved services.
- There would be greater automatic incentives for Australia Post to lower prices, minimise costs, provide quality services, and adapt quickly to changing market conditions because it would no longer be given a guaranteed market segment.
- There would be less risk that Australia Post would exploit its exclusive right to carry letters when competing in competitive markets by cross-subsidising services or exerting unfair pressure on customers to use its services.

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- Other firms would be allowed to use new technology or other supply methods to provide lower cost services to customers.

All of these factors are discussed in the following sections.

7.3.1 Prices, costs, and service quality

If a firm operating in a competitive market fails to keep its prices and costs down and to provide the services that its customers want, it will lose those customers to its competitors. Because it limits competition, reserving the letter service to Australia Post reduces its risk of losing customers and therefore reduces the incentives for it to provide efficient customer-oriented services. Australia Post's pricing policies, costs, and level of customer service are assessed in Chapter 4.

The NSW Government asserted that, because of the reserved services:

... there is little motivation for Australia Post to provide a competitively priced standard mail service ...
(Submission 146, p. 3)

Similarly, limited competition in the provision of letter services reduces the incentives for Australia Post to reduce its costs. This problem was also identified by the NSW Government:

While it is accepted that Australia Post has operated in a more commercial manner in recent years, it is nevertheless considered that a stronger incentives structure for efficient cost and prices would exist if competition were introduced. (Submission 146, p. 1)

The Prices Surveillance Authority (PSA) stated that:

... there remain statutory limitations on market competition. A general characteristic of this situation could be less rigorous control of costs and perhaps lower levels of efficiency. Cost padding and capital padding may be features in such a market. (Submission 120, pp. 9-10)

Finally, limited competition can reduce the incentives for the company to provide high quality services. The Australian Direct Marketing Association argued that:

Being a monopoly Australia Post is able to set its own service standards and conditions. This has been a constant source of complaint with Australia Post. (Submission 101, p. 5)

In the absence of competitive pressure which would automatically push Australia Post to perform, the Commonwealth Government has introduced administrative controls. The most public of these are those administered by the Prices Surveillance Authority.

Since 1983 Australia Post has, de facto, needed PSA approval to increase the price of standard letters and registered publications. (The PSA process is discussed in Section 7.5.2.) In February 1992 the scope of PSA surveillance was extended to cover all services reserved to Australia Post. The prices surveillance mechanism restricts the ability of Australia Post to arbitrarily increase the

price of reserved services. While there is no mechanism to ensure that Australia Post maintains an efficient pricing structure, the PSA argues that its inquiry process puts pressure on Australia Post to reduce costs:

... in practice, the regulatory powers have been more important in promoting efficiency and accountability. Thus, the Authority can question practices and structures which might otherwise not have been subject to public scrutiny or review. (Submission 120, p. 6)

Other administrative controls which help place a check on costs include the requirement that Australia Post prepare a corporate plan and an annual report and provide these to its responsible Minister, and the use of financial targets to assess Australia Post's performance.

It is more difficult to implement administrative controls which encourage the provision of a quality service than it is to use controls to keep prices down and reduce costs. The PSA claimed that it has been successful in placing some pressure on Australia Post to improve the quality of the services it provides. By collecting information on problem areas through submissions to its inquiries, and raising these issues in a public forum, the PSA has been a catalyst for change in some areas.

However, problems raised by the PSA have not always been addressed to the satisfaction of Australia Post's customers. For example, in its 1989 report the PSA criticised Australia Post's system of handling customer complaints. It suggested that Australia Post look at forming a postal users' council. Since then Australia Post has established the Postal Services Consultative Council. The Australian Direct Marketing Association saw this as a significant step forward:

The Association was pleased to see Australia Post form the Postal Services Consultative Council to provide ideas for improved services and new and simplified standards of measuring delivery performance. (Submission 101, p. 5)

Nevertheless, as noted in Section 4.4.1, many participants expressed reservations that the Council would be effective in meeting their concerns.

7.3.2 Flexibility

Because competition is limited, there is less pressure on Australia Post to discontinue unprofitable services and introduce new services in response to changes in market conditions. For example, it has been slow to respond to the need to improve its retail services. Without competition Australia Post is at less risk of losing market share if it does not quickly adapt to change. The provision of services by other suppliers such as couriers and letterbox distributors, and advances in technology, place some pressure on Australia Post to target its services to customer needs. However, these services are only partial substitutes for those services reserved to Australia Post.

The Australian Direct Marketing Association highlighted the need for Australia Post to be flexible if it is to continue to provide low cost, customer-oriented services.

Efficiency is a relative not an absolute term. What is efficient this year can be relatively inefficient next year due to advances in work methods or technology. (Submission 101, p. 5)

Reader's Digest argued that Australia Post should respond to customer needs in a more flexible manner:

... it is not only in their pricing that there is inflexibility, it is also in the services that are available. In the types of articles that can be lodged there is not a lot of flexibility there. There is a tendency to rely on guidelines that have been put down some years ago and sticking with those rather than looking at the real operational involvements in handling of the particular piece of mail. (Initial Hearing Transcript, p. 410)

In its submission, the Franklin Mint argued that Australia Post is not taking sufficient advantage of the opportunities offered by the developing direct marketing industry. It argued that each advertising campaign generates substantial amounts of additional business for Australia Post.

For every 100 advertising pieces mailed a further minimum 44.7 pieces are mailed (at full postal rates). This excludes parcel post. (Submission 182, p. 3)

The Franklin Mint considered that Australia Post should take all of this additional business into account more when it sets its mail discounts.

There is, however, no encouragement offered to Franklin Mint or other direct marketing companies by way of incentives for this additional business. (Submission 182, p. 5)

It is not possible to introduce effective administrative controls which would encourage flexibility. It is only by increasing competition that Australia Post will be forced to be more responsive to changing market needs and conditions.

7.3.3 Provision of reserved and non-reserved services

Many participants expressed concern that Australia Post provides not only reserved services but also some services in competition with others. Two issues were raised as potential problems:

- Australia Post may be cross-subsidising its competitive services from its reserved services; and
- Australia Post may be exploiting its exclusive right to provide reserved services in order to exert unfair pressure on its customers and competitors in other markets.

As Australia Post has become more commercial and begun to market its services more aggressively, competitors' concerns about these two issues, and the risk that Australia Post will abuse its monopoly position, have increased.

TNT argued that:

... the monopoly may give Australia Post a special advantage in providing unfairly competitive non-reserved services. That advantage may accrue from the fact that the reserved services provide Australia Post with a

guaranteed revenue which could be drawn on to fund non-reserved activities. In other words, there is the very real potential to subsidise courier and parcel activities from the revenue received through reserved services. Put alternatively, losses in non-reserved activities could be funded by income from the reserved activities. (Submission 121, p. 12)

Mayne Nickless had similar concerns.

Mayne Nickless, along with many courier and parcel services in the private sector, has a number of concerns at the market power wielded by Australia Post and, given the non-transparency of its financial reporting, its perceived ability (real or otherwise) to cross-subsidise its competitive (non-monopoly) services from profits earned by its legislated monopoly on standard letter mail carriage. (Submission 81, p. 17)

Other participants also argued that there is insufficient information for competitors to be sure that Australia Post is not cross-subsidising services. For example, the Australian Direct Marketing Association stated that:

... the business community ... is concerned that it is actually subsidising unprofitable services in Australia Post. This is assumed because we have no real information to indicate whether the high-volume-mail mailers are actually subsidising unreserved services ... (Initial Hearing Transcript, p. 383)

Australia Post argued strongly that it does not cross-subsidise between reserved and non-reserved services. Chapter 4 notes that those companies which were concerned about cross-subsidisation were unable to provide evidence that it was occurring.

Section 4.3.4 discusses the risk of cross-subsidisation and mechanisms which can be used to reduce this risk, such as requiring Australia Post to publish in its annual reports separate financial data for its reserved and non-reserved services. However, separating out financial data is difficult because overhead costs must be arbitrarily allocated between reserved and non-reserved services. The most effective way to ensure that cross-subsidies which provide Australia Post with a competitive advantage do not occur, is to remove the opportunity to cross-subsidise by repealing the legislation which reserves the letter service to Australia Post.

The exclusive right to provide the basic letter service gives Australia Post substantial leverage in the market. All companies must send a large proportion of their mail through Australia Post because of the reserved services. Because of organisations' reliance on Australia Post for the basic letter service, and because they fear retaliation, it is not possible to gain proof that Australia Post is involved in anti-competitive practices. However, there is considerable anecdotal evidence that, particularly since it has adopted a new commercial charter, Australia Post may have been acting in ways which are considered unfair given its reserved services protection.

Major Mail Users was concerned about Australia Post's dominance in the market:

The danger is that Australia Post may use its market power to compel customers to direct all of their business with Australia Post, either under an implied threat of deterioration of service, or a consideration that better prices overall will be obtained only by taking out an exclusive "total mail" agreement. If this were to happen it could seriously affect and disadvantage competitors. (Submission 48, p. 37)

This concern was shared by Pac-Rim which argued that:

... this shift to commercialisation has manifested itself in threats of legal action by Australia Post in support of its monopoly and apparently arbitrary pricing policies. Pac-Rim would contend that there appears to be a fundamental contradiction between the rhetoric of a "commercial" public sector instrumentality and the exercise of monopoly power. (Submission 92, p. 6)

This problem is particularly relevant for mailing houses which compete with Australia Post in some areas but also rely heavily on Australia Post to undertake the delivery end of their business. Major Mail Users was concerned about Australia Post's potential to control the mailing house sector.

Because of the current reserved service privileges, Australia Post if it were to become a major player in this area [mailing house services], could easily manipulate and dominate the market place. (Submission 48, p. 45)

Similarly, letterbox distributors either deliver articles themselves using their own 'sub-contractors' or use Australia Post for areas where their networks do not extend, typically in areas of high cost. The tension between these distributors and Australia Post was alluded to by the Major Mail Users which stated:

... [distribution of] printed matter can be achieved by suppliers who specialise in letterbox drops. Such material can include catalogues and leaflets and magazines. The disadvantage of such systems is that they have not offered comprehensive coverage throughout Australia in the past. Also the use of such suppliers draws the ire and sometimes threats from Australia Post. Many major mail users will have to assess whether the use of such alternative services is worth it when it may upset their relationship with Australia Post. (Submission 48, p. 36)

A further example of the tension in this area was described by Pac-Rim.

The recent threats by Australia Post to take legal action against Pac-Rim subsidiaries and their companies have been accompanied by significant variations in prices quoted to Pac-Rim companies or Pac-Rim agents for the delivery of items by Australia Post.

Progress Press intended to use its own distribution network to distribute the bulk of the items (approximately 5 million) and use the Australia Post network to distribute the remainder (approximately 1.3 million).

... In early September Progress Press received an indicative quote from Australia Post for this delivery ranging from 9.6 cents for local delivery to 20 cents for interstate delivery. This was on par with previous quotations from Australia Post.

In early November Progress Press received a second communication from Australia Post stating that Australia Post had reviewed its costing for this type of distribution, and quoting new prices ranging from 30 cents for local delivery to 40 cents for interstate, ... after negotiation, reduced to [a minimum of] 25 cents. (Submission 92, p. 22)

In response, Australia Post commented:

Australia Post quoted initially for a national unaddressed distribution for Medicare to all address points within each postcode area. It was not understood by Australia Post that the delivery required by Pac-Rim was only to parts of certain postcode areas. In such cases Australia Post charges are higher in order to cover costs of contractors who are used to deliver unaddressed mail when partial postcode areas are involved. As a result Pac-Rim subsequently was provided with a higher quotation. (Submission 264, p. 58)

Again Pac-Rim described behaviour that seemed discriminatory against Australia Post's competitors:

In late December 1991 Progress Press bid against other mass distributors for the business of the Queensland State Electoral Commission to all households in the State. On this occasion Australia Post broke with its past practice and refused to offer quotations for part post-codes, ie they would accept delivery only of product for an entire post-code. As a result the proportion of the job which could be delivered by the Progress Press network was reduced from approximately 80 per cent to about 50 per cent, adversely affecting the bid. Progress Press did not win the contract.

Progress Press received an informal indication from an employee of Australia Post late last year that they [the changes] represented an attempt by Australia Post to curtail "cream skimming" by private sector operators. Pac-Rim can only note their coincidence with threats of legal action made by Australia Post at the time of the Streetfile deliveries. Furthermore, given that these were totally generic distributions requiring no pre-sorting or related costs, and given its own knowledge of the cost of mass distribution, Pac-Rim finds it difficult to accept that the prices quoted by Australia Post accurately reflect the cost to it of providing the service. (Submission 92, pp. 22-3)

Australia Post responded:

This claim is simply not true. It is not the Corporation's policy to refuse such contracts ... As a matter of common sense, Australia Post would prefer entire post-code deliveries of unaddressed mail, because they can be delivered without sorting at minimal cost. When only partial coverage of a post-code is required, the assessment of the cost, and therefore the price quoted, becomes substantially higher. This is especially so for some rural and remote deliveries, which would be expected to cover fully the cost of this non-CSO service. (Submission 264, p. 59)

Similarly, TNT argued that Australia Post has captured TNT customers, who post relatively low volumes, by offering them discounted rates which are lower than the bulk rate TNT receives from Australia Post.

It is not unusual for Australia Post representatives to go to our individual customers who might spend with us on the service \$1 000 or \$2 000 a month or \$20 000 to \$25 000 a year and offer substantially lower rates than we are getting on our contracted rates [when we spend \$13 000 000 a year with Australia Post]. (Initial Hearings Transcript, p. 582)

In response, Australia Post commented:

... the contract rates charged to Kwikamail were the same as those offered to the major mail consolidators, and represented the highest discounts offered. No contract currently is in effect as Kwikamail is unwilling to accept penalty clauses which preclude cream skimming. (Submission 264, p. 57)

TNT re-affirmed its claim that the contract terms it has been offered by Australia Post are more onerous than those available to its competitors or potential customers. While stating it is difficult to prove that unequal treatment is occurring "... because companies which benefit from favourable arrangements with AP are reluctant to disclose details of their arrangements in case they might be withdrawn" (Submission 300, p. 2), TNT did compare its offer from Australia Post with that offered to the Civil Aviation Authority. The rates of postage in the two agreements were the same but the penalty clauses differed. TNT said:

The comparison we believe is quite stark. Moreover, there is no obvious reason why Kwikamail should have far more onerous quantity and penalty provisions. Indeed, with its much higher volumes, Kwikamail would have expected receiving more favourable treatment, rather than being subjected to tighter conditions. (Submission 300, p. 3)

In response Australia Post stated:

Section 32 agreements are negotiated with each customer and specific prices and conditions reflect the agreed arrangements between the parties. Factors taken into account in the negotiations include the characteristics of the items such as the weight, size, delivery destinations, frequency of pick-up, provisions for returns and special delivery or signature requirements.

It is seldom that customers' business requirements are the same and prices and conditions will often vary in recognition of these differences. (Submission 302, p. 1)

Because some services are reserved to Australia Post and because of its dominance in the postal market, some customers feel vulnerable to Australia Post's market power even for services not reserved to Australia Post. Examples of this include:

The Council has found the attempts at commercial negotiations with Australia Post frustrating. Officers seemingly changed the rules during the negotiations, seemingly from the position of monopolistic security. (The Australian Council of Professions, Submission 270, p. 5)

Australia Post has a monopoly over postal deliveries. There is no alternative national distributor that gives 100% delivery Australia-wide. So called alternative carriers give 70% to 75% at best and the coverage is concentrated in cities ... so a misuse of monopoly position in country areas by overcharging exists. (Newsagents Direct Distribution Pty Ltd, Submission 181, p. 3)

In response to this concern, Australia Post argued that its monopoly only covered letters and not all postal articles, and that other parcel services offered by Mayne Nickless and TNT do cover all delivery points. Therefore, Australia Post could not charge excessive rates in country areas because it would lose business to its competitors.

Both the risk of Australia Post cross-subsidising between services and exploiting its monopoly position would be reduced, if not eliminated, if the Government amended the legislation which reserves the letter service to it.

7.3.4 Provision of the lowest cost services

Even if the Prices Surveillance Authority (PSA) is successful in preventing unnecessary price rises, and Australia Post supplies letter services at least cost within the constraints of its network, the reserved services legislation prevents customers from using other delivery systems which may be less costly. This could increase the cost of operating many businesses, which may be supplying products to domestic consumers or exporting goods overseas. The Publishers' Group argued that:

The growth of private courier services and private addressed printed mail services has already led to new self-reliant, innovative and internationally competitive industries in Australia. They are presently seriously hampered in free market operation by government regulations such as the ten-times impost placed on some mail services ... These distributors are a key to maintain profitability and viability of a large section of Australian industry. (Submission 32, p. 2)

Similarly, Pac-Rim argued that private operators should be able to provide services in all markets where they believe they can make a profit.

... a private sector operator may be able to provide the service more efficiently and thus provide consumers with a lower price as well as generating a profit to justify its entry into the market. (Submission 92, p. 26)

Further, Pac-Rim has developed new computer technology the application of which is restricted by the legislation (see Section 2.2.3).

Pac-Rim believes the further application of these developments would not only be in the interests of its shareholders, but also, by offering the prospect of more efficient printed communication services, in the interests of the broader community. (Submission 280, p. 1)

Some large organisations appear to be facing substantially higher internal mailing costs because of the restrictions under the reserved services. If these organisations use their own employees to carry letters, that mail is excepted from the reserved services (under Section 30(1)(g) of the Act). However, they are not permitted to contract out this service to a third party. Contracting out internal mail delivery can result in a service which is both quicker and less costly than that offered by Australia Post. For example, the Victorian Government has contracted out the delivery of documents between its departments. They receive a range of services including overnight, next working day delivery for the metropolitan area, and two day delivery for country mail. The cost of these services ranges from 9 cents to 19 cents a document.

In effect, the Act prevents organisations from providing their internal letter service at least cost. It seems incongruous that organisations are allowed to use their own employees to provide an internal delivery service but, once they contract out this service, they are in breach of the letter monopoly.

As noted in Section 2.2.4, many courier companies appear to be carrying letters as well as documents and parcels, although this practice is difficult to prove or police. Some of the letters already being carried by couriers would be mail internal to large organisations. For these reasons there would be substantial benefits in allowing organisations to choose the most cost-effective way to transfer internal mail.

The Commission recommends that, if the reserved services protection is retained, Section 30 of the Australian Postal Corporation Act be amended to except from reserved services all mail internal to an organisation whether it is carried by its employees or other persons.

Adopting this recommendation, however, would not solve all the problems of firms not being able to adopt the least-cost method of meeting their communication needs. For example, electricity, gas, and water companies are increasingly using contractors to read meters. Some, for example the Prospect County Council, would like to be able to print and deliver an electricity bill at the same time as the meter is read. This would allow substantial savings in printing and postage costs. They would be permitted to do this if their employee read the meter. However, if the meter is read by a contractor, it appears that the bill must be delivered by Australia Post.

If the reserved services protection were removed, it would be possible for companies to choose the most effective and least-cost way of meeting their communication needs.

7.3.5 Confusion about what is covered by the reserved services

As noted in Section 7.1, there appears to be a great deal of confusion as to what qualifies as a letter. This is creating difficulties for firms competing with Australia Post. For example, in late 1991 Streetfile was commissioned to deliver catalogues to cardholders of American Express and the Myer Stores. The catalogues were plastic wrapped with a one page insert addressed, in the case of American Express, 'Dear Cardholder' and, in the case of Myer, 'Dear Valued Customer'.

Following the delivery of the American Express catalogue, Australia Post warned American Express and Streetfile that, because of the insert, the catalogues were covered by the reserved services legislation. Australia Post told American Express that it "... would not be initiating legal action in that case but that it had warned American Express's agent [presumably a reference to Pac-Rim] of its need to enforce the provisions of the Act" (Pac-Rim, Submission 92, p. 20).

When Streetfile began to distribute the Myers catalogue, it received a letter from Australia Post's solicitors demanding that it cease distribution or court action would be taken. When Streetfile ceased delivery, Australia Post's solicitors responded by saying that it would not take court action.

In the case of a catalogue distributed by Streetfile in February 1992, a similar one page insert was bound into the catalogue. By binding the insert, this catalogue was not covered by the reserved services legislation, although the material contained in the package was essentially the same as the previous version. Streetfile has subsequently lost this contract.

Pac-Rim now wishes to advise the Commission that it has become evident since Pac-Rim's earlier submission was lodged that the threat of legal action by Australia Post has deterred a major customer of Streetfile, Myer, from using the company's services. On 7 August 1992 Myer wrote to Streetfile stating that it planned to include a personally addressed single sheet in its Christmas catalogue distribution for 1992. The company stated that unless it could be guaranteed that it would not face legal action from Australia Post it would not utilise Streetfile for the distribution. (Submission 280, p. 4)

Pac-Rim (the parent company of Streetfile) argued that:

... any common-sense assessment of the original Myer and American Express distributions was that they constituted generic advertising material and not letters in the common meaning of the word. (Submission 92, p. 21)

The current exceptions from the reserved services look at the form the communication takes, not its content or purpose. Therefore, advertising material in the form of a leaflet is excepted from the reserved services, while the same text reprinted as a letter is reserved to Australia Post. Advertisers are forced to change the way they promote their product because of the legislation. This may make some advertising campaigns less effective and more expensive. The cost of advertising is passed on to consumers through higher prices so that, in this case indirectly, the reserved services legislation unnecessarily burdens consumers.

The uncertainty as to what is included in the reserved services can also reduce the incentive for letterbox distributors to develop new services and extend the areas in which they compete with Australia Post. Developing new technology and marketing new services is costly. If companies cannot be sure which services are reserved to Australia Post, they will be reluctant to put in the effort necessary to expand their activities. Pac-Rim argued that this problem is affecting its operations:

... Pac-Rim believes that Australia Post's existing legislative monopoly has been used by Australia Post in an attempt to limit the development of these new systems [computer based printing and sorting] by Pac-Rim and could, if maintained, prevent the full benefits from the development of this technology from being derived. (Submission 280, p. 1)

If advertising material were excepted from the reserved services and a letter were more tightly defined, this impediment would be significantly reduced. The letter monopoly in Sweden, for example, does not include advertising material (see Appendix F).

The type of material classified as advertising should include promotional material printed in any form, even as a letter, as long as the basic text on each copy is the same. Advertisers should be allowed to direct this material to recipients by using their name and/or address on the letter or the envelope without resulting in the advertising being reserved to Australia Post.

Within the definition of advertising material it should also be possible for direct marketers to adopt innovative forms of advertising. For example, one advertising campaign should be able to present variations of the advertising to focus on different groups of consumers.

The Commission recommends that, if the reserved services protection is retained, Section 30 of the Australian Postal Corporation Act be amended to except advertising material from reserved services.

In response to the draft report Australia Post criticised this recommendation on three grounds. These are discussed in turn. First,

"Generic advertising material" is not readily definable for purposes of legislation. As such, an exclusion written into legislation would have the dual undesirable outcomes of encouraging the proliferation of litigation and magnifying the task of enforcement. (Submission 264, p. 19)

However, as illustrated earlier in this section, there are large problems in interpreting the current definitions in the legislation. The Major Mail Users Association supported this recommendation.

We see the withdrawal of "generic advertising material" from reserved service protection as logical and worthwhile. The current restrictions are artificial and provoke disputes. (Submission 272, p. 6)

The Commission is not convinced that the exception for advertising material would create substantially more enforcement problems than arise under the existing legislation.

Second, Australia Post argued that the exclusion of advertising material would erode the mail volumes from which it currently funds community service obligations. This problem would be overcome by adopting the Commission's recommendation to directly fund CSOs.

Third, Australia Post argued that it is difficult to check compliance when the exception is based on the contents of the envelope. However, that part of Section 30 which affects advertising material the most, the exception for books, magazines, catalogues, and leaflets, is already based on the contents of the package. The problem exists; this recommendation should not substantially increase it.

7.4 Natural monopoly and the reserved services

The previous section identified that increasing competition in the provision of the reserved services would result in significant benefits. This section addresses whether competition would eventuate if the legislation which reserves the letter service to Australia Post were repealed, and if there would be other pressures in the market place which would force Australia Post to operate efficiently even if actual competition did not eventuate. If there were no legislative provision that only Australia Post could provide a letter service, but characteristics of the market resulted in only one supplier operating, the market would be termed a natural monopoly. Section 7.4.1 considers whether there are characteristics of the letter service which make it a natural monopoly.

7.4.1 Is the letter service a natural monopoly?

An industry is considered to be a natural monopoly if the total costs of production are lower when a single firm produces the entire industry output than when it is produced by two or more firms.

The empirical evidence required to prove conclusively whether or not Australia Post has a natural monopoly in providing letter services is onerous. Detailed information is needed on the costs of, and demand for, letter services. In addition, there are no deregulated letter services in the world which can be compared with the Australian system, and the different geographical characteristics of markets in different countries make such comparisons even more difficult. Therefore, it is not possible to prove conclusively whether or not there is a natural monopoly in the supply of letter services.

Australia Post argues that there are some natural monopoly characteristics in the provision of postal services:

One of the great intellectuals in the area, John Panzar, was saying that in his opinion, although he hadn't proved it, he thought that there were natural monopoly conditions in postal services ... we do have very clear economies of scale. Unit costs do fall with size and there are economies of scope but it has not been possible to establish definitively that there are natural monopoly conditions ... if there were natural monopoly conditions, [they are] ... not very strong. (Initial Hearing Transcript, p. 8)

Keep Australia Post Public said that it:

... firmly believes that the postal service is a natural monopoly and that it should be retained in the public sector. (Submission 260, p. 3)

The Major Mail Users of Australia disagrees.

Australia Post is not a natural monopoly. It has been created by the history and development of the postal services and subsequently protected from competition by successive governments for more than 90 years. During that time Australia Post has gained and retained a unique position of true omnipresence. (Submission 48, p. 7)

Analysts who have attempted to assess the extent of natural monopoly in the postal market have reached different conclusions. For example, the Bradley Report (1982) concluded that:

The relatively low capital intensity of the Commission's postal network suggests limited economies of scope or scale for the broad range of postal services ... In summary, the Committee did not consider theoretical contentions that the postal system constitutes a natural monopoly are persuasive. (p. 41)

In contrast Panzar (1991) suggested that:

... I am quite convinced that postal service would be found to be a natural monopoly in the provision of its currently defined services. (p. 222)

However, Panzar considered that elements of natural monopoly did not preclude competition. In fact he argued that introducing competition, for example allowing advertisers to inter-connect with the mail system, would provide substantial advantages.

The postal industry supplies a range of services. In such an industry, if there are both unexhausted economies of scale for each service and economies of scope across the range of services, then the industry will be a natural monopoly. Whether this is the case is assessed in the following sections.

Economies of scale

Economies of scale exist when the average cost of providing each unit of service falls as the service increases. When considering the extent of economies of scale it is convenient to divide the costs of providing letter services into four categories: collection, sorting, transport, and delivery.²

In the cities mail volumes are large so the market can support more than one organisation collecting mail. For business mail this is illustrated by the number of couriers already operating collection and delivery services in the city areas. For private mail in the suburbs and rural areas, mail collection could 'piggy-back' on other established businesses such as newsagents, chemists, or petrol stations. For example, chemists currently provide a collection network for film processing. This would make the collection of even relatively small volumes of mail commercially viable and therefore there are unlikely to be substantial economies of scale. In short, there may be some economies of scale in collection, but they are minimal.

There are 200 to 300 mailing houses which sort mail, mainly in cities. These range from large companies to small 'back-yard' operations. They pack, label, and sort mail and deposit it in the Australia Post system. Australia Post explained that it provides a discount on the postage to reflect the amount of pre-sorting which has been done:

² This approach has been used by others in addressing the question of economies of scale; see for example Albon (1991b) and Panzar (1991).

... the price of other letter products is structured to reflect the real cost of the service provided:

- pre-sorted bulk mail attracts a discount from list prices because of the reduced demand on Australia Post's sorting system ... (Submission 82, p. 38)

If there were large economies of scale still to be gained in sorting, mailing houses would not be viable because the costs to Australia Post of sorting all of the mail in its own mail centres would be lower. In short, the economies of scale in sorting are likely to have been exhausted already, particularly in the cities.

In response to the draft report Dr Mathews argued that the introduction of OCR equipment has resulted in substantial economies of scale in the cities (Submission 281, p. 2). This argument does not recognise that Australia Post is not compelled to offer other organisations discounts for pre-sorting mail. It does so because it is commercially beneficial to both parties. Hence, if all of this mail were presented to Australia Post unsorted, even with OCR equipment, it would cost much more to sort it as quickly as Australia Post does now. This indicates that, at current city volumes, economies of scale have been exhausted.

Both Panzar (1991) and Albon (1991b) argue that there are unlikely to be economies of scale in the transport of mail. In the United States much of the transport is subcontracted to a competitive private sector. Australia Post contracts out line-haul on a case-by-case basis, usually on routes other than the eastern seaboard or from Melbourne to Adelaide and Hobart (Submission 82, p. 41).

Many commentators argue there are likely to be economies of scale in delivering mail.

As the final step in postal delivery is the "postman" it would seem to be very inefficient to have more than one letter carrier walking the streets each day. (The Mailing House, Submission 65, p. 4)

Whether there are significant benefits in having only one deliverer stopping at each letter box depends on the volume of mail being delivered and the density of the delivery points. In areas of high volume and high density there is already more than one organisation delivering material to letterboxes. Progress Press and Salmat provide regular letterbox delivery for advertising material in cities and major regional centres. In contrast, in rural areas where volumes are smaller, it is likely to be more efficient for only one delivery firm to provide the regular service because economies of scale are still available. In remote areas, where volumes are low and the population is sparse, the delivery service may not cover its costs, even if there were only one firm providing the service.

This conclusion is supported by the Department of Transport and Communications:

Intuitively, some economies of scale should be available in Australia Post; for example in remote areas where delivery routes cover large distances, or in local delivery networks. (Submission 119, p. 17)

Overall it is likely that the economies of scale available in the cities have been exhausted. However, in rural and remote areas, where volumes are smaller, it is likely that economies of scale are still available.

Economies of scope

Economies of scope exist when it costs less for one firm to provide a range of services compared with a number of firms providing each service separately. This arises because there are large overhead costs or capital costs which can be shared over the range of services.

Australia Post provides a range of services in conjunction with its core letter service, for example, the Commonwealth Bank agency, selling packaging material, FaxPost, and the lettergram service. The use of post office facilities to provide access to other services is a useful way for Australia Post to spread its overhead costs. However, similar services are often provided by other businesses. For example, banks set up separate branches, newsagents sell packaging, and at least one entrepreneur is considering operating a network of public facsimile machines. Therefore, there are unlikely to be sizable economies of scope in the range of services Australia Post provides.

As to the delivery of postal services, the results appear to differ between city and rural areas. In the cities, because of high volumes, Australia Post tends to separate different types of mail. Parcels, large letters, and standard letters are sorted separately, and parcels are delivered separately from letters. In rural and remote areas, because volumes are much smaller, the different types of postal services are more likely to rely on the one sorting facility. In remote areas it is common for mail contractors to deliver groceries, parcels, and other supplies with the mail:

... nothing can replace a regular mail service which is relied on so much for personal mail, correspondence school work, motor parts and most importantly medication prescribed by our local clinic sister through the royal flying doctor service which by necessity comes from Bourke 200 km away. Then must go out on my mail run, to some, another 140 km. (M. K. Howkin, mail contractor, Submission 93)

This indicates that there are economies of scope when volumes are low and the people delivering the mail have the capacity to carry additional articles on their mail routes.

There may also be economies of scope in the one organisation controlling the delivery of letters from start to finish. That is, the same firm collecting, sorting, transporting, and delivering a particular letter. The existence of these types of economies of scope is an argument for the one firm being responsible for each letter from start to finish. However, unless there are significant economies of scale which justify all letters being processed by the one organisation, such economies of scope will not make it least cost for only one firm to carry all letters.

Conclusion

For there to be a natural monopoly in the provision of mail services, both economies of scale and economies of scope need to be large enough that they are not exhausted even if only one firm is providing the service. As indicated above, the extent of natural monopoly varies between regions depending on the volume of traffic.

In the cities where volumes are high, there are only limited economies of scope and most of the economies of scale have been exhausted. The postal market could support competition between firms. For rural and remote areas, however, the least cost approach is for one firm to control the provision of the letter services. In some remote areas even a single firm would not cover its costs.

Within this range there will be some areas which border between competition and natural monopoly.

Dr Mathews criticised the Commission's conclusion (in the draft report) that there are unexhausted economies of scale and scope in providing postal services in rural areas but that these have been exhausted in the cities. He argued that the reverse is true:

... economies of scale can be reaped in city areas by separating the mail into streams. That such an approach is not available in rural areas merely underlies my previous point that economies of scale are not available for capturing in rural areas. But the IC turns this around into a (mistaken) claim that it allows economies of scope to be captured. It does no such thing unless specific initiatives are taken designed to spread risks or asset utilisation. (Submission 281, p. 4)

One of the main arguments behind Dr Mathews' conclusion is that rural volumes are insufficient to justify electronic sorting and therefore there are no economies of scale in rural areas. However, the characteristics of delivery drive the natural monopoly in rural areas. In rural areas there is insufficient volume to justify more than one person delivering mail in each area, indicating there are unexhausted economies of scale because those people delivering mail could carry additional mail (or other goods) at very little extra cost. Similarly, they could -- and do -- use their vehicles to deliver goods other than mail enabling them to spread the cost of this asset over a wider range of services and, as Dr Mathews states, this indicates that there are economies of scope. It would be impractical to split this mail between more than one supplier.

7.4.2 Contestability under natural monopoly

The Isolated Children's Parents' Association (Northern Territory State Council) expressed concern that, because of the limited competition in rural areas, there was potential for:

... the organisation (for example Australia Post) to exploit its position in remote areas. Remote areas are not viable and as a result there would be no competition and this possibility may occur. (Submission 267, p. 3)

Although in rural and remote areas there will tend to be only one firm providing letter services, the market may still exert pressure on that firm to minimise costs and prices and to provide the services that customers want.

It is relatively easy for firms to move in and out of supplying those letter services not protected by the legislation. There are few items of capital equipment which, once bought, cannot be sold if the business closes down. Therefore, firms do not have to invest in large assets which tie them to supplying letter services for long periods of time. Because new firms can easily enter the market, the incumbent firm faces the risk that, if it does not provide services efficiently, another firm will enter the market, undercut its price, and push it out of the market. When a market places such pressure on incumbent firms, it is said to be contestable.

Even if there is only one firm providing services in a contestable market, these services will tend to be sold to consumers at the lowest possible price: this is so because the incumbent firm does not want to encourage other firms to try to compete for its market share. The legislation which reserves the letter service to Australia Post precludes other firms from providing some letter services. The pressure which contestability would place on Australia Post to improve its efficiency is removed.

7.5 Pro-competitive regulation

The discussion in Section 7.2 establishes that the level of competition in the provision of letter services is substantially reduced by granting reserved services protection to Australia Post. Section 7.4 notes that, if this protection were reduced or removed, competition for the provision of letter services would increase in the cities, while in rural and remote areas there would probably still be only one organisation providing letter services. The ability of such an organisation to exploit its position in the market would depend on the potential for other firms to enter the market, undercut its prices, and win its customers.

Nevertheless, the potential for a service provider to exploit its market power may be sufficient to warrant government intervention by way of pro-competitive regulation. Such regulation may be justified both where government legislation is preventing more than one firm from providing postal services, or in markets where, even without legislation, there would be very little competition.

When government legislation prohibits competition, pro-competitive regulation acts to minimise the potential for that firm to increase prices and exploit its market position. In markets which do not engender competition, pro-competitive regulation could provide a useful back-up in case the pressures of potential competition were not strong enough to prevent the incumbent firm from exploiting its market position. A firm may exploit its market position by charging higher prices, or providing lower quality services, than it would in the face of competition.

The core of Australia's pro-competitive regulation has two components: prices surveillance provided by the *Prices Surveillance Act 1983* and administered by the Prices Surveillance Authority (PSA); and the prohibition of certain restrictive trade practices provided by the *Trade Practices Act 1974* (TPA) and administered by the Trade Practices Commission (TPC).

The following sections consider the regulation of letter services given the legislation which reserves to Australia Post the exclusive right to carry letters.

7.5.1 General versus industry specific regulation

Pro-competitive regulation can be implemented through an industry specific body such as AUSTEL, which was set up to regulate Australia's telecommunications industry. The UK Government has set up industry specific bodies to supervise industries such as telecommunications, gas, and water, which it is deregulating and privatising. The 1991 Citizen's Charter proposed that a similar independent regulator would be set up for postal services in the UK. The regulator would monitor post office performance against service targets, assess complaints made against the post office on service quality or the level of charges for access to the postal network, and advise the Secretary of State where policy changes were needed.

In contrast, if the proposal to deregulate postal services in Sweden proceeds, the Swedish Government intends to control predatory pricing through amendments to its general competition law and scrutiny by its Commerce Commission. Similarly, New Zealand relies on general legislation, the *Commerce Act 1986*, to regulate industries where there are elements of natural monopoly.

The Major Mail Users suggested that an industry specific body should be set up to regulate the postal industry in Australia.

It may be time now to accept the need for an AUSTEL equivalent to oversee the operation of Australia Post. MMUA would welcome such initiatives and would be prepared to assist in the development of such a body. (Submission 48, p. 44)

Industry specific regulatory bodies have a number of advantages. But there are also advantages in providing pro-competitive regulation through general legislation.

Under general regulation, through the TPC, the regulatory body only intervenes when problems arise. In contrast, companies need to deal continually with an industry specific body and could face high compliance costs. There are also costs in operating an industry specific body. AUSTEL, for example, is staffed by 127 people and has an annual budget of \$11.5 million (AUSTEL 1991).

These costs need to be weighed against the speed of reform. One advantage of an industry specific body is that it can take an active part in soliciting competition and seek to increase the speed of reform. AUSTEL is seen as having a role in both "... promoting and maintaining fair competition" (DOTAC 1992). Yet this does not preclude the same gains, at lower cost, being achieved under general regulation over a slightly longer time.

Industry specific and general regulatory bodies tend to be staffed by people with different expertise. Industry specific bodies are often staffed by people with expertise in the industry they are regulating. In the case of AUSTEL this industry knowledge was seen as very important when facilitating the negotiations between AOTC and potential competitors about the conditions under which new suppliers would obtain access to AOTC's network (inter-connection).

When AUSTEL came to the table on the issues it had more than twelve months' experience in researching, discussing and consulting with interested parties on inter-connection matters ... Quite simply one is not given the luxury to come to these issues cold particularly in an environment where the carriers are well resourced and competent and may have been attempting to commercially negotiate an agreement over a protracted timescale. (DOTAC 1992)

This specialist knowledge also increases the organisation's ability to be flexible and adapt its approach to meet the specific needs of the industry.

In contrast, those involved in general regulation usually have a breadth of experience gained from addressing similar problems in other industries. This has two advantages:

- the regulators have experience on the effects of policies and how problems can be avoided; and
- the regulators are able to implement a consistent approach across all industries, so that similar companies in different industries are treated equally.

From its own experience in reviewing price increases, the PSA argued that a body regulating postal services would not need a great deal of specialist knowledge:

... there is a considerable degree of technical knowledge required by AUSTEL in areas such as standards setting. Such a degree of specialist knowledge is not necessary for postal services. (Submission 120, pp. 23-24)

In addition, general regulation reduces the risk of the regulatory body being captured by one of the interested parties, for example, suppliers, the Government, or customers. If this were to occur, the regulatory body would not be taking the overall interest of the Australian community into account in making decisions.

7.5.2 Prices Surveillance Authority and Australia Post

Since 1983 standard postal articles and registered publications have been notifiable under the *Prices Surveillance Act 1983*. In February 1992, the Government announced that the following

letter services would also be under PSA scrutiny: Express Post; international letters; some non-standard letters such as prepaid envelopes and large letters by ordinary post; Certified Mail; and Security Post. Print Post, which is replacing the registered publications service, was not included. This extends PSA scrutiny to include all services reserved to Australia Post. The Government added that its response to this Industry Commission inquiry would determine whether those services would continue to be subject to PSA scrutiny.

Products are declared if they are produced in a market "... where effective competitive disciplines are not present and where prices are of strategic importance to the general price level" (PSA 1991a, p. 23). None of the private courier or parcel services meet these criteria. Therefore, they are not declared services under the Prices Surveillance Act 1983.

The PSA has conducted four inquiries into Australia Post's prices and charges. The most recent was in 1991; its major recommendations are outlined in Appendix B.

When Australia Post seeks approval to increase the price of reserved services, the PSA looks at the cost of providing those services plus an adequate rate of return on assets. The Treasurer has directed the PSA that prices should not generally exceed increases in costs. More recently, when commenting on the recommendations in the PSA's latest report, the Government said that it would be happy for the PSA to discuss with Australia Post the possibility of moving to a CPI-X approach to price setting. The PSA is now talking with Australia Post about introducing a CPI-X formula on which to base future price increases (see Section 4.2.2).

Most participants were supportive of the role the PSA plays in reviewing prices for reserved services. However, there was disagreement over whether PSA scrutiny should be extended to cover non-reserved services. The APTU argued that:

Whilst the APTU has no problem for the PSA considering the monopoly areas, we say that it is grossly unfair that such should apply to the non-monopoly parts of Australia Post operations. (Submission 79, p. 17)

In contrast, the Major Mail Users believed that the current level of surveillance is inadequate as:

Australia Post still retains a high degree of monopoly power despite the emergence of competitors and clearly has significant market power based around its core mail business. A similar degree of monopoly power is evidenced by customers for a wide range of services related to letters, post office boxes and parcels etc. (Submission 48, p. 40)

7.5.3 Trade Practices Commission and Australia Post

The objectives of the *Trade Practices Act 1974* include preventing organisations engaging in anti-competitive behaviour which would undermine competition and reduce the efficiency of businesses. The TPC responds to complaints and inquiries, observes market conduct, and initiates action when it believes that is necessary.

Section 2(A) of the TPA subjects the business dealings of the Commonwealth and its agencies to the operation of that Act. There are, however, still some Australia Post activities which are not subject to the TPA. Under Section 51(1) of that Act, activities specifically authorised by Commonwealth legislation are exempt from the controls on restrictive trade practices under Part IV of the TPA. Since Australia Post has the letter service reserved to it under its own Act, this service is exempt from the TPA.

At the same time, the TPA does apply to any non-reserved services Australia Post provides (for example, parcels and courier services). Similarly, if Australia Post engaged in anti-competitive behaviour in providing its letter service, and this behaviour were not specifically allowed in its legislation, action could be taken against it under the TPA.

7.6 Competition in parcel services

It is difficult to divide the parcel market into distinct categories. Both the methods used to provide services and the markets they serve overlap, making separation onerous. However, competition varies between inter-city and intra-city parcel services. Therefore, this chapter will make an arbitrary distinction between inter-city parcel services and intra-city courier services. The courier services are discussed in Section 7.7.

There are two major customer groups for inter-city parcel services, businesses and households. Different organisations supply each of these markets. Australia Post dominates the provision of parcel services to households (see Chapter 2), while the Mayne Nickless and TNT groups are the major suppliers in the business parcels market.

7.6.1 Household parcel services

In its 1991 report into postal services, the Prices Surveillance Authority concluded that Australia Post dominates the provision of parcel services to individuals. Although numbers are very difficult to verify, it is likely that Australia Post accounts for about 90 per cent of this market.

Households are familiar with the service available through Australia Post and how to access those services. Therefore, they are inclined to use Australia Post's parcel service. The parcels sent by households tend not to be time-sensitive. So they are not willing to pay the premium for fast delivery charged by private parcel companies which are primarily catering to the business market.

A small proportion of household parcels would be sent by other carriers including couriers, bus, and rail. The importance of rail is declining as rail authorities are reducing or closing down their small freight services.

7.6.2 Business parcel services

There are many companies providing parcel services to businesses. Most of them are part of the Mayne Nickless and TNT groups. They each have targeted niche markets, providing a particular type of service to a particular customer group or region. Mayne Nickless operates air express, messenger, road express, and national distribution services. In air freight:

... Mayne Nickless is a leading provider of time-critical overnight freight services through six decentralised operations, each of which have developed separate niche markets and customer bases. (Mayne Nickless 1991, p. 17)

TNT operates a similarly diverse operation with different organisations catering to different market niches. However, TNT has recently moved to consolidate some of its services. Kwikasair, Comet, and TNT Air Couriers were recently joined under one management (TNT 1991).

Customers with larger volumes whose traffic is time-sensitive often use private services as an alternative to Australia Post. For example, the National Library of Australia stated that it uses five different companies to transport parcels and mail ranging from letters less than 500 grams to parcels over 20 kilograms (Submission 74, p. 3).

Because of the number of companies within their groups, Mayne Nickless and TNT supply the majority of the inter-city parcels market. For example, in the case of Mayne Nickless:

As a transport operator obviously we are a major player in the market in Australia and I think it is probably fair to say that a great deal of the market would be in the hands of those two organisations as has been outlined. (Initial Hearing Transcript, p. 245)

There is some concern that Mayne Nickless and TNT have a strong position which they could use to exploit customers or compete unfairly with small competitors or potential competitors. For example, the CWU argued:

... big multi-national carriers are using their dominance [in the parcels market] and they are using their size and other facilities, other services, to in fact keep other people out or to push them out of the market-place. (Draft Report Hearing Transcript, p. 205)

The United Farmers and Stockowners of South Australia Incorporated expressed concern about the impact of this market dominance on rural people.

Several cases of blatant over-charging in relation to parcel delivery have been brought to our attention recently. Information provided to our office suggests that a couple of major companies with large monopolies in express parcel delivery are issuing accounts containing exorbitant charges for small parcels. When challenged (especially through local agents) they usually make quick and dramatic reduction to the charges levied. (Submission 110, p. 2)

The Trade Practices Commission is currently investigating possible collusive pricing between TNT and Mayne Nickless. Both have been issued with Section 155 notices which require them to provide any documents the TPC requests. Mayne Nickless and TNT are challenging the issue of these notices. Because of this court challenge there was no information available on the progress of the investigation during the course of this Industry Commission inquiry.

Both Mayne Nickless and TNT recognised that each has a substantial share of the inter-city parcel market, but argued that they would be unable to exploit this position. In its submission Mayne Nickless presented two reasons why it did not have market power.

First, Mayne Nickless argued that there were limited economies of scale and scope in delivering parcels. In support, it noted that company groups were divided into subsidiaries serving niche market segments and there was extensive subcontracting of services. This, it claimed, indicates that there are no intrinsic characteristics in the market which prevent competition.

Second, there are few items of capital equipment which, once bought, cannot be sold if the business closes down. Therefore, it is relatively easy for firms to enter and leave the industry. As Section 7.4.2 notes, such a market is contestable and exerts pressure on firms to operate efficiently and charge the lowest possible prices even if there is very little actual competition in the market.

As evidence, Mayne Nickless pointed to the mobility of customers between different service providers as indicating that, if one company did not provide freight services at least cost, it would quickly lose customers to its competitors. Both Mayne Nickless and TNT mentioned the competitive prices for parcel services in Australia and the low levels of price increases in recent years as indicating that there is substantial market pressure on freight forwarders not to increase prices.

In 1984 an inquiry was undertaken into the national road freight industry. As part of this report Nicholas Clark and Associates were commissioned to assess the level of market power in the industry. The consultants concluded that there were economies of scale and scope in setting up a national freight network because larger freight volumes gave the forwarder more flexibility in consolidating loads and increased the forwarder's ability to provide a range of services. For freight forwarding, the consultants concluded that in 1984 three major companies, TNT, Mayne Nickless, and Brambles, controlled 60 to 70 per cent of interstate road freight movements and that the level of concentration was increasing.

When assessing whether this concentration would result in the freight forwarders being able to exercise market power, the consultants concluded that:

The periphery of the freight forwarding market is quite contestable; barriers to entry and exit are low, and it would appear that entry and exit occur regularly. At the core of the market there are some cost advantages available to the larger firms, particularly those arising from consolidation, from bargaining power, and from sheer volume allowing firms to minimise the marginal cost of providing clients with specific services characteristics such as reliability, frequency, range etc. These cost advantages would however appear to be available to any entrant of similar size and although there are fairly substantial fixed commitments involved, the proportion which are sunk does not appear to be large.

This would suggest that the core of the freight forwarding market is potentially quite contestable, although the lack of any precise costing data makes it difficult to draw any firm conclusion. (Nicholas Clark and Associates 1984, p. 11)

The National Road Freight Industry Inquiry report also noted that in freight forwarding "... most competition is limited to small parcels and express services ..." (NRFII 1984, p. 30). This is the sector of the industry which provides courier and parcel services.

There does not appear to be any general institutional, regulatory, or other arrangements which reduce the efficiency with which parcel services are provided. The Trade Practices Commission is in the best position to consider the allegations of collusive dealing between Mayne Nickless and TNT. This review is in progress. Therefore, the Commission has not made any recommendations on this sector of the industry.

7.7 Competition in city courier services

The nature of competition in the intra-city courier market is different from that in the inter-city parcels market. The environments in which both the principal contractors and contract carriers operate are highly competitive. Although both Mayne Nickless and TNT still have a strong presence in the intra-city market, the proportion of the market they supply is much less than with inter-city services.

Information for Sydney provided by the Courier and Taxi Truck Association (Submission 276, p. 4) indicated that, although there are around 51 principal contractors that belong to 15 companies, there are also over 106 independent principal contractors. The Australian Courier Industry Association (Submission 193 pp. 3-4) suggested that a large proportion of the contract carriers, possibly around half, work for independent principal contractors.

It is relatively easy for both organisations and individuals providing principal contractor and contract carrier services to enter and exit the courier market. People working for a principal contractor can gain the experience needed to set up their own business. The capital outlay needed to become a principal contractor is not unusually large and the equipment used to operate the business can be sold if the person wishes later to leave the industry.

Similarly, the only qualifications needed to become a contract carrier are the required driver's licence and local area knowledge. There is also an active market in both new and second-hand vehicles suitable for providing courier services. The ease with which new operators can move into providing courier services reinforces the conclusion that this market is highly competitive.

Competitive pressure is also exerted on the inter-city courier market by the suppliers of close substitute services such as those provided by document exchanges, taxi drivers who do some courier work, and the internal distribution systems operated by large organisations. For the carriage of letters the reserved services protection restricts this competition because it currently prohibits any of these suppliers charging less than ten times the standard letter rate.

7.8 Labour costs

7.8.1 Labour restrictions

The level of unionisation is very different between intra-city and inter-city parcel services.

Participants in the inquiry had contrary views as to the influence of the Transport Workers Union (TWU) in the intra-city courier industry. The Australian Courier Industry Association argued that the TWU has considerable power, particularly in certain companies. It provided evidence that both employees and contract carriers working for ASAP Courier (part of the Mayne Nickless group) were compelled to join the TWU, as shown by a speech to ASAP Courier's contract carriers in August 1990:

This month all our drivers must be financial members of the Transport Workers Union ... after that any driver who is not a financial member of the Transport Workers Union will not be able to gain work from A.S.A.P. Couriers. (Submission 78, attachment, p. 35)

If a corporation other than a union tried to enforce such an arrangement, it would be in contravention of the *Trade Practices Act 1974* (TPA). Most union practices, however, are exempt from the provisions of Part IV of the TPA.

In contrast, the Courier and Taxi Truck Association considered that:

In the courier and taxi truck industry it is very much the minority of contract carriers that are in fact members of the Transport Workers Union. There are probably one or two companies in isolation that may have some policy previous to the new Industrial Relations Act in New South Wales which introduced voluntary unionism. Prior to that there may have been a practice within a particular company to encourage union membership, but we're talking about one company out of 157 companies operating in the Sydney and metropolitan areas and so union membership is very much at a minimum. The union itself will acknowledge that. (Draft Report Hearing Transcript, p. 134)

The Courier and Taxi Truck Industry Association estimated that between two and three hundred of the 3000 inter-city contract carriers belonged to the TWU. Smaller numbers of contract carriers belonged to other registered organisations.

The Australian Courier Industry Association responded that, despite the low membership of the TWU, industrial relations legislation entrenched the position of the TWU.

Our assertion about Act 107 of 1979 basically giving a "monopoly" in inverted commas to the Transport Workers Union of representing contract carriers in the courier industry, as the Commission is well aware, is based on our barrister's opinion ... (Draft Report Hearing Transcript, p. 145)

The barrister's opinion stated that:

The Transport Workers Union has, it would seem, persuaded a former government to entrench it as the organisation to represent contract carriers and to give it a form of appeal, but has denied the right of appeal to any applicant for registration which challenges what is, arguably, the entrenched position of the union. (Submission 78, attachment, p. 8)

The Commission does not have sufficient information to determine the extent of the TWU's influence in the intra-city courier industry. However, the position in the inter-city parcels industry appears to be clearer. The National Road Freight Industry Inquiry (1984) concluded that employees in the industry have market power:

... unionised employees in the forwarding industry exercise a degree of bargaining power. An examination of the wages and conditions for workers in this industry indicates that some employees such as interstate express freight drivers earn significantly more than average weekly earnings. (NRFII 1984, pp. 31-32)

While there is both actual and potential competition in the provision of courier and parcel services, this is not necessarily the case in the supply of labour to these companies. There are restrictions on the organisations allowed to represent contract carriers and in some companies the carriers do not even have the choice whether or not to join that union. This effectively forces some courier companies to purchase only labour sanctioned by the TWU. The benefits of competition in the supply of courier and parcel services are recognised by buyers and suppliers of the services. The Commission is firmly of the view that there are additional benefits to be gained by increasing competition and flexibility in labour markets. In this case, contract carriers should be free to decide whether or not to join a union and free to choose who should represent them in negotiations concerning wages and other working conditions.

7.8.2 Contract carriers

Contract carriers operate principally as sub-contractors. They are paid according to the amount of work they do, rather than an hourly wage. They also own, and are responsible for, maintaining their own vehicles.

Some characteristics of the principal contractor/contract carrier relationship are similar to those of employer and employee. Contract carriers are allowed to take jobs from only one principal contractor. They are not allowed to operate two radios in their vehicle. This means that the workload of the contract carrier may be dependent on that of the particular principal contractor to whom he/she is tied.

In New South Wales, unless the contract carrier is registered as a company, the principal contractor is required to pay workers' compensation and the superannuation guarantee levy on behalf of the contract carrier. Such payments are more usually made on behalf of an employee.

In all States except NSW the rates paid to contract carriers are negotiated. In NSW pay rates are set out in the "Transport Industry Courier and Taxi Truck Contract Determination". This Contract Determination was negotiated between the organisation representing principal contractors and the Transport Workers Union in accordance with NSW industrial relations legislation. By setting rates of pay for contract carriers, the Contract Determination treats contract carriers in NSW more like employees than sub-contractors.

The Contract Determination contains two pay schedules. Schedule one sets out minimum rates of pay for contract carriers. It determines that, on average over a 13 week period, the contract carrier receives a minimum for each job undertaken. The minimum rate includes an hourly rate of \$15.76 and a rate for each kilometre of 18.44 cents for a van with a carrying capacity up to one tonne.

Schedule two is more complex; it sets out for different sized parcels and different types of services the rates to be paid to the contract carrier. The rates include a flagfall and a rate for each kilometre, with adjustments for several other factors.

Inquiry participants were critical of the Contract Determination in its current form. For example, the Australian Courier Industry Association argued that:

In our opinion, the Contract Determination was put in place, not as a guide line for proper practices, as it was advertised to be, but rather to protect certain principal contractor's agents from honest, efficient competition.

In other words, the Contract Determination, as it is currently worded, removes the need for efficiency, and creates an artificially high price to the market, and does not establish a uniform labour cost to the principal contractor, ie two contract carriers at different companies can earn \$400 and \$800 respectively for the same hours and effort, yet still be getting paid according to the Contract Determination. (Submission 78, attachment, p. 9)

There are some couriers in the Sydney market who illegally operate outside the Contract Determination. The Commission has been told that these carriers receive less favourable treatment for remuneration and allocation of work than those within the system. Rates of pay can be as little as one half that received by a contract carrier being paid under the Contract Determination.

The system of contract determination in NSW has some features of the wages system (fixed, arbitrated hourly base rates of pay, and a single employer for each contractor) and some of normal business contracts (freedom to accept or refuse work, and payment partly related to contracted work done).

In fixing remuneration for the driver and hence delivery costs for the contractor, the system effectively sets an inflexible price for the service. This eliminates any market pressure which would test the price set by agreement between the two contracting parties which supply the service. In doing so, the Contract Determination effectively prevents the more efficient sub-contractors in the industry from increasing their market share by competing on price and reduces new entrants, who do compete on price, to the role of fringe operators. Without commenting on the Contract Determination system as a whole, which is applied in various forms to transport in New South Wales, this appears to reduce the pressure on the industry to operate in the most cost-effective manner and denies the customer the benefit of potentially lower prices.

It is difficult to determine the impact of contract determination on courier rates in New South Wales compared with rates in other States. According to Mayne Nickless:

... the systems for determining the rate of pay are different in each state. In NSW, sub-contractors are paid a base rate, plus a km rate (much like a taxi cab system), with this rate being established by the NSW Industrial Commission ... In other states, there are no legal obligations concerning remuneration. In WA, SA and Qld, sub-contractors are paid a percentage of the revenue received for services ... In Victoria, rates tend to be calculated on an hourly, rather than a piece rate, basis. (Submission 230, p. 1)

Also the market is different in each city. Therefore, other factors can influence courier prices. For example, the Managing Director of a Melbourne based courier company, trading as Golden, said:

... if you compare a comparable courier job in Sydney versus a comparable courier job in Melbourne, you will find Sydney is cheaper and it's all to do with volume. (Draft Report Hearing Transcript, p. 51)

The New South Wales Government has requested that the Industry Commission undertake an inquiry into the regulation of independent contractors. Because the range of transport services covered by such regulation is much broader than the courier industry, it is not feasible to cover all of the issues involved within the scope of this inquiry. Moreover, the Commission cannot conduct such an inquiry without being directed to do so by the Commonwealth Government. However, this is an issue which warrants a more detailed review.

7.9 Summary

There are many organisations which facilitate communication or transfer parcels between individuals and businesses. All of these activities place some competitive pressure on Australia Post. However, the reserved services protection ensures that Australia Post is the only supplier of a nationwide letter service.

This chapter makes three recommendations to amend the *Australian Postal Corporation Act 1989*, so as to increase competition and clarify what services are reserved to Australia Post. That is, if the reserved services protection is retained, Section 30 of the *Australian Postal Corporation Act* be amended to except the operation of document exchanges and advertising material from the reserved services, and to allow the delivery of an organisation's internal mail by its employees or other persons.

Where traffic volumes and population densities are low, there are economies of scale and scope which mean that, even if the reserved services legislation were repealed, there would be only one firm providing the letter service. The ability of such an organisation to exploit its position in the market is constrained by the potential for other firms to enter the market, undercut its prices, and win its customers.

Competition in the provision of parcel and courier services varies between inter-city and intra-city services. For inter-city services the Mayne Nickless and TNT groups are the major suppliers in the business parcels market, while Australia Post dominates the provision of parcel services to households. For intra-city services the environments in which both the principal contractors and contract carriers operate are highly competitive. This market is dominated by private sector firms.

In contrast, competition in the supply of labour is constrained in the parcel and courier markets. Both the activities of the TWU and, in New South Wales, the operation of the Contract Determination reduce competition in the labour market and the ability of firms to compete based on price.

To improve flexibility in labour markets contract carriers should be free to decide whether or not to join a union and free to choose who should represent them in negotiations concerning wages and other working conditions. Potentially contract determination could also reduce flexibility in the labour market. However, the Commission is not in a position to make firm recommendations on this topic, which warrants further examination.

8 PROVIDING LETTER SERVICES IN A FULLY COMPETITIVE ENVIRONMENT

Letter services could be provided in a competitive environment under which there were no reserved services or community service obligations. But, by examining the networks that might emerge, it becomes clear that two of the Government's objectives would not be met: the objectives of reasonable access and a uniform charge for standard letters. Moreover, the terms and conditions of inter-connection between networks could influence greatly the extent and benefits of competition.

This chapter discusses how letter services might potentially be provided in a much freer market without the reserved services protection for Australia Post and the community service obligations which it currently has to meet. The discussion seeks to provide some insights into the extent of competition that might develop in the provision of letters services for different areas of Australia. The Commission is not, however, advocating that this should occur. Rather, the purpose is to establish the factors that would influence the extent to which the Government's social objectives for letter services would be achieved, and the action that might be required by Government to fulfil those social objectives.

8.1 Factors affecting the extent of competition

In the absence of reserve services protection and community service obligations, the development of letter services would be influenced by the extent of inter-modal and intra-modal competition. The main forms of inter-modal competition are the telephone, facsimile, and electronic data interchange. As discussed in Section 2.1, the share of the total message market held by these means of communication compared with written messages has been rising rapidly.

Nonetheless, the number of written messages has continued to grow in absolute terms: from 2 billion articles a year in 1960 to nearly 7 billion in 1990, with the number of letters carried a year by Australia Post increasing from 1.7 to 3.6 billion over the period. This growth in the written message segment seems likely to continue despite the increased inter-modal competition that will arise as a result of technological change. This means that there would continue to be scope for extensive intra-modal competition between individual operators within the written message segment.

The extent of intra-modal competition in any particular area will be determined largely by the influence on costs and revenues of:

- population size and density;

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- whether the area is mainly residential;
 - the nature and extent of business activity; and
 - the geographic dispersion between the sender and receiver of the message.

The first three factors will influence the volume and type of messages collected and the distance over which they are collected. Likewise, they will influence the volume and type of message to be delivered and the density of delivery points. For example in a densely populated area, the volume of mail collected (or delivered) will be greater, and the distances travelled less, compared with a sparsely populated area. Similarly, the volume of mail could be greater (and distances travelled less) if the collection area included a number of businesses compared with an area which was mainly residential. The current high proportion of mail generated by business, estimated at over 60 per cent compared with personal letters and cards at around 20 per cent, illustrates the influence of business activity on mail volumes (see Section 2.2.1).

The last factor, geographic dispersion between sender and receiver, especially when combined with the volume of traffic carried over that distance, will have a significant influence on the expansiveness (geographical coverage) of individual networks, and hence on the scope for competition within any given area. Expanding coverage enables a network to service a larger population (both households and business) and to increase total volume of traffic. But as the area increases to cover less densely populated areas (or into areas which are largely residential), the distance travelled to service all collection and delivery points also increases thereby reducing traffic density and increasing unit cost. There comes a point where the revenue from the additional traffic volume (at prices which people are prepared to pay) is insufficient to offset the costs of obtaining that revenue.

Thus, as networks expand, the combined effect of declining traffic density, increased distances, and greater number of collection and delivery points, acts to limit the number of operators that can remain viable. In some areas, the amount of business may be sufficient to support one operator; in other areas, say the more remote, it may be that no operator would be viable providing services on a regular basis at prices which senders and receivers were willing to pay.

8.2 Potential market structure for letter services

It is not possible to say precisely how many operators would enter the market to supply letter services and how extensive the coverage of their networks would be. However, an insight into the number of operators and network coverage can be obtained from the present traffic flows for letters between different parts of Australia Post's network. The traffic flow data are shown diagrammatically in Figure 2.4 and noted in Table 8.1.

The share data are of limited use because of the interstate and intrastate separation. This ignores the potential for the development of, say, regional networks for intra-regional mail in areas like Albury-Wodonga; or the development of networks centred, say, in Brisbane servicing the north-east area of New South Wales. Nevertheless, the intrastate/interstate distinction provides a guide to the distance that mail has to travel from sender to receiver, with that distance generally being greater for interstate mail.

From the data presented, the letter market can be divided into two main sectors based on the location of the sender and receiver: intra-regional (or local area) and inter-regional. Intra-regional refers to where the sender and receiver live in the same population centre/region; inter-regional to where the sender and receiver live in different regions. Using the traffic flow data, these sectors can be further separated into a number of market segments. These segments are described in Table 8.1.

The Commission considers that five major types of letter networks servicing individual households and businesses could develop if the reserved services protection for Australia Post were removed:

1. intra-metropolitan -- networks servicing senders and receivers in the same metropolitan area (of Sydney, Melbourne, Brisbane, Perth, Adelaide, Hobart, Canberra, and Darwin);
2. intra-provincial city -- networks servicing senders and receivers in the same provincial city and its immediate environs (Albury-Wodonga for example);
3. inter-metropolitan -- networks servicing senders and receivers from different metropolitan areas and large provincial cities in different states -- or within a given distance, such as Perth to Adelaide and Newcastle to Brisbane;
4. metropolitan/intrastate provincial cities -- networks servicing senders and receivers resident in metropolitan areas and adjacent country regions including large provincial cities and towns as for Hobart to Launceston; and
5. national networks -- networks servicing senders and receivers potentially throughout Australia and including those areas serviced by the other network types.

These networks do not align exactly with the data on which the description of potential market structure described in Table 8.1 is based. To assist in making comparisons, the above numbers for potential networks are shown (in brackets) in the table for the different market segment based on available data. The main reason why the potential networks cannot be aligned is because data for provincial cities are not shown separately. And, in the case of the provincial cities of Geelong, and Wollongong and Newcastle, their details are included in the data for Melbourne and Sydney respectively. Because of the data that are available it is not possible to be precise about the potential size of intra-provincial city networks; the data do indicate that it is likely to be less than 7 per cent of total mail volume, since intra-provincial city mail would be included in intrastate country traffic (except for Geelong, Wollongong, and Newcastle).

Table 8.1: Potential structure of the letter market

<i>Market segment</i>	<i>Description</i>	<i>Current volume</i>
		(per cent)
Intra-regional		
Intrastate metropolitan (1)	Sender and receiver are resident in the same metropolitan region -- the metropolitan areas of the capital cities of Sydney (including Newcastle and Wollongong), Melbourne (including Geelong), Brisbane, Perth, Adelaide, Hobart, Canberra, and Darwin.	58
Intrastate provincial city(2)	Sender and receiver are resident in the same provincial city (including its immediate environs).	Less than 7; part of Intrastate country
Inter-regional		
Interstate metropolitan (3)	Sender and receiver are resident in different metropolitan regions.	12
Metropolitan to intrastate country (4 & 5)	Sender and receiver are resident in the metropolitan and country regions (including provincial cities) of the same state.	16
Metropolitan to interstate country (3 & 5)	Sender and receiver are resident in the metropolitan and country regions (including provincial cities) of different states.	6
Country to intrastate country (2 & 5)	Sender and receiver are resident in different country regions (including provincial cities) of the same state.	7
Country to interstate country (3 & 5)	Sender and receiver are resident in country regions (including provincial cities) of different states.	1

The extent of competition within and between the networks will vary because of differences in the volume and density of traffic, and distances between sender and receiver, in the different market segments serviced by the networks. It should also be noted that the distinction between the different types of networks is somewhat arbitrary in the sense that the same operator may maintain intra-metropolitan networks in all major cities as well as an inter-metropolitan network between those cities. And, by definition, a national network covers the same areas as already covered by the other types of networks. Nevertheless, by breaking the total letter market down into segments according to different types of potential networks, the extent of competition that could develop in any given area can be appraised. Consider first intra-metropolitan networks. As the types of networks would essentially be the same, this consideration would apply equally to intra-provincial city networks, except that the number of potential operators would probably be less in these cities.

8.2.1 Intra-metropolitan networks

Because of the large volume of messages (58 per cent of total mail volume or 9.3 million articles each working day), and the relatively short distances between, and high density of, senders and receivers, there would be scope for a number of operators to service each of the intra-metropolitan areas of the capital cities. Some of these operators may provide intra-metropolitan services as part of wider, inter-metropolitan or national networks; others may provide only intra-metropolitan services. Such an outcome is supported by what is already happening in the major cities given the competition currently faced by Australia Post from couriers, letterbox distributors, the Australian Document Exchange, and internal distribution systems operated by large organisations such as banks and some government agencies.

Given population size and density, a possible scenario for the metropolitan areas of Sydney and Melbourne would be for two, perhaps three networks to establish in each city specialising in providing a comprehensive letter service only to individual households and businesses within the metropolitan areas. The coverage would be determined by the interaction between traffic volume and density (with respect to both collection and delivery), and distance between sender and receiver. In some outer metropolitan areas, the volume and distances involved may result in only one of these networks operating in addition to the national networks; other areas may only be serviced by the national networks, or just one of those networks. However, the potential for the specialist networks to expand into these parts (the threat of competition) will maintain pressure on the national networks to contain costs, improve service standards, and refrain from exploiting customers. Intra-metropolitan letter services are therefore likely to be highly competitive in Sydney and Melbourne.

Largely because of their lower populations, the number of intra-metropolitan providers of comprehensive letter services that could develop in Brisbane, Perth, and Adelaide is considered to be no more than two; and for Hobart, Canberra, and Darwin perhaps only one. Nevertheless, the provision of intra-metropolitan letter services seems likely to be highly competitive in these markets, especially due to the threat of competition.

Within such a competitive environment, it is envisaged that service charges would be influenced by the costs of collection and delivery incurred in providing letter services, and that the national networks would offer a local area service for which a lower charge would apply compared with delivery to other parts of their network. Unless they did so, their ability to compete with the intra-metropolitan networks would be reduced.

Because of the relatively close proximity of the sender and receiver, the costs of collecting and delivering a letter from and to anywhere within the same metropolitan region are likely to be similar. Even if they were different, the networks may decide to use a system of uniform charges based, say, on type of article or standard of service, so as to avoid the costs (to both the network and clients) of assessing separately the charge to apply to each article. In the final analysis, it would be up to each network to develop its pricing strategy based on the competition it faced, the cost of providing particular services, and the advantages of using uniform charges compared with individually assessed charges (see Section 4.2.1).

The type and quality of service offered is likely to vary between the networks. Some networks may opt to provide a lower-priced service by using a system of more aggregated collection points, and using existing networks such as newsagents or service stations. And rather than deliver to each street address, delivery may be also to boxes at newsagents or service stations, or to more centralised points in residential areas as now occurs in some parts of Canada (see Appendix F). Such a system would put more onus on the sender and receiver in terms of gaining access to the system and receiving their mail. The other networks may seek to provide a higher-priced service by offering street posting facilities in residential areas and household delivery. The networks may also seek to offer differing services with respect to price and quality by varying speed and reliability considerations.

A further type of potential intra-metropolitan network is illustrated by document exchanges. This type of network concentrates on moving messages between, say, branches of the same business or between businesses involved in similar activities such as legal firms or insurance companies. It can be envisaged that these specialist networks could develop so that they could distribute mail for large volume users to individual households and small businesses. For example, such networks could specialise in distributing accounts and notices for the banks, electricity and gas authorities, telephone companies and some government agencies. Similarly, it can be envisaged that the current letterbox distributors could provide such services. But such networks may not seek to service households and businesses with respect to return mail; nor may they seek to provide collection and delivery services for households and other businesses.

The influence of competition, especially the threat of loss of market share and financial failure, would result in a continuing adjustment in the type of services offered as the providers respond in order to meet the needs of clients. Potential clients would be provided with a greater choice and it would be the client's responsibility to select the service that best meets their needs.

Inter-connection¹

So far it has been assumed that the sender and receiver can be serviced by the same network. But there is no guarantee that this would be the case as it is at the moment with Australia Post's network, the networks provided by the letterbox distributors, and for members of the Australian Document Exchange. If not the case, it would be necessary for a letter to be physically transferred (inter-connected) from one network to the network that can make intermediate or final delivery.

¹ The following discussion on inter-connection between intra-metropolitan networks applies equally to inter-connection between all types of networks.

Such a situation could arise if, for example, the receiver resides in an area not serviced by the network used initially by the sender. Similarly, the situation would arise if the sender's network only delivers to the newsagent in the receiver's area, and the receiver does not have a facility at that newsagent preferring instead to use a network offering household delivery.

There are two ways of 'connecting' the sender and receiver in cases where they are serviced by different networks. First, the sender could effect the connection by selecting the network that delivers to the receiver. To work, this requires prior knowledge on the part of the sender about the network through which the receiver is serviced. It may also impose greater costs and inconvenience on the sender, especially if the receiver's network does not operate in the sender's area. In effect, this would probably result in networks accepting only letters that they can deliver through their own networks. It would require the ability to deliver every article to be assessed before acceptance.

The second way requires the two competitive networks to cooperate so as to switch a letter from one network for final delivery through another network (or other networks); that is, the letter must be physically transferred from one network to the next network.² Assume that the letter is transferred to the receiver's network at the place of final sort before delivery to the receiver's address. The sender's network would be required to compensate the receiver's network for the cost of final delivery; the two networks must agree on the price to be charged for final delivery. Rather than settle on each article, the networks may agree to operate a net accounting mechanism for imbalances of mail between them, as for terminal dues between countries with respect to international mail (see Section 6.3.1).

The sender's network must also decide on how the cost of final delivery is to be paid. One option would be to build the cost into the charges for all letters handled. Another option may be to strike a separate charge on all mail that it cannot deliver through its own network. If the latter option is used, it will impose additional costs on the sender's network in monitoring and assessing all letters that it cannot deliver internally. Further costs may be imposed on the sender's network with respect to its competitive position because of the uncertainty associated with being able to guarantee time of delivery stemming from the need to inter-connect. These same costs would not be borne by those networks servicing both sender and receiver.

Thus, the need for networks to inter-connect provides an incentive for each network to extend its coverage, so as to be able to service the same households and businesses as its competitors; or to

² By contrast, switching between telecommunications network is by electronic signal, occurs instantaneously without the need to coordinate the transport and delivery functions of the networks, and uses the same infrastructure (telephone lines, switches, and monitoring equipment).

merge. But, particularly in the less densely populated residential areas, the volume of traffic may not be sufficient to support more than one operator. Compared with the costs of maintaining two collection and delivery systems, there would be insufficient revenue for both to remain viable. Thus, it is possible that there would be only one network with the coverage to service the entire metropolitan area while other networks would service segments. For discussion purposes, assume that parts of the metropolitan area would be serviced by only one such network, known as Network AP.

There would then be an ‘obligation’ on Network AP to accept the letters of other networks which they cannot deliver internally. Without such an obligation, the other networks could not guarantee the delivery of all letters that they may receive and accept. The failure to guarantee delivery may not be known to the sender and it may be some time, if at all, before the sender knows that the letter has not been delivered.

However, the other networks are unlikely to be able to impose a significant commercial obligation on Network AP to accept letters that they cannot deliver; because of its comprehensive coverage, Network AP is not reliant on their networks to effect final delivery. Not to deliver the letters of other networks would provide Network AP with a competitive advantage in that no other network would be able to guarantee delivery to any part of the metropolitan area. Alternatively, Network AP may decide to deliver the letters but for a fee that effectively precluded the other networks -- the ability of Network AP to do so would be influenced by, for example, the prohibition of restrictive trade practices under the *Trade Practices Act 1974* (see Section 8.6).

The lighter traffic areas of the intra-metropolitan segment, mainly households and small businesses, are likely to be more dependent on letters as the main form of written communication compared with heavier traffic areas often associated with business activities. This is because larger businesses frequently have available other means of communication through the use of, for example, facsimile and courier services. By being more dependent, this means that households and small business are likely to be prepared to pay more for their letter service than if substitutes were readily available. If this were the case, there would be scope for Network AP to increase the charge for servicing households and small businesses compared with larger volume users; offering larger bulk discounts or imposing a delivery charge on households are ways of achieving a relatively higher charge for households. Because of the investment that would be required to duplicate its capacity, Network AP enjoys a degree of protection from competition with respect to the price it can charge clients. The overall effect from Network AP’s perspective is to increase its ability to compete with any other networks seeking to expand their coverage of the metropolitan area. But should its prices be set too high, other operators could find it profitable to offer an alternative service; that is, the market would be contestable.

To prevent Network AP abusing its market power, the terms and conditions under which other networks were able to use its network would need to be subject to general competition policy. The same may be true for prices and service standards in parts of the network within which Network AP would not face effective competition; this could arise with respect to households and small businesses which generate single letters that are to be delivered to disparate destinations. These issues are discussed further in Section 8.6.

8.2.2 Inter-metropolitan networks

Currently about 12 per cent of mail (2 million articles per working day) consists of messages sent from one metropolitan area for delivery interstate to another metropolitan area. However, in the context of the potential number of collection and delivery points, the volume of traffic between any of the points, and the distances between sender and receiver, the Commission considers that it would be most unlikely for separate networks to develop specialising in servicing only interstate metropolitan mail. Most probably, the interstate metropolitan networks would be operated as connections between intra-metropolitan networks, especially for companies that would have established operations in all the capital cities.

By being part of intra-metropolitan networks, the need for the inter-metropolitan networks to develop separately their own extensive collection and final delivery systems would be removed. In essence, the main inter-metropolitan activity would be to line-haul messages from one intra-metropolitan network to another.

As with the intra-metropolitan networks, there is a need for inter-connection to occur if the sender and receiver cannot be serviced by the same network. Because the number of intra-metropolitan networks in the major cities is likely to vary, and because of variation in the coverage of individual networks, inter-connection is more likely to be required in effecting final delivery. Nevertheless, the means of achieving inter-connection, and the factors to be considered in determining the inter-connect charge, who should pay the charge, and access to the network that can effect final delivery, would remain the same.

There would be scope within the inter-metropolitan segment for the development of a limited type of interstate metropolitan network consisting of companies (air and road transport operators) line-hauling bulk mail, say, from Sydney to Perth. On arrival in Perth, the mail would be deposited in an intra-metropolitan network for final delivery. Advantages to the sender of the mail could include quicker delivery times and the lower local area charge compared with the charge that would have applied if sent from Sydney. These advantages would need to be weighed against the costs of line-hauling.

However, the companies in these cases would not be servicing a number of potential senders: nor would they be delivering to a multitude of potential households and businesses that were geographically dispersed. Overall, their activities would be equivalent to contracting out line-haul functions.

8.2.3 Metropolitan/intrastate provincial city networks

Of current mail traffic, 16 per cent (2.6 million articles each working day) consists of messages sent between the metropolitan area and country areas of the same state. This volume of traffic would probably not be enough to support one or more networks specialising in servicing these messages using their own collection and distributional infrastructure. However, the volume of traffic could be sufficient to support the expansion of the intra-metropolitan networks to cover at least the major provincial cities. For example, an intra-metropolitan network servicing the Melbourne metropolitan area could expand to include such provincial cities as Ballarat, Bendigo, Echuca, Shepparton, Benalla, Albury/Wodonga, Bairnsdale, Warragul, and Morwell. Likewise, a network servicing the Sydney metropolitan area, may expand to include such cities as Goulburn, Wagga Wagga, Bathurst, Orange, Parkes, Dubbo, Bourke, Forbes, Moree, Narrabri, Tamworth, Armidale, and Gosford.

The development of metropolitan/intrastate provincial city networks, would probably be influenced by the need for, and ability to offer, more competitive services in terms of faster delivery times, and increased reliability and security. In many respects, the networks would be line-hauling mail from the metropolitan areas to the provincial cities. Rather than establish a separate delivery system in the provincial cities, the networks would probably use established local delivery systems (which they may or may not own); the volume of traffic and density of delivery points would not make it viable for them to set up their own final delivery system. For these reasons, it would be most unlikely for the networks to expand their coverage beyond the major provincial cities and, perhaps, beyond any larger country towns that can be serviced whilst servicing the provincial cities.

If mail is accepted that cannot be delivered internally by the metropolitan/intrastate provincial city networks, the need arises again for inter-connection and the same considerations apply:

- the terms and conditions governing access to other competing networks, including the inter-connect charge;
- the method of raising the revenue to cover the cost of inter-connect -- should the cost be borne solely by the sender or by all users of the network seeking inter-connection; and
- the impact of the need to inter-connect on the ability of the network to guarantee time of final delivery.

One means of increasing the coverage of the metropolitan/intrastate provincial city networks, would be to inter-connect with similar networks in other states through the interstate metropolitan networks. This would have the effect of creating a limited national network.

8.2.4 National networks

The three types of networks discussed so far have the potential to service over 85 per cent of the total volume of mail. But there would remain a significant volume of mail, estimated at a good 10 per cent (1.6 million articles each working day), that would not be serviced by these networks. This estimate is derived from the current volumes for the last four market segments shown in Table 8.1 by considering that proportion that would not be handled by the three networks just discussed -- intra-metropolitan, inter-metropolitan, and metropolitan/intrastate provincial city.

Given the geographic coverage of these networks they would not be able to handle mainly mail sent from, or to be received by, households and businesses in the rural and remote areas, including country towns. It is not possible to say how many households and businesses would not be serviced. This is partly due to the uniform charge for standard letters which results in people sending mail to and from these areas not being required to pay more to ensure that they were serviced. Nevertheless, a guide to the potential number is provided by comparing the 6.4 million households that can be serviced by Australia Post's network, with the 5.3 million households that presently can be serviced by the private letterbox distributors (see Chart 2.1.)

To concentrate on the number of households and businesses in rural and remote areas that would not be serviced is misleading. This is because mail going to these areas may originate from any household or business within Australia (and from overseas). Likewise, mail from these areas could go to any of these potential originating points. Thus, failure to service 10 per cent of the current mail has the potential to affect all senders and receivers currently serviced by Australia Post's network.

How would these areas be serviced if Australia Post's network did not exist and there were no government social objectives with respect to letter services? The answer to this question would provide an insight into how extensive the coverage of the national networks would be, and the number of networks, based on the demand for letter services to and from these areas. How the areas could be serviced given Australia Post's existing network, but in the absence of reserved services, is discussed in Section 9.3.

The capacity to service rural and remote areas would most likely develop from companies operating integrated intra-metropolitan, metropolitan/intrastate provincial city, and inter-metropolitan networks; such an integrated network constitutes a limited national network. Given that over 85 per cent of the volume of mail could be handled by such networks, the potential exists for more than one limited national network to be viable. But the coverage of these networks would be limited in the sense that they would not extend to rural and remote areas.³

³ It could be argued the Australian Document Exchange currently operates a limited national network covering capital and provincial cities and some large country towns. But the service it provides is designed to meet the needs of particular types of customers. The Exchange does not seek to service all individual households and businesses that lie within the geographic coverage of its network with a comprehensive letter service. Similarly, courier companies offering a national network coverage have not been developed to provide letter services for individual households and businesses; at least, not on terms that compete with the service offered by Australia Post. Essentially couriers operate in the high speed market segment and provide services not required by most households and small businesses.

The Commission considers that it would be unlikely for both networks to seek to expand their coverage to include rural and remote areas. The volumes of mail are just too low and the distances between collection/delivery points are too great. Nonetheless, there would be an incentive for each network to offer the most comprehensive service possible in terms of geographic coverage, in order to avoid the disadvantages of inter-connecting. Despite this incentive, the number of potential operators would be limited. Indeed today, the volume of mail would be insufficient to support even one operator in many rural and remote areas in the absence of Australia Post's community service obligations. Quite frequently, mail contractors supplement their income from delivering mail by carrying other supplies such as groceries and farm fuel (see Section 5.7). Thus, rather than seek to expand the coverage of its network into rural and remote areas, one of the networks would concentrate on providing a limited national network covering all capital and provincial cities and, perhaps, larger country towns -- only one would offer full national coverage.

To compensate for the reduced volume of mail and increased distances (that is, greater costs of providing services), charges for sending mail to and from rural and remote areas would be higher than for other parts of the network. In addition, the frequency of collection and delivery would be less (as it is now in many places). Partly because the alternatives for sending messages are fewer in rural and remote areas (reduced availability of facsimile machines and courier services), the ability to increase charges would be greater than for, say, mail within and between metropolitan areas. Also, rather than face no services, people sending mail to and from rural and remote areas could be prepared to pay more.

Nevertheless, if the full national network providing services to rural and remote areas tried to increase charges too far, this could provide an incentive to the limited national network to expand its coverage to these areas. This should ensure that the full national network was not able to take long-term advantage of its position as the only provider of mail services.

The geographic coverage of the full national network would be determined by how much people were prepared to pay relative to the costs of service provision. Rather than pay to have roadside delivery, residents might wish to reduce costs and arrange delivery to their local town. This would place the onus on the property owner to make arrangements for placing their mail into the national network and for receiving their mail from it. However, this response ignores how much people sending mail to rural and remote areas might be prepared to pay for the roadside delivery of that mail.

Because people living in rural and remote areas do not bear the full costs associated with providing mail services through Australian Post's network, the coverage of the network based on what they were prepared to pay for mail services would be less. A number of households and businesses, and it is not possible to say how many, would no longer be serviced on a regular basis.

8.3 Operation of the potential letter networks: some effects of competition

Although the available data on mail traffic and volumes indicate the potential for five types of networks to develop, this would probably not be the case in reality. Given the volume of mail and relatively short distance between senders and receivers, specialist intra-metropolitan networks would develop in the capital cities; similar networks might develop in some of the larger provincial cities. But the development of specialist inter-metropolitan networks would probably not eventuate. Rather, a more likely outcome would be for a firm to establish intra-metropolitan networks in all capital cities and to connect these networks by line-hauling mail between the capital cities. It would then be a relatively straight-forward step for that operator to expand coverage to include the major provincial cities and provide a limited national network — the incentive being to avoid the need to inter-connect with competing networks. Thus, it would also be unlikely for specialist metropolitan/intrastate provincial city networks to develop.

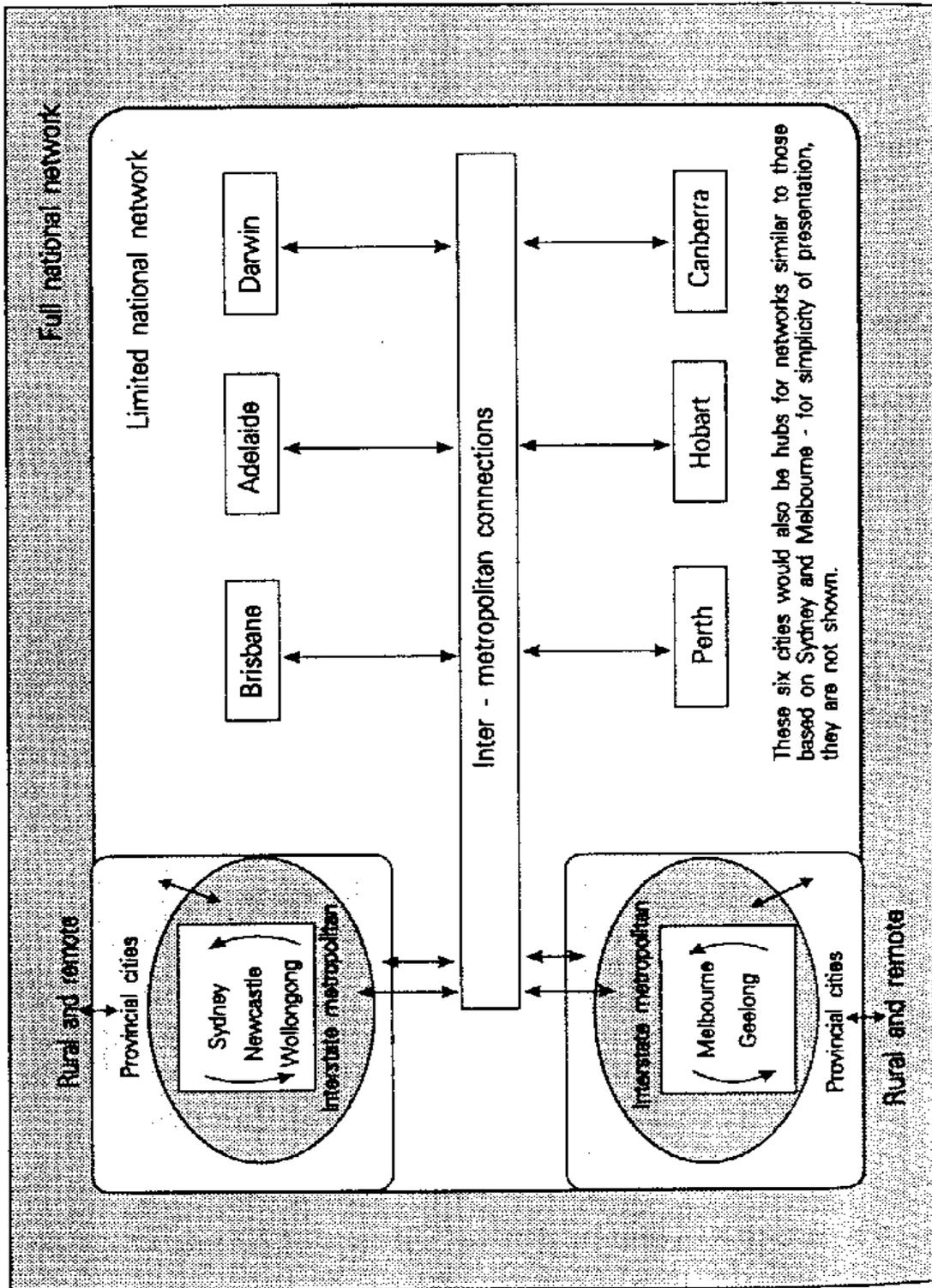
The data on mail volumes and traffic also do not distinguish between different types of messages. For this reason, the potential for networks to develop seeking to provide a particular type of service, or to meet the needs of a limited range of clients, cannot be assessed directly. But as already discussed, the existence of a document exchange, companies providing line-haul services, and the operations of the courier services, demonstrate the potential for other networks to develop which offer a particular type of service to meet the needs of their clients. Generally these clients do not include individual households and small businesses.

For the purposes of the following discussion, these networks offering a limited range of specialist services will not be considered. However, as discussed in Section 7.2, their presence would exert some competitive pressure on the networks offering letter services to all individual households and businesses. This pressure could affect the type and standard of services provided, and pricing strategy employed, by the letter networks.

Based on these considerations, Figure 8.1 depicts the letter service networks that could eventuate in the absence of reserved services protection and in the absence of the need to meet the Government's social objectives. Included would be:

- a full national network servicing households and businesses in all metropolitan areas, provincial cities, and rural and remote areas;

Figure 8.1: Potential letter service networks



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- a limited national network servicing all metropolitan areas, and provincial cities -- perhaps some larger country towns but otherwise excluding rural and remote areas; and
 - a number of local area networks servicing each metropolitan area of the capital cities and, possibly, some of the major provincial cities.

Given variation in costs, the influence of competition could result in different charges applying to send mail between various parts of the network. Because of the volume of traffic and shorter distances, a lower charge (for a given standard of service) might apply for local deliveries within the capital and provincial cities compared with other parts of the network. In order to compete, the national networks would also need to offer a local area delivery charge.

Even though specialist metropolitan/intrastate provincial city networks and inter-metropolitan networks are not likely to eventuate, the potential for them to develop would influence the pricing behaviour of the national networks. This may result in different charges applying for a given standard of service in sending letters between metropolitan areas and intrastate provincial cities, and between metropolitan areas in different states. And to allow the full national network to compete with the limited national network, separate charges may apply to sending letters between provincial cities in different states. Separate charges might also apply for sending mail to and from rural and remote areas. Overall, the full national network may need to operate a pricing structure of up to five tiers in order to remain competitive and recover costs in the different market segments as defined by the potential networks.

Whether such a pricing structure develops would depend on differences in the costs of servicing different market segments and the extent to which the full national network has to offer differential prices in order to remain competitive. Particularly given a 'hub and spoke' network configuration, it is possible that the costs of servicing different parts of the network are similar except for local area delivery and rural and remote areas.⁴ Under these circumstances, a three-tiered pricing structure might result. Alternatively, because of the potential benefits to both the network and clients of a more simplified charging structure, a two-tiered pricing system may be adopted: local area and rest of network (see Section 4.2.1).

In addition, different charges would apply for different types and standards of service with prices increasing as delivery speed, reliability, and security increase. But for each service type, charges may not vary greatly according to the distance between senders and receivers as is often the case currently for prepaid express courier satchels -- the same charge applies between all major cities in Australia.

⁴ With a hub and spoke network, mail moves from sender to receiver along major mail paths and through major mail processing centres. This means that the direct distance between sender and receiver may differ considerably from the distance the letter moves, and that direct distance may have little influence on costs.

8.4 Development of private letter service networks

Because of the reserved services protection afforded to Australia Post, there are no private networks operating at present providing letter services for individual households or business which are similar to that provided by Australia Post. Generally, the private operators provide 'on demand' access systems, as is the case for the letterbox distributors, document exchanges, and couriers. To send a message, the sender must request that the item be picked up or make arrangements for the item to be placed into the network (such as arrange for a regular pick-up by a courier), for delivery to its destination. This contrasts with the open access (largely prepaid) system operated by Australia Post whereby access can be gained through, for example, street posting boxes and post offices -- see Chart 2.1 for a diagrammatical representation of the two types of networks.

At present, the largest private letterbox distributors have the potential to deliver to around 5.3 million points, mainly in the capital cities, provincial cities and large country towns. These distributors are used mainly by large businesses to distribute the same message -- a leaflet, brochure, or catalogue -- to selected delivery points. The number of messages for distribution from a single source may be, for example, 3 million. These messages are, in effect, down-loaded in bulk for delivery through the distributor's network; this differs markedly from the collection of, say, single letters from disparate senders for delivery to disparate receivers.

Although the letterbox distributors have the potential to deliver to a significant number of points, they do not provide access to individual households and businesses for the carriage of letters between any of those points. They do not have the capacity to collect mail from individual households/businesses, sort it, and then deliver it through their distribution system, especially given the timeliness often required for final delivery. To have this capacity, they would have to establish a network of collection points, possibly in the form of street posting boxes, or counter services. And to meet the timeliness of delivery requirements for business mail, the private distributors would have to alter their delivery arrangements. It would no longer be possible for them to rely on (part-time) contractors operating mainly at weekends.

Despite these considerations, the letterbox distributors do have in place a distribution network providing national coverage that could be developed to provide an alternative letter service; likewise for document exchanges. But to compete with Australia Post's existing services, a substantial investment in resources would be required. A guide to the investment required is provided by comparing the infrastructure of Australia Post's network, with that of the letterbox distributors as shown in Chart 2.1.

If the reserved services protection to Australia Post were removed, a likely response in the short term would be for the existing private operators to gradually expand their activities by servicing the particular needs of their clients; that is, to operate in niche markets. Niche markets may arise in providing faster delivery services, or in meeting the needs of generators of large volumes of mail such as financial institutions and government agencies. However, it would take some time for the private networks to develop the physical capacity to provide a competing service, especially for households and small business, to that provided by Australia Post even if they concentrated on servicing just one metropolitan area. In addition, the private networks would have to establish their credentials with respect to the timeliness, reliability, and security of their services. But without reserved services, they would be free to do so based on their commercial judgement.

8.5 Impact on Australia Post

In the absence of reserved services protection and of its community service obligations, Australia Post would adjust the coverage of its network, and type and standard of services provided, in order to compete with other providers. However, because of the ‘goodwill’ associated with its business activities, Australia Post could well retain its dominant position in the supply of postal services for a considerable time. It has an established national network and track record, and is known to all households and businesses -- all of which provides Australia Post with a significant advantage over potential competitors. The geographic coverage of Australia Post’s network is therefore likely to remain the most comprehensive for some time, particularly if Australia Post were to respond competitively.

The loyalty to Australia Post would perhaps be strongest from people living in rural and remote areas because of the lack of alternative services, compared with households and businesses in the cities. This could make it more difficult for any potential alternative network to become established in rural and remote areas. In the context of the discussion of potential networks in the previous section, Australia Post’s network would constitute the full national network.

Even though Australia Post would likely remain dominant, this does not mean that it would be free of increased competitive pressure and the need to adjust its operations and behaviour accordingly. Initially the greatest pressure on Australia Post would likely occur in the metropolitan areas. In response to this pressure, Australia Post would seek to reduce costs, and adjust its charges, to remain competitive. Given the estimated costs of \$26 million in meeting its CSOs for city to city mail (see Section 5.6), the responses of Australia Post could include: reducing the number of street posting boxes; contracting out the street delivery of mail; closing a number of post offices (and

local sorting centres) and providing postal services increasingly on an agency basis through other retail outlets such as newsagents; replacing street delivery services in light traffic, low population areas, such as outer urban and country towns, with central collection facilities for residents; providing services that better meet the needs of clients; improving service standards; and setting service charges based on costs incurred.

Changes would also be likely to the services provided by Australia Post to rural and remote areas in the absence of its community service obligations. Because of the threat of competition, Australia Post would no longer be able to offset (at least to the same extent) the cost of providing services to rural and remote areas from users of lower-cost parts of its network. Possible changes could include imposing a higher charge for sending messages to and from the areas; withdrawing from servicing high cost mail runs; reducing the frequency of delivery to some areas; and placing more onus on individual households and businesses currently serviced by roadside deliveries to access mail services from their local towns. For some rural and remote areas, these changes would result in a contraction of the network currently operated by Australia Post and the associated loss of service. In other areas, the changes may mean that the costs of services were higher, either because the price for a service of a given standard had increased or because the standard of service for a given price had decreased.

The likely impact on the volume of messages handled by Australia Post with the introduction of competition is uncertain. Australia Post would lose traffic to its competitors, particularly over parts of its network. This would require it to restructure its resources, including disposing of resources no longer required because of the loss of business. Provided Australia Post were able to shed resources, the decline in volume would not necessarily mean an increase in unit cost or a decline in profitability.

Australia Post is owned on behalf of the community by the Commonwealth Government. If, however, the reserved services protection and the social objectives of the Government were removed, the Commission considers that there is no reason for Australia Post to be government-owned.

8.6 Inter-connection and regulation of networks

If Australia Post remained dominant in the provision of letter services and operated the most comprehensive network, its need to use other networks to effect final delivery would be limited. However, unless new entrants restricted their acceptance of letters to those which they could deliver internally, they would need to inter-connect with other networks for letters to reach their final destinations.

Given the comprehensiveness of its coverage, any new entrants would frequently be required to inter-connect with Australia Post's network. But there would be little commercial incentive for Australia Post to allow inter-connection. If it were to refuse inter-connection, it would achieve a competitive advantage by being the only service able to provide nationwide coverage. Alternatively it might impose an inter-connect charge which effectively made the new entrants uncompetitive.

Because of the investment that would be required to duplicate Australia Post's network, the established nature of that network, and the inability of many parts of the network to support profitably more than one operation, Australia Post would be able to exercise considerable power over new entrants. Except for particular niche markets, it would have the potential to stifle competition despite the absence of reserved services protection. Furthermore, because Australia Post would be the only provider of letter services in some areas, it would also have the potential to exert market power over the pricing of services, and over the standard of service delivery, in those cases.

For the benefits of increased competition to be realised, it would be necessary for the Government to be able to influence the terms and conditions of inter-connection with Australia Post's network. The need to influence inter-connection between limited private networks would not be likely because of the greater scope to reach agreement to their respective commercial advantage; each network might require the services of the other at different times to effect final delivery. Indeed, as suggested by the structure of the courier segment, smaller operators may become subsidiaries of larger networks (such as with Mayne Nickless and TNT) or become formally affiliated in a business sense. By doing so, the movement of messages would effectively be within the same network, thereby allowing the potential difficulties associated with inter-connection to be avoided or reduced.

There are two general approaches which governments could adopt to influence these aspects to achieve a more competitive outcome. One would be to use general competitive measures, the other to use industry specific measures; it might also be appropriate to use a combination of these measures. The relative merits of these two approaches are discussed in Section 7.5.1.

8.7 Summary

The reserved services protection granted to Australia Post so it can fulfil the Commonwealth Government's social objectives with respect to the letter service (and Australia's international obligations), imposes a number of costs on the Australian community. These costs would be reduced, if not eliminated, if more competition were allowed. That is because:

- there would be greater pressure on Australia Post to contain costs and increase the range and standard of services it provides; and
- other suppliers would be allowed to develop new services, or provide the services currently supplied by Australia Post at lower cost.

However, in a fully competitive environment the geographic coverage of the national network would be reduced and some households and businesses would no longer have access to a letter service. In addition, different charges would apply to sending letters to various parts of the network. This means that two of the Government's social objectives would not be met: the objectives of providing reasonable access to letter services for all people in Australia, and of doing so at a uniform charge for standard letters.

9 OPTIONS FOR REFORMING THE LETTER SERVICE

A key issue for this inquiry is the total cost to the Australian community of providing letter services which meet its needs. The community as whole will be better off if that cost can be reduced by allowing others to provide letter services that are now reserved to Australia Post. The Commission believes that it can and that reserved services protection should no longer be afforded to Australia Post. This could be implemented by the Commonwealth Government replacing the social objective of a uniform charge with a maximum 'affordable' charge. No one in the community would have to pay more than the maximum charge, but prices for lower-cost services (notably in the cities) would fall as the letter market was opened up to competition.

9.1 Introduction

Greater competition in providing letter services can be achieved by reducing, if not removing, the reserved services protection afforded to Australia Post. The Commission understands that Sweden is proposing to remove the reserved services protection afforded to its post office in January 1993. And some countries, notably the United Kingdom and New Zealand, have reduced or are in the process of reducing the extent of protection for reserved services (see Appendix F). This is mainly being achieved by reducing the minimum charge which other carriers

Whether to reduce or remove Australia Post's protection depends on how much of the benefits of increased competition can be gained whilst still meeting the Commonwealth Government's social objectives for letter services; or, conversely, how much protection is necessary to fulfil the social objectives. As discussed in Section 5.2.1 the Government's objectives, which are similar to those pursued in most other countries, are fourfold:

- to provide all people in Australia reasonable access to a letter service regardless of where they live or carry on business;
- to provide access at a uniform charge for standard letters;
- to provide a letter service between Australia and places outside Australia (in order to meet Australia's international obligations); and
- to provide a letter service of a standard such that the social, industrial, and commercial needs of the Australian community are reasonably met.

The responsibility for fulfilling the objectives of the Commonwealth Government rests with Australia Post, and is effected through its open access (largely pre-paid), national network.

If increased competition were to be achieved by **removing** Australia Post's reserved services protection, the Government could either contract with private providers of letter services or contract with Australia Post, to ensure that its objectives were met. If increased competition were introduced through **reducing** the protection, the Government could continue to impose community service obligations on Australia Post.

Thus, there are three main options for pursuing the joint goals of increasing competition and fulfilling the social objectives of Government:

- **Option 1** - the Government contract with private letter service providers, including Australia Post (or its successor), to provide the required services to fulfil the objectives -- there would be no reserved services;
- **Option 2** - the Government contract only with Australia Post to continue its current responsibility for fulfilling the objectives -- there would be no reserved services; or
- **Option 3** - the Government continue to impose community service obligations on Australia Post -- reserved services protection would be reduced.

The relative merits of these three options are assessed in the following sections of this chapter.

9.2 Option 1 - Contracts with private letter service providers: no reserved services

Assuming that the current services and standard of service provided by Australia Post are required to meet the Government's objectives, one option would be for the Government to call open tenders for those letter services that Australia Post and other providers would not supply on normal commercial terms. In calling such tenders, the Government would have to specify what constituted reasonable access and the standard of service required. It would need to know beforehand which services would not be supplied by operators in a competitive environment.

9.2.1 Office of letter social services

Because of the information and coordination required to call tenders, the Government would need to establish a body to carry out the tendering function. It could do so through, for example, the Department of Transport and Communications but this could expose the process to undue political influence. Alternatively, the Government could establish an independent 'Office of letter social services' -- to be referred to here as the Office. This might be an independent statutory authority to

ensure its greater independence. Provided the Government had clearly specified its social objectives, the responsibility of the Office would be to ensure the provision of services to meet the Government's objectives. The Office would also have to account to the Government for its performance in meeting the objectives.

In essence, the relationship between the Government and the Office would be contractual only. There should be no risk of day-to-day involvement by the Government, as could occur if the Department were responsible. Under these conditions, the establishment of such an independent office would be preferable if this first option were adopted.

Functions and activities

A major activity of the Office would be to obtain detailed information about the letter services that would be provided by private operators acting commercially. The information would be needed to identify potential and actual gaps in service provision. The Office would then call tenders for the supply of services to fill those gaps. The tender contracts would need to specify the service to be provided, the standard of collection and delivery required, and penalties for breach of contract.

The task of the Office in specifying the tenders would be difficult since the services to be contracted (the gaps) would be constantly changing at the margin because of changes in the level of service provided commercially. This might arise as a result of changes in, for example, traffic volume and costs, making services which were once profitable no longer viable; the converse might also arise.

Some of the gaps which the Office might have to fill are already present within the national letter service operated by Australia Post. Indeed, the recently completed exercise by Australia Post in estimating the costs of meeting its obligations is an attempt to identify the gaps and the cost of filling them -- estimated at \$60 million in 1990-91. However, Australia Post does not have the same need to identify precisely the gaps on an ongoing basis. This is because gaps are filled by Australia Post through its regional management structure in the process of meeting its overall obligation to provide a national letter service. Through this structure, Australia Post is able to identify the services required in, say, a particular area and to put the necessary arrangements in place perhaps for a number of years.

By contrast, because of the changing commercial provision of services, the Office might not be able to put in place long-term arrangements in some instances. In addition, the Office would need to be able to monitor the provision of services by private operators. And, in the event of an operator withdrawing from providing a service for example, the Office would also need to be able to put in

place alternative arrangements to avoid a sustained break in service.¹ If services were not to the standard required, the Office would need to take action to enforce performance standards and penalties. Once again, this would be no different from the present situation for Australia Post whereby services provided through contractors (and its own staff) need to be monitored and penalties enforced if necessary.

One way the Office could obtain details about commercially provided letter services would be by licensing all letter service providers. The licences could specify that the providers were to submit details about the type and coverage of their services and require them to provide adequate notice of proposed changes to their services. Such information would enable the Office to identify gaps in service provision and to have time to put in place alternative arrangements.

In the event that reserved services protection were removed, Australia Post's network would be, at least initially, the most comprehensive. As discussed in Section 8.6, access to this network would be required if the benefits of increased competition were to be realised. Such access might also be required to ensure that the social objectives of Government were met at least cost. The role of the *Trade Practices Act 1974* (TPA) in this respect is covered in Section 9.2.2.

Cost of Office activities

Significant administrative costs would be incurred by the Office in maintaining the necessary data base, letting contracts, and in supervising contractors. In addition, similar costs would be incurred by the private service providers. The real issue is not only one of cost but the difficulty of tendering (and letting contracts) for a moving 'target'.

Accountability

The best way of ensuring that the appropriate social objectives had been established, and that the Office was meeting them in the most cost-effective manner, would be to make both the objectives and the activities and performance of the Office subject to public scrutiny. This would involve the prior publication of the Government's objectives and of the strategies to be adopted by the Office in meeting those objectives. That could be achieved by tabling both in the Parliament. Subsequently it would be necessary to make public the costs incurred by the Office in meeting the objectives and the extent to which the objectives were met.

¹ Letters are generated continuously and providers of letter services cannot stop that production should they no longer be able to supply services; that is, the provision of letter services must also be continuous. In addition they are unable to influence the total volume of letters being generated, from where they are being sent, and to where they are to be delivered.

Funding of letter social services

As discussed in Section 5.8.4, the Commission's preferred method of funding community service obligations is by direct budgetary payment to service providers. This approach could be readily applied under this option. An alternative approach which could be used is a trust fund arrangement as for telecommunications. All providers of letter services could be required to contribute to the fund. Monies in the fund could then be used to pay for the cost of providing high-cost letter services. But, for reasons discussed in Section 5.8.1, this funding arrangement is considered to be inferior because of the cross-subsidisation between postal users that would occur. Funding by cross-subsidisation through a uniform charge, or by the Government accepting a lower rate of return, would also not be feasible under this option.

9.2.2 Regulation of service prices and inter-connection between networks

Based on the discussion in Section 8.6, there are two areas under this option where the intervention of Government may be necessary to achieve outcomes more akin to those of a competitive market. The first is the potential for service providers to exercise market power in setting prices in situations where they do not face effective competition, such as in providing services in rural and remote areas. The second area is the potential for Australia Post to restrict access by other providers to its national network.

With respect to the exercise of market power, in the absence of reserved services, there should be no need for government intervention through the Prices Surveillance Authority in setting prices for letter services. The ability of an individual provider to increase prices excessively would be limited by the potential so created for other providers to supply services of a similar quality at a lower price; that is, the market would be contestable. Nevertheless, until competitive networks to Australia Post were in fact established, the Commission considers that the Prices Surveillance Authority would need to monitor the setting of prices for reserved services to curtail excessive price increases.

By contrast, the TPA is designed to prohibit restrictive trade practices that could result in an abuse of market power and, by prohibiting those practices, to create a more competitive outcome. Thus, the Industry Commission considers that potential abuses of market power with respect to prices should be resolved through general competitive measures such as the TPA (see Section 7.5). These measures should also be used to ensure that the terms and conditions of access to Australia Post's network did not constitute an abuse of market power and were fair to both parties. Moreover, any judgment concerning inter-connection disputes, including the basis on which the judgment was made, should be made public.

9.2.3 Meeting current letter social objectives

Most of the letter services that are currently provided by Australia Post would continue to be provided in a normal competitive environment (see Chapter 8). Within such an environment the charges applying to letters would be determined by the demand for, and cost of providing, letter services and hence might vary according to the location of sender and receiver. The task of the Office would be to bridge the gap in the services that would be provided commercially compared with those needed to meet the Government's social objectives.

Until other letter service networks became established, the Office would probably contract mainly with Australia Post. This would allow a transition to a more competitive environment without risking an unacceptably long break in the provision of letter services; short breaks in service have always occurred and will continue to occur in the service provided by Australia Post. Once new suppliers were able to establish their credentials, the Office would be able to enter into contracts with alternative letter service providers.

By contracting with Australia Post and any other letter service providers, the Office would be able to ensure access to a letter service for all people in Australia equivalent to that which they now enjoy. Through the terms and conditions of its contracts, the Office would be able to ensure that the standard of service provided by its contractors reasonably met the social, industrial, and commercial needs of the Australian community. In meeting these objectives, Australia would also be able to meet its international obligations.

The uniform charge objective

However, the Office would find it difficult, if not impossible, to meet the objective of a uniform charge for standard letters. This is because the Office would have no influence over the charges applying to letter services provided commercially. Rather than pursue the objective of providing access to the letter service at a uniform charge for standard letters, the Office could pursue an alternative objective of providing access at a maximum 'affordable' charge (see Section 9.3.2).

9.2.4 Conclusion

In a competitive environment created by removing the reserved services protection, the social objective of reasonable access to a letter service of a reasonable standard, could theoretically be met by contracting for services (that would not be supplied commercially) through an independent Office of letter social services. However, it would not be feasible to achieve the objective of a uniform charge for standard letters. This is because the Government would have no control over the prices charged for the greater proportion of letter services that would be provided commercially. Furthermore, the difficulty in and the costs of obtaining the necessary information on an almost day-to-day basis in order to enter into and supervise contracts are such that this option is considered to be impractical.

9.3 Option 2 - Contract with Australia Post: no reserved services

This option of the Government contracting only with Australia Post to provide those non-commercial letter services required to meet its objectives would be very similar to the previous option of contracting for their provision through an independent Office. The competitive environment under both options would be virtually the same with the removal of reserved services protection from Australia Post. The main difference would be the exclusion of private operators from tendering at first to supply particular services. Consequently the initial tender with Australia Post would not be as competitive as the tendering process through an independent Office. However, most of the benefits of competitive tendering could be achieved if Australia Post were to sub-contract out the supply of services, as it does now for example with respect to roadside delivery in rural and remote areas. Thus, Australia Post would be performing many of the activities of the independent Office discussed in Section 9.2.1.

Given the similarities between Options 1 and 2, the following discussion will concentrate on the major differences that would arise by contracting with Australia Post instead of through an independent Office. For this reason, the regulation of prices and inter-connection between networks will not be discussed further (see Section 9.2.2).

9.3.1 Establishing the contract with Australia Post

Two conditions must be met to be able to draw up a contract between Australia Post and the Government. Firstly, the Government must have specified clearly its objectives and the type and standard of service required to meet those objectives. And secondly, the services which Australia Post would otherwise supply based on its commercial judgment must have been identified. It would then be possible to:

- identify the non-commercial services for which the Government would then contract with Australia Post to provide; and
- determine the amount of compensation required by Australia Post.

In contrast to the situation of contracting through an independent Office, it would probably not be necessary to identify each service separately, or to make frequent adjustments based on changes in services provided commercially. Rather, the Government could enter into an overall long-term (say, five year) contract with Australia Post to maintain the desired level of service in terms of access and quality.

The amount of compensation to be paid to Australia Post could be determined annually. Care would be needed in setting the amount of compensation so as to avoid under or over-compensation to Australia Post. Over-compensation would reduce the incentives for Australia Post to minimise costs or provide it with an unfair competitive advantage. By contrast, it could be placed at a competitive disadvantage if it were under-compensated because of the cash flow difficulties that might arise.

9.3.2 Meeting current social objectives

The Government's current social objectives would be met under this option to the same extent as they would be under Option 1, except that the administrative cost and difficulty of meeting the objectives would be much less. As with Option 1, the uniform charge objective would not be met because the Government could not enforce such a charge on private providers with whom Australia Post would be competing. Nor should the Government seek to do so, as this would amount to price control and undermine the potential (efficiency) gains resulting from pricing services more appropriately in a competitive environment (see Section 4.2).

Instead of maintaining access to the letter service at a uniform charge for standard letters, the Government could provide access at a maximum 'affordable' charge. This would involve the Government paying that part of the cost, incurred by Australia Post in providing higher-cost services, which was above the maximum charge. The result would be that no member of the community would be required to pay more than the affordable charge to post a letter, but prices for some lower-cost services could fall in response to competition.

In addition, the distorting effects of cross-subsidising the cost of providing services through the imposition of a uniform charge would be reduced; users of lower-cost services would no longer be taxed to offset the cost of providing higher-cost services (see Section 4.2.1). At the same time, the full cost to the community incurred by Australia Post in meeting its community service obligations would be made explicit, and would allow the Commission's recommendation that these costs be met by direct budgetary payments to be fully implemented (see Section 5.8.4).

Initially, the maximum affordable charge could be set at the current uniform charge for a standard letter of 45 cents. This would ensure that nobody had to pay more than they do today to post a (standard) letter. Subsequent changes to the affordable charge could be determined as necessary and reflected in the budgetary process of allocating funds to Australia Post for the costs incurred in meeting its community service obligations.

The maximum charge would only apply to Australia Post. Other providers of letter services would not be constrained by it. They would be free to set charges based on their commercial judgment and Australia Post would be free to match them at or below the maximum affordable charge. And, just as importantly, consumers would be free to choose which provider to use based on cost/service quality considerations. Consequently, they would not be required to pay more than 45 cents (initially), because they could always choose to post a standard letter with Australia Post.

The Commission considers that this approach is worthy of consideration. If the goal of the uniform charge is to make access to the letter service 'affordable' to all people in Australia, this goal could be achieved by setting a maximum charge equal initially to the current uniform charge. It would provide for a more competitive environment in the provision of letter services, hence greater benefits from increased competition, whilst ensuring that no member of the community had to pay more than the current uniform charge to post a standard letter. Indeed, "prices affordable to all" is one of the guiding principles within the EC Commission's recently released Green Paper (CEC 1992, p. 1). Furthermore, the United Kingdom has adopted a "uniform, affordable tariff structure" as one of its guiding principles for letter services (Lilley 1992, p. 4) -- see Appendix F.

Accountability

As under the previous option, the best way of ensuring that the Government's social objectives were appropriate, and that Australia Post was meeting them in the most cost-effective manner, would be to make the objectives and contractual arrangements with Australia Post open to public scrutiny. This would help create an arm's length relationship between the Government and Australia Post and place a requirement on the Government to specify its objectives. It would also place ongoing pressure on Australia Post to specify the policies and strategies it would be adopting to meet those objectives and to do so at least cost.

At present, the policies and strategies of Australia Post for meeting its community service obligations form part of its corporate plan (see Section 3.2.1). In its draft report, the Commission stated that it could see no reason why those policies and strategies, and any other matters relating to its community service obligations, should not be made public. The subsequent publication in July 1992 by Australia Post of the addendum to its corporate plan, detailing the policies and strategies to be pursued in fulfilling its CSOs, is welcomed by the Commission.

Funding of letter social services

The Government could fund the cost of meeting its social objectives with respect to letter services under this option in one of three ways: by cross-subsidising through the use of industry trust funds; by direct funding through budgetary payments to Australia Post; or by indirect funding through accepting a lower rate of return on Australia Post's assets. For reasons discussed in Section 5.8.4, direct funding would be the Commission's clearly preferred method.

9.3.3 Conclusion

The major difference between contracting with Australia Post instead of through an independent Office would be the much lower costs of administration and, probably, the more cost-effective delivery of services. The need to determine frequently what services to provide to meet the Government's social objectives, and to enter into separate contracts, would not arise to anything like the same extent. Rather, the Government could enter into a long-term (say, five year) contract with Australia Post to maintain the standard of service it wished in order to achieve reasonable access; this would also enable Australia to meet its international obligations.

Except for the objective of providing access at a uniform charge for standard letters, all of the Government's social objectives would be met under this option. It would also be possible to meet the alternative objective of an affordable maximum charge, as the current uniform charge of 45 cents could become the maximum which Australia Post charged to send a letter anywhere in Australia. People would not have to pay more than this unless they chose to do so and, in fact, may pay less than 45 cents to send many of their letters. The Commission considers that this option (Option 2) is both feasible and would provide major benefits from the increased competition in the provision of letter services as discussed in Section 9.5.

9.4 Option 3 - Maintain Australia Post's obligations: reduced reserved services protection

In essence, this third option -- to maintain Australia Post's obligations for meeting the Government's social objectives -- would represent a continuation of the current arrangements but with gradually reducing protection. Reserved services protection enables Australia Post to maintain a uniform charge for standard letters (currently 45 cents) which is high relative to the cost of providing letter services within, for example, the capital cities. This uniform charge, in turn, provides most of the funds required (though cross-subsidisation) to offset the costs of providing reasonable access to letter services to all people living in Australia.

But compared with the two previous options, the potential benefits of increased competition, and of funding the Government's social objectives through direct budgetary payments, would be less; these increased benefits of Option 2 compared with Option 3 are discussed further in Section 9.5.

With Option 3, the challenge is to balance the provision of continued protection for Australia Post against increasing the competitive pressure on it. The extent of protection required will be influenced by the Government's decision on the level of the uniform charge, and the extent to which it wishes to fund its social objectives through cross-subsidies or direct budgetary payments. Reserved services protection could and would be reduced, and increased benefits provided to the community, if the Government were to lower the uniform charge and fund more of the costs of meeting its social objectives through direct budgetary payments.

The retention and level of the uniform charge are matters of social policy; they are matters for the Government to decide. However, in presenting Option 3 the Commission has assumed that the Government's social objectives are to retain the uniform charge of 45 cents for standard letters and are to be funded mainly through cross-subsidies.

9.4.1 Reducing the extent of reserved services protection

The extent of protection afforded by governments to their postal authorities varies considerably between countries (see Appendix F). Some have reduced, or are in the process of reducing, the extent of protection so as to achieve a better balance between the protection required and greater competition. Reduced protection to Australia Post could be pursued by:

- reducing the amount that providers must charge to carry letters;
- reducing the weight limit for exceptions to reserved services;
- granting further exceptions to reserved services; and
- withdrawing Australia Post's exclusive right to carry letters between Australia and places outside Australia (see Section 6.5.3).

Reducing the amount which other providers must charge

Currently, other providers must charge at least ten times the standard rate to carry a letter. This factor is substantially above the protection afforded in, for example, New Zealand and the United Kingdom.

In New Zealand, the charge which other providers must impose is now set at 80 NZ cents, compared with the standard letter rate of 45 cents. The amount was set at \$NZ1.75 in January 1987, then reduced to \$1.25 in September 1990, \$1.00 in December 1990 and 80 cents in December 1991. Greater competitive pressure has been placed on New Zealand Post with each reduction. However, in discussions with the Commission during May 1992, New Zealand Post indicated that the present margin of 35 cents provided sufficient protection from potential competitors to maintain its ability to provide a universal letter service.

In the United Kingdom, the Government has indicated (through its Citizen's Charter released in July 1991) that it would be reducing the amount which others must charge to be closer to the standard rate of 24 pence for first class mail. Currently other providers must charge at least $\text{œ}1$ or about four times the present standard rate. No end point has been specified by the Government with respect to either the final minimum amount that others must charge or when the process will be

complete. The Government's intention is to keep reducing the extent of protection whilst monitoring the impact on the British Post Office's ability to provide a universal letter service which can be accessed at a uniform 'affordable' charge. At the end of the day there may be no need to retain reserved services protection.

There are difficulties in determining the limit and whether the limit should be set as an absolute amount, as in New Zealand and the United Kingdom, or as a multiple of the standard letter rate as in Australia (10 times). If an absolute limit of, say, \$1.20 were to apply, and Australia Post wished to increase the standard letter rate to, say, 50 cents, the reduced protection would provide an incentive for Australia Post to reduce costs rather than increase prices. However, if the increase to 50 cents were due to unavoidable cost increases, this would reduce the level of protection afforded to Australia Post. Indeed, with an absolute limit and increases in the standard letter rate, the end result would be the ultimate removal of the protection afforded to Australia Post -- a similar outcome as for Option 2 if it were adopted. Of course, in a period of low inflation and substantial gains in productivity, Australia Post could reduce the standard letter rate and increase its protection.

These effects of using an absolute limit would be overcome by using a multiple of the standard rate. If the multiple were fixed, increases in the standard letter rate would increase the absolute margin of protection. For example, using a multiple of 3, an increase from 45 cents to 50 cents in the standard rate, would increase the amount which others must charge from \$1.35 to \$1.50. This would automatically increase the margin of protection from 90 cents ($\$1.35 - 0.45$) to \$1.00 ($\$1.50 - 0.50$). But this may mean that increases in protection are given as a result of Australia Post failing to contain costs.

The amount of protection afforded could be lowered either by reducing the absolute limit relative to the standard rate, or by varying the multiple. Reductions in both will increase competitive pressure. The United Kingdom approach is to monitor the effects of reducing the level of protection relative to the standard rate for first class mail. It is not clear at this stage if the reduction will be achieved by reducing the present absolute limit or by changing to a multiple.

In its draft report, the Commission suggested that the best benchmark for determining the extent of reserved services protection is provided by New Zealand where the minimum amount which others must charge has been set at 80 cents. The use of New Zealand as the benchmark was challenged by Australia Post. It said:

The fact that New Zealand Post has just announced a result for the year to March 1992, which suggests a marked deterioration in financial performance to an almost breakeven level, suggests that its performance under the current regulatory arrangements is unsatisfactory. Moreover there are significant demographic differences between New Zealand and Australia which seriously qualify the use of New Zealand as a role model for Australia in the provision of postal services particularly in rural areas. Finally it must be noted the New Zealand Post charges NZ 80 cents for guaranteed next day delivery for both inter city and intra city services compared with Australia Post's 45c. (Submission 264, p. 50)

The Commission understands that the deterioration in the financial performance of New Zealand Post for 1991-92 was due to one-off expenditure in restructuring its operations, rather than competition encroaching into its core letter service business because of inadequate protection. As mentioned above, New Zealand Post indicated to the Commission that sufficient protection is provided by the 35 cents margin.

Nevertheless, the letter network operated by New Zealand Post is smaller and more dense than Australia Post's. In addition, New Zealand's population is spread more evenly throughout the country relative to Australia where the majority of the population is concentrated in the major capital cities.

Given these demographic differences, the extent of cross-subsidy within New Zealand's postal network is likely to be less than for Australia. This means that the amount of protection required in New Zealand is also likely to be less. Furthermore, the amount of cross-subsidy involved and the reserved services protection required would be lower in New Zealand because of the rural delivery charge there; currently this charge is \$NZ80 having recently been increased from \$NZ40 a year.

The above considerations suggest that an 80 cents minimum amount which other carriers must charge, as proposed by the Commission in its draft report, may be somewhat too low a starting point in Australia relative to a uniform charge of 45 cents for standard letters. It could force too rapid and disruptive an adjustment on Australia Post. In seeking to establish a more appropriate amount, the Commission has also had regard to the proposal from Australia Post that the amount of protection could be reduced to five times without being too disruptive (Submission 82, p. 49), and to developments in the United Kingdom where it is intended to reduce the amount of protection from four times the first class rate to closer to that rate. Taking account of overseas experience and developments, and the characteristics of the Australian letter market, the Commission considers that the minimum amount other operators must charge in Australia should fall in the range of two to three times the current standard letter rate of 45 cents. If this option were adopted, the Commission therefore recommends that the initial postage which other carriers must charge for a letter be set at \$1.20, just over two and a half times the current standard rate.

Also in its draft report the Commission proposed that the initial amount (of 80 cents) which others must charge be reduced (by 5 cents) each year, to the point where the Commonwealth Government judged the extent of protection just sufficient to meet its social objectives. By specifying on-going reductions without a particular end-point, Australia Post argued that, if implemented, this recommendation would immediately mean greatly reduced protection. It said:

... the prior announcement of a progressive reduction in protection without a specific end-point would certainly invite early incursion into reserved services. (Submission 264, p. 18)

The Commission is not convinced that the extent of such incursions would put Australia Post at risk. Indeed, it remains of the view that Australia Post should be exposed to increasing competitive pressure and that this would best be achieved (under this option) by gradually reducing the scope of reserved services protection. Given that the Commission has accepted a higher starting point of \$1.20 (instead of 80 cents) relative to the standard rate of 45 cents, it now proposes that the scope of reserved services protection be reduced in larger steps than envisaged in the draft report to apply the increasing competitive pressure on Australia Post. Accordingly, it recommends that the amount of protection be reduced by 10 cents a year for five years to 70 cents. The Commission further recommends that the amount of protection be reviewed in 1997 to determine the system to apply from the year 2000.

Reducing the weight limit

At present, letters weighing more than 500 grams may be carried by other providers without their having to charge at least 10 times the standard rate. Reducing the weight limit would mean that more articles could be carried by other providers thereby placing further competitive pressure on Australia Post. Evidence is available once again from other countries. In New Zealand the limit is only 200 grams (having been reduced from 500 grams over the period from January 1987 to September 1990). There is no weight limit in the United Kingdom but weight limits from 500 grams to 2 kilograms are the main means of providing protection in other European Community countries.

The impact of reducing the weight limit in terms of placing more competitive pressure on Australia Post would also be influenced by the amount which other providers must charge. If that amount were reduced to, say, \$1.20, the additional competitive pressure from reducing the weight limit could be small. The number of articles weighing more than, say, 250 grams that could be carried for less than \$1.20 would probably be few. Australia Post's current charges for large letters weighing over 125 grams and less than 250 grams are \$1.25 for intrastate delivery and \$1.50 for interstate delivery; for large letters weighing between 250 and 500 grams, the respective charges are \$2.00 and \$2.65 (AP 1992f, p. 6).

However, should the weight limit be removed altogether, this could have the effect of increasing the protection afforded to Australia Post if the amount that others must charge were not reduced. For example, should the 10 times charge continue to apply and if the 500 gram limit were removed, this could result in heavier articles previously carried for less than \$4.50 then being subject to the 10 times charge.

In its draft report, the Commission proposed that the weight limit be reduced to 200 grams. Australia Post responded that a reduction in the limit to 250 grams would be preferred as it "would more readily fit in with UPU weight categories" (Submission 264, p. 19). The Commission also notes that Australia Post uses the weight categories of, for example, 125 grams to 250 grams. If a limit of 250 grams would prove easier and less costly to implement for Australia Post and its

customers, then there would be little benefit from reducing the weight limit to 200 grams instead of 250 grams. Both limits would have the effect of exposing Australia Post to greater competition compared with the present limit of 500 grams. Thus, the Commission recommends that the weight limit for exceptions from reserved services be reduced from 500 grams to 250 grams.

The Federal Council of the Isolated Children's Parents' Association expressed concern at reducing the weight limit because of the potential for prices of large letters above the limit to increase in a competitive environment, especially in rural and remote areas. It claimed that this would adversely affect the cost of sending educational materials, such as tapes and books, many of which would weigh more than 200 grams (Submission 269, p. 3). The Federal Council later submitted that the pressure to increase prices for letters weighing between 200 and 500 grams would result from:

... (1) loss of market share and revenue in urban areas and (2) for competition to operate in rural areas, prices would have to increase for the service to be economic. (Submission 292, p. 1)

At present large letters are included in the services reserved to Australia Post provided they meet both a weight and size limit. For example, some large letters currently sent from Schools of Distance Education could be outside the reserved services protection even though they weigh less than 500 grams. This would be so for a 'letter' containing a book or video tape which was thicker than 20 mm.

Furthermore, large letters are not subject to a uniform charge as are standard letters. Different charges apply according to weight and to whether the letters are for intrastate or interstate delivery. It is the understanding of the Commission that Australia Post's charges for sending large letters are based on the costs incurred for the different destinations and weight categories. If, as claimed by the Federal Council, the price of some large letters were to increase, this would imply that some of the costs of carrying those letters are being cross-subsidised through revenue gained from other services provided by Australia Post.

There is, however, no evidence available to the Commission to suggest that such cross-subsidisation is occurring. Thus, the Commission considers that there should be no reason for Australia Post to increase the price of some large letters just because they are no longer reserved to it. If anything, this removal is likely to place greater competitive pressure on Australia Post to keep prices down or to improve the standard of its service for these letters.

Granting further exceptions to reserved services

As discussed in Section 7.1, several types of messages, such as catalogues, leaflets, and pamphlets are specifically excepted from the services that are reserved to Australia Post. More competitive pressure could be placed on Australia Post by excepting further types of messages. The

Commission considers that such additional exceptions should be granted where the type of message being conveyed, and the means by which it is collected and distributed, is different from the carriage of letters by Australia Post. This difference is depicted in Chart 2.1 which compares the network and operations of Australia Post with that of the letterbox distributors.

Three additional exceptions have been proposed: the operations of document exchanges (see Section 7.2.3); advertising material (see Section 7.2.5); and the transfer of mail within an organisation (see Section 7.3.4).

9.4.2 Limiting the adverse effects of reserved services protection

An inevitable consequence of granting reserved services protection to Australia Post is that the extent of competition is reduced and, consequently, Australia Post is put in a position where it could exercise market power. The costs of reducing competition in this way have already been discussed in Chapter 7, particularly in Section 7.3.

As discussed in Chapter 4, the publication of separate financial data for reserved services and non-reserved services would be one means of exposing a potential adverse effect of protection: the ability of Australia Post to cross-subsidise its non-reserved services from revenue earned on its reserved services. Contracting out the supply of services would be another way of minimising the cost of reserved services protection. But, as previously discussed in Chapter 4, the use of contractors by Australia Post is already extensive. A further measure would be to allow more open access to Australia Post's network.

Open access to Australia Post's network

At present Australia Post restricts access to its network by forcing its customers to place their mail into the network in their own or adjacent post code areas. This practice denies the potential for, say, large volume users to line-haul their mail for placement in Australia Post's network in the city where the mail is to be delivered. As an example, American Express may be about to send a number of accounts from its Sydney office to card holders in Perth. It has calculated that if it were to line-haul the accounts to Perth, it would save at least a day in delivery time, which in turn could result in earlier payment of some customer accounts.

If, in this example, American Express were able to inter-connect into Australia Post's network, such a benefit to American Express could be realised. In addition, provided the inter-connect charge were set correctly, the ability to inter-connect in Perth would put pressure on Australia Post to reduce the costs of line-hauling or to increase the speed of its delivery.

A further example of the need for flexibility in the inter-connection arrangements with Australia Post's network is provided by the contract, signed earlier this year, between the Queensland Department of Education and Security Express. Under the contract, Security Express was given the

task of distributing throughout Queensland all the internal documents of the Department, including the education material to children studying by correspondence with the Schools of Distance Education. The only way that Security Express could fulfil its contract was to place most of the documents from these Schools into Australia Post's network for final delivery. The Commission understands that, after some initial reluctance, Australia Post is now delivering these articles.

Provided, for example, both American Express and Security Express were meeting costs incurred by Australia Post in effecting delivery, the Commission considers that such inter-connection should be allowed to occur at any point between sender and receiver up to the location of final sort before delivery to receiver. (The zone where such inter-connection could occur is shown in Chart 2.1.) The need to ensure that the terms and conditions of inter-connection were fair to Australia Post and, for example, American Express has already been discussed in Section 8.6.

Australia Post was strongly opposed to the proposal in the Commission's draft report to allow inter-connection with its network, under fair terms and conditions, at any point between sender and receiver up to the location of final sort before delivery to receiver (Submission 264, pp. 21-23). According to Australia Post, the Commission's proposal would amount to "mandatory inter-connection to Australia Post's network on regulated terms and conditions" (Submission 264, p. 18). Although it did not provide separate details, Australia Post indicated that inter-connection would result in a significant loss of profitability (Submission 264, p. 3).

Australia Post seems to have misunderstood the proposal to allow inter-connection and, as a result, has incorrectly concluded that inter-connection would result in a loss of profitability. There are two aspects of the Commission's proposal which require reiteration:

- the proposal is to allow inter-connection with Australia Post's network. It is not that Australia Post be obliged to provide that inter-connection regardless of the impact on its operations and profitability; and
- the inter-connection should be on fair commercial terms. The terms and conditions should not be highly regulated. In cases where abuse of market power is alleged, both public pressure and general competitive measures, such as the TPA, would be available.

If the terms and conditions of inter-connection are commercial, the Commission judges that Australia Post should not be disadvantaged with respect to its profitability. Should a loss of profitability occur, this would indicate that the inter-connection price had been set too low relative to the costs incurred by Australia Post in the delivery of the mail, or to the increased costs stemming from the reduced volume going through other parts of its network.

9.4.3 Regulation of prices for reserved services

Compared with the earlier consideration of the regulation of service prices and inter-connection, maintaining reserved services protection raises the additional issue of whether the Prices Surveillance Authority should continue to scrutinise the setting of prices for reserved services. If the minimum amount which other providers must charge for a letter were reduced to, say, \$1.20, the Commission considers that the need for the current role of the Prices Surveillance Authority would be greatly reduced.

The incentive to maintain its level of protection would place considerable discipline on Australia Post to limit price increases and reduce costs. This discipline would probably be more effective than the discipline placed on Australia Post through the surveillance activities of the Authority. The only role for the Authority which the Commission considers may be necessary would be to monitor Australia Post's prices for reserved services. Even then, the need for the Authority to continue to monitor these prices should be reviewed after three years.

However, should the amount of protection afforded Australia Post be determined by a multiple of the standard rate, less competitive pressure would be placed on Australia Post. In this situation, there could be a case for the Authority to continue its surveillance of prices for reserved services.

9.4.4 Funding of letter social services

If reserved services protection were retained, the Commonwealth Government would still be able to use cross-subsidisation between users as a means of funding the costs of fulfilling its social objectives. But, as already discussed in Section 5.8.4, direct funding through budgetary payment by the Government is the Commission's clearly preferred method. Direct budgetary payments would have to be higher if the Government were to lower the uniform charge for standard letters.

9.4.5 Conclusion

Option 3 would allow the Government's current social objectives to be met, including having a uniform charge for standard letters (currently 45 cents). But the extent of competition in the provision of letter services would still be restricted compared with Option 2. To realise more of the benefits of competition that would be gained under Option 2, the amount of protection afforded to Australia Post should be reduced.

If the Government retained a uniform charge of 45 cents for standard letters, the amount of protection could be reduced by granting further exceptions to reserved services, reducing the minimum amount which others must charge, and reducing the weight limit of letters that are not subject to the minimum charge. If protection were ultimately removed, Option 3 would in practice represent a transitional step to Option 2.

9.5 Advantages of Option 2 over Option 3

In response to the Commission's draft report, a number of participants commented that they would prefer Option 3 to Option 2. This preference was due to one of, or a combination of, three main reasons:

- a concern that the Commonwealth Government would not continue to provide the necessary budgetary payments to Australia Post in order to maintain both mail services in rural and remote areas and the maximum affordable charge;
- a desire to retain the uniform charge for standard letters; and
- a view that most of the benefits of increased competition would be achieved under Option 3.

The Major Mail Users of Australia said:

We consider that substantial changes to the present system along the lines proposed by the Commission in its Recommendation 21 [Option 3] would achieve almost as much as the radical solution proposed by Recommendation 20 [Option 2] but with much less disruption and inconvenience for postal customers, large and small. (Submission 272, p. 5)

The National Farmers' Federation (Submission 297, p. 1) and the Federal Council of the Isolated Children's Parents' Association both considered that reserved services protection should continue to be afforded to Australia Post and that a uniform charge should continue to apply to standard letters. The latter organisation said:

We believe that there should be enough reserved services protection in place in order to be able to provide a good service to rural and remote Australia with a uniform letter charge. (Submission 269, p. 2)

The concern of some participants that the Government would not fully meet the costs incurred by Australia Post in fulfilling its community service obligations are addressed in Section 5.8.4. In essence, the Commission believes that the subsidies currently received by some postal users should be directly considered with other spending in the Commonwealth budgetary process and paid for by the community as a whole. As the social objectives have been specified in the Australian Postal Corporation Act 1989, the risk of the Government choosing not to provide the necessary support for its objectives to be fulfilled should be no greater with a system of direct budgetary payments than it is under the present system (of the use of cross-subsidies and the Government accepting a lower rate of return). Thus, the Commission considers that statements, such as the following by Australia Post, are dubious:

... as different pressures come to bear on governments, available funds would diminish and lead inevitably to a progressive reduction in service to rural and remote areas; ... (Submission 264, p. 35)

This line of reasoning implies that the social objectives for letter services would not stand direct comparison with other social programs.

Apart from its concerns with direct budgetary payments to offset the costs of its CSOs, Australia Post considered that Option 2, in particular, and Option 3 would both have large adverse impacts on its profitability -- see Section 9.6. Rather than support either Option 2 or 3, Australia Post reiterated the suggestion made in its original submission that the minimum amount which others must charge be reduced from ten times to five times the standard letter rate (Submission 264, p. 9).

The Commission acknowledges that, to be implemented, Option 2 would require a change in the Government's social objectives such that the objective of a uniform charge for standard letters no longer applied. Such a change is a matter for social policy on which the Commission makes no comment. Nevertheless, the Commission is convinced that there would be a number of additional benefits to the Australian community if Option 2 were to be implemented rather than Option 3. Option 2 is the Commission's clearly preferred option.

The additional benefits from Option 2 would arise from the removal of reserved services protection and stem from:

- placing greater ongoing pressure on Australia Post to improve its performance -- in terms of lower-priced, higher quality services which better meet the needs of customers -- if it were subject to competition in the provision of letter services;
- getting greater potential benefits from alternative suppliers being able to provide letter services at lower cost or which better meet the needs of customers;
- removing the need for the administrative disciplines (such as the corporate planning process, the PSA, and the Postal Users Consultative Council), which are not only time-consuming and resource-intensive but also not as effective as competitive pressure;
- removing the need to define and police the services that are to be reserved to Australia Post; and
- reducing the scope for the Government to interfere in the operations of Australia Post and its performance.

Furthermore, Option 2 would allow the Commission's preferred method of funding Australia Post's community service obligations through direct budgetary payments to be fully implemented. The maintenance of the current uniform charge of 45 cents for standard letters under Option 3 would result in the continued use of cross-subsidies as the major means of offsetting the costs incurred by Australia Post in meeting its CSOs. As discussed in Section 5.8, cross-subsidies are an inferior way to fund CSOs because of the price distortions involved and, hence, greater adverse consequences for the efficiency of resource use compared with raising the required funds through general taxes.

9.5.1 Conclusion

Option 2 is the Commission's clearly preferred option. It is preferred to Option 3 because the net benefits to the Australian community would be much higher for the reasons discussed. The Commission judges that the only reason for implementing Option 3, in preference to Option 2, would be if the Government decided that it wished to retain the social objective of a uniform charge for standard letters (currently 45 cents) and to fund its social objectives for letter services mainly through cross-subsidies, rather than accept the maximum affordable charge objective and direct budgetary payments as would be required under Option 2.

9.6 Effects of implementing Option 2 or Option 3: claimed losses of profitability by Australia Post.

In its response to the Commission's draft report, Australia Post claimed that Option 3 and, in particular, Option 2 would result in substantial loss of profitability. To restore its profitability, Australia Post claimed that it would have to retrench a significant number of staff (Submission 264, pp. 15-23). These claims made by Australia Post for low and high impacts on its profitability are summarised in Box 9.1.

Regrettably the Commission does not have available for inclusion in Box 9.1 an assessment by Australia Post of the loss of profitability and number of retrenchments under its own option (Option 5 Times) of reducing the amount which others must charge to five times the standard rate. The Commission asked Australia Post to undertake that assessment at the draft report public hearing on 21 September 1992. In response Australia Post provided some estimates on 6 October 1992. However, in a letter faxed on 29 October -- just the day before this report was completed -- Australia Post asked the Commission to disregard the estimates, treat them as commercial-in-confidence and not include them in this report. The Commission finds it quite unsatisfactory that Australia Post was able to provide for public use estimates of the Commission's draft proposals (Options 2 and 3), but not its own proposal (Option 5 times).

With respect to the decreases in revenue, Australia Post states that they are a combination of:

- for Option 2, the loss of revenue from the removal of reserved services protection, inter-connection, and deregulation of international mail.
- for Option 3, the loss of revenue from reduced reserved services protection, inter-connection, and deregulation of international mail.

Data are not publicly available on the separate contributions of each of these revenue losses; nor are details available on the assumptions which underlie Australia Post's claimed revenue losses. Similarly, details are not available with respect to the estimated cost savings.

Box 9.1: Claimed losses of profitability by Australia Post and staff retrenchments required to restore profitability.

	Option 2		Option 3		Option 5 Times	
	Low	High	Low	High	Low	High
Decrease in revenue (\$ million)	470	680	150	250	na	na
Decrease in costs (\$ million)	120	90	40	30	na	na
Loss of profitability (\$ million)	350	590	110	220	na	na
Staff retrenchments required to restore profitability	9000	13000	3000	5000	na	na
Redundancy costs (\$ million)	365	530	120	190	na	na

Source: Submission 264, pp. 15-23.

Thus, on the basis of the information available to it, the Commission considers that the claimed losses in profitability by Australia Post lack credibility. And, since they are dependent on the claimed losses of profitability, the predicted staff redundancies also lack credibility.

In assessing the impact of its recommendations on the profitability of Australia Post and, hence, on Australia Post's ability to fulfil its community service obligations for domestic letters, the Commission considers that such an assessment should only take into account the loss of revenue, if any, resulting from removing or reducing reserved services protection. This is because, as discussed in Section 9.4.2, Australia Post's profitability should not be adversely affected by inter-connection, provided it were made on fair terms and conditions as recommended by the Commission. And, if the recommendations with respect to international mail presented in Chapter 6 were implemented, international mail would become a separate business activity with its own requirement to be profitable; there should be no cross-subsidisation between domestic and international letter services. Furthermore, since Australia Post would be required to fulfil community service obligations for domestic letters even if there were no international mail, any loss of revenue from international mail should not be included in an assessment of Options 2 and 3.

9.6.1 Loss of profitability from removing or reducing reserved services protection

Despite the inclusion of losses from inter-connection and international mail, the Commission considers that most of the loss in profitability claimed by Australia Post would be a result of removing reserved services protection under Option 2 and reducing it under Option 3. Given the magnitude of the claimed losses, this indicates that Australia Post has assumed:

- a very substantial reduction in volume (market share);
- possible further reductions in revenue because of price competition on remaining share; and
- an inability to reduce costs in any way commensurate with the reduction in volume.

The use by Australia Post of a range of estimates of profit reduction is in some ways misleading. In particular, the figures at the upper extreme must imply unrealistically rapid incursions by new competitors, and an overall response by Australia Post which is inconsistent with its improved business performance.

Although some loss of market share would be inevitable, combined with reduced revenue through price competition, the Commission does not accept that the revenue losses would be anywhere near as large as those claimed. It follows that the Commission does not accept the estimates of massive loss of profitability by Australia Post. Instead of very substantial losses, the Commission considers it is more likely that Australia Post would retain its dominant position in the market and minimise any loss of revenue that could occur. Three main reasons underlie this assessment:

- Australia Post possesses considerable customer loyalty and goodwill stemming from, for example, its long history, reputation for providing reliable and convenient services, and status as a 'household' name -- the impression gained by the Commission during this inquiry is that this customer loyalty is strong;
- it will take time for other networks to become established, both in terms of developing the capacity to provide an alternative network and in gaining customer acceptance, in order for them to pose a serious competitive threat to Australia Post; and
- in view of the recent improved performance of Australia Post and the evidence it has given of its increasing capacity to compete, the Commission would expect a rapid and substantial further response to new competitors.

The time required by other providers to become established as viable alternatives, would provide Australia Post with the time to adjust its services and operations to meet the developing competition. The Commission considers that the ability of Australia Post to reduce its costs would be significantly greater than that claimed. The Commission notes that Australia Post has already embarked on a major cost reduction exercise, through Retail Post, by such measures as converting official post offices to post office agencies, the sale of excess real estate and staff reductions (see Sections 3.5 and 4.1).

The Commission appreciates that cost reductions could not be achieved fully overnight because of, for example, existing agreements with Australia Post's employees. Nonetheless, it considers that a period of two to three years should be adequate for Australia Post to achieve the cost savings needed to maintain profitability in the face of any loss of market share which would occur gradually.

9.6.2 Static and partial nature of Australia Post's analysis

The analysis presented by Australia Post has two further shortcomings:

- its static nature; and
- most importantly, by considering only its own situation, Australia Post has completely ignored the potential benefits to the wider community resulting from increased competition that would occur under either option.

By being static in nature, Australia Post's analysis does not take into account potential reductions in the cost of providing letter services, or potential developments in the type of services offered, stemming from greater competition in the provision of letter services (see Section 9.5). Thus, the analysis fails to take into account changes in the overall size of the letter market. If increased competition were to result in the costs of providing letter services to fall, this could lead to an increase in the quantity of letter services demanded. And, particularly if new types of services are developed that compete with other means of sending messages, such as direct mail advertising using the latest printing and sorting technology instead of other forms of advertising, the demand for letter services may increase more rapidly than is now the case. Under either scenario, the total market for letter services would increase; for reasons discussed in Sections 2.1 and 8.1, the Commission considers that such an increase is likely.

But the key point to remember is that, even if Australia Post were to lose volume, the Australian community as a whole would not be worse off by the extent of any consequent reduction in its profitability. On the contrary. Letters not carried by Australia Post would be carried by other providers. These other providers would be supplying letter services at a lower cost, or at a higher standard of service for the same price, or in a form that better met the needs of customers. It is wrong to equate a larger Australia Post profit with benefit to the community or a lower profit with a loss to the community.

Furthermore, should Australia Post lose volume to other providers and introduce cost saving measures to restore its profitability, the resources it no longer requires may not represent a loss to society. In the case of staff, for example, many of the employees that may be retrenched by Australia Post could find employment with other letter service providers. Others may find

constructive employment elsewhere in the economy. From this economy-wide perspective, the loss of staff by Australia Post is not the basic issue. Rather the basic issue is the total cost to the community in terms of the resources used to provide letter services which meet its needs. If that cost can be reduced by others providing letter services that were previously supplied by Australia Post, the Australian community as a whole will be better off.

9.7 Ownership of Australia Post

Australia Post is owned by the Commonwealth Government on behalf of the community. In the event that its community service obligations were removed, together with its reserved services protection, the Commission considers that there would be no good reason to maintain Australia Post in public ownership and there would be benefits from privatising it. This would subject Australia Post to the same market disciplines as its competitors. It would face notably the ongoing scrutiny of the financial markets and the threats of failure and/or take-over.

However, the Commission recommends below that the Government continue to use Australia Post to meet its social objectives with respect to the letter service but, at the same time, open that service up to competition by removing reserved services protection. The greatest efficiency gains from reform, which the Commission is asked to identify in its terms of reference, will come from increasing competition in this way. This is the reform priority. Once competitive networks have been established the Government could -- and should -- review whether Australia Post should remain in public ownership.

9.8 Summary and recommendations

The Commission's clearly preferred position is that reserved services protection no longer be afforded to Australia Post. By removing this protection, greater competitive pressure would be placed on Australia Post to reduce costs and increase its range and standard of letter services. Furthermore, the choice of letter services available to the community would become greater as new providers started to offer services in competition with Australia Post.

However, if reserved services protection were removed, it would be impractical to meet the Commonwealth Government's objective of providing the letter service at a uniform charge for standard letters. If this objective were replaced with an objective of providing access at a maximum affordable charge, all of the Government's social objectives could be achieved with the removal of reserved services protection. Accordingly, the Commission recommends that:

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- **the Commonwealth Government consider replacing its objective of providing the letter service at a uniform charge for standard letters with a maximum affordable charge for standard letters.**

If the maximum charge objective were acceptable, the Commission would recommend that:

- **reserved services protection no longer be afforded to Australia Post from 1 January 1995; and**
- **the maximum charge for a standard letter be set initially equal to the uniform charge (currently 45 cents).**

If the maximum charge objective were not immediately acceptable, and the uniform charge were maintained, there would still be benefits to the community in increasing the competitive pressure on Australia Post. Hence, the Commission would recommend that:

- **reserved services protection continue to be afforded to Australia Post, but at a reduced level;**
- **the minimum amount which other providers must charge to carry a letter be reduced from 10 times the standard rate (that is \$4.50) to \$1.20 from 1 January 1994. This amount should be reduced by 10 cents each year thereafter for five years. There should be a review in 1997 to determine the system to apply from 1 January 2000; and**
- **the weight limit for exceptions to reserved services be reduced from 500 to 250 grams from 1 January 1994.**

The Commission is also recommending that the protection afforded to Australia Post be reduced by granting further exceptions to reserved services under Section 30 of the Act, namely: the operation of document exchanges, all advertising material, and the transfer of mail within an organisation.

Regardless of whether reserved services protection is retained or not, the Commission recommends that:

-
- **the Commonwealth Government continue to use Australia Post to meet its social objectives for the letter service; and**
 - **inter-connection with Australia Post's network be allowed, under fair terms and conditions, at any point between sender and receiver up to the location of final sort before delivery to receiver.**

9.9 Timetable for implementing recommendations

There are a number of factors which need to be considered in determining the timetable, or pace of change, for implementing the Commission's recommendations. As a general principle, all recommendations should be implemented quickly so that the Australian community gets the benefits as soon as possible. Nevertheless, the speed with which the Commission's recommendations can be implemented will also be influenced by:

- the need to allow time for the Government and the Australian community to consider their response to the Commission's final report;
- whether legislative changes will be required to enable implementation;
- whether further analysis has to be undertaken, or new procedures put in place, before implementation can proceed; and
- the time required for Australia Post and potential letter service providers to adjust to the new competitive environment.

Given the greater changes involved, and the more competitive environment that would result, the Commission considers that the adjustment time required under Option 2 would be longer than under Option 3. Australia Post would have to alter its operations and range of services so as to remain profitable in the face of full competition from new providers. And these providers would need time to develop the capacity to provide an alternative letter service. Less adjustment time would be required under Option 3 because it largely entails modifications within the existing framework for providing letter services through Australia Post.

In considering the amount of adjustment time required, a balance needs to be struck between the costs of forgoing the benefits of implementing the recommendations and the adjustment costs incurred in their implementation, such as staff retrenchments or inappropriate investment decisions. To minimise these combined costs in implementing Option 2, the Commission considers that an adjustment period of one to two years would be required. With respect to Option 3, sufficient adjustment time should be provided by that required to effect the necessary legislative changes.

Based on the above considerations, the Commission's recommendations can be grouped into three main categories with respect to the timing of their implementation:

- **Category A** - recommendations which can be implemented immediately within the existing legislative framework;
- **Category B** - recommendations which require a change in legislation but which can and should be implemented quickly by 1 January 1994; and
- **Category C** - recommendations which require more time for adjustment as well as a change in legislation but which still should be implemented as quickly as possible by 1 January 1995.

The recommendations are presented by category in Table 9.1. The numbers in brackets refer to the numbers of the recommendations as presented in the Overview and Recommendations section of this report.

Significant benefits would be realised by the Australian community if the Commission's recommendations were to be implemented according to the proposed timetable. It has been designed to minimise the costs of adjustment whilst seeking to maximise the benefits stemming from the provision of letter services in a more competitive environment.

Table 9.1: Timetable for implementing recommendations^a

Category A	Category B	Category C
Immediate implementation -- no legislative changes required	Implementation by 1 January 1994 -- legislative changes required	Implementation by 1 January 1995 -- adjustment time and legislative changes required
<p>In order to establish productivity benchmarks, Australia Post offer through open tender the final sorting and delivery of mail from selected metropolitan post offices in each State, and have the successful tenderers undertake the tasks for a trial period of, say, two years. An evaluation of the outcome should be published promptly. (2)</p>	<p>Australia Post no longer be subject to direction relating to general policies of the Commonwealth Government such as in borrowing, employment, and purchasing, and that Section 48 of its Act be repealed. (1)</p>	<p>The Commonwealth Government consider replacing its objective of providing the letter service at a uniform charge for standard letters with a maximum affordable charge for standard letters. (18)</p>
<p>Urban post offices operate on the most cost-effective basis. This is likely to require that official post offices be contracted out as agencies. These agencies should be stand-alone or in-conjunction with other businesses, whichever is the more cost-effective. (3)</p>	<p>Australia Post's exclusive right to carry letters between Australia and places outside Australia be withdrawn. (13)</p>	<p>Reserved services protection no longer be afforded to Australia Post from 1 January 1995. (19a)</p>
<p>Australia Post consult openly with a broad cross-section of the community about service requirements and well in advance about proposed changes in service standards. It should service standards. It should also ensure the public is well informed on its complaint handling procedures. (4)</p>	<p>The minimum amount which other providers must charge to carry a letter be reduced from 10 times the standard rate (that is \$4.50) to \$1.20 from 1 January 1994. This amount year thereafter for five years. There should be a review in 1997 to determine the system to apply from 1 January 2000. (20b)</p>	<p>The maximum charge for a standard letter be set initially equal to the uniform charge (currently 45 cents). (19b)</p>
<p>Australia Post publish in its Annual Report separate financial data for its reserved and non-reserved services. (5)</p>	<p>The weight limit for exceptions to reserved services be reduced from 500 to 250 grams from 1 January 1994. (20c)</p>	
<p>Australia Post's annual fee for handling a private mail bag in the acceptance and delivery of mail at a roadside point be abolished for those households receiving less than three services a week. (6)</p>		
<p>The Commonwealth Government more clearly specify and make public the extent of the community service obligations it expects Australia Post to satisfy. (7)</p>		
<p>The costs incurred by Australia Post in meeting the community service obligations under its Act be funded by direct budgetary payments. (8)</p>		
<p>Should Australia Post be required to provide services to meet other social objectives of governments, those services be made public and funded directly by the relevant government department (as occurs now with the Freepost service for the visually impaired). (9)</p>		

Table 9.1: Timetable for implementing recommendations^a

Category A	Category B	Category C
Immediate implementation -- no legislative changes required	Implementation by 1 January 1994 -- legislative changes required	Implementation by 1 January 1995 -- adjustment time and legislative changes required
<p>Where roadside delivery is now only once a week, it be increased to at least twice a week. (10)</p>	<p>Section 30 of the Australian Postal Corporation Act be amended to except the operation of document exchanges, the transfer of mail within an organisation, and advertising material from the reserved services. (20d)</p>	
<p>The Commonwealth Government, in consultation with Australia Post, undertake a full and urgent assessment of the need for mail delivery services for those households not presently receiving a roadside delivery service. (11)</p>		
<p>The Commonwealth Government, in consultation with Australia Post, consider ways of improving the delivery frequency/cost guidelines for mail services in rural and remote areas. (12)</p>		
<p>Australia Post should still be required to provide a service which connects with overseas postal administrations. It should be compensated by direct budgetary payment by the Commonwealth Government for consequent losses. (14)</p>		
<p>The Commonwealth Government, in consultation with Australia Post, seek modifications to terminal dues set by the Universal Postal Union to better reflect the cost of delivering mail in different countries. (15)</p>		
<p>Australia Post's charges for outgoing international mail be no more than the cost of collecting and sorting that mail in Australia (including an appropriate profit margin), plus the cost of line-haul to the destination, plus the terminal due. (16)</p>		
<p>The Commonwealth Government continue to use Australia Post to meet its social objectives for the letter service. (17)</p>		
<p>Reserved services protection continue to be afforded to Australia Post, but at a reduced level. (20a)</p>		
<p>Inter-connection with Australia Post's network be allowed, under fair terms and conditions, at any point between sender and receiver up to the location of final sort before the delivery to receiver.(21)</p>		

^a The numbers shown in brackets are the numbers of the recommendations as presented in the Overview and Recommendations section of this report

A PUBLIC PARTICIPATION IN THE INQUIRY

A.1 Submissions received

<i>Participant</i>	<i>Submission Number</i>
Aboriginal and Torres Strait Islander Commission (ATSIC)	284,294,303
Adams, T W; Malanda Qld	118
Alice Springs School of the Air School Council	23,200
Alker, Richard; Malabar Vic	232
Arcadia Valley Rec Association, Injune Qld	45
Arcadia Valley State School, P & C Association, Injune Qld	58
Arvidson, Pr Bob; Hillston NSW	220
Ash, Lee; Alexandria NSW	255
Association for the Blind of WA (Inc)	59,249
AUSDOC Group Limited	174,261
Australasian Dirt Bike Magazine - ADB Holdings Pty Ltd	195
Australasian Religious Press Association	191,289
Australia Post	82,231,264,290,293,301,302
Australia's News Weekly Magazine, Freedom Publishing Company Pty Ltd	129
Australian Artist - Elladrent Pty Ltd	169
Australian Association of Business and Specialist Publishers Ltd, The	12,113
Australian Council of Professions, The	270
Australian Courier Industry Association	78,193
Australian Customs Service	94,236
Australian Direct Marketing Association	101
Australian Garden Journal Pty Ltd	184
Australian Heritage Commission	288,295
Australian Institute of Quantity Surveyors, The	196
Australian Library and Information Association	291
Australian Postal & Telecommunications Union	79
Australian Protection Industries Pty Ltd	223
Australian Society of Association Executives	165
Baldrey, Shelley; Morley WA	252
Barossa Country Music Club	248
Beechal Grazing Co, Cheepie Qld	20
Beetson, A; Post Office Agent - Thargomindah Qld	21
Big Creek Pastoral Co, Cheepie Qld	97
Birchmore, Sandra; Winton Qld	163
Birdsville Hotel	40
Birrell, J G & G M; Firefly NSW	235
Bitz-an-Piecez, Waterloo Sydney NSW	16
Bourke Primary School	189

Broomfield, D; Springfield NSW	7
Brown, D S; Wanaaring NSW	88
Brown, Graham & Deirdre; Broken Hill NSW	157
Brown, Hugh; Cheepie Qld	105
Brumby, Mrs Dorothy; Ararat Vic	253
Buchanan, Cole; Balmain NSW	204
Butcher, Jenny; Kangaroo Flat Vic	257
Campbell, G; Federal Member for Kalgoorlie WA	64
Campbell, R & G; Trangie NSW	70
Canberra Consumers Incorporated	53,122,145,259
Chevrolet Car Club of Victoria Inc	218
Chinchilla Newspapers	138
Christie, O J; Merimbula NSW	239
Cleveland & Associates Pty Ltd	132
Cobb, M & T; Western Queensland	60
Cobb, Michael R; Federal Member for Parkes NSW	85,111
Collins, S B; Winton Qld	67
Communication Workers' Union (previously APTU)	277
Connolly, B; Post Office Agent - Bowenville Qld	14
Cooma-Monaro Shire Council	135
Cooper, Lyn; Wanaaring NSW	177
Council of Small Business Organisations of Australia Ltd	175
Country Press Australia	91,279
Country Women's Association of Australia	26,256
Country Women's Association of NSW, Myamley Branch	112
Country Women's Association of NSW, Taralga Branch	102
Country Women's Association of Victoria, Balranald Branch	271
Country Women's Association of Victoria, Bena Branch	215
Country Women's Association of Victoria, Meeniyan Branch	209
Country Women's Association of Victoria, Murray Valley Branch	240
Courier and Taxi Truck Association	96,276
Crookwell Shire Council	123
Crotty, A B; Cheepie Qld	19
Cudgegong Newspapers Pty Ltd	221
Customs Brokers Council of Australia	299
Cutler, Betty; Post Office Agent -Telegraph Pt NSW	73
Dalzell, The Rev D Paul; Bulleen Vic	66
Danapalraj, B; St Clair NSW	6,179
Davies Newsagency and Bookshop	203
Department of Social Security, Mount Isa Qld	150
Department of State Development, Western Australia	286
Department of the Chief Minister, Northern Territory	128
Department of Transport and Communications	119,285
DHL International (Aust) Pty Limited	104
Donovan, J S W; Milsons Pt, Sydney NSW	52

Dubbo Fork Truck Service	214
Due, L; Cheepie Qld	63
Equine Educational, Lochinvar NSW	162,219,237
Fay, V; Isisford Qld	42
Fearnside, G F, J K & J; Injune/Oakley Qld	35
Federal Bureau of Consumer Affairs	287
Federal Publishing Company	178
Ferguson, P; Coalcliff NSW	245
Finch, Peter, Nola & Family; Monolon Stn via Broken Hill NSW	156
Finlay, H (Wallaroo Station); Injune Qld	43
Finlay, P (Wallaroo Traders); Injune Qld	41
Focus Direct Publications Pty Ltd	198
Franklin Mint	182
Freebairn, J; Parkes NSW	39
G M Holdings Pty Ltd (Golden)	263
Gearen, Mrs Dorothy M; Taree NSW	234
Golspie Progress Association, NSW	34
Gourlay, Graham; Araluen via Braidwood NSW	126
Graham, Ann; Coolamon NSW	213
Gwynneth, Mark; Forrest ACT	238
Hall, Mrs Rebecca; Port Macquarie NSW	108
Hannan Group, The	168
Hayton, G J; Dubbo NSW	30
Health Insurance Commission, ACT	24
Hear a Book Service, Nth Hobart Tas	54
Heron, Edmund; North Mackay Qld	242
Hicks, Noel; Federal Member for Riverina-Darling NSW	205,211
Hinton, B; Cremorne NSW	4
Hogan, Martin; Molong NSW	29
Howchin, M K; Wanaaring NSW	93
Hughes, PR & JA; Wanaaring NSW	89
I & H Cabinet Makers Pty Ltd	217
Independent Living Centre NSW (Inc)	208
Isolated Children's Parents' Association, Northern Territory State Council Incorporated	98,127,207,267
Isolated Children's Parents' Association, Arcadia Valley Branch	106
Isolated Children's Parents' Association, Federal Council	72,269,292
Isolated Children's Parents' Association, Queensland Council	86,282
Isolated Children's Parents' Association, Winton Branch	154
Jackson, A B; Chester Hill NSW	115
James, Andrea; Tarlton Stn via Alice Springs NT	268

James, J; Toowoomba Qld	10
Keep Australia Post Public	260
Kenny, Roland T; Warriewood NSW	83
Law Book Company Limited, The	147
Leigo, N R & D A; White Cliffs NSW	158
Local Government Association of Queensland (Inc), The	201
Loddon District Health Council, Bendigo Vic	166
Magazine House Pty Ltd	171
Magazine Publishers Association of New Zealand Inc, The	188
Mail Management Australia	87
Mailing House, The; Artarmon NSW	65
Major Mail Users of Australia Ltd	48,272
Mathews, Dr John; University of New South Wales	31,281
Matthews, Elizabeth; Hay NSW	244
Maxnews Financial Network	206
Mayne Nickless Limited	81,212,230,278
McCowan, D; Boronia Vic	5
McKinlay, B; Injune Qld	44
Mediterranean Archaeology, The University of Sydney NSW	143
Ministry of Education WA, Support Service for Visually Impaired Students	57
Mitchell, J F; Blacktown NSW	13
Morrison Media Services Pty Ltd	199
MRP Pty Ltd	227
Mulwaree Shire Council	107
Mundubbera Shire Council	246
Murdoch Magazines	167
Murphy, P J; Arcadia Valley State School Qld	114
Myors, Joan; Wanaaring NSW	69,90
Narrawa Progress Association, Crookwell NSW	18
National Farmers' Federation	109,297
National Library of Australia	74
Nelen Yubu Missiological Unit, Drummoyne NSW	99
New South Wales Stamp Council	164
New Zealand High Commission	77
Newell, Neville; Federal Member for Richmond NSW	187,225
Newsagents Direct Distribution Pty Ltd (NDD)	84,137,151,181,202
Nimmitabel Advancement Group	131
Nossiter, N; Belmont NSW	1
New South Wales Government	146
NSW Farmers' Association	11,258
NSW Farmers' Association, Wanaaring Branch	161
Nunn, Leonie; Longreach Qld	222

O'Brien, S P; Gulargambone NSW	75
O'Connell, Donna; Cunnamulla Qld	152
O'Reilly, Philip; Bayswater WA	251
Oceania Publications	142
Okely, Harry; Findon SA	241
Pac-Rim Printing Pty Limited	92,125,153,280
Paynter, Tony; Glebe NSW	8
Penfold, K G J; Yaraka Qld	51,160
Penrose, Gael; Barraba NSW	133
Peter Isaacson Publications Pty Ltd	180,262,275
Philatelic Association of NSW	95
Porter, NG & RE; Booroorban NSW	243
Post Office Agents Association Limited	36,274,298
Powell, Brenda; Forestville NSW	197
Prices Surveillance Authority (PSA)	120,190
Printing Technologies Pty Ltd	229
Public Sector Union (PSU)	50
Publishers Group, The	32
Qld Council of Carers Inc, Del Rowley; Mt Morgan Qld	27
Qld Council of Carers Inc, E Roberts; Emerald Qld	28
Qld Retail Traders & Shopkeepers Association (QRTSA)	2
Queensland Farmers' Federation	140
Queensland Meals on Wheels Services Association Incorporated	228
Queensland Talking Book Library	49
Quinn, Peter; Aria Park NSW	247
Quintessence Pty Ltd	124
Reader's Digest (Australia) Pty Ltd	56
Retirement Industry Journal, The	136
Richard Ivey Consulting	61
Richlands Progress Association, Taralga NSW	38
Robin Linke, Wembley WA	71
Ropomod Productions Pty Ltd	194
Roundtable on Materials for Print Handicapped Readers	141
Royal Blind Society of NSW	68
Royal Victorian Institute for the Blind - Talking Book Service	55
Rugby Press Ltd	172
Rutledge, Brian; Quilpie Qld	47,155
Schubert, K; Numery Station, Alice Springs NT	17
Scott, Bruce; Federal Member for Maranoa Qld	130
Simpson, M; Ballina NSW	3
Skills Book Publishing Pty Ltd	185
Small Business Development Corporation	266
Smith, F; Flinders View Qld	233

Smith, M J; West Pennant Hills NSW	9
Smith-Weston, M P; Burleigh Waters Qld	62
Snowdon, The Hon Warren; Federal Member for the Northern Territory	144
Society for Mucopolysaccharide Diseases, The	170
Stanthorpe Border Post, The	139
Stevens, J; Duck Creek via Cheepie Qld	186
Suatu Holdings Pty Ltd	103
Swan, G A; Waitara, NSW	76
Sylvester Pastoral Co, Injune Qld	46
Tait, D R; Miles/Chinchilla Qld	33
Taralga-Golspie Mail Retention Committee, The	37,134
Taylor, T E & B I; Owen Downs via Broken Hill NSW	159
Teitler, G; Mosman Bay NSW	15
Tenterfield Care Centre Incorporated	210
TNT Australia Pty Limited	121,183,273,300
TNT Express Worldwide [Aust] Pty Limited	216
TNT Express Worldwide, Amsterdam, The Netherlands	283
TQR Pty Ltd	226
United Farmers and Stockowners of South Australia Incorporated	110
Uniting Church in Australia Frontier Services, The	250
Van der Berg, Peter; Rosebank NSW	116
Verstraeten, Gabriella; Elwood Vic	148
Voterlobby, Sydney NSW	100
Weatherhead, Trevor; Peak Crossing Qld	117,176
Western Publishers Group	149
Wheeler Campbell Ltd	265
White, A J; Gympie Qld	224
World Vision of Australia	25
Wright, J M; Wahrenoonga NSW	22,254
Wright, Keith, Federal Member for Capricornia Qld	296
Yaffa Publishing Group Pty	173
Yorum - Turkish Newspaper	192
Youths Hostels Association, NSW	80

Many individuals sent the Commission coupons from newspapers. The standard wording of these coupons is to the effect that country residents are penalised by the postage rates under Print Post compared with the rates for the registered publications service which is being phased out.

A.2 Informal discussions

During the inquiry, the Commission held informal discussions with the following:

Government bodies

Commonwealth Department of Transport and Communications
Australian Heritage Commission
Prices Surveillance Authority
Victorian Treasury

Providers of mail, courier, and parcel services

Australia Post
Australian Courier Industry Association
Australian Document Exchange Pty Ltd
Automail/Salmat
BPSM (Business Professionals in Servicing & Mail)
Braggs Courier
CLC Deliveries
Courier and Taxi Trucks Association
Fliway
Franklin Mint
Mail Management Australia
Mayne Nickless Limited
NSW State Mail Service
Pacific Magazines and Printing
Progress Press/Streetfile
Telecom
The Mail Machine
TNT Australia Pty Limited

Business mail users

American Express
Australian Direct Marketing Association
Commonwealth Bank
Major Mail Users of Australia Pty Ltd
NRMA
Readers Digest

Representative organisations

Australian Consumers Association
Business Council of Australia
Council of Small Business Organisations of Australia
National Farmers Federation
New South Wales Farmers' Federation

Unions and associations

Australian Postal and Telecommunications Union
(now Communication Workers' Union)
Post Office Agents Association Limited
Transport Workers' Union

Academics

Albon, Dr Robert; Australian National University
Mathews, Dr John, University of New South Wales

Rural and remote areas

In order to be well-informed about the role of mail services in rural areas, the Commission toured the area around Crookwell, Rugby, Narrawa, Golspie and Taralga in New South Wales. Community groups in those areas explained to the Commission their concerns about postal services.

That process of discussion and consultation was extended to remote areas of Queensland and New South Wales so that groups and individuals could put forward their views. The Commission visited the following towns during April 1992: Winton, Longreach, Jundah, Quilpie, Thargomindah, Wanaaring, and Bourke.

International visits

During May 1992, the Commission visited New Zealand and consulted with representatives of New Zealand Post, various ministries, representative groups such as the Federated Farmers of New Zealand, and competitors of New Zealand Post. There have been many recent changes to postal services in New Zealand.

Following the release of the draft report, the Commission visited Europe to discuss recent and proposed changes to the postal environment there. It had talks with postal authorities, ministries and private operators in the United Kingdom and the Netherlands, as well as with officials of the Commission of the European Communities in Brussels, and of the Universal Postal Union in Berne.

A.3 Participants at public hearings

AUSDOC Group Limited
Australia Post
Australian Association of Business and Specialist Publishers Ltd
Australian Communications and Media Consumers Association
Australian Courier Industry Association
Australian Direct Marketing Association
Australian Postal and Telecommunications Union (APTU)
Canberra Consumers Incorporated
Communication Workers' Union (previously APTU)
Country Press Australia
Country Women's Association of Australia
Courier and Taxi Truck Association
Crookwell Shire Council
Department of Transport and Communications
DHL International (Aust) Pty Limited
Endt Ms; Post Office Agents Association
G M Holdings Pty Ltd (Golden)
Golspie Progress Association
Gourlay, Graham; Araluen via Braidwood NSW
Isolated Children's Parents' Association, Federal Council
Keep Australia Post Public
Mail contractor: Lee Ash
Mailing House, The
Major Mail Users of Australia Ltd
Mayne Nickless Pty Ltd
McCowan, David; Boronia Vic
Narrawa Progress Association
New South Wales Farmers' Association
Newsagents Direct Distribution Pty Ltd (NDD)
Peter Isaacson Publications Pty Ltd
Philatelic Association of NSW
Post Office Agents Association Limited
Prices Surveillance Authority
Reader's Digest (Australia) Pty Limited
Richlands Progress Association
Royal Victorian Institute for the Blind
Smith, Michael J; West Pennant Hills NSW
Suatu Holdings Pty Ltd
Taralga-Golspie Mail Retention Committee
TNT Australia Pty Limited
TNT Express Worldwide (Aust) Pty Limited
Voterlobby
World Vision of Australia
Wright, John; Wahrenonga NSW

B PREVIOUS GOVERNMENT INQUIRIES / REPORTS INTO MAIL, COURIER AND PARCEL SERVICES

B.1 Introduction

This appendix provides a brief summary of the most relevant previous government inquiries and reports into the mail, courier, and parcel industry. These inquiries and their reports give important insights into the environment in which Australia Post has operated, including the current phase of government business enterprise (GBE) reform.

The Commission is unaware of any government inquiries or reports specifically into courier and parcel services. The Australian Postal Corporation provides an extensive parcel service along with services that are in direct competition with couriers (for example Express Post and Priority Paid). Therefore inquiries into Australia Post have, incidentally, examined the environment in which parcel and courier services operate.

The first review of Australia's Post Office occurred in 1910 and by 1974 there had been four further reports relevant to the Post Office, all urging that it be operated on a more commercial basis. They were:

- 1908-10 -- Royal Commission into Postal, Telegraphic, and Telephone Services;
- 1915 -- Inquiry on Business Management of the Australian Post Office;
- 1919-21 -- Royal Commission on Economies (Report on Public Expenditure);
- 1954 -- Parliamentary Joint Committee of Public Accounts; and
- 1959-60 -- Ad Hoc Committee of Inquiry into the Commercial Accounts of the Post Office.

Only reports and inquiries since and including the Vernon Report in 1974 are examined in this appendix. Most of these reports have concentrated on the ability of Australia Post to be more accountable to its shareholder while still maintaining an acceptable balance between its commercial and social objectives. The reports are presented in chronological order so as to provide an evolutionary perspective of the changes to Australia Post.

B.2 Vernon Report

B.2.1 Background

- The Australian Post Office Commission of Inquiry (Vernon Inquiry) was formed in 1973 in order to report on the organisation, administration, and operations of postal and

telecommunications services provided in Australia. At that time both services were provided by the Australian Post Office as part of the Postmaster-General's Department. Postal and telecommunications services had developed historically within the one organisation which had grown to "great size and complexity" (Vernon Report 1974, vol. 1, p. 143). The inquiry was initiated in order to reduce the inefficiency of such a large institution.

B.2.2 Conclusions

- The Commission of inquiry found that the Australian Post Office offered a comprehensive range of services which met the requirements of the whole community, and that it provided a reasonable return to public revenues.
- The Commission concluded that the provision of postal and telecommunications services differed widely and were not inter-dependent or complementary. When compared to telecommunications the provision of postal services was found to be relatively labour intensive, requiring comparatively small capital investment and modest technological resources. Telecommunications were also experiencing significantly higher growth than postal services.
- A major recommendation of the Vernon Report was that the administration of the postal service be separated from that of the telecommunications service, and that two different statutory corporations be established. The report acknowledged the postal service's loss of \$53 million for 1973-74 (Vernon Report 1974, vol. 1, p. xix), but concluded that it should be an enterprise in its own right, therefore avoiding cross-subsidisation by telecommunications. In order to ensure a postal corporation's viability, the Commission recommended that postal rates be increased (by about 15 per cent a year) and that estimated accumulated losses of approximately \$200 million be written off by the Government.
- The report concluded that improving industrial relations, especially at the Redfern mail exchange in Sydney, would be one of the major tasks facing the management of a postal corporation.
- Some financial objectives recommended were that: revenue cover all costs including wages, depreciation based on replacement costs, superannuation, and interest on borrowings; and the Australian Post Office internally fund 50 per cent of its capital expenditure each year.
- The report recommended that the proposed postal corporation should be given the power to vary tariffs at any time, subject to Ministerial approval. This was in order to encourage improved financial performance, and to allow the recovery of at least direct, if not fully allocated, costs.
- The report concluded that it would be unwise to match losses incurred as a result of government policy with subsidies. This was because of perceived difficulties in assessing precisely the costs and profits or losses, the extent to which losses were directly attributable to government policy, and the profit level to which a service should be lifted by a subsidy.

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- The report recommended that the status quo be maintained with regard to the financing of the Australian Post Office with Treasury advances and the Australian Post Office's exemption from most taxes (income tax, payroll tax, local government rates, sales tax, customs and excise, and car registration charges). The monopoly on the carriage of standard letters and registered publications was not questioned.
 - The Vernon Report recognised the conflicting roles of the Australian Post Office as a supplier of a social service (which should therefore not seek profits) and as a business enterprise which should provide services on a purely commercial basis.

B.2.3 Outcome

- In 1975 the Postmaster General's Office was separated into the Australian Postal Commission and the Australian Telecommunications Commission, by means of the *Postal Services Act 1975*.

B.3 Bradley Report

B.3.1 Background

- The Committee of Inquiry into the Monopoly Position of the Australian Postal Commission (Bradley Inquiry) was established in order to "... report on the appropriateness of the statutory functions and duties of the Australian Postal Commission and the scope for reducing or eliminating the exclusive power of the Commission to carry letters for reward" (Bradley Report 1982, p. 1).
- The Committee examined obligations applying to Australia Post and its financial arrangements. Pricing and costing policies were closely examined along with Australia Post's performance in meeting its requirements.

B.3.2 Recommendations

- The Committee recommended that Australia Post's monopoly be maintained in principle, in order to avoid any serious erosion of its revenue base and any consequent decline in service to some sectors of the community.
- Some exemptions to Australia Post's monopoly on standard letter services were recommended, in order to reflect changing business technology. These were: letters costing at or above 2 dollars to deliver (about 7 times the standard rate of 27 cents in 1982); mail between different branches of an organisation; and letters which formed inputs to, or outputs from, electronic transmission facilities. The Committee recommended that Australia Post provide a competitive electronic mail service but that electronic mail developments be kept under close review.

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- The Committee recommended that separate accounts be presented in Australia Post's Annual Report for the standard article service and all other services. It recommended that the Government set a target rate of return for both assets employed in the standard article service and for assets employed in all other services. This could be nil in the case of the standard article service but at commercial levels for competitive services. The payment of all taxes by Australia Post was recommended by the Committee. The object of these recommendations was to provide more incentive for Australia Post to make efficient use of its assets and to "operate generally on a fully commercial basis" (Bradley Report 1982, p. 55).
 - The Committee also recommended that: Australia Post's community service objectives be clarified; the Government rather than Australia Post should decide eligibility for the registered publication concession (which the Committee saw as a government assistance measure); and a direct government subsidy should cover financial losses on the registered publications service. It was also recommended that Australia Post be given exemptions from government controls on day-to-day activity, such as government imposed general staff ceiling measures and the *Public Works Committee Act*.
 - The Bradley Report also recommended that Australia Post: operate its own superannuation scheme; define "letter" in the *Postal Services Act 1975*; provide a postal courier service; and extend agency services, especially in rural areas.

B.3.3 Outcomes

- One of the most important outcomes of the Bradley Report was the partial relaxation of Australia Post's general monopoly over standard letter carriage. Under the *Postal and Telecommunications Amendment Act 1983* standard letters could be carried within and out of Australia, by agents other than Australia Post, at a rate of "... not less than ten times the highest postage applicable".
- The recommendations that Australia Post provide a courier and electronic mail service and expand agency services were put into effect via the *Postal and Telecommunications Amendment Act 1983*.
- The recommendation that Australia Post publish in its Annual Report separate financial data for its reserved and non-reserved services has still not been implemented.
- The Bradley Report recommendations played an important role in shaping reform of Australia Post in the 1980s, a process which gained considerable momentum via the Commonwealth Government's 1988 GBE reform program (see Section B.5).

B.4 1984 Draft Report of the Auditor-General on an Efficiency Audit of the Administration of Counter Services by Australia Post

B.4.1 Background

- The *Audit Act* was amended in 1979 to provide explicit power for the Commonwealth Auditor-General to undertake efficiency audits. Such an audit into counter services provided throughout the Australian Postal Commission's network was commenced in mid-1980.
- In late 1984 the then Auditor-General decided not to proceed with the efficiency audit. Until that time approximately 12 work years had been expended on the audit, half by Australia Post and half by the Audit Office. Nevertheless, the Auditor-General judged that considerable additional resources would have been needed to provide adequate substantiation for the conclusions and recommendations on counter services that were included in the Audit Office's draft report.
- The Joint Committee of Public Accounts commenced a review in June 1985 into the reasons for the efficiency audit of Australia Post's counter services being discontinued. The Committee concluded that the Auditor-General's decision was justified. Evidence made public by the Committee included a draft, as of May 1984, of the Auditor-General's report. It is the only independent report into the internal efficiency of Australia Post of which the Commission is aware .

B.4.2 Draft conclusions and recommendations

The following are examples of the wide range of draft conclusions and recommendations.

- Clear guidelines should be established for opening and closing counter outlets.
- Bulk mail should be lodged at facilities which are separate from counter services.
- Temporary part-time staff should be employed for mail sorting and counter work during periods of peak activity.
- Postal agencies should be allowed greater integration of counter services with other business operations.
- Counter services should be automated
- The cost of official post office counter services was higher than for agency counter services, at any level of business.

B.4.3 Outcome

- Some of the draft recommendations were already being implemented at the time the efficiency audit was discontinued. The Retail Post initiative of recent years includes considerable

automation of counter services. The balance between the number of official post offices and agencies is an issue taken up again in this Industry Commission inquiry.

B.5 1988 Statement by the Minister for Transport and Communications

B.5.1 Summary

- A specific framework for the operation of postal and telecommunications services was put forward by the Minister for Transport and Communications (DOTAC) in "Reshaping the Transport and Communications Government Business Enterprises" (DOTAC 1988). This was in the context of the Commonwealth GBE reform program. An outline for a new Act for Australia Post was contained in the Minister's statement.
- The Act was to include changes to Australia Post's financial and corporate structure. They were: appointing a Board of Directors; converting \$10 million of Commonwealth loans to equity; revaluing assets; retiring remaining loans and replacing them with private sector borrowings; and subjecting Australia Post to all taxes.
- New planning and accountability mechanisms were to include: Australia Post providing a strategic corporate plan to the Minister for Transport and Communications on at least a triennial basis; Australia Post being required to work towards an agreed rate of return on assets and turnover; revaluation of Australia Post's assets at least every five years; standard article and registered publications charges to be subject to PSA review; the payment of a recommended dividend by Australia Post; and Australia Post to give assessments in its annual report of performance and the costs of meeting Community Service Obligations (CSOs).
- The costs of meeting non-commercial obligations were to be taken into account when setting Australia Post's financial targets.
- Under the Act, major strategic controls were to be modified: industrial relations co-ordination was to be relaxed with the Department of Industrial Relations playing a reduced role; executive remuneration was to be based on performance; and Australia Post was to be permitted to initiate its own superannuation schemes outside the Commonwealth Superannuation Scheme.
- Most of the day-to-day controls over Australia Post were to be removed. Some of these were: the need for Treasury approval of individual borrowings; ministerial control over the establishment of joint ventures and subsidiaries; and compliance with the *Lands Acquisition Act*.

B.5.2 Outcomes

- The Australian Postal Commission was renamed the Australian Postal Corporation under the *Australian Postal Corporation Act 1989*. The changes outlined in the statement came into effect under the new Act.
- This has resulted in a major restructuring of Australia Post's financial arrangements: planning is now made in advance on a commercial basis; government control has been reduced; and Australia Post is more financially accountable to the Parliament.

B.6 1989 IAC Report on Government (Non-Tax) Charges

B.6.1 Summary

- Within an environment of ongoing government business enterprise reform, the Industries Assistance Commission (IAC, now the Industry Commission) examined the impact of government supplied goods and services on the competitiveness of Australian industry. While it did not look specifically at Australia Post, many of the observations and issues raised by the IAC about GBEs are relevant to this inquiry into mail, courier, and parcel services.

B.6.2 Conclusions

- The Commission found that governments influence public enterprise pricing thereby causing "... patterns of charges which frequently fail to reflect the economic costs of providing goods and services, leading to inefficient production and consumption decisions" (IAC 1989, vol. 1, p. ix).
- The Commission found that "poor performance by GBEs can generally be traced to some combination of unclear or conflicting objectives, the absence of effective competition, reliance on ineffective performance monitoring, and institutional constraints inherent in Australia's federal system of government" (IAC 1989, vol. 1, p. xxvii).
- It was concluded that GBE requirements to discharge CSOs did not constitute a case against allowing competition. Thus the Commission supported CSO policies which retained the benefits of supply by a single organisation while providing some scope for competition.
- The IAC recommended that government action to improve GBE performance should continue along with administrative reforms and increased competition (even where a natural monopoly may exist).
- Results of the IAC survey (IAC 1989, vol. 2, pp. 131-4) into public enterprises found that 31 per cent of businesses surveyed thought that postal charges were excessive and that about 15 per cent were dissatisfied with the postal service's reliability and responsiveness to customers.

B.6.3 Outcome

- The IAC Report added to the momentum of government moves to increase the pricing and productive efficiency of GBEs and led to more detailed studies of specific GBEs.

B.7 PSA Inquiries in Relation to the Supply of Certain Postal Services

B.7.1 Background

- As specified by the *Prices Surveillance Act 1983* some 28 categories of commodities, from petroleum products to pet food, are reviewed by the Prices Surveillance Authority (PSA) when price increases are proposed. Australia Post is one of 65 companies and authorities with notifiable products, which until recently were limited to standard postal articles and registered publications.
- Since its formation in 1983 the PSA has conducted four public inquiries into Australia Post's prices and charges (in 1984, 1986, 1989, and 1991). For standard articles the PSA has accepted all notified price increases, but delayed the approval date for the increase by two months in 1984 and three months in 1989. In the case of registered publications, the PSA has accepted all price increases, except in 1984, when a lesser increase was approved (Fels 1992). All reports criticise: the uniform pricing of the standard service and the implicit cross-subsidies; the underpricing of the registered publications service; and the lack of financial information in Australia Post's annual reports.
- The PSA sought and was granted approval for a public inquiry to be held into price increases proposed in March 1991 by Australia Post (PSA 1991b). They were an increase of 4.7 per cent for standard postal articles (from 43 to 45 cents) and 11.6 per cent for registered publications (from 38.3 to 42.7 cents for a weighted average of publications). The basis for the proposed increases was Australia Post's need to raise an additional \$26 million from notifiable charges to cover increases in costs, fund capital investment, and to achieve the planned profit target. The remaining discussion is concerned only with the 1991 inquiry.
- When examining Australia Post's March 1991 proposal the PSA paid particular attention to Australia Post's CSOs, letter monopoly, cross-subsidisation of the registered publications service, and the market conditions in which Australia Post operates. Australia Post's commercial obligations as a GBE with a corporate plan and set performance targets were also taken into account.

B.7.2 Recommendations

- The PSA recommended that the price of standard letter carriage be 45 cents from 2 January 1992, and that it should be frozen at this level until January 1994 in order to encourage efficiency improvements. The PSA believed that cost increases and the need for Australia Post to achieve a reasonable rate of return on its capital justified this price increase. The PSA suggested that further capital investment and more efficient processing equipment would lead to significant improvements in productivity resulting in lower relative prices, higher mail volumes, and increased profitability. Close internal and external monitoring was recommended to avoid a reduction in delivery performance as changes took place.
- In order to reduce losses attributed to the registered publication service (\$24 million in 1990-91), the PSA recommended in favour of the proposed weighted price increase of 11.6 per cent for the delivery of registered articles.
- Cross-subsidisation of the registered publications service by standard letter carriage profits was criticised by the PSA. It stated that, if a CSO did exist, its cost should be made public and funded by a subsidy from the Federal budget or by discounting Australia Post's dividend to the Government.
- The PSA recommended that price increases for postal services such as parcels, Priority Paid, and post office boxes be notifiable under the Prices Surveillance Act 1983. This was because of perceived market power in these services, and consumer complaints received by the PSA.
- The PSA recommended the flexible use of a CPI-X price capping formula for any price increases after 1994. A figure of 2 per cent for X was suggested as appropriate by the PSA.
- In order to enhance public scrutiny and accountability, the PSA recommended that the standard of statistical information released by Australia Post be raised to pre-1986 levels.
- The PSA expressed concern about Australia Post's relatively low target for increases in labour productivity and recommended it be raised from 2 per cent to 3.75 per cent a year for the triennium (1989-90 to 1991-92).

B.7.3 Outcomes

- The proposed increase in the price of standard letter carriage to 45 cents took effect on 2 January 1992. The two year freeze on price rises advocated by the PSA has been adopted by Australia Post, contingent on there being no major increase in the cost of living until January 1994.

-
- The proposed price increases for registered publications took effect from 2 September 1991.
 - In December 1991 Australia Post announced a plan to phase out the registered publications service and replace it with a new service called Print Post. Up to two years' notice has been given to registered publications users of this restructuring of services and charges. Average price increases of 30-35 per cent are expected to eliminate the cross-subsidy received by registered publications users, and Print Post is expected to return a profit by 1995. Price increases of Print Post services are not notifiable to the PSA.
 - On 6 February 1992, the Government announced that the following postal services would be added to those notifiable under the *Prices Surveillance Act 1983*: Express Post; international letters; some non-standard letters such as prepaid envelopes and large letters by ordinary post; priority paid; certified mail; and security post. This extends PSA scrutiny to include all services covered by Australia Post's reserved services.

C ROLE OF POST OFFICE AGENTS

In Australia, postal services are provided through a two-tier network of outlets -- 1352 official post offices and 3193 post office agencies. Post office agents deliver approximately 5.7 per cent of the total volume of mail. Their interests are represented by the Post Office Agents Association. This appendix outlines the operations of post office agents and examines their performance. Evidence suggests that agents are more cost-effective than official outlets, and that there is scope for the extension of the agency network. Currently, as part of the Retail Post concept, negotiations are underway which will restructure the retail network.

C.1 Background

C.1.1 What is a post office agency?

A post office agency is an establishment which provides postal services but is not staffed by employees of Australia Post. Rather, post office agents operate agencies under contract with Australia Post. As part of the Retail Post agreement, Australia Post is negotiating with the Post Office Agents Association (POAA) to change the conditions under which agencies operate (see C.1.5).

Post office agents are the successors to non-official postmasters. In 1985, after some two years of intense negotiations with the Non-Official Postmasters Association, Australia Post introduced agreements to replace the appointment system which had previously existed. These changes clearly defined agents as 'contractors' and not as employees. Along with this change came the change of name from non-official postmaster and non-official post office to post office agent and post office agency respectively.

There are two types of agencies: self-contained agencies, and in-conjunction agencies. Self-contained agencies conduct Australia Post business exclusively and the agent receives sick leave, holiday pay, long service leave, paid assistance when applicable, and a business payment calculated through a complicated system containing about 190 elements. Agents must carry their own workers' compensation insurance.

In-conjunction agencies conduct other business from their premises, such as newsagencies, dry cleaning, and gift shops. These agents receive an annual payment for the work performed based on the volume of business.

Agencies with volumes of business which return more than \$16 000 per annum to the agent are denoted full service agencies, while smaller agencies are denoted scale rate agencies.

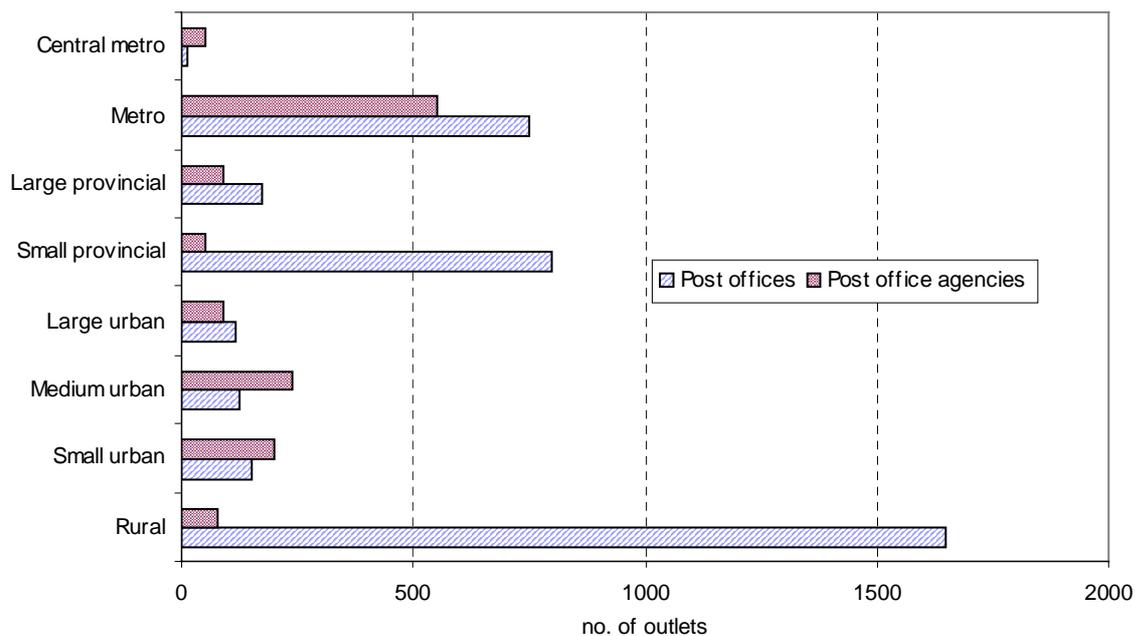
The distribution of agencies is as follows:

	Self-contained (per cent)	In-conjunction (per cent)
Full service	38	15
Scale rate	13	34

Source: Australia Post

On 1 July 1991, of the 4545 post offices in Australia, 3193 were operated by agents. That is 70 per cent of outlets. Figure C.1 demonstrates the different proportion of agencies to official post offices in various areas. Taking the extremes, in central metropolitan areas agencies account for only 15 per cent of outlets, while in rural areas they account for 95 per cent of outlets.

Figure C.1: Australian post offices and post office agencies by area type a, June 1991



- a
- Central metro: Offices within National and State capital city CBD (including Canberra and Darwin).
 - Metro: Other Metro - National and State capital cities and their suburbs (including Canberra and Darwin).
 - Large provincial: Provincial cities (and their suburbs) with combined populations over 75 000.
 - Small provincial: Provincial (and their suburbs) with combined populations between 25 000 and 74 999.
 - Large urban: Other cities and towns with populations between 10 000 and 24 999.
 - Medium urban: Other cities and towns with populations between 2500 and 9999.
 - Small urban: Towns with populations between 1000 and 2499.
 - Rural: Towns and communities with population less than 1000.

Source: Post Office Agents Association, Submission 36, Attachment II

Even though post office agencies account for 70 per cent of postal outlets, only 5.7 per cent of the total volume of mail is delivered through them, while only 2.4 per cent of mail is posted in them. This is a direct result of the type of mail placed into Australia Post's network. More than half of the total volume of mail originates from businesses, mailing houses, and government agencies and is consequently lodged at official outlets in order to receive discounts for bulk mailing. Personal mail, which is often lodged at agencies, accounts for only 20 per cent of all mail (see Figure 2.2).

C.1.2 The Post Office Agents Association Ltd (POAA)

The POAA has an industrial agreement and an arbitration agreement with Australia Post, and is the organisation which represents the interests of all agents. Negotiations regarding payment and conditions of post office agents are conducted between Australia Post and the POAA. The arbitration agreement between them allows for the appointment of an independent arbitrator to mediate on disputes relating to payment and conditions. The decision of the arbitrator is final and binding on both parties.

The Association was formed in Victoria, and was registered by the Industrial Registrar in May 1940 as an organisation of employees in (or in connection with) the postal service industry. The first determination in 1942 was a consent agreement and a step towards uniform payments. There were many variations to the agreement until 1970, when a new determination was negotiated which incorporated changes to conditions and payments. This was again a consent agreement.

After post office agents were defined as contractors in 1985, it was necessary for the Association to register as a company in order to have the legal ability to act on behalf of its members, especially in negotiations with Australia Post. The Association also had to request deregistration from the Conciliation and Arbitration Commission.

The POAA is governed by a board of directors which includes one representative from each of the six States; each representative is appointed by the relevant State Committee for a one year term.

C.1.3 What services do post office agencies provide?

The level of service provision at post office agencies varies considerably across Australia. According to the POAA some services:

... such as Bulk Post and account facilities, are available at all official Post Offices, but few Post Office Agencies. After representations from this Association, Express Post envelopes are now available at Post Office Agencies, although the vast majority of Agencies do not meet the network criteria, and the envelopes are marked accordingly. Post Office Agents are unable to negotiate discounts to "bulk" customers, and while many services, for example International Express, are nominally available, in practice it is extremely difficult for Agencies to gain access to the documentation or the service. (Submission 298, p. 1)

Dissatisfaction with the availability of non-postal services at agencies was expressed by some participants. For example, Bernice Connolly (a post office agent) submitted that:

Agencies recently lost the sale of tax stamps causing a lot of inconvenience to country people who now have to travel a distance to an official office if they wish to continue using the tax stamp system. Agencies could also provide other services if permitted to do so. We are not allowed to handle applications for passports although we could so easily do so. Neither are we allowed to handle applications for tax file numbers. (Submission 14, p. 2)

The POAA drew the Commission's attention to the amount of publicity the Express Post service had received when it was only available at 30 per cent of outlets (Initial Hearing Transcript, p. 159). In addition a postal assistant wrote to an Australia Post publication, *Post-Age*, expressing concern about the availability of Express Post.

Now we have been told we can't sell [Express Post] envelopes or accept them at all. Our customers are most annoyed at this inconvenience. They will have to drive to an official post office, where it's difficult to park, instead of walking to their local post office where they do their other mailing.

Why are we told to sell these products to our customers, only to have them taken away from us? This causes the customer irritation and confusion.

They don't care if we're an agency or an official post office. To them we are Australia Post and should be able to service them as such. (Telford 1992, p. 5)

The POAA believed that:

The post office agency has the role of the "Communications" centre of the community, receiving, delivering, re-despatching, re-directing, and transmitting mail. (POAA 1992, p. 2)

The importance of post office agencies was stressed repeatedly by participants during the inquiry, since the role of the agent is often more than just a postman/postwoman. For example Mr L. Due from Cheepie said:

Postal agents are very important to isolated communities. Apart from just receiving and despatching mail, they offer a range of postal services, stamps, jiffy bags, certified and security mail. In addition they receive payment of accounts, vehicle registration, Telecom accounts and numerous other services. (Submission 63, p. 2)

In some cases, post office agents often undertake more work than is required.

Some of my customers, I never see. They send in to me a package and a note which may read "Enclosed 20 letters for posting - would you please affix the stamps as I have run out. Please post the parcel to Melbourne, also the parcel to the United Kingdom - it contains ... - Would you do the customs declaration for me? Please send me a sheet of stamps, cheque enclosed to cover all. Also enclosed my electricity account, phone account, ambulance membership account, main roads registration account, AMP insurance (not always all of these on the one day). Thank you for the wonderful service of the mail run." I attend to the requests, forward the stamps and receipt the accounts under the agency agreement Australia Post has with these various bodies. Receipts are forwarded to the customer on the next mail day. (Submission 14, p. 1)

The POAA said:

Australians in metropolitan and provincial areas also depend on their local post office agency. It is where many people deposit and withdraw funds in their Commonwealth Bank account. It is where people can pay their gas, electricity and telephone bills, their group tax payments, and about 100 agency services Australia-wide. It is where stamps and Postpak products can be purchased, mail assessed and posted, bulk post transacted, philatelic items purchased, telephone directories obtained. (POAA 1992, p. 3)

According to Australia Post, the type of agency services provided at outlets is often determined by the principal (for example, the Department of Foreign Affairs and Trade in the case of passport matters) who may stipulate where the service may be provided (Initial Hearing Transcript, p. 83). Australia Post later stated that:

... certain services are available to certain markets and it is sometimes easy to wrongly believe that there is a demarcation between staffed [post offices] and agents ... when in fact there are demarcations between central business districts, urban districts, etcetera, depending on the work that's done. (Draft Report Hearing Transcript p. 340)

The Commission acknowledges that initiatives being proposed under the Retail Post concept are aimed at extending the level of provision of both postal and non-postal services. The POAA expects that:

... when Retail Post restructuring negotiations are complete, it will be possible for all Agents to have access to all postal services. (Submission 298, p. 1)

In addition:

Some of the services which are currently unavailable at post office agencies, such as Passport Interviews ... and Express Post, will all be available under Retail Post. (POAA 1992, p. 3)

However, the type of services provided should not depend on the status of the office -- official or agency -- but on the demand for the different services that might be offered.

C.1.4 The relationship between post office agents and Australia Post

The relationship between Australia Post and post office agents is strictly that of principal and agent. The Post Office Agency Agreements, which are signed by all post office agents, quite specifically exclude any relationship that could be construed as being that of an employer and employee. The Agreements contain specific detail as to the responsibilities of the agent, the equipment which is to be provided by Australia Post and maintained by the agent, and the termination and variation conditions for the contract. The individual agent does not appear to have the opportunity to deal directly with Australia Post which negotiates rates of pay instead directly with the POAA.

Contracts between post office agents and Australia Post are typically for 3 years. With due cause, Australia Post can terminate a contract without compensation. Without cause, 3 months notice of termination must be given, or the equivalent in income as compensation. The POAA said:

... in most cases, the Australia Post contract duration should be lengthened, thus reducing the administrative burden and costs associated with negotiating and administering those agreements. The Agent/Contractor is thereby encouraged to invest time, effort and money developing his business ... Additionally, Australia Post needs to thoroughly overhaul their contracts and agreements to make them easier to understand. The contracts should be written in plain English, and provide for equitable adjustment to terms and conditions as circumstances in the marketplace change ... The agreement and contracts, and their interpretation, must become consistent from State to State. With the current delegation of decision-making to each of the States, a significant and undesirable amount of inconsistency of application and interpretation is evident. (Submission 36, p. 8)

Payment for work done is based on quarterly returns. Each of the various tasks performed by an agency has been allocated a certain number of work units (set down in the "Agency Scale of Work Units"), which are used to calculate the agent's commission. As an example, each ordinary parcel posted locally (or received for delivery/redispach) has a unit value of 3, while each Commonwealth Bank transaction has a value of 10 units. Scale rate agencies are those with less than 100,000 work units a year and are paid 16 cents a unit. For bigger full service agencies, the scale is such that payments are smaller as larger and larger volumes are handled. These arrangements do not provide incentives for agencies to build up their volume of work, and the units allocated to tasks no longer reflect the actual time spent on the task.

C.1.5 The Retail Post agreement

As stated previously, as part of the Retail Post agreement Australia Post is negotiating with the POAA to change the conditions under which post office agencies operate. Despite ongoing discussions Australia Post is still to reach agreement with the POAA. In the meantime Australia Post has released details of Interim Licensed Post Office arrangements (Submission 301). These interim arrangements are not supported, or endorsed, by the POAA (Submission 298, p. 1).

Under the Retail Post agreement agents will operate licensed outlets under franchise for Australia Post, rather than on a contractual basis. Existing agents will be given a licence gratis, while new agents will have to pay. The franchises will last 5 years, with an option of extending for 5 years. The franchisee will be responsible for all costs and will receive payments based on volume regardless of the size of the agency, thereby providing an incentive to build up business volume. Large agencies will no longer be partly staffed with Australia Post employees, and agency operating hours will be extended.

Because of the agents' relatively low operating costs (see Table C.1), the aim of Australia Post would appear to be that an increasing share of its outlets be franchise arrangements. The POAA predicted that, with the implementation of Retail Post, the number of outlets to be operated under contract conditions would increase to approximately 85 per cent (POAA 1992, p. 2). That would involve half of the 1352 official post offices being converted to post office agencies.

Current negotiations with the Post Office Agents Association are focussing on Australia Post's efforts to reduce overall remuneration for agents because the services they provide are claimed to incur losses. These losses could occur due to the low volumes of mail moving through agencies. Low volumes do not allow the agency to specialise in the provision of any particular service. Thus, even though services may be cost-effective, low volumes may mean that post office agencies are not profitable.

C.1.6 Experience in some other countries

Post office agencies have been franchised in New Zealand, Canada, and the United Kingdom. In New Zealand the withdrawal of agency business by Telecom and Postbank resulted in the conversion of 600 post offices to postal delivery centres (PDCs [agencies]). Currently New Zealand has 616 PDCs. (There are also 858 in-conjunction outlets which sell stamps only, and 2959 outlets which sell stamp booklets.) In general, the switch to agencies (typically held by service stations or local stores) has improved the availability of postal services in rural areas.

Canada Post has been scaling down its retail network. The target year for the closure and/or conversion of most of Canada Post's 5221 rural and 734 urban post offices to franchised operations, known as retail postal outlets (RPOs), is 1996. At the end of February 1990, 542 post offices had been converted and more than 2600 franchises were in operation. Benefits have arisen from the private sector's provision of more convenient and accessible retail locations. Franchises are housed in some large retail chains (such as 711 convenience stores, which are open 24 hours a day) and are generally profitable.

Franchising of official postal outlets has also occurred in the United Kingdom. Franchisees pay a licence fee and operate postal services within a host business. Some Crown Offices (official post offices) have been converted into agencies where additional business can be introduced; by mid-1990 170 had been converted. Stamps are now sold from 35,000 outlets in addition to those providing official counter services. Sweden Post too has been replacing post offices with agencies for several years, while still maintaining the total number of service points throughout Sweden. The most common agencies are food outlets followed by banks.

C.2 The performance of post office agencies

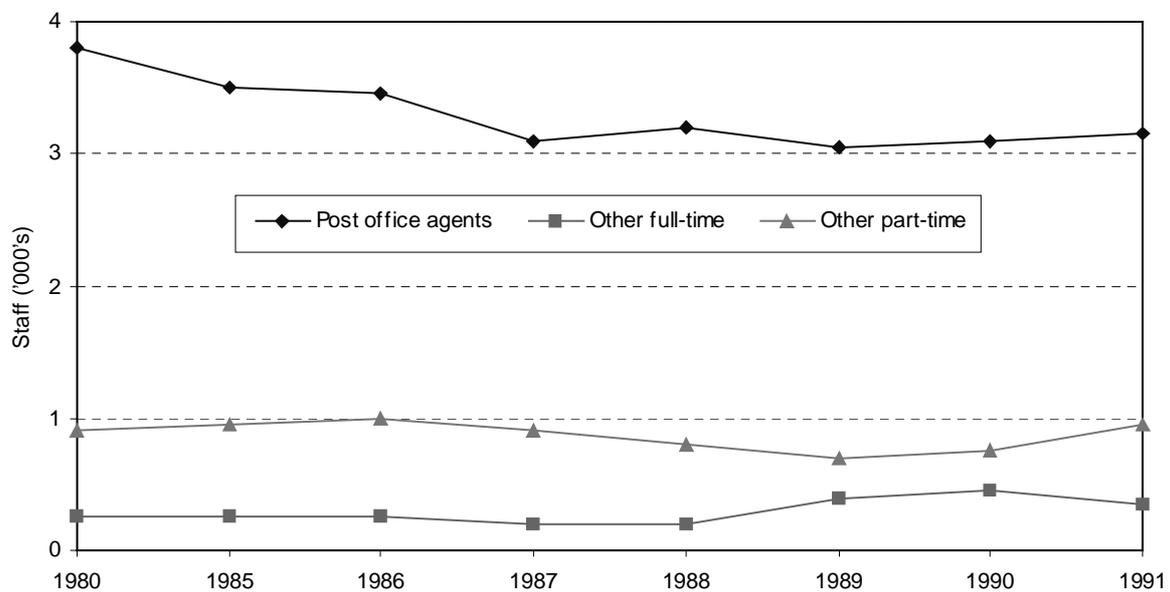
C.2.1 Labour issues

Post office agencies are usually run by an agent who works on a commission basis. If there is sufficient work in an agency, Australia Post will provide one of its employees to assist the agent.

Agents are free to employ their own staff in lieu of taking an Australia Post employee, provided they pay for the additional staff. (This may occur in a busy in-conjunction agency that requires additional staff to run both businesses.) Because of the wide range of services provided, two to three weeks training is required (including in a official post office) before a person can become a post office agent.

In 1991 there were 4339 people working in post office agencies in Australia. More specifically there were 3096 agents and 1243 Australia Post employees; of these employees, 22 per cent were full-time and 78 per cent part-time. As shown in Figure C.2, these proportions have remained virtually the same since the early 1980s.

Figure C.2: **Post office agency staff, 1980-1991**



Source: AP, various Annual Reports

The relative use of part-time labour in official compared with agency outlets is one of several factors which provides evidence of a cost differential between official post offices and post office agencies. Currently 22 per cent of agency staff are part-time, compared with only 16 per cent at official post offices.

Preliminary findings of an efficiency audit of Australia Post counter services undertaken in the early 1980s (see appendix B), indicated that there were substantial cost differences between official post offices and agencies due to staffing arrangements. In particular, staff could be more readily

aligned with the workload by a non-official postmaster (agent), since there were no restrictions on using part-time labour, or on the assignment of staff including the postmaster to any of the office tasks (JCPA 1985, pp. 29-30). The lower cost of agencies is confirmed by data provided to the Commission by the POAA showing that average earnings of full-time post office agents are well below those of equivalent postal managers (see Table C.1).

Table C.1: Labour costs: post office agents compared with equivalent Australia Post managers

<i>Post office agents</i>		<i>Postal managers</i>	
<i>Work units</i>	<i>Payment</i>	<i>Grade</i>	<i>Salary</i>
80,000-200,000	< \$21 484	Grade 1/2	\$26 774 to \$29 055
825,000 and over	\$29 175	Grade 6	\$43 870

Source: POAA

The salary amounts for postal managers do not include labour on-costs, such as employer superannuation contributions and worker's compensation insurance. These costs, which normally amount to 35-40 per cent of salary, are not incurred by Australia Post in the case of post office agents. The payments to post office agents are also exclusive of any allowances for duties such as after hours mail work.

Australia Post stated that administrative and labour on-costs are generally greater for official post offices than for agencies.

At the smaller end of the post office scale it is the case that a post office agency or a licensed operation is considerably lower cost than is a staffed office ... at anything below sufficient work-time for three or perhaps three and a half full-time work years the balance is in favour of the agency operation.

... in future both the Agent and ourselves will gain from releasing the entrepreneurial capability of Agents, allowing them to run their own business in their own districts in their own way. (Initial Hearing Transcript, p. 84)

POAA agreed that additional benefits to Australia Post of using post office agents rather than its own employees include the following:

Using a greater number of contractors permits Australia Post to adjust far quicker to increased and decreased workload demands as the communities in metropolitan and rural areas shift and contract. By using a flexible contractor-based growth plan, the workloads and workforce can be more readily matched, thus avoiding over-staffing costs associated with full-time salaried staff. (Submission 36, p. 7)

The POAA has put forward still more reasons for Australia Post to increase its use of post office agents.

It is far more cost-effective for Australia Post to run as many of its services as possible under contract conditions. When payment depends on results, the self employed strive that bit harder, and put in that extra bit of time and actively seek to increase and improve their business. ... Service delivery is also able to be improved using both post office agents and mail contractors, as being 'self-employed', they have a vested interest in doing the job quickly and correctly, ensuring best return on effort (POAA 1992, pp. 2,7)

Another issue raised by the POAA is that the increments in payment for additional work units are minimal compared with the increments between postal manager grades (see Table C.1). Thus management and supervisory responsibilities are not reflected in the post office agent's payment schedule. The only benefit agents receive from processing extra work is more assistance, in the form of another employee paid for by Australia Post, although this is of no financial benefit to the agent. Situations can arise where agency assistants employed by Australia Post can earn more than the post office agent.

According to the POAA, an extremely low percentage of agent employees are members of the CWU (formerly APTU). One reason for this is the high proportion of part-time employees working in agencies who are usually less likely to join unions. However, the Association stressed that "the relationship between post office agents and their staff and APTU staff members generally ... is very good" (Initial Hearing Transcript, p. 161).

In conclusion, therefore, the lower labour costs associated with post office agencies means that they would represent a more cost-effective alternative to official post offices in providing postal services in many situations.

C.2.2 Accommodation issues

Of the 3193 post office agencies (as at June 1991), Australia Post owned and maintained 17 of them, and leased 167 to agents. Over 90 per cent of post office agents have to provide (rent or own) the accommodation from which they operate. Thus, further cost savings are available to Australia Post by providing services through agencies:

Australia Post does not have to invest capital in plant, equipment and real estate, where contractors, including agents are utilised to provide services. (POAA 1992, p. 7)

Moreover, the Efficiency Audit (1984) identified that the allowances paid to non-official postmasters (agents) for accommodation, lighting, and heating were significantly less than the cost of these items in the case of official post offices (JCPA 1985, p. 30).

C.3 What is the appropriate mix of post office agencies and official post offices?

C.3.1 Factors considered in determining the status of a 'post office'

Since the release of the Industry Commission's draft report, the guidelines governing the change of an official post office (Corporate Post Office) to an agency (Licensed Post Office) have been updated, as part of the Retail Post Strategy, to the following:

Change from Corporate Post Office (official post office) to Licensed Post Office (post office agency)

- a) a corporate office which is trading unprofitably in a metropolitan or large provincial area where delivery staff can be relocated will be considered for conversion when the total work load for counter staff at that office requires three full time staff or fewer; and
- b) a corporate office which is trading unprofitably in a country town or small city will be considered for conversion when the total work load for all postal business at that office (excluding cleaners and contractors) requires three full time staff or fewer.

Change from a Licensed Post Office to a Corporate Post Office

- c) A Licensed Post Office will be converted to a Corporate Office at the expiry of the five-year licence period when the total workload for all postal business at that office (excluding cleaners and contractors but including street delivery) requires six full-time staff or more, provided that the office has a demonstrated capacity to trade profitably as a Corporate Office (Submission 82, p. 34-35).

The inconsistency which existed under the old criteria was that an agency could be converted to an official outlet when the work-load grew to a level which could support three full-time staff, while conversion from an outlet to an agency only occurred when there was less than sufficient work for a single employee for at least two consecutive years.

The profitability of an outlet is now the principal factor which triggers the examination of an outlet for conversion. However, conversion is still only considered at a specified staff threshold: an unprofitable official outlet may not be considered for conversion if it employs more than three people. Also, if conversion is only considered when post offices become unprofitable, the situation may arise that a profitable official outlet with only three staff members is not considered, even though changing to an agency could reduce costs further and lead to additional profits.

The staff requirement for conversion from an agency to an official outlet has been increased to six full-time staff. This is consistent with a move, by Australia Post, towards providing a greater proportion of postal services through agencies, since conversion only occurs at a higher labour threshold (and total workload) than previously.

Problems associated with determining the status of a post office by the number of staff were also recognised in the Efficiency Audit in 1984.

In Audit's opinion, a policy which is primarily based on a labour threshold of postal business is fundamentally unsound because the mere attainment of a specified level of business, as measured by the amount of labour necessary to accept that business, is not a sufficient reason for change. (JCPA 1985, p. 125)

The new conversion guidelines for postal outlets may lead to incentives which defer or hinder the required changes (that is, the response to market demand changes) in the status of outlets, thus adding unnecessary costs to the provision of postal services.

C.3.2 What type of postal facility does the public prefer?

The Commission has become aware that local communities often feel threatened by changes from an official post office to a post office agency. With respect to such changes in rural areas, Australia Post said:

... there is a great deal of potential fear in country towns that if Australia Post should ever close its post office or ever convert its post office, somehow that will be very much to the detriment of this particular town and our particular environment. (Initial Hearing Transcript, p. 86)

Australia Post claimed that some communities do not want them to change an existing postal facility, even though conversion from a post office operated by Australian Post's staff to one operated by an agent would not involve a reduction in the quality of the service or its accessibility (Submission 82, p. 44).

Canberra Consumers Incorporated included a selection of votergrams in their submission, outlining the concerns of Braidwood residents in relation to the proposed conversion of their official post office to an agency (Submission 53, Attachment 10).

In addition, Mr Hugh Brown from Cheepie, Queensland, proposed that postal services would be downgraded if their official post office was converted to a post office agency.

I feel it would be a retrograde move to change the status of our far western Post Offices of Quilpie and Cunnamulla to postal agencies, as that would leave Charleville to be the only Official Post Office west of Roma, and that, to me, poses enormous logistical problems when distributing mail in normal seasonal conditions, let alone times of flood, and then problems are really only understood in the locality where they arise. (Submission 105, p. 1)

However, the overall impression that the Commission has received from submissions and from public hearings is that the general public is more concerned with access to the network, than whether services are provided by an agency or an official post office. For example, the Country Women's Association stated that rural users do not mind about the status of a postal outlet; their only concern is whether they continue to have access to the service (Initial Hearing Transcript, p. 189).

In any event, there seem to be few differences in the availability of postal goods and services from either an official post office or post office agency, and consequently concerns about conversion to a post office agency do not appear to be well-founded.

D INDUSTRIAL RELATIONS AND WORK PRACTICES IN AUSTRALIA POST

Australia Post's reliance on labour is falling. However, a large part of the cost of supplying postal services is still the cost of employing people.

Australia Post is a highly labour intensive operation. In 1975-76, around 80 percent of Australia Post's operating costs were labour related. By 1989-90 this had fallen to just below 70 per cent. (PSA 1989, p. 24 as quoted by PSA, Submission 120, p. 37)

As illustrated in Table D.1, the number of full-time workers employed by Australia Post steadily increased up to 1986-87 and has changed little since then. The number of mail contractors used by Australia Post fell in the late 1970s, and was subsequently fairly steady until a significant drop in 1990-91. The number of post office agents generally declined until 1988-89 and has since increased slightly. In recent years there has been strong growth in the number of part-time workers.

Table D.1: **Persons engaged by Australia Post, 1975-76 to 1990-91**

<i>Year</i>	<i>Full-time Work force^a</i>	<i>Agents</i>	<i>Mail contractors</i>	<i>Part-time workforce^a</i>	<i>Total workforce</i>	<i>Adjusted total workforce</i>
1975-76	37575 ^b	-	4441	3415	45431	43724
1976-77	36126 ^b	-	4001	3339	43466	41797
1977-78	36106 ^b	-	4017	3383	43506	41814
1978-79	31836	3920	3861	3400	43017	41317
1979-80	32463	3767	3639	3426	43295	41582
1980-81	33019	3669	3671	3534	43893	42126
1981-82	32728	3493	3748	3622	43591	41780
1982-83	32875	3441	3787	3594	43697	41900
1983-84	33237	3434	3709	3690	44070	42225
1984-85	34492	3354	3655	3785	45286	43393
1985-86	35168	3292	3761	3883	46104	44162
1986-87	35773	3103	3729	3873	46478	44541
1987-88	35486	3168	3858	3978	46490	44501
1988-89	35164	3027	3773	4528	46492	44228
1989-90	35514	3059	3843	5298	47714	45065
1990-91	35122	3096	3269	5578	47078	44289

a Includes people employed by Australia Post at official post offices and post office agencies.

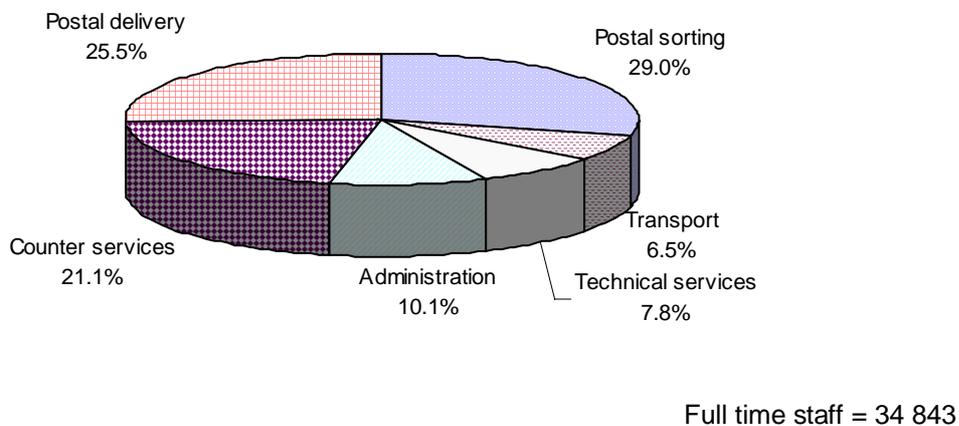
b Includes post office agents.

Source: PSA 1991b, p. 26 and AP, various Annual Reports

Table D.1 also shows the total number of workers, and an adjusted total which takes into account the different hours worked by part-time compared with full-time workers. It assumes that part-time workers work half the number of hours of full-time workers.

As illustrated in Figure D.1 the three largest employment categories in Australia Post are postal sorting, postal delivery, and counter services. Postal sorting employs more full-time staff than postal delivery. However, more contractors are involved in postal delivery than in mail sorting. Therefore, the relativities between these two categories may change if contractors were included, but the Commission does not have the data to do so.

Figure D.1: **Australia Post full-time staff by function, 30 June 1991**



Source: AP 1991a

Because labour is Australia Post's largest input, labour performance is important if postal services are to be provided at the lowest possible cost with continuing increases in productivity. The performance of its workforce also affects Australia Post's ability to adapt quickly to changing market conditions. The Department of Transport and Communications recognised the importance of commitment by management and staff if reform is to continue.

A change in organisational culture from one fulfilling a statutory function with the aim of breaking even financially to one providing postal services at a profit, will require the recent level of commitment of time and effort by both management and staff to be at least maintained for some time. (Submission 119, p. 13)

D.1 Union membership

Australia Post's workforce is highly unionised. Apart from mail contractors and agents, 77 per cent of employees belong to a union. The Australian Postal and Telecommunications Union (APTU) amalgamated with the Australian Postmasters' Association in November 1991 and the Postal Supervisory Officers' Association in March 1992. The number of unions covering postal workers was further rationalised by the amalgamation of the APTU with the ATEA/ATPOA in August

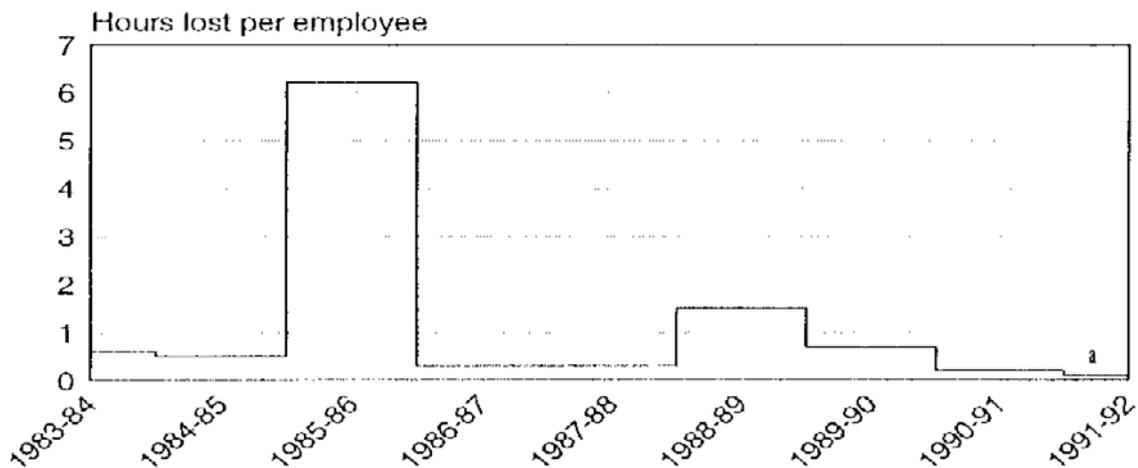
1992, to form the Communications Workers' Union (CWU).¹ Seventy one per cent of Australia Post's workforce belongs to the CWU which covers all of the operative and supervisory staff in mail centres and transport sectors, all post office employees, various ancillary areas (including stores, cleaners etc.), and some clerical and administrative areas.

The Public Sector Union (PSU) is the only other union with significant membership, accounting for 4 per cent of the workforce. The 11 other unions with members working in Australia Post in total account for only 2 per cent of the workforce (see Table D.2).

D.2 Industrial disputes

The relationship between labour and management has improved significantly. One manifestation of this has been the large improvement in Australia Post's industrial relations record in recent years. Figure D.2 illustrates that the hours lost per employee due to industrial disputes have fallen. Disputes were unusually high in 1985-86 due to strikes over rostering arrangements in NSW and the ACT.

Figure D.2: **Industrial disputes in Australia Post, hours lost per employee (per year)**



Source: AP, Submission 82, p. 18; AP, Submission 264, p. 44; and AP 1988a

a This figure excludes hours lost during the one day of industrial action taken in October 1991 in conjunction with other unions in relation to industrial legislation of the NSW State Government.

¹ Australian Telecommunications Employees Association/Australian Telegraph and Phonogram Operators Association.

Table D.2: Union membership in Australia Post as at October 1991^a

Union	Head Office	NSW	VIC	QLD	WA	SA	TAS	TOTAL
Amalgamated Society of Carpenters and Joiners	-	-	-	-	-	1	-	1
Australian Journalists Association	-	-	2	-	1	-	-	3
Australian Postal and Telecommunications Union ^b	17	10 858	8 211	4 042	2 333	2 566	3	28 667
Australian Telecommunications Employees Association ^b	5	107	136	29	51	22	3	353
Commonwealth Medical Officers Association	-	1	-	-	-	-	-	1
Electrical Trades Union of Australia	-	-	-	-	-	-	1	1
Federated Miscellaneous Workers Union	-	-	9	-	-	-	-	9
Federation of Industrial, Manufacturing and Engineering Employees	-	8	-	-	-	-	-	8
Metals and Engineering Workers Union	6	36	16	7	7	12	1	85
Postal Supervisory Officers Association	-	125	78	42	11	27	1	284
Professional Officers Association	10	6	4	-	-	1	-	21
Public Sector Union	270	491	388	264	176	158	39	1786
Senior Managers Association	11	5	28	3	7	2	1	57
Telecommunications Officers Association	-	1	-	1	-	-	-	2
TOTAL	319	11 638	8 872	4 388	2 586	2 789	686	31 278

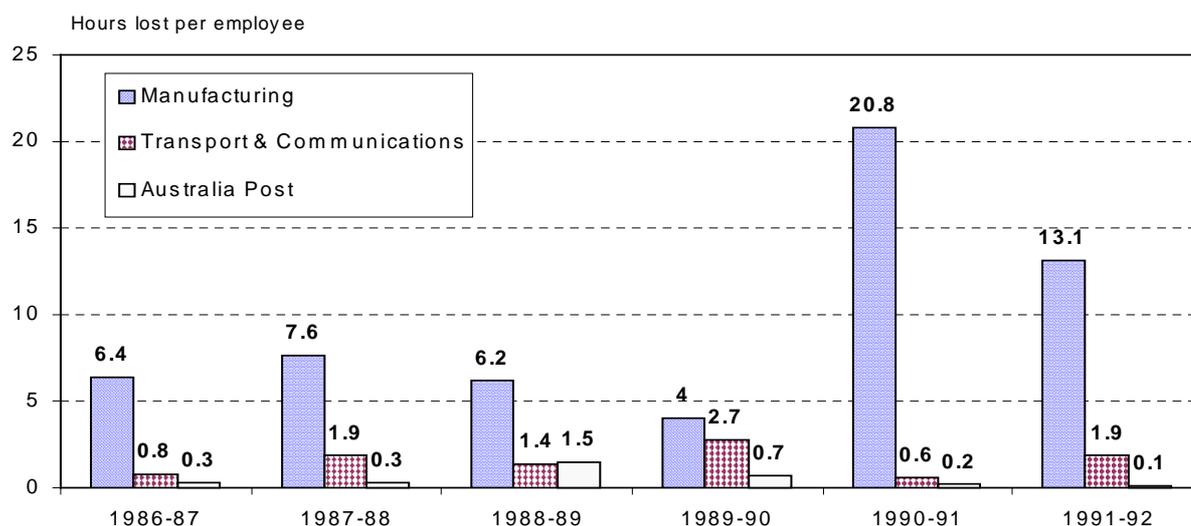
a Derived from payroll deduction data.

b The APTU and the ATEA/ATPOA amalgamated on 6 August 1992 to form the Communication Workers' Union.

Source: APTU, Submission 79, Attachment 2

Australia Post's industrial relations performance also compares favourably with that of other industries.

Figure D.3: **Industrial disputes in Australia Post and other industries, hours lost per employee (per year)**



Source: AP, Submission 82, p. 18; and AP, Submission 264, p. 44

Both management and the unions have played a significant role in improving communication and reducing industrial unrest. The APTU argued that:

In the Postal areas significant improvements have occurred in the level of industrial disputation principally because of the improved consultative processes now in place. (Submission 79, p. 7)

Similarly, the PSU argued that:

Sustainable success will be achieved by management, unions and employees developing and constantly refining processes to work together in the enterprise. (Submission 50, p. 5)

D.3 Industrial relations developments

The co-operation between management and unions has resulted in three clear phases of labour reform in recent years:

- 1987 -- restructuring and efficiency initiatives as part of the four per cent second-tier national wage provision;
- 1989-90 -- award simplification following the structural efficiency principles (SEP) of the Australian Industrial Relations Commission; and

-
- 1991-92 -- enterprise based bargaining.

These three phases of reform have been highly successful when contrasted with the earlier failure to modernise postal sorting and handling by introducing letter indexing equipment at the Redfern mail exchange. In 1966 letter coding machines were installed at Redfern. The machines dropped individual letters in front of the operators who typed in either the postcode or a code to identify the town to which the letter was being sent. The machines printed a barcode on the back of the envelope. These were then read by a decoding machine which sorted the letters for transport to the delivery post office.

The technology used at Redfern was considered to be world-class.

The system installed at Redfern in 1966-67 was seen as a technological triumph. It was described in glowing terms in a special issue of *The Telecommunications Journal of Australia* in October 1966, as a distinctive Australian contribution to the advance of mail sorting technology. Australia at this time was seen as a leader in postal service mechanisation (Magnusson 1966, quoted in Submission 31, pp. 8-9)

However, industrial relations problems at the exchange resulted in the project's failure. The changes were imposed on the workforce, without consultation or staff participation.

Centralisation of authority was vested in the engineers, while operators were located in organisational slots, separated physically from each other in an extreme division of labour ... The deskilling strategy was made manifest in the decision to pay operators on the mechanised sorting machines lower rates of pay; a more inflammatory strategy could scarcely be imagined. (Submission 31, p. 9)

Staff unrest was illustrated by the 10 per cent fall in productivity at Redfern over the three years from 1968-69 to 1971-72, while at the Melbourne mail exchange, which was not mechanised, productivity increased by 13 per cent. The poor performance at Redfern was due to its high level of industrial disputation (Mathews, Submission 31, p. 9). Industrial relations problems continued and letter sorting was diverted from Redfern to other mail exchanges in Sydney. In 1985 the coding and indexing equipment was removed.

Because of the problems of installing new technology at Redfern, both management and unions were wary when the introduction of optical character recognition (OCR) equipment was first considered. OCR machines automatically scan letters and read the postcode. They then print a barcode on the envelope. A decoding machine is used to read this barcode and sort the letters for transport to the delivery post office.

For this technology to be successfully implemented union resistance had to be overcome.

The fear of the union, stated quite explicitly on numerous occasions, was that OCR equipment would be used to wipe out jobs of APTU members. It was therefore a breakthrough of major significance when Australia Post reached agreement with the union on employment security during the process of transition to the use of the new technology. (Submission 31, p. 23)

The 1985 modernisation agreement was pivotal in changing the industrial climate in the mail exchanges. The principal points of that agreement were:

- total employment levels to be maintained, with the level of 22 700 registered at June 1985 to be increased if possible, and employment of permanent, full-time staff to be at least 19 000 in June 1995;
- no compulsory redundancies or retrenchments as a result of any modernisation initiative;
- no increase in the overall levels of part-time employment; and
- no operational use of letter sorting/indexing equipment until negotiations on postal levels structures are completed.

Australia Post agreed to maintain total employment at 22 700 for the employment categories mail officers (staff who sort mail), postmen, motor drivers, postal officers (staff working in post offices), stores staff, building services staff, food services staff, and labourers. Australia Post believed that this undertaking was essential to achieve change in the industry.

It is an agreement which we have chosen to enter into to facilitate change in the past. It served its purpose well because it has taken off the agenda the uncertainty that might apply to all employees as to whether they are going to be affected and therefore it has been an important plank in facilitating technological change. (Initial Hearing Transcript, p. 86)

Between 1985 and 1990 there has been a slight increase in total employment in the employment categories outlined in the modernisation agreement (see Table D.3). The largest increase has been in the number of postmen.

Table D.3: Employment in selected categories, 1985 and 1990

<i>Employment categories</i>	<i>1985</i>	<i>1990</i>
Mail officers	8565	9818 ^a
Postmen	7385	9029
Motor drivers	2129	2277
Postal officers	3980	2772 ^a
Stores staff	9380	
Building services staff	562	147
Food services staff	123	103
Labourers	140	114
Total	22977	24340

a Commission estimates.

Source: AP, various Annual Reports and Commission estimates

Table D.1 illustrates that in the three years after the modernization agreement there was little change in the level of part-time employment. The number of employees working part-time began to increase in the financial year 1988-89, after the second-tier initiatives which included the introduction of part-time employment in letter sorting.

D.3.1 Second-tier initiatives

Changes to Australia Post's employment structure had been under consideration throughout the early 1980s but the national wage framework was not amenable to such change (Submission 31, p. 29). The 1987 second-tier national wage provision allowed for wage increases of up to 4 per cent, equal to productivity increases. This provided the first real opportunity to implement substantial and widespread structural change and Australia Post made greater use of that opportunity than did most other industries.

The National Agreement was of great significance principally because all the major unions involved in Australia Post agreed the organisation must change if it were to survive. It had to have flexibility to respond to competitive pressures to obtain new business and to quickly and efficiently react to opportunities. (Submission 79, p. 8)

This change in union and management attitudes was also identified by Dr Mathews.

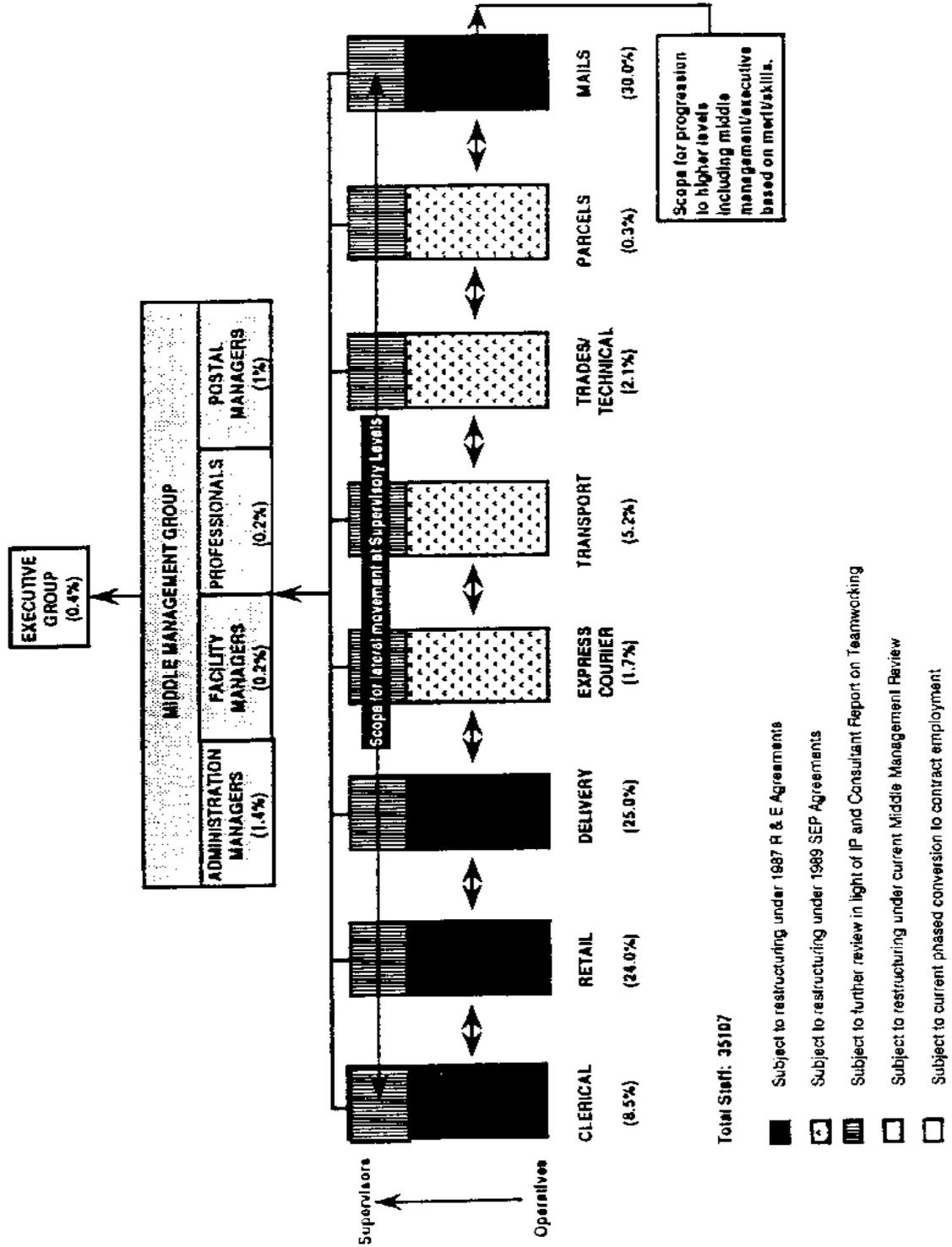
The 1987 Agreement represented a new maturity in the relations between Australia Post and its unions, particularly the APTU. This was an agreement crafted essentially in a cooperative mould, designed to create a framework for cooperative working and improvement of efficiency. It owed much to the maturity of the APTU leadership ... (Submission 31, p. 26)

Productivity gains resulting from the agreement were well in excess of 4 per cent, and more than 80 per cent of Australia Post's workforce were affected. Figure D.4 shows in the black blocks those employment areas involved: clerical, retail, delivery, and mail. The initiatives taken included:

- multiskilling, elimination of many demarcation problems, and revised rostering;
- changes to supervisory structures with establishment of Senior Mail Officers Grade 2 positions thereby embodying quality control close to the "work face" -- there is no longer a stark distinction between workers and supervisors;
- introduction of key coding and machine sorting;
- productivity measurement of individual workers and setting of performance standards became accepted practice (in stark contrast to earlier attitudes);
- part-time employment, for a long time a feature of counter and delivery operations, was introduced into mail sorting (initially limited to 380 part-time staff nationally with a commitment from Australia Post that no existing full-time jobs would be converted to part-time); and
- hiring, training, and staff allocation efforts were increased.

Cost/benefit analysis published in conjunction with the Conciliation and Arbitration Commission's August 1987 approval of these initiatives show estimated net savings of 2.7 per cent after payment of wage increases of 4 per cent (that is total savings of around 7 per cent, spread over several years). These savings were estimated to total \$54 million over a three year period (Submission 79, p. 8).

Figure D.4: Award restructuring



Source: Australia Post

The benefits from the second-tier initiatives show up in the following productivity estimates, expressed as percentage change between years, by Australia Post (Submission 82, Appendix 1, p. 1):

1986-87	3.4
1987-88	4.7
1988-90	1.0
1990-91	1.6
1991-92	

Estimates by the PSA (1991b) indicated that prior to the second-tier productivity initiatives there was a strong improvement in productivity growth from 0.3 per cent in 1985-86 to 3.8 per cent in 1986-87. This was a natural rebound following the industrial relations strife in NSW (see Figure D.2). The maintenance of strong productivity growth in 1988 and 1989 reflects the second-tier initiatives. Much lower productivity growth in 1990 and 1991 is attributable in part to prolonged industrial strife at the Clayton South Mail Centre (which handled 40 per cent of Melbourne metropolitan mail) and to a recession-related drop in the volume of mail. At the public hearings Australia Post had not finalised its figures for the coming financial year, but it estimated that in 1991-92 productivity would again reach about 4 per cent (Initial Hearing Transcript, p. 31).

Australia Post staff were hostile towards the second-tier initiatives. Employees in many other industries obtained the four per cent second-tier pay increase after achieving minimal productivity gains. In contrast, union representatives in Australia Post were perceived as having made extensive compromises in exchange for the wage rise. Indeed, APTU leadership changed as a result; never again would there be an agreement like the second-tier pay increase without a national plebiscite of members.

D.3.2 Structural efficiency principle

The second phase of industrial relations reforms centred around the structural efficiency principle (SEP) agreement which was negotiated based on the following three principles.

- (i) application of the Structural Efficiency Principle set out in the National Wage Case decisions of 12th August 1988, 25th May 1989 and 7th August 1989;
- (ii) the desire of the parties to establish a means of upgrading staff involvement in the enterprise, improving staff morale and, in turn, achieving lasting efficiency gains within the participatory management framework established under the Joint Statement of Understanding; and
- (iii) facilitation of the long term restructuring of Australia Post so that it can operate as an efficient enterprise providing a high level of service and increasing its market share in the competitive areas of business into the 1990s and beyond. (APTU, Submission 79, Attachment 6)

The agreement committed Australia Post and the APTU to simplifying the award structure to achieve more flexible working arrangements. Some of these changes applied to all employment

categories, including those affected by the 1987 second-tier arrangements. As part of the SEP agreement, the number of awards which cover Australia Post employees will be reduced from 17 to 4, and ultimately to one award. But these involve administrative rather than substantial changes, and the gains are mainly in administrative costs. This is so because the specialised nature of postal work is such that all 17 awards are enterprise based and Australia Post is the only respondent to them; the awards thus avoid the complications of, for example, metals industries awards. The SEP agreement was also the vehicle for successfully introducing OCR equipment into Australia Post.

Industrial participation

As a result of the workforce's dissatisfaction with the second-tier initiative and the experiences with letter sorting equipment at the Redfern mail exchange, a more participatory process was necessary if the implementation of the SEP agreement was to be successful.

The second principle behind the SEP agreement stated that staff involvement in management decisions would be increased. Australia Post and the APTU signed a Joint Statement of Understanding that reinforced this participatory approach.

... parties agree to the following principles and processes of participatory management:

- 1 Effective local consultative arrangements are to be put in place and middle managers, supervisors and staff are to be assisted and encouraged to participate more in the problem-solving and decision-making at their own workplace.
- 2 Effective, 2-way communication with staff is to take place and first line/middle managers are to be assisted and encouraged to play a greater role.
- 3 Adequate training is to be given to those management, supervisors and staff involved in participatory groups to enable them to talk meaningfully to each other and to identify, analyse and resolve problems.
- 4 The reasons for changes affecting the workplace are to be clearly explained to and discussed with all staff prior to implementation.
- 5 Contentious decisions or implementation difficulties arising out of National Agreements are to be referred to higher levels before implementation so that consultation can take place at those levels.
- 6 The roles and functions of various management levels and union representatives need to be clearly documented and respected. (Submission 79, Attachment 4)

The Industrial Participation program was developed from the principles outlined in the Joint Statement of Understanding. On the workshop floor, the program involves increased staff participation in decision-making. Before changes are introduced, there is greater consultation between supervisor and employees, with employees encouraged to provide ideas and supervisors encouraged to implement them. As an example, the APTU said:

... there were three teams set up from the work-force itself who were going to Scoresby. They were given a diagram of the floor and walls and required to lay out the facility; another group dealt with the rostering arrangement ... I think overall the speed with which the mail centre opened ... was a significant achievement ... people who transferred from Clayton and out to Scoresby are a far happier work-force and the morale is at top level there. (Initial Hearing Transcript, p. 200)

Australia Post strongly supported Industrial Participation, claiming that it:

... provides the best prospect of achieving further significant human resource improvements through its role in:

- fostering workplace flexibility under Enterprise Bargaining;
- implementation of a best practice framework; and
- introduction of group based gain sharing. (Submission 82, p. 28)

The PSU also supported Industrial Participation, arguing that the consultative process should be extended to other management decisions. However, it criticised the emphasis placed on obtaining measurable productivity gains through the process.

PSU questions the appropriateness of attempting to quantify productivity improvements obtained from Industrial Participation. Participatory processes should be adopted because of the intrinsic right of people at the workplace to have a say. Perceived productivity increases should be regarded as a fortuitous outcome not as the reason for their existence. (Submission 50, p. 6)

Retail Post

Following the general SEP agreement, Australia Post and the unions negotiated a further agreement (Retail Post) to restructure Australia Post's retail network. In its submission Australia Post identified shortfalls in the efficiency with which its retail network was operating. These problems, and the restructuring to be adopted to rectify them, are discussed in Chapter 4.

In addition to altering the location and presentation of post offices, the Retail Post program also involves reductions in the retail workforce. It will result in the number of staff at official post offices being reduced by 1500 and the number of part-time cleaners falling by 500. There could also be up to 1200 agency staff who lose their jobs. In June 1991 there were approximately 7300 people employed in official post offices (that is, excluding agencies). Hence, the reforms under Retail Post will result in a 20 per cent reduction in the staff at official post offices.

In achieving these reductions, Australia Post will continue its policies of no compulsory retrenchments and not moving people unreasonable distances from their present location. Staff reductions will be achieved by natural attrition and voluntary redundancy. Staff movement will be encouraged by redeployment incentives.

The reduction in staff numbers will be accompanied by the introduction of new technology, improved training, and changes in career structures. This will increase productivity as well as improving the opportunities for staff development and career advancement.

D.3.3 Enterprise bargaining

The current phase of development of industrial relations in Australia Post is enterprise bargaining. There are five principal objectives:

- (i) to obtain full commitment of the workforce to productivity targets;
- (ii) to obtain union acceptance of the necessity of labour force adjustments (reductions);
- (iii) to keep wage increases in any year below productivity increases;
- (iv) to meet corporate profit targets while constraining prices; and
- (v) to put a positive emphasis on industrial participation and to avoid another "second-tier episode".

On 6 July 1992, it was announced that Australia Post and its principal unions had finalised negotiations on an enterprise agreement. In return for pay rises of 8 per cent over 18 months, the unions have agreed, in principle, to:

- relaxation of restrictions on part-time employment;
- more flexible working time arrangements;
- performance evaluation of individual workplaces; and
- bonuses linked to work performance and individual workplaces.

This enterprise agreement was certified by the Industrial Relations Commission on 8 October 1992. The agreement includes a workplace accreditation scheme known as "QS1", or Quality Service One. The levels of performance, customer service, and manager-staff relations required to reach the QS1 standard will be jointly developed between Australia Post and the unions. Once a workplace reaches QS1 level, all employees will be entitled to a bonus of \$325. The agreement also includes a trial of gain sharing in selected Australia Post workplaces, further union and award rationalisation, and the establishment of best practice frameworks.

E THE IMPACT OF TECHNOLOGY ON THE RESERVED SERVICES

E.1 Introduction

This appendix examines the extent to which rapidly improving communications technology is likely to affect the reservation of some services to Australia Post. For the transmission of information, emerging technology is providing many alternatives to the services traditionally reserved to Australia Post. The extent to which the reserved services may be replaced by alternatives is important for two reasons.

Firstly, earnings from reserved services account for a large proportion of Australia Post's revenue. Approximately 85 per cent of articles handled by Australia Post can be defined as standard, and are therefore included within the reserved services (AP 1988b, p. 4). Revenue from addressed letters is 55 per cent of Australia Post's total revenue (AP, Submission 82, p. 4) and most of this is likely to be derived from reserved services.

Secondly, the services presently reserved to Australia Post, especially the carriage of standard letters, may become irrelevant as alternatives to standard mail emerge. The extent to which technology changes the message market and erodes reserved services has implications for the purpose of retaining this protection, and for the effects of maintaining the reserved services.

E.2 The reserved services

Australia Post has reserved to it the carriage of letters within, and between places outside, Australia. There are a number of exceptions and two have particular relevance to the role that technology may play in the future of the reserved services. They are:

- the carriage of newspapers, magazines, books, catalogues and leaflets; and
- the carriage of a letter solely by any electromagnetic or other non-physical means.

In sending messages, advances in technology are likely to see the increasing use of modes that are excepted from reserved services and a decline in the use of the letter.

E.3 The changing role of Australia Post in the message market

The global and domestic markets for messages have changed over time.

Until the turn of this Century, postal services performed a role which combined that presently covered by phone, fax, telex, and to some extent radio and TV. (Moran 1992, p. 1)

The distribution revolution has been described by the Chairman of Federal Express as "almost as profound as the computer revolution" through improved information management and modern logistics systems (Smith, as quoted in Moorhouse 1992, p. 4).

As illustrated in Figure 2.1, the domestic message market in Australia has changed radically since 1960. Competitive pressure is increasing and Australia Post expects future erosion of the traditional letter market to come from electronic substitutes and from unaddressed mail operators moving into addressed mail markets (Submission 82, p. 4). Australia Post now carries only 20 per cent of domestic messages compared with around 50 per cent in 1960. Since 1960 the domestic message market in Australia has grown by an average of 5.5 per cent per annum across all sectors while Australia Post's growth rate for the period was 2.5 per cent per annum. Australia Post describes the changing message market in which it operates.

The varying growth rates in the sector are probably related to speed of delivery and convenience. The fastest growth areas -- telephone calls, express courier and facsimile services -- are those in which speed and convenience of the message delivery are superior. (Submission 82, p. 3)

Some of the more convenient and rapid means of information transfer, such as express couriers, are more costly than traditional post. However, alternative services such as facsimiles and telephone calls are often more efficient in terms of speed, price, ease of access for the user, and reliability, making them a more attractive means of communication where they can adequately replace traditional mail services. The Major Mail Users of Australia point this out in their submission.

Transmission of data through electronic means is increasing. The move away from conventional mail is because of the unreliable delivery of enveloped mail and its growing cost. (Submission 48, p. 35)

E.4 Technology and substitutes for the mail

There are numerous electronic alternatives to traditional mail for the transfer of information between sources. These are transmitted through telecommunications channels which can be along copper wire, fibre optic cable, or through satellites which reach most parts of the world. Messages are received almost instantly and responses can be made immediately, without a hard copy changing hands. These alternatives are examined below in order of their present availability and the resources required to achieve their full potential as a mail substitute. The telephone, in its present form, has attained its full potential while some aspects of electronic data interchange, such as ordering and paying for goods instantaneously from home, are still a long way from being in every home in Australia.

E.4.1 Telephone

Commercial telephone lines have operated in Australia since 1878. Sixty per cent of domestic messages are now sent over the telephone compared with 44 per cent in 1960. Telephones are a

valuable business tool that reach nearly every household in Australia and overseas, and they have replaced postal services to a considerable extent. However, many transactions still require hard copies to change hands and personal and business letters are a valued form of communication. The future application of technology to established telephone links and relative price shifts between telephone and postal services are likely to erode further the role of reserved mail services.

E.4.2 Facsimile

At present the growing use of facsimiles provides the greatest threat to Australia Post's reserved services. Businesses can transmit a local fax for a fee of 25 cents, with the additional benefit of immediate delivery, while a standard letter costs 45 cents. They are especially powerful when combined with a computer, so that a document can be faxed directly from a word processor without a hard copy being produced. In 1989 there were 2.5 million facsimile machines world-wide and as prices decrease they will become even more common. AOTC estimate that there are currently 330,000 facsimile machines in use in Australia. This is the second highest number per head world-wide, after Japan (Sarno 1991, p. 18). The growth in numbers of facsimile machines in Australia is presented in Chapter 2, Figure 2.5.

While facsimiles are adequate substitutes for a range of letter services, they cannot replace them completely. This has been made clear in a number of submissions from the rural community.

In some remote areas the type of telephone system available makes facsimiles slow and their error rate high. While this problem is declining as remote telecommunications services are being modernised, the NSW Farmers' Association argued that:

Electronic services, while much improved, do not compare in rural areas to those available in urban communities. While facsimiles are available to those in remote rural areas, unreliable Telecom services and varying voltages often mean they are not a viable alternative to postal services. (Submission 11, p. 3)

There are difficulties with the power supply available to operate facsimile machines in remote areas. Many stations generate their own power so that a 240 volt power source is not continually available. Some stations can only operate their facsimile machines while the generator is running, only a short period of the day. Some may have to purchase additional equipment to allow them to operate facsimile machines.

There are several reasons why not all communication can be carried by fax. Some documents, such as children's school papers, are very long, making transmission time consuming. Also, the print quality and the paper quality of a facsimile can be much less than the original document. This argument was supported by the Winton branch of the Isolated Children's Parents' Association.

We wish to make the point that from a Distance Education viewpoint, the use of a fax machine would be totally impractical and very expensive due to the amount of paper involved in a correspondence lesson. In addition, the use of teaching aids such as audio and video tapes, textbooks etc. requires a regular postal service. (Submission 154, p. 4)

Facsimile machines cannot transmit pages larger than A4 and transmission of a document to a number of different destinations is both slow and unreliable. In addition, because facsimile messages do not arrive in a sealed personally addressed envelope, they are not suitable for correspondence which requires a high degree of security or confidentiality.

In the past facsimile messages were not considered to be legal documents because the definition of a document in Section 7(A) of the Evidence Act 1905 does not specifically include facsimiles. As a result, a quote for work to be undertaken or a contract was not legally binding if it was sent by facsimile. This has changed recently so that it is no longer necessary to post the original document for it to be legally binding. A contract is legally binding after agreement has been reached between all parties by verbal or written communication. Amongst other things, proof of this agreement can be in the form of a written contract or a facsimile of the contract. Where parties use a facsimile for communication, acceptance of a contract is ineffective until it is received by the offeror of the contract. Once this occurs, a contract sent by facsimile becomes legally binding.

Facsimile machines are very common in Australia. They have become an important means of sending messages for businesses, especially within city areas, where a facsimile is quicker and less expensive than a courier or Australia Post's express service. Despite the shortcomings of facsimiles in rural areas, as technology advances, problems of power supply, speed of transmission, and other limitations will be reduced.

Australia Post operates a Fax Post system where written or graphical communication can be lodged at a post office, faxed to the post office nearest the addressee, and delivered. Alternatively, a business can fax a message to the post office nearest the addressee, and it can be picked up or delivered from there. In January 1992 Australia Post started a trial of public facsimile machines in the Chatswood and North Sydney post offices to compete directly with the established Fax Post service.

Two private companies are presently testing the market for public facsimile machines in Sydney and Melbourne after receiving permission to connect public facsimile machines to the telecommunications network from AUSTEL. One company plans to install a system of public facsimiles in 24 hour petrol outlets and retail chains which will send and, eventually, receive facsimiles. The public will be able to hire 'electronic mailboxes' and access messages sent to public facsimile stations with a personal identification number. AOTC has also expressed an interest in developing public facsimiles.

We think that the opportunities are quite substantial. Fax is becoming so pervasive that it's becoming one of the dominant means of communications, apart from the telephone itself. (Home, as quoted in Sarno 1991, p. 18)

While public facsimile machines are not yet commonplace, they could be made available in many public places and provide a speedy and accessible alternative to letter services.

E.4.3 Electronic data interchange

A growing source of competition is the use of directly communicating computer networks which can transmit data from one terminal to another via a modem.¹ Electronic data interchange (EDI) allows terminal-to-terminal communication, transactional services, and personal messaging. These are examined below.

- Local area networks (LANs) are private networks that provide high speed connections between computers. LANs can link an office, buildings within a complex, and offices in a particular city or region. While the carriage by the sender of letters is not a reserved service, and certainly takes place, LANs may provide a cost effective alternative for institutions that correspond regularly.
- Electronic funds transfer (EFT) facilitates money transactions without notes, cheques, bills, or receipts being posted. Bills can be paid and products can be ordered over the telephone using a credit card. The posting of bills can be avoided by instantly deducting money from a bank account at the point of sale, through the EFTPOS system in Australia. The Society for Worldwide Interbank Transactions operates between Europe, Canada, and the US to electronically send money, messages, and accounts between banks, thus avoiding large amounts of international postage (Martin 1981, p. 79).
- Message handling services (MHSs) provide users a facility to exchange electronic messages on a store and forward basis. The communication can be sent person-to-person, computer-to-person, or computer-to-computer. Each message consists of an electronic 'envelope' of information sent along communications channels. MHSs can interact with physical delivery systems; British Telecom and the French TRANSPAC have already introduced such services (UNESCO 1989, p. 58).

Also known as paperless trading, EDI is used by 2500 organisations in Australia and a further 6200 in the Asia-Pacific region (Head 1992, p. 19). It involves an electronic mailbox where messages are stored in a computer and then accessed by password after a prompt indicates a message is waiting (Sardinas 1981, p. 422). EDI is common for the transfer of shipping and customs data, orders between major manufacturers and suppliers; tax returns can also now be lodged electronically (MMUA 1988, p. 35).

Australia Post is developing a system known as EDIPost that will allow companies to lodge credit card statements, public utility bills, orders, invoices, and bank statements electronically. They will

¹ A modem is an electronic interface device that converts computer information from a digital to a wavelike signal acceptable for transmission along communications routes, and then reverses the process at the receiving end for acceptance by a computer.

be printed and enveloped at mail centres equipped with laser printers before being delivered to a final address. Printers may eventually be installed in individual post offices, enabling the transmission of a message directly to the delivery post office. While the final delivery is presently a reserved service, the electronic transmission of these messages is not, and could be developed further privately. The presence of the reserved services reduces opportunities for private companies to provide a similar service (see Chapter 7).

In Europe, Japan, Canada, the United States and Australia a system called videotext combines adapted televisions with the telephone to make EDI accessible to the home user (OECD, 1988). In 1985 Telecom introduced a videotext service called Viatel which had 28½500 subscribers in 1987, ranking Australia third in the world for videotext terminal penetration (OECD 1988, p. 26). France's Teletel is the most advanced system implemented so far with over 4 million subscribers in the nation. Services available through videotext include stock market information, exchange rates, electronic betting, messaging, and travel booking.

In Australia, Telecom is developing videotext further with a product called Laserlink. Consisting of a network of optical fibre cables, some businesses and research institutions are already using it especially for high-speed data transmission. Telecom estimates that 60 per cent of Australian homes could be connected to Laserlink by 1994 (Gettler 1992).

Most electronic mail is sent through common carrier networks and is therefore subject to crime and computer viruses. However, messages can be scrambled or sent in code to ensure privacy, security, authenticity and the protection of intellectual property.

The timetable for these advances is not clear since they require large amounts of capital and infrastructure. Except for Darwin and Hobart, Australia's capital cities are now linked by optical fibre cables but further development will depend on demand.

Exactly when the services will be available to householders depends on public demand, and on entrepreneurs, educators, retailers and information providers. (AOTC 1992, p. 6)

However, the future of alternatives to traditional mail seems assured. Cost and efficiency goals, and broader goals such as the decentralisation of urban areas, all suggest that electronic alternatives will be more extensively used in the future.

E.5 Effect on the reserved services

E.5.1 Standard letters

Gifts, goods ordered by mail, and original copies of documents cannot be sent electronically. However, the delivery of most of these articles is already subject to competition as they often exceed 500 grams. Communications technology will have the greatest impact on services reserved

to Australia Post. Letters sent by businesses and government can be broken up into accounts, invoices, cheques, and business letters. A large proportion of this correspondence is in the form of standard letters and are reserved services. The PSA states in its submission:

Today, this mail is competing with such things as, electronic funds transfer systems, direct crediting of cheques and debiting of bills, which by-pass the postal system. (Submission 120, pp. 8-9)

Limited data are available on the exact composition of articles delivered by Australia Post but, as illustrated in Table E.1, aggregate data for Japan, US, and Australia show similar patterns.

Table E.1 Aggregate composition of mail for Japan, US, and Australia

<i>Type of mail</i>	<i>Japan (1988)</i>	<i>United States (1980)</i>	<i>Australia (1988)</i>
<i>Individual to:</i>		<i>(per cent)</i>	
Business	3.8	3.8	na
Individual	15.6	16.0	na
Total individual mail	19.4	19.8	20.0
<i>Business to:</i>			
Business	35.6	34.2	na
Individual	45.0	46.0	na
Total business mail^a	80.6	80.2	80.0
Total mail	100.0	100.0	100.0

a Including publications.

Source: Commission estimates based on MPT 1991a, Martin 1981, and MMUA 1988

While the data are somewhat dated, the composition of mail delivered in Australia and the US is unlikely to differ substantially given international similarities in the amounts of individual and business mail delivered. With regard to its relevance for Australia, the principal differences are that Australia Post would deliver a relatively higher percentage of parcels than the United States Postal Service (USPS) due to the highly competitive nature of the parcel market in the US, and would deliver a smaller percentage of advertising mail due to the dominance of the USPS in that market (see Appendix F).

A breakdown of the composition of the mail carried in the US is presented in Table E.2. It provides an indication of the effect that technology might have on the traditional mail services. The table illustrates that about 40 per cent of mail may be delivered electronically by potential substitutes. Where an end user does not have a computer or a facsimile machine, mail can be electronically transmitted to the nearest post office, arrive pre-sorted, and be delivered more quickly than if it had followed normal postal routes. In this case, by including the delivery of hard copies of electronic transmissions within reserved services, the development of private message handling services could be stifled.

Table E.2: Composition of domestic US mail by type

<i>Type of mail</i>	<i>Subtotals</i>	<i>Percentages</i>	<i>Potential substitutes^a</i>		
<i>Individual household to:</i>					
Business		3.8			
Individual households		16.0			
Government		0.4			
Total household mail	20.2				
<i>Government to:</i>					
Business *		1.8	Fax	EDI	
Individual households †		3.8		EDI	MHS
Government *		0.6	Fax	LAN	EDI
Total Government mail	6.2				
<i>Business to:</i>					
Suppliers *		3.9	Fax	LAN	EDI
Intracompany *		1.4	Fax	LAN	EDI
Stockholders * ▪		0.7	Fax		EDI MHS
Governments *		1.2	Fax		EDI
Customers					
Order acknowledgement * ▪	0.2			EDI	MHS
Bills * ▪	17.6		EFT		
Transactions * ▪	1.2		EFT		
Advertising	14.7				
Product distribution	1.3				
Promotional materials	5.4				
Other *	10.7		Any combination		
Total business mail	58.3				
<i>Newspapers and magazines</i>	13.6				
<i>Parcels</i>	1.3				
<i>Other</i>	0.4				
Total US mail	100.0				

▪ These services are potentially deliverable by electronic means to the end user via a post office.

* These services are potentially deliverable by electronic means directly to the end user.

a While all substitutes are presently available, they are ordered from left to right by their present ease of access and prevalence. The obvious substitute of the telephone has been excluded as it could apply to nearly all mail services to some extent.

Source: Based on Martin 1981 (Table 11.2)

Postal services offer a unique form of communication and it is unlikely that certain segments of the traditional mail market will ever be fully replaced by electronic services. This is particularly true of standard articles within the reserved services such as personal letters, greetings cards, and some documents. However, because of cost savings and increased reliability in some cases, electronic communication will continue to replace a large proportion of reserved articles.

E.5.2 Remail

The carriage of incoming and outgoing international letters is presently reserved to Australia Post. Advances in technology now allow the transmission of data overseas by electronic means. This data can then be printed and mailed back to Australia, sometimes for less cost than if it was printed and mailed in Australia. For bulk mail, such as targeted advertising, this service is viable and the Commission has received such mail which was printed in, and posted from, Singapore and Malaysia. While this mail does not come directly within Australia Post's reserved services, it contravenes Article 25 of the UPU convention of which Australia Post is a signatory. Australia Post is taking an active stance against outgoing remail but it is very difficult to police. Remail is a growing portion of the international mail market and it will erode some of the reserved services, such as bulk mail sent from Australia to overseas. This can now be sent electronically to another country where it is printed, and then mailed to the third (destination) country. For a detailed discussion of international remail, see Chapter 6.

E.6 Technology and mail sorting

While the substitute services discussed above tend to diminish the scope of Australia Post's reserved services, its ability to achieve returns to scale, by processing large volumes of mail efficiently, enhances the reserved services protection. Advances in technology have an influence on mail sorting.

A major innovation has been letter sorting, which is now entirely automated in the majority of industrial countries. (UNESCO 1989, p. 57)

Australia Post has pursued a program of decentralising its sorting operations, following a lack of success with centralised mail sorting at the Redfern mail exchange during the 1970s (see Appendix D). Sorting operations are now through 40 rural or urban mail processing centres (Submission 82, p. 10). The mechanisation and automation of Australia Post's mail processing between 1990 and 1993 is costing an estimated \$40 million. Eventually 36 optical character recognition mail sorters (OCRs) and 16 flats-sorting machines (FSMs) for larger items will be installed (Mathews 1991, p. 1).

However, union resistance to automation, combined with other limiting factors, mean that mail sorting cannot be centralised to a great extent. With some foresight, Vernon stated in 1974 that the concentration of mail sorting in large central mail exchanges could lead to diseconomies due to high rise construction complicating mail flow, inner-city traffic congestion, and the growing proportion of mail that is dispatched and delivered within the one region (as quoted in Mathews 1991, p. 11). These limitations still exist today.

OCRs can sort between 25,000 and 35,000 letters per hour, compared with 1500 per hour with manual sorting. The introduction of OCRs and FSMs has been called "... one of the great success

stories of organisational innovation in Australia today" (Mathews 1991, p. 80). Mechanised and automated mail sorting allows the handling of large amounts of mail but economies of scale are exhausted, or outweighed by other factors such as those outlined above, at a relatively low volume of mail items processed.

The technology is available for further automation of the sorting process. As illustrated by the Japanese use of OCRs, five digit post codes can be allocated to large customers, expediting the flow of mail (MPT 1991b, p. 12). In the United States OCRs can read up to 13 digits of a post and 'zip' code and automatically sort the mail down to a street address (Mathews 1991, p. 36). Royal Mail in Britain uses a system of OCRs and 80 decentralised post offices to automatically sort correctly addressed mail. This can be done to the level of each delivery postman/postwoman. The average number of addresses in a post code is 15, compared with approximately 2500 in Australia (UKPO 1990, p. 33). Video coding can also be used to process mail that is rejected as unreadable by OCR machines. A remote operator, who does not have to be within close proximity of the sorting device, can add a post code to a letter by examining a video image of it. This technology is not used in Australia and letters rejected by OCRs are sorted manually.

Australia Post could use its OCRs to sort the mail to a greater extent by adding letters of the alphabet to the four digits or by increasing the number of digits for each code. While the costs of getting the public to use a new post code system would be very high, selective modifications to the existing system might make better use of OCR equipment.

However, there must be a balance between the use of automated and manual sorting, particularly close to the delivery point. The advantage of manual sorting for the last stage lies in the deliverer's accumulated knowledge of a particular area, allowing efficient redirection of improperly addressed or directed mail. This was demonstrated in the US in 1990 when the overuse of automated sorting, in an attempt to achieve productivity gains, led to a marked decline in service levels (USGAO 1991).

The fact that Australia Post has been able to decentralise sorting operations, and discounts are offered for pre-sorted mail, suggests that in the absence of reserved services, advances in the technology of mail sorting are unlikely to allow the returns of scale required to create a natural monopoly.

E.7 Technology and direct marketing

While Australia Post is achieving a comparative advantage by using technologically advanced mail sorting equipment, some private sector companies are relatively advanced in utilising other technology. The printing and sorting of direct mail is shown in Box E.1 as an example.

Box E.1: Technology and a targeted delivery service

Streetfile, a subsidiary of Pacific-Rim Printing Pty Ltd, offers a targeted advertising service using:

- data bases of demographic information to target consumers in different areas;
- computerised customer lists to target individual homes; and
- modern ink-jet printing and wrapping techniques.

Advertising catalogues, magazines, leaflets, and brochures can be printed, folded, wrapped, or enveloped and individually addressed as a continuous operation, then delivered through the company's national delivery network.

Source: Pac-Rim Printing Ltd, Submission 92, pp. 8-9

Direct marketing is a large industry in Australia that has tripled in market share since 1960 and had a turnover of \$4.1 billion in 1990 (Australian Direct Marketing Association, Submission 101, p. 2). Direct marketing mail is also growing relative to other mail volumes. Various companies operate nationwide letterbox distribution networks. Their ability to do so effectively and to provide services that are presently protected are influenced by advances in technology.

Companies such as Salmat and Progress Press have established networks that are capable of delivering unaddressed advertising mail to 85 per cent of Australian households (Submission 92, p. 8). Technological advances in printing and sorting material give them the capability of delivering addressed articles, some of which are reserved to Australia Post, at rates far below those of Australia Post.

As technology makes it possible to more effectively target markets and more efficiently produce material, direct mailing will continue to grow in keeping with international trends.

Spending on direct mail was the only marketing category that grew in America and Europe last year. (Economist 1992, p. 67)

The maintenance of reserved services for Australia Post inhibits the development and application of new technologies by private companies, thus reducing product development and business opportunities in the direct mail market.

E.8 Conclusion

New technology has the potential to replace a sizable portion of the correspondence presently included in the reserved services. However, the extent to which this will occur and the timeframe in which it will take place are uncertain. Some new electronic transmission services may not be a replacement for mail, but rather a new service. Substitutes will continue to be developed as demand rises, and this demand is likely to be shaped by the cost and quality of the letter service.

New methods for sorting letters are unlikely to result in sufficient economies of scale for the sorting process to become a natural monopoly. Letterbox distributors of addressed and unaddressed mail will continue to develop their services but, since their comparative advantage lies in the delivery of generic items, they do not have the ability to replace the services presently reserved to Australia Post.

Technology will continue to reduce the demand for traditional mail services but a core of standard letters and documents will remain. While the effect that technology has on the message market will increase over time, there may be a limit to the extent to which technology can undermine the scope of the reserved services. However, the degree to which new products are developed and new technology is applied, will be limited by the extent to which some services remain reserved to Australia Post. This is a direct cost of the statutory monopoly, borne by the community.

F DEVELOPMENTS IN, AND REFORMS OF, POSTAL SYSTEMS IN OTHER COUNTRIES

F.1 INTRODUCTION

This appendix examines the postal administrations of New Zealand, Canada, the UK, Japan, the United States, and Sweden, as well as developments in the European Community. Worldwide, governments are under pressure to allow increased competition and postal authorities increasingly are required to operate in a commercial manner. Governments and postal authorities have responded to these challenges in various ways and with differing degrees of success. In this appendix the most important features of these developments and reforms are described with the aim of drawing out useful lessons for postal services in Australia.

F.2 NEW ZEALAND

F.2.1 Background

The New Zealand Post Office has provided a postal service in New Zealand since 1858. Prior to 1987 the New Zealand Post Office encompassed telecommunications, banking, and postal services. The telecommunications business sometimes cross-subsidised the operations of the other two businesses. The postal arm, New Zealand Post, was particularly labour intensive, had an inappropriate asset structure (there were no modern mail processing plants, but over 1200 post offices and agencies), had excessive management layers, and was starved of capital. Despite a basic letter price increase from 25 NZ cents to 30 NZ cents in 1985, New Zealand Post incurred a loss of \$NZ37.9 million in 1986-87 and faced a potential loss of \$NZ250 million for 1987-88 unless corrective action was taken.

F.2.2 Reform

In 1986 a review of the New Zealand Post Office recommended that it be separated into three different businesses. On 1 April 1987 the Government established New Zealand Post Limited (NZ Post), by the Postal Services Act 1987, as a limited liability company under the *Commerce Act 1986*, with the Government retaining full ownership.

In order to ensure the survival of the company, a postal rate increase to 40 NZ cents per standard item was approved in February 1987 (providing a revenue gain of \$NZ60 million for the first full year of operation). A government subsidy of \$NZ19.5 million was granted to keep 600 uneconomic post offices open. The outcome was an after-tax profit of \$NZ72 million for NZ Post's first full year of operation. This subsidy was discontinued the following year.

Regulatory environment

NZ Post's business charter and behaviour are determined by six different legal documents. The most important of these are the *State-Owned Enterprises (SOE) Act 1986* (a general legal framework for the corporatisation of any government-owned business activities in New Zealand) and the *Postal Services Act 1987* (as amended by the Postal Services Amendment Act 1990).

Under the *SOE Act 1986*, NZ Post is specifically required to operate in a profitable and efficient manner similar to private businesses. Section 7 provides that where an SOE undertakes non-commercial activities at the request of the government, these are explicitly funded by the government. Each financial year, the Board and shareholding Ministers (of Finance and for State-owned Enterprises), are required to agree on a statement of corporate intent for the next three years. The statement must include the objectives of the company, the nature and scope of its activities, and its financial performance targets.

The *Postal Services Act 1987* provides NZ Post with its statutory monopoly on the delivery of standard letters, bulk mail, and some larger items. In 1987 the monopoly was set for letters under 500 grams, unless at least \$NZ1.75 per letter was charged for delivery. These parameters were reduced to 200 grams and \$NZ1.25 per letter in September 1990, and further reduced to \$NZ1.00 per letter in December 1990. Since 1 December 1991 the minimum price that operators other than NZ Post may charge for mail below 200 grams is 80 NZ cents. In the future the New Zealand Government intends to hold the threshold at 80 NZ cents and allow the monopoly to be eroded by inflation. The present charge for a standard letter is 45 NZ cents.

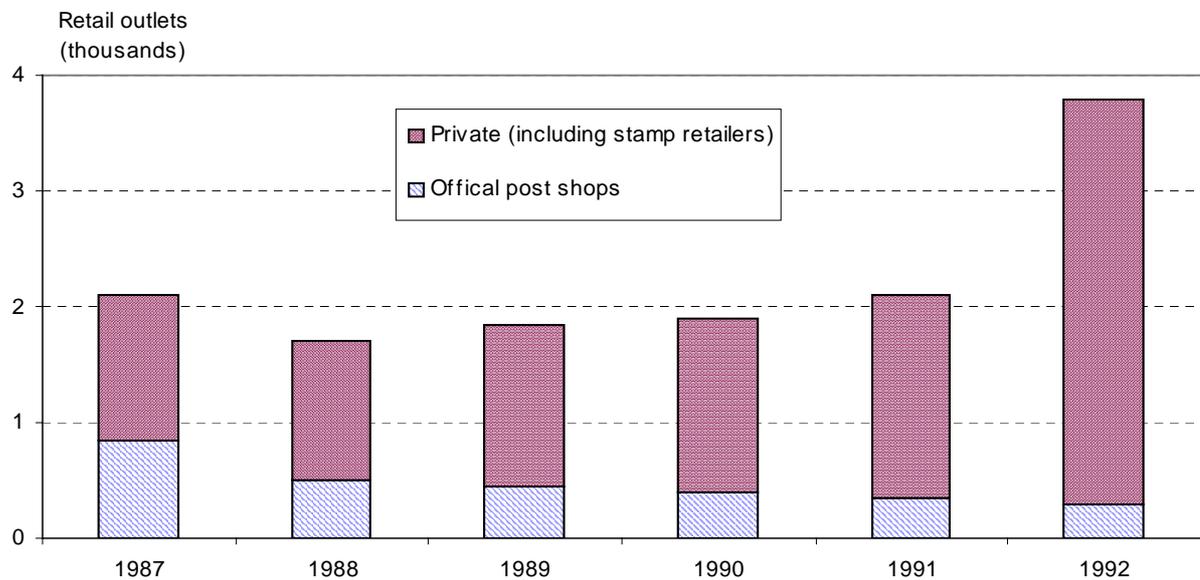
In 1989 NZ Post concluded a "Deed of Understanding" with the New Zealand Government, effective until September 1992. In return for its statutory protection, NZ Post is committed to maintain uniform pricing and clearly defined levels of service. Under the Deed, price increases had to follow a Consumer Price Index minus X formula until 30 July 1991, after which further non-limited increases could be requested from the Minister.¹ The minimum number of weekly deliveries is set at six for 90 per cent of delivery points and five for 99 per cent of the remainder, while the rest of delivery points should receive four. The target ratio of official post offices to agencies is set at 20:80. Regulation of NZ Post will rest with the Commerce Commission if the Deed of Understanding is not replaced. The Commission, or any interested party, can take action under the *Commerce Act 1986* against NZ Post if it abuses its market power. The Government can also direct the Commission to impose price controls under the Act.

¹ X was set at two per cent for the first increase and one per cent for further increases before July 1991.

Restructuring the postal network

Before corporatisation NZ Post's network comprised 906 full post offices and 338 postal agencies. The penetration of this network was considerably greater than in Australia, due to the former Post Office's banking commitments. NZ Post identified 600 post offices as uneconomic and these have been closed or converted to agencies. 269 Post Shops (offices) remain and provide a full range of postal services and some agency services on behalf of other businesses. 616 postal agencies are privately owned and operated under contract to NZ Post. Finally, nearly 3000 stamp retailers, including supermarkets, sell stamps as an adjunct to their normal business. In general the switch to agencies (which is typically held by a service station or local store) has increased the hours that some postal services are available in rural areas.

Figure F.1: **NZ Post's retail network**



Source: Toime 1992, p. 6

Restructuring the organisation of NZ Post

NZ Post has had three organisational structures since April 1987. The first two focussed on the introduction of employment conditions similar to those in the private sector and on the creation of profit centres within NZ Post. The present structure of NZ Post is based on three major cost centres: Couriers and Parcels; Letters; and Sales and Retail. These are controlled by marketing coordinators who set goals for these centres. Profit is reported by product within each cost centre, and pricing is made on purely commercial grounds. New Zealand Post Properties Ltd, a wholly owned subsidiary, manages NZ Post's considerable property interests.

Strategic alliances

As part of NZ Post's restructuring, strategic alliances have been formed by contracting out service provision and by better meeting customer needs. Agencies are used extensively to sell stamps and to accept and deliver mail over the counter. NZ Post has reduced its own retail network while extending retail coverage in terms of locations served and hours of availability. Contractors are used to service rural locations, covering about 9 per cent of delivery points. Contractors are also used to provide an express mail service within New Zealand's larger cities. An alliance with Hermes Precisa Australia has resulted in the formation of Datamail, an integrated information management service specialising in targeted direct mailing. NZ Post provides the delivery service, and also generates demand for direct mail through its Direct Marketing Centre. NZ Post has formed a partnership with Airwork NZ Ltd to form Air Post Ltd, which offers a competitive express mail service within New Zealand.

NZ Post has also formed alliances with its major customers and will operate a private mail room for a fee, or give major customers a fixed 12 month contract based on expected mail volumes. Large business customers benefit from pre-sorting as well as volume discounts. NZ Post's extended range of services and concentration on the needs of its large business customers has resulted in a broadening of its client base and increased mail volumes.

International mail

NZ Post is a member of the Universal Postal Union (UPU) and as such is obligated to deliver international mail within New Zealand. However, the Postal Services Amendment Act 1990 excluded outgoing and incoming international mail from NZ Post's statutory monopoly on letter services. This has had little effect on the volumes of international mail carried by NZ Post, since private companies were already carrying mail into and out of New Zealand. Deregulation has legitimised some activities that were already taking place while opening up others to competition. It seems that, because the reserved services threshold is set at 80 NZ cents, most international mail carried into New Zealand by private carriers would be eligible for final delivery outside the monopoly.

NZ Post still operates within the UPU framework and attends the meetings on the technical aspects of running postal services. The New Zealand Government and NZ Post form a joint delegation when the UPU is dealing with policy issues. While New Zealand is a net importer of international mail, NZ Post has stated that the terminal dues received are sufficient to cover the costs of delivery of incoming mail.

Rural box holder fee

In New Zealand, 115 000 post box holders in rural areas are charged a fee to cover the costs of their mail service. This was increased from \$NZ30 to \$NZ40 in 1991 and was generally accepted by the rural community. However, in 1992 NZ Post increased the fee to \$NZ 80 and this has been met by strong resistance. The issue is before a Select Committee and has not yet been resolved.

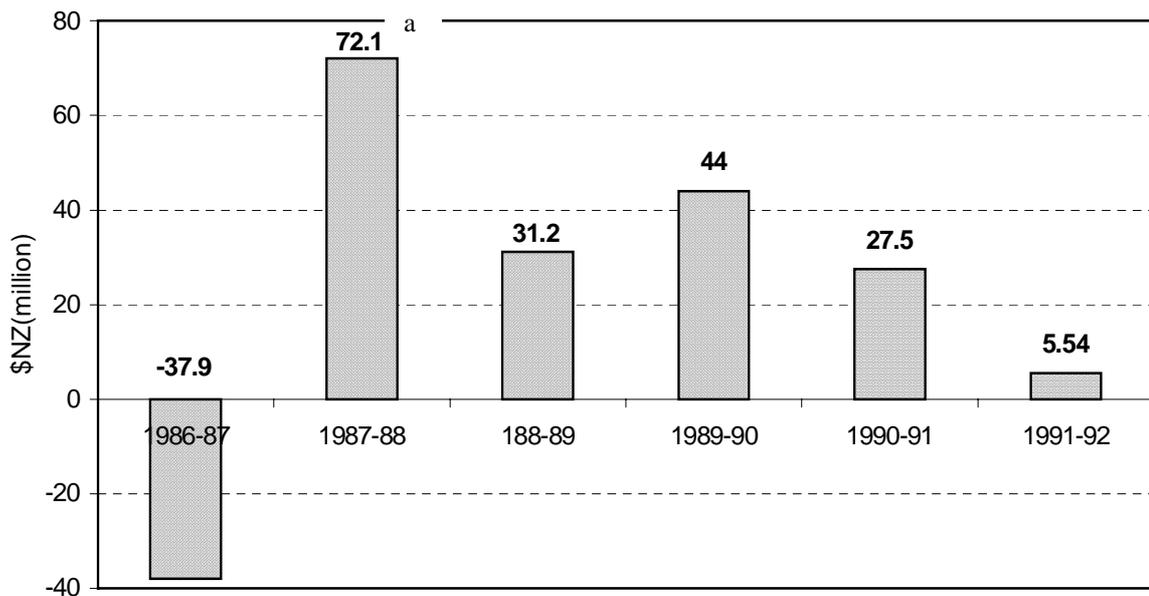
Registered publications

In 1988-89 NZ Post removed any discount for registered publications. Under that system publications had to be approved by the post office, were charged half the normal postage, and there was no distinction between profit and not-for-profit organisations. Only volume discounts now apply to publications, but NZ Post does sponsor some charities by discounting the delivery of their publications.

F.2.3 Performance

NZ Post has made large efficiency gains since corporatisation in 1987. That was the last year it made a loss after receiving a government subsidy during its first year of corporatisation.

Figure F.2: NZ Post net income, 1986-87 to 1991-92



a This figure is distorted by circumstances arising from the change over to a SOE.

Source: NZ Post 1991a, p. 1, and NZ Post 1992, p. 26

The large fall in net income for 1991-92 was mainly due to major costs (including severance payments) associated with restructuring Mail Service Centres, and the upgrading of information systems for use in Post Shops and for tracking and tracing. Actual earnings before abnormal items and taxation were similar to those for 1991.

Other major developments include:

- payment of (or provision for) \$NZ94 million in taxes and \$NZ96 million in dividends to the New Zealand Government between 1988 and 1992;
- investment of \$NZ208.8 million in core business capital development including automation and new buildings;
- more than halving the thresholds for New Zealand Post's monopoly since 1988;
- an increase in total mail volumes of 23 per cent while staff levels have been reduced by 32 per cent (from 12 000 to 8150 since 1987). This includes a move towards employing more part-time and less full-time labour;
- only one increase in the basic letter rate since 1987 (from 40 to 45 NZ cents -- below CPI increases), due to reforms which have saved 15 NZ cents an item;
- an improvement in delivery performance of nearly 17 per cent. 98 per cent of mail is delivered within advertised times; and
- a rise in the number of outlets from 1244 (mostly official post offices) in 1987 to 3880 (mostly agencies and stamp retailers) in 1992.

F.2.4 Future of New Zealand Post

Under the New Zealand Government's SOE initiative, many former public enterprises such as Telecom and Air New Zealand have been, or are being, privatised. NZ Post has been corporatised and could be privatised. It is now profitable despite increasing competition, and has an estimated fixed asset value of approximately \$NZ312 million. Despite the success of NZ Post's corporatisation, general flaws in that structure for SOEs have been outlined by the Managing Director of NZ Post. These include:

- pressure remains for the Government to intervene;
- incentive remains for public servants in central policy departments to continually attempt to be involved in the policies of corporatised enterprises;
- boards of corporatised enterprises are often selected for political or social reasons, thus colouring the board's judgements; and
- corporatised businesses are not subject to takeover or bankruptcy (Parker 1990).

However, there is political pressure to maintain the status quo which reflects a perception that privatisation would likely result in fewer jobs, fewer official post offices, and a lower level of service, particularly in rural areas.

F.2.5 Main lessons

The reform of New Zealand Post has been similar to that of Australia Post. Nevertheless, there may be some lessons for Australia, namely:

- allowing private companies to supply parts of the postal retail network can lead to significant cost savings as well as a better service for postal users;
- deregulating international mail flows into and out of New Zealand has not had a detrimental effect on revenue or on the level of service. New Zealand is still able to operate within the framework of the UPU but with the additional benefits that accrue from greater competition in international mail services; and
- the effects of deregulation and the extent to which reserved services are eroded by competition need to be regularly assessed.

F.3 CANADA

F.3.1 Background

Canada Post provides a uniform service at a uniform price for certain classes of mail throughout Canada, from fishing villages on the Atlantic and Pacific coasts to remote settlements in the high Arctic. The combination of vast distances and adverse weather for many months of the year provides a unique challenge for Canada Post. For the thirty years between 1959 and 1989 Canada Post did not make a profit and between 1981 and 1989 it lost \$Can1.6 billion. Canada Post has long been perceived by the public as both inefficient and unreliable (Marchement 1985, p. 5).

F.3.2 Reform

Problems with postal service and reliability combined with poor labour-management relations increasingly created difficulties for Canadian mail users from the 1960s. The managers of the Post Office Department had limited control over operations. Labour contracts and all major spending were ultimately determined by the federal Treasury Board and most management appointments were made by politicians. After successive strikes, corporate plans, and commissions of inquiry, the Canada Post Corporation Act 1981 created a Crown corporation to assume the responsibilities of the Post Office Department. Since 1981, Canada Post's management has pursued three objectives: improved service; improved labour-management relations; and financial self-sufficiency.

Regulatory environment

Section 14 of the *Canada Post Corporation Act 1981* grants Canada Post the exclusive right to collect, transmit, and deliver First class letters within Canada. The right does not extend to magazines (Second class mail), parcels, and electronic and facsimile transmissions. "Letters of an urgent nature," for which a charge of at least 3 times the rate of postage on a 50 gram letter is

imposed, are also excluded from the monopoly. Third class mail is offered at a lower rate than First class mail, based on a slower advertised speed of delivery. Discounts for large volume mailing and pre-sorting by the sender are authorised under the Act.

Restructuring the postal network

In early 1987, Canada Post began to re-organise its corporate retail network in both urban and rural Canada. Because of a perceived comparative advantage in collecting, processing, and delivering mail, Canada Post has focused on these areas while scaling down its retail network. The year 1996 was set as the target for the closure or conversion to agencies of its 5221 rural and 734 urban post offices. These private outlets, known as retail postal outlets (RPOs), are franchised operations providing similar services to the corporate outlets they replaced. Private sector operators are able to acquire the right to sell postal services in conjunction with other services and products.

As a result of cuts in wages, overheads, and capital costs the privatisation of Canada Post's retail postal business has led to large cost savings. In 1990 the retail labour cost to Canada Post was \$Can21 an hour compared to \$Can10 an hour for an 'average' retailer. There have also been benefits from the private sector's provision of more convenient and accessible retail locations. Franchises are housed in some large retail chains (such as convenience stores, some of which are open 24 hours a day) and are generally profitable.

In some rural areas customers no longer need to travel to neighbouring communities to pick up their mail, and retail services are maintained in 80 per cent of cases, resulting in "equal or better service" from longer opening hours (Turner 1990, p. 18). However, rural communities without sufficient population to support a private retail establishment must rely on neighbouring communities for retail needs. Other criticisms of the retail network privatisation are: Canada Post does not consult with community leaders; employment in small communities is adversely affected; and the security and confidentiality of the mail is not assured. The local post office is an important institution within the rural community and a vocal lobby group called Rural Dignity has formed to oppose the further privatising of post offices, with some success in certain communities.

One of a number of delivery options, other than relatively expensive door-to-door mail delivery, can be instituted with the closing of a corporate post office. These include: private boxes in an RPO; Superboxes spread throughout the community; and kiosks.² Since 1988 community mail boxes have been placed in many new-growth urban areas and a door-to-door service is not available.

By July 1992, Canada Post had 1900 franchised postal outlets, half of which replaced rural corporate outlets. The rest were opened in urban communities so as to realign the urban retail

² A Superbox is cluster of private boxes and a mail box for out-going mail to serve an area such as a street or an apartment block.

A kiosk is a weather protected and heated structure providing for parcel and mail delivery, stamp vending and out-going mail.

network with suburban growth, and shopping and traffic flows. Canada Post aims to maintain a core of corporate post offices staffed by its own employees where profitable, but the intent is to franchise the majority of retail outlets.

Postal subsidies

The Canadian Government has traditionally paid subsidies to Canada Post in support of the Canadian publishing industry, and has made payments in relation to a range of public policy programs such as literature for the blind.

The Publications Distribution Assistance Program (PDAP) is a subsidy paid to Canada Post (\$Can174.6 million for 1990-91) to offset the revenue shortfall which it incurs against total publications mail costs. However, due to uncertainty about the true cost to Canada Post of handling publications mail and the inefficiency of a universal, rather than a direct subsidy, the Canadian Government will eliminate the universal publisher's postal subsidy by 1992-93 and replace it with a smaller, direct subsidy that will be phased out (Turner 1990, p. 13).

The publishing industry is opposed to any significant reduction in the postal subsidy. However, two studies of the subsidy noted that it was not appropriate or cost-effective and that it was a form of regressive income transfer since its major beneficiaries were readers with relatively high incomes and who were well educated.

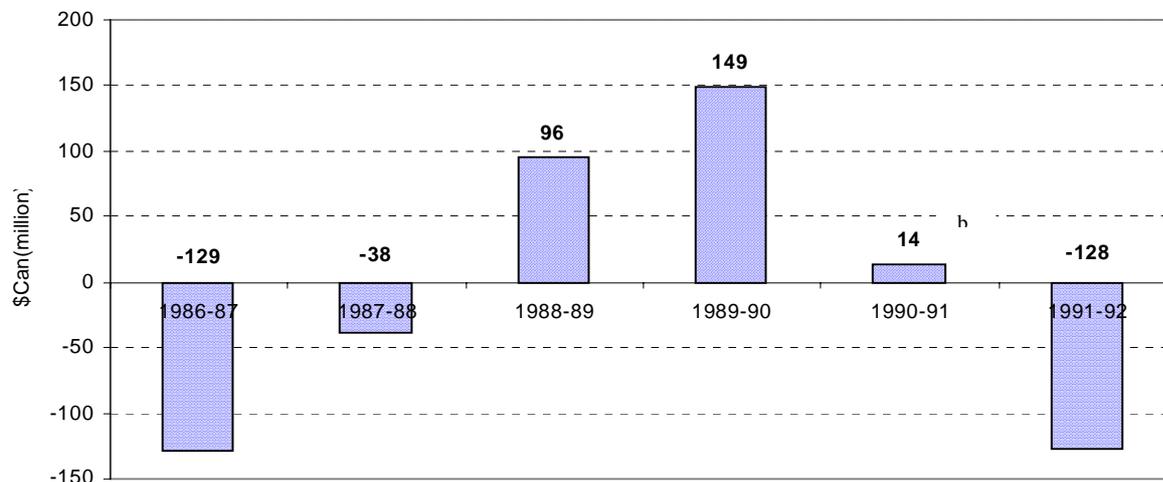
Industrial relations

Canada Post is highly labour intensive and salaries and benefits account for approximately 70 per cent of operating costs. Five unions represent postal workers: the largest being the Canadian Union of Postal Workers (CUPW) which accounts for over 75 per cent of employees. The restructuring of Canada Post should be seen in the context of very poor relations with the CUPW. A review committee described labour relations between Canada Post management and the postal unions as "poisonous to the point of potential destruction of the enterprise" in 1985, and these have improved only slightly (Turner 1990, p. 45). The CUPW objects strongly to the increased use of casual labour by Canada Post and to the increase in the number of dismissals per month from an average of 5 in 1981 to 35 in 1990. 80 000 union grievances against Canada Post were outstanding in 1990 and absenteeism cost Canada Post \$Can144 million in 1988-89. Postal workers have the right to strike and this has been exercised: there was a 45 day strike before Canada Post's conversion to a Crown corporation.

F.3.3 Performance

Canada Post is progressing towards its objectives of financial self-sufficiency and improved service. It achieved its first operating surplus of \$Can96 million in 1988-89 compared with deficits of \$Can608 million in 1981 and \$Can38 million in 1987-88.

Figure F.3: **Canada Post net income a, from 1986-87 to 1991-92**



a No taxes are paid to the government.

b This marked reduction in profit reflects a weak Canadian economy and restructuring costs, including the attrition of staff and the upgrading of postal operations. These costs continued into 1991-92.

Source: CP 1991, p. 1

Other key developments are presented below.

- Canada Post paid dividends of \$Can60 million in 1990 and \$Can5.6 million in 1991 to the Canadian Government.
- A rate of return on assets of 10.5 per cent was achieved in 1990 but this dropped to 1 per cent in 1991.
- Person hours required to process mail volumes have remained about the same although mail volumes have increased from 7.7 billion in 1985 to 9.1 billion in 1990.
- The cost of First class mail rose from 17 cents to 30 cents after corporatisation in 1981 and is now 42 cents. Canada Post aims to keep increases below CPI, but 2 of the 8 increases since 1982 were more than the corresponding increase in the CPI.
- Reliability has increased from 90 per cent of mail delivered within advertised times in 1985 to 98 per cent in 1991. However, in 1986 Canada Post extended advertised delivery times by one day.

F.3.4 Future of Canada Post

Since the inception of the Crown corporation there has been some pressure from the public for the privatisation of Canada Post. This was due to the inability of Canada Post to provide a reliable and profitable service to Canadians. Service delivery has now improved but Canada Post is still not achieving financial results sufficient to make it attractive to private investors.

A report on Canada's Postal Service released in 1990 recommended that Canada Post be privatised by means of a public share issue, including an employee share ownership plan, once adequate financial performance was attained. A 1990 review interpreted 'adequate' as a return on equity of at least 14-15 per cent (Turner 1990, p. 58).

F.3.5 Main lessons

The Canada Post network is one of the largest in the world in geographical terms, with many rural areas that are difficult and expensive to service. The Canadian Government corporatised Canada Post in 1981 and it is therefore a useful postal system to compare with Australia Post.

The Canadian experience highlights the difficulties that can face a postal corporation in its reform process, including union resistance and rural opposition to change. It appears that reform can take place in the long run but that adequate consultation is very important. It is also striking that privatisation of only the retail network of a postal corporation is feasible and can lead to significant savings and an improved postal service for the public.

Other aspects of interest are the range of delivery options used by Canada Post (such as community boxes), and that direct government subsidies are used to support public policy programs.

F.4 UNITED KINGDOM

F.4.1 Background

The UK Post Office is a statutory corporation with three businesses -- Royal Mail Letters (letters and philately) and its subsidiary, Royal Mail International (international letters and parcels); Royal Mail Parcelforce (parcels and courier); and Post Office Counters (management of retail network). The UK Post Office also used to offer banking services through Girobank which was turned into a separate company and sold in 1990. Girobank services continue to be provided across Post Office counters.

The UK Post Office was the first in the world to introduce a relatively low-cost uniform service in 1840, with the introduction of the 'Penny Post'. Until 1969, the Post Office was a Government Department with a civil service structure. Liberalisation began with the *Post Office Act 1969* which separated postal and telecommunications services and turned the Post Office into a statutory corporation.

The *Post Office Act 1969* also established the Post Office Users' National Council (POUNC). It is an independent statutory body, funded by the Department of Trade and Industry. The role of POUNC is to represent customer interests in the monopoly services (Royal Mail and Post Office Counters) of the Post Office. In respect of these services, POUNC has a statutory right to be consulted about tariff changes and service changes, and to make representation to the Secretary of State (Minister) for Trade and Industry responsible for the UK Post Office. POUNC also handles complaints and representations from the public and business where customers are not satisfied with the response of the Post Office. In addition, delivery performance targets for the UK Post Office are established in consultation with POUNC.

During the 1970s the Post Office was run as a business but service quality was poor, mail volumes declined, and Government subsidies were required in most years. Although the UK Post Office had been profitable since 1976, there was a perceived need for service and efficiency improvements because of declining volumes and increasing competition.

F.4.2 Reform

Regulatory environment

The UK Post Office derives its powers from the *Post Office Act 1969* which gives it the power to provide postal and incidental services, banking services, and services for government. The monopoly that it has maintained since the 17th century was reduced by Parliamentary Orders passed under the *British Telecommunication Act 1981* (BT Act 1981) by two means: the granting of licences to perform postal activity (for example to facilitate document exchanges and the conveyance of Christmas cards by charities); and by suspending parts of the postal privilege as follows.

The delivery of letters for which a charge of at least $\pounds 1$ is made are excluded from the monopoly until the year 2006. The $\pounds 1$ threshold has been eroded in real terms and is now just more than 4 times the First class rate of 24 pence and 5 times the 18 pence Second class rate. (First class mail is for delivery to most parts of the UK the next day, while Second class mail is for delivery within 3 days.) The UK Post Office must have regard to: efficiency, social and commercial needs of the people of the UK, developing its operating systems, and developments in the field of communications. The BT Act 1981 does not allow for further reduction of the monopoly threshold without new legislation being enacted.

Three financial targets are set by the Government for the UK Post Office:

- rate of return on assets;
- real unit cost reduction for letters and counter services; and
- a dividend in the form of an obligatory purchase of government bonds.

The Post Office is also subject to a capital investment limit and is not allowed to borrow from the commercial market. Rate of return and profit targets are calculated with respect to the capital base employed to ensure that the Government, as shareholder, earns a return roughly comparable to that which could be gained in the private sector.

With respect to services covered by the letter monopoly, the Post Office is bound to price them in order to cover long-run marginal costs and to ensure that no undue discrimination against any party is practised.

Restructuring the postal network

The management of Counters reviewed 1500 Crown offices and 20,000 sub-offices in 1986-87 and initiated a program of franchising postal outlets. The sub-office network was found to be over-serviced and about 100 a year are being closed or converted to a franchised postal service. Franchisees pay a licensee fee and can operate postal services in-conjunction with other business. Some Crown offices have been converted into agencies where additional business can be introduced. By 1991 the UK Post Office had converted some 300 Crown offices to agencies. Some very small post offices are only opened for a select time of the day or week in order to maintain a less costly presence in remote areas. Stamps are now sold in about 50,000 outlets other than from those providing official counter services.

Until early 1992 the postal network was structured within 64 separate districts operating as cost centres. There are now 9 divisions operating as profit centres, allowing devolution of accountability to operating levels and a predicted annual saving of £67 million by 1995-96.

Industrial relations

Approximately 93 per cent of 160,000 UK Post Office workers are members of the Union of Communication Workers (UCW). Although postal workers have exercised their right to strike, once in 1971 and once in 1988, negotiation with the union has led to productivity gains. Between 1989 and 1991 real running costs fell by 4.6 per cent. In 1976 the UCW banned its members from clearing pillar boxes on Sundays. However, consultation with the union has led to the resumption of this service, thus facilitating quicker delivery for mail posted on week-ends.

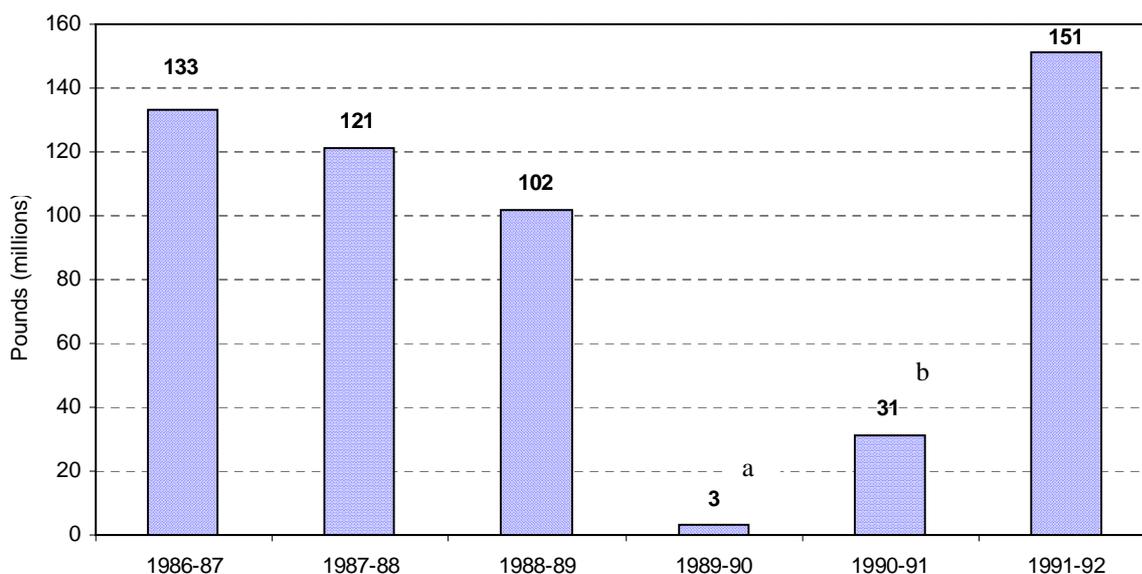
F.4.3 Performance

The UK Post Office has remained subsidy free and has paid tax and usually a dividend to the UK Exchequer since 1976-77. All of its financial targets were exceeded in 1991-92. The rate of return on assets achieved was 11.8 per cent compared with a target of 11 per cent, and the dividend paid (in the form of government bond purchases) was £74 million, £9 million more than the target of £65 million.

Other features of the UK Post Office's recent performance are presented below.

- It has paid taxes of £197 million since 1987, dividends of £2 million in 1987, 1988, and 1989, and it gave £1.8 million in cash and kind to charities in 1991-92.
- Approximately £80 million has been spent on the automation of mail processing.
- The level of the postal monopoly was reduced (to £1) in 1981. In the next ten years letter traffic rose by 50 per cent despite large growth in the private courier industry.
- Increases for First class letters have been below the 'retail price index' since 1982.
- First class letter delivery reliability increased from 78.1 per cent in 1989-90 to 89.8 per cent in 1991-92 using 'Pillarbox-to-door mat' measurement criteria (introduced at the request of POUNC). A significant number of households receive two postal deliveries a day.

Figure F.4: UK Post Office net income, 1986-87 to 1991-92



a This reflects the loss on disposal of Girobank.

b Low profit reflects expenses incurred in Royal Mail and Parcelforce development.

Source: UKPO 1991, p. 44

F.4.4 Future of the UK Post Office

A 'White Paper', the Citizen's Charter, released in July 1991 outlined proposals for the introduction of further competition into UK public services. The guiding principle was:

... that there should continue to be a letter service which is "universal" with a "uniform, affordable tariff structure". (Lilley 1992, p. 3)

Proposals affecting the Post Office included the following.

- The present 1 letter monopoly level to be moved much closer to the price of a First class stamp. Although the final level of the threshold has not yet been decided by the government, the UK Secretary of State for Trade and Industry has said:

the new monopoly limit will be no greater than it need be to guarantee the principles of universal service and uniform tariffs.³ (Lilley 1992, p. 4)

- The Post Office to offer further discounts (presently for pre-sorting) to customers that line-haul their mail as far as the final delivery office.
- More licensing of "niche" services within the Post Office monopoly — the operation of document exchanges is an existing example.
- Service standards and targets to be set by the Secretary of State (rather than the Post Office).
- A new independent regulator to advise the Secretary of State and monitor Post Office performance against the targets. The regulator would not take the place of POUNC which is concerned with user grievances, but would independently assess complaints about Post Office services.

The UK Government made two further announcements in July 1992. First, it announced its intention to privatise Parcelforce, the Post Office's parcel carrying service, as soon as possible. Second, it announced that the Government would review the organisation and structure of the UK Post Office. This review does not encompass any commitment to privatisation, although it is expected to be considered amongst other issues. No date has been set for completion of the review. The UCW has stated that it will oppose any further reduction of the First class letter mail monopoly or the privatisation of the Post Office's core business.

A 'Green Paper' on postal services in Europe released by the EC Commission is covered in more detail in Section F.8 of this appendix. The UK Government has indicated its support for the Green Paper policy of increasing liberalisation of the postal market, combined with safeguarding the social service elements of the postal services.

F.4.5 Main lessons

British postal reforms have taken place in the context of the government wanting to introduce maximum competition while still retaining a universal service with a uniform, affordable tariff structure. There are two main lessons for Australia from the UK experience.

³ Research in Britain by Rickard Johnson shows that a threshold between 1 and 10 pence above the First class rate will provide the most stimulus for private companies to enter the letter market. Outside this there would be little real erosion of Royal Mail's market (Andrews 1992, p. 10).

The first is that the separate operation of each part of the post office (letters, parcels, and counters) has proved successful for achieving postal objectives and provides a framework for the partial privatisation of the network.

The second lesson is that, although the UK Post Office is perceived as one of the most efficient and profitable in Europe, exposing it to further competition is the policy of the British Government in order to keep the Post Office competitive into the future.

It is interesting to note that the UK Government has decided not to set a specific time-frame for the reduction of the monopoly threshold, as it believes this will create an environment in which the Post Office must operate as efficiently as possible in order to be competitive when any such reduction does occur.

F.5 JAPAN

F.5.1 Background

The postal system was first established in Japan in 1871. The Postal Bureau is part of the Ministry of Posts and Telecommunications (which includes Bureaux of Postal Savings, Postal Life Insurance, Telecommunications, and Broadcasting). Post offices are an outlet for the services of the Bureaux of Post, Saving, and Insurance.

F.5.2 Reform

As a result of advances in telecommunications and the emergence of private messenger services in the 1970s, the Postal Bureau's deficit grew to over a quarter of annual receipts in 1980. This led to the reorganisation of the commercial and operational aspects of the service. An increase from ¥20 to ¥ 30 for postcards and ¥ 50 to ¥ 60 for standard letters in 1981, combined with service and efficiency improvements, resulted in the elimination of the deficit in 1987.

Regulatory environment

In 1873 a uniform rate was introduced for all domestic post. The Postal Act and the Post Office Law were enacted in 1948 and 1949 respectively. The delivery of postcards and standard letters in Japan is protected under the Postal Services Act. The delivery of parcels or letters weighing more than 50 grams are excepted from the reserved services. Standard letter charges are differentiated by weight, with a charge of ¥ 62 for letters under 25 grams, and ¥ 72 for letters under 50 grams. Higher rates apply for non-standard articles and the rate for a post card is ¥ 41. A standard letter must measure less than 12 cm by 23.5 cm and be less than 1 cm thick. International mail prices are based on weight and 3 destination zones.

Commercial measures

The Postal Bureau gave priority to providing basic services that were quick and reliable. Between 1984 and 1986 the sorting system and mail conveyance network were improved to the extent that letters and parcels can be delivered in Japan within two days of posting. Emphasis was placed on selling postal products rather than just providing services. The administration set up accountable central, regional, and post office levels of management. In addition, volume targets were fixed for services provided in competition with the private sector, such as parcels and electronic mail.

Between 1981 and 1989 the Postal Bureau maintained a charge of ¥ 60 for standard letters and in 1989 reduced postal rates for oversized mail, parcels, and bulk catalogue distribution. This generated more traffic and increased receipts. A charge of ¥ 62 now applies for standard letters under 25 grams.

Prior to 1984, the primary means of transporting mail within Japan was by rail. Mail is now carried by road, or by air for long distances, allowing more flexible scheduling and faster delivery. The Postal Bureau promotes the use of outside contractors in the collection, transportation, and delivery of mail in cases when it is more economical than the use of post office personnel. Between 1982 and 1989 an improved delivery system enabled the Postal Bureau's number of delivery workers to be reduced by over 2300 (around 1.5 per cent).

The postal network

In 1989 the postal network consisted of 1290 official post offices, 4523 agencies and 18 181 special post offices including mobile post offices, and over 4000 automatic vending machines. Counter services are also provided on a consignment basis in some department stores. Convenience stores will take custody of parcels for an addressee to pick up outside official postal hours and stamps can be purchased at tobacco and stationery shops. The Ministry of Posts and Telecommunications regards the network of some 24 000 post offices as an important public body present in most communities.

Automation

A program of automation has resulted in the introduction of over 200 OCRs. In 1990 a new postal facility was opened in Tokyo to deal with increasing mail volumes and to improve customer service. In 1990 mail bags were totally replaced by roller-equipped pallets. However, the Postal Bureau's workforce of over 141 000 still accounts for 75 per cent of its expenditure.

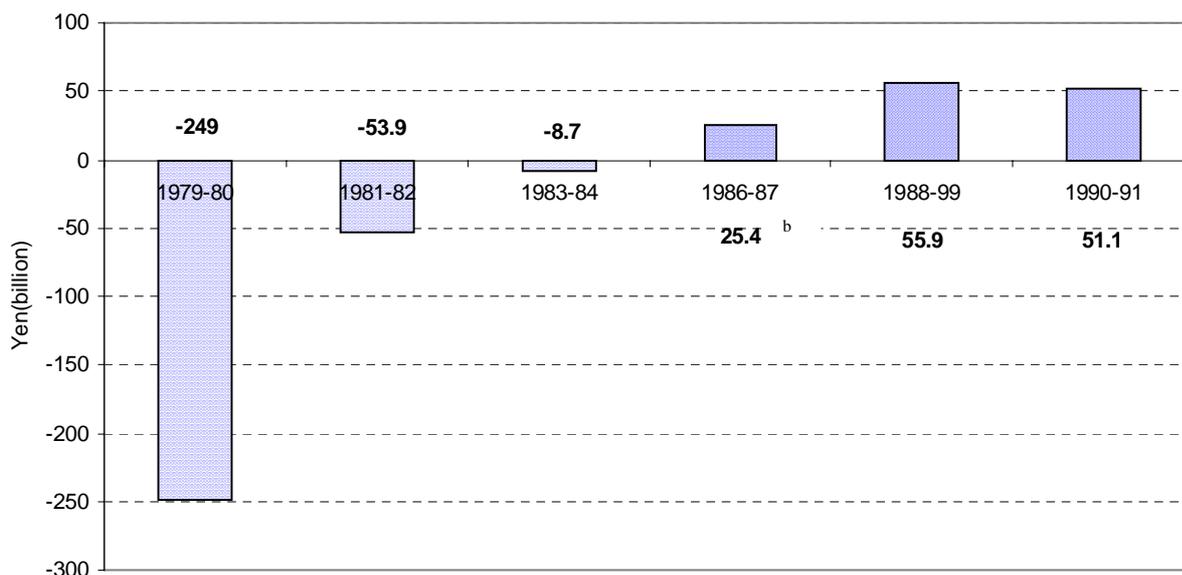
F.5.3 Performance

Despite accumulated debts of ¥ 249 billion at the end of 1979-80, the Postal Bureau has achieved successive operating profits since 1981. It is operated as an independent profit centre within the Ministry of Posts and Telecommunications, and does not receive government subsidies.

Other developments are listed below.

- Mail volumes increased 36 per cent between 1980 and 1989 while the total number of postal service personnel increased by only 1.6 per cent.
- 80 per cent of domestic post is delivered on the following day.

Figure F.5: **Postal Bureau net income^a, various years**



a Includes debt repayments.

b This was the first year in which accumulated debt was eliminated and profits exceeded debt payments.

Source: MPT 1990, p. 3

F.5.4 Future of the Japanese Postal Bureau

The Japanese Postal Bureau is continuously being reformed and further labour reforms have been proposed. These include re-allocating the workforce more appropriately, hiring more part-time employees, further contracting out of parcel deliveries, and establishing bonuses which reflect efficiency demonstrated by workers.

F.5.5 Main lessons

There are fundamental differences between the Japanese postal experience and Australia's. The Postal Bureau is run as part of a government department and is obliged to contribute more than just a postal service to all regions. Importantly, Japan has a vast population over an area much smaller than that of Australia, and therefore both systems face very different logistical problems.

Despite these differences, one point is worth highlighting. The Postal Bureau did not reduce services and increase prices in order to become profitable. It reduced some prices through efficiency gains, increased services according to consumer needs, and promoted them resulting in higher volumes and turnover.

F.6 UNITED STATES OF AMERICA

F.6.1 Background

The United States Postal Service (USPS) has a workforce of over 800 000 (full and part-time) and is America's largest civilian employer. Mail volumes handled have doubled since 1971 and the USPS dealt with approximately 40 per cent of the world's mail volume in 1989-90 (USPS 1990). It delivers a standard service at a uniform price to nearly every household and business in America 6 days a week.

Unreliability of the USPS, combined with increasing postage rates and an apparent inability to control costs, have resulted in strong criticism of the USPS.

F.6.2 Regulatory environment

Under the *Postal Reorganisation Act 1970*, the Post Office ceased to be a cabinet-level department and became an independent corporation. The USPS has the exclusive right to carry letter mail in the United States. A letter is defined as a "message directed to a specific person or address and recorded in or on a tangible object". Some items excluded from the definition include money drafts, identical letters sent in bulk, unaddressed sales brochures, and newspapers. Since 1979 an "extremely urgent letter" may be carried outside the US mail system if \$US3 or ten times the applicable postage (whichever is more) is charged and delivery is promised within 12 hours. The USPS presently charges 29 US cents for a standard First class letter up to one ounce (28.3 grams) and 23 US cents for each further ounce. A Second and Third class service is provided for publications and bulk material and a Fourth class service relates to parcel deliveries.

The USPS also has exclusive rights over the depositing of any item in an ordinary household mailbox unless postage has been paid, which gives it a monopoly over the delivery of most Third class mail.

Postal Rate Commission

The *Postal Reorganisation Act 1970* requires the Postal Rate Commission (PRC) to approve changes in rates for all services offered by the USPS. The PRC must take into account that: rates are fair; each class of mail recovers the direct and indirect postal costs attributable to that class plus a portion of all other costs reasonably assigned to it; and rates bear a relationship to the value to the user of the service provided.

There has been significant debate since the 1970s between the PRC and the USPS about the extent to which demand factors should influence the allocation of overheads to each mail class. The USPS believes that demand should play a major role in overhead cost allocation, whereas the PRC believes that overheads should be shared relatively equally between all classes of service. This has resulted in greater rate increases for more price-sensitive Third class mail and less for First class mail than the USPS has applied for. The PRC does not allow bulk discounts in the Third and Second class mail markets, thereby preventing the USPS from "competing head-to-head with major competitors" (Letter from the Postmaster General, reproduced in USGAO, 1992).

United States postal market

The USPS faces strong competition in unreserved areas, most notably from United Parcel Service and Federal Express. It has proved to be ineffective when faced with challenges from the private sector.

The reasons the Postal Service has not been an effective competitor in these more profitable markets include price, level and quality of service, and regulatory constraints. (USGAO, 1992, p. 22)

Since 1971 the USPS market share of postal services has dropped from 65 to 6 per cent in parcels and from 100 to 12 percent in the express mail market. Further reductions in the USPS market shares are expected in the future.

Subsidies

The USPS is required to operate in a self-sufficient manner, but budget appropriations cover losses made on unprofitable routes. In keeping with the *Postal Reorganisation Act 1970*, Congress has attempted to reduce tax-payer subsidies to the USPS. The USPS is now responsible for health and retirement benefits of employees. However, a specific appropriation of \$US561 million is included in the US Budget for the financial year 1992 to cover net revenue "forgone" as a result of providing mail services at a reduced rate in accordance with Congressional mandate (USOMB, 1992, p. 1166). Approximately 12 per cent of annual appropriations cover losses made in the delivery of "nonprofit" publications while 75 per cent offsets the loss made on providing a concessional rate for delivery of "nonprofit" catalogues and leaflets (USPS 1990, p. 50).

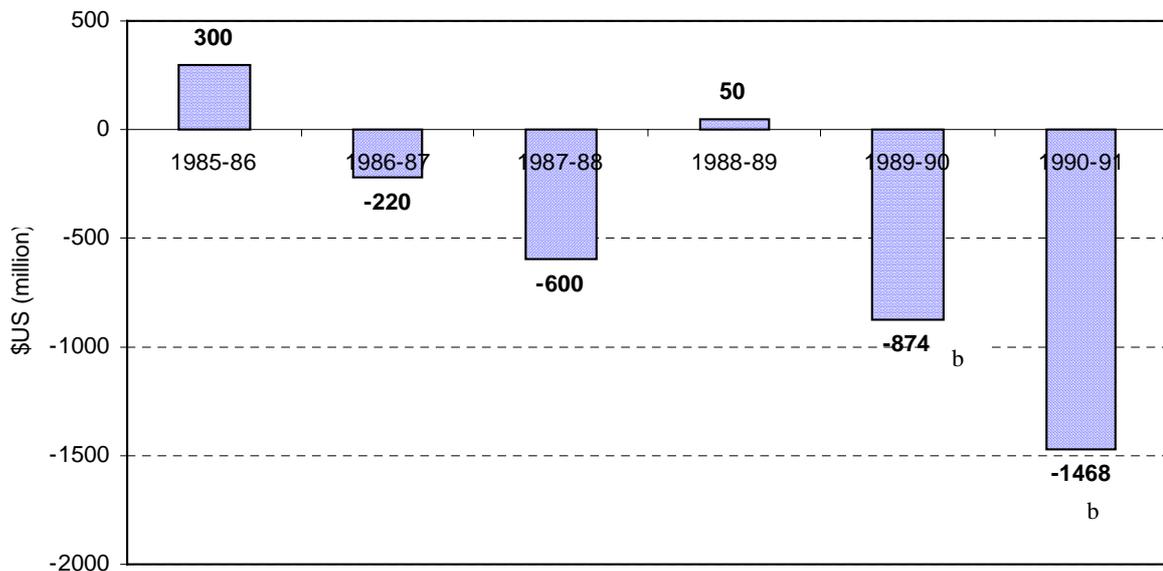
Restructuring the postal network

To cut delivery costs, the USPS abolished door-to-door mail delivery in 1978 for new homes and it is gradually being phased out for older homes by the use of cluster boxes (Ferrara 1990, p. 17). About 6500 postal outlets are operated in conjunction with private stores. However, a contract with a large retail chain (Sears-Roebuck) to operate postal counters seven days a week, and up to 10 pm on some nights, was terminated after a year due to extensive pressure from the American Postal Workers' Union (Toime 1992, p. 7).

F.6.3 Performance

The USPS is required by law to break even over time and, on average, has nearly achieved this goal over the past ten years. However, a trend of lower profits followed by larger losses seems to be developing. For 1989-90 the USPS had a predicted deficit of \$US1.6 billion, but the actual deficit was \$US874 million.

Figure F.6: United States Postal Service net income ^a, 1985-86 to 1989-90



a No taxes are paid to the government.

b These figures reflect the added cost of new and retrospective retirement and health care benefit responsibilities of the USPS.

Source: USPS 1990, p. 21 and USPS 1991, p. 53

Other performance indicators are as follows.

- USPS total factor productivity increased in each quarter of 1990. This was due to handling a greater than expected workload within budgeted workhours. This significant increase was the first since 1978.
- In 1990 mail volumes grew 3 per cent -- mostly First and Fourth class mail -- while the number of employees fell by 2.3 per cent.
- Between 1988 and 1992 rates for Second class (publications) and Third class (advertising) mail increased by 40 and 50 per cent respectively.

-
- Overnight delivery performance fell by one percentage point to 80 per cent.
 - In an attempt to reduce labour costs, which account for approximately 85 per cent of expenditure, nearly 50 per cent of mail processing is automated and a further 37 per cent is mechanised.

F.6.4 Future of the USPS

In 1988 the US Commission on Privatisation released a proposal to "transfer the postal service in whole or in part to USPS employees" (McCalip, 1990). While members of Congress have expressed strong opposition to privatisation, it is still an issue for the USPS.

Proposed reform

The USPS has set two goals for future operations: to keep the growth of costs below inflation; and to maintain and improve the quality of service.

- The present labour contract, covering the 560 000 full time workers until 1995 will result in wage increases of approximately 1 per cent below inflation. The USPS has the authority to hire new employees at 10 per cent lower pay and use more temporary and part-time employees. Employees with under six years of service can be retrenched, while the previous contract prohibited the retrenchment of full-time employees. Since 1989 some 30 000 employees have been retrenched.
- The USPS capital investment plan for 1991 to 1995 includes \$US5.2 billion for the further automation of postal processing in order to increase productivity.
- External audits of First and Third class mail have been implemented in order to identify and correct problem areas.

F.6.5 Main lessons

Unlike the other postal systems examined in this appendix, the USPS has not undergone any major process of reform. Logistical problems such as the vast volumes of mail handled, inner-city traffic and inclement weather provide a number of challenges for the USPS. While there is little that Australia can learn from the US experience, some general points can be made.

- The provision of subsidies for services that run at a loss gives little incentive for operating in the most cost-effective manner.
- A flexible approach to pricing is essential if market share is to be maintained or increased in a postal environment of increased competition and changing consumer needs.

F.7 Sweden

F.7.1 Background

Sweden Post provides a nation-wide mail service, five days a week, throughout Sweden at a uniform charge. It is made up of five business areas -- Sweden Post Letters, Parcels, International, Banking and Counter Services, and PostGiro. PostGiro provides payment handling facilities on behalf of companies, the Government, and other organisations. Sweden Post is a 100 per cent state-owned corporation and is likely to remain so after deregulation.

F.7.2 Regulatory environment

Sweden Post holds by statute an exclusive right to mail conveyance. This includes the "regular conveyance, for a fee, of sealed and unsealed items of mail containing fully or partially written letters" (MTC 1991, p. 1). Exceptions to this statute have been interpreted by the Ministry of Transport and Communications (MTC) to include:

- high speed dispatches by courier;
- the conveyance of letters by the sender or by persons in the employ of, or contracted by, the sender;
- the distribution of letters produced by printing press or the like; and
- letters that do not have the properties of actual or personal correspondence, including commercial documents.

The task of Sweden Post is to provide letter, parcels, and payment and counter services at, in principle, uniform prices. Prior to 1992, these prices were set by the Swedish Government. In addition, Sweden Post has a "social responsibility" for the concessional delivery of newspapers on Saturdays and of braille post and certain services for people with disabilities.

F.7.3 Reform

Existing regulations have not prevented the entry of competitors into the postal market and it is held that the monopoly on letter services has already ceased in practice (Sweden Post 1991, p. 9). A challenge to the letter monopoly by a private mail carrier operating in Stockholm added to pressures for deregulation. Two options considered by the Swedish Government were:

- to abolish monopolistic legislation, allow Sweden Post to operate with a more market-oriented price structure, and to compensate it for achieving social objectives; or

- to require competing companies to pay a concessional fee to Sweden Post, the proceeds of which would maintain the postal network.

The Government prefers the first approach and a proposal to deregulate Sweden's letter delivery service, prepared by the Ministry of Transport and Communications, is expected to be brought before the Swedish Parliament in the near future. It is proposed that any act to regulate postal services would ensure regional and social goals can be fulfilled, and that competitive conditions allow for fair and equitable treatment of all postal service suppliers. The target date for deregulation is 1 January 1993 but this is yet to be approved.

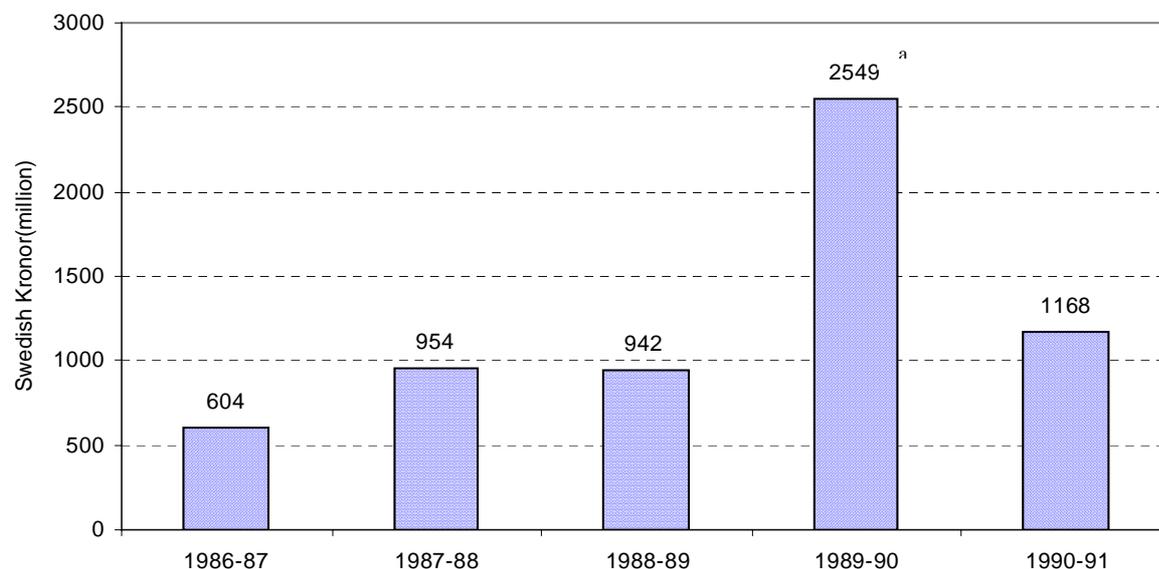
International mail

Sweden Post International operates at a loss, due to a requirement to provide a single rate for international postage within the Nordic region and inadequate terminal dues. There are no plans for Sweden Post to retain its exclusive right on international mail and it is considered likely that international operators will be able to distribute mail locally.

F.7.4 Performance

Sweden Post is required to maintain a profit, after payment of both tax and a dividend, equal to five per cent of annual turnover. This has been achieved since 1988.

Figure F.7 Sweden Post Group gross profit, 1986-87 to 1990-91



^a This reflects the favourable impact of a national bank strike on PostGiro profit.

Source: Sweden Post 1991, p. 45

The profits presented in Figure F.7 are those for Sweden Post Group. Within the Group, Letters, PostGiro, and Banking and Counter Services all operated at a profit, while Parcels ran at a loss due to high transport costs and the maintenance of a rigid pricing structure. Other developments include the following:

- employment levels fell by 2 per cent to reflect a decrease in mail volume of 2 per cent;
- some of Sweden Post's 2000 outlets continue to be franchised to banks, service stations, and food outlets;
- delivery standards have improved so that 96.6 per cent of letters are delivered within advertised times; and
- Sweden Post invested 1510 million Swedish Kronor in offices, sorting centres, automatic sorters, and counter terminals.

F.7.5 Future of Sweden Post

A guiding principle in the proposal to deregulate Sweden Post has been to increase competition where benefits would be realised.

It can be said in short that if total public costs decrease when competition is allowed, then competition is desirable under the condition that the level of service can also be maintained. (MTC 1991, p. 6)

From 1 January 1992 Sweden Post has been permitted to set charges for standard rate letters. A uniform charge for letters is required by government and Sweden Post is expected to maintain a uniform pricing structure for single standard letters (sent mainly by individuals and small businesses) after deregulation. The charge for standard letters is subject to a price cap based on 80 per cent of a weighted basket index that reflects transport costs. It is considered unlikely that charges will increase for sending parcels to remote areas due to the administrative costs of any multi-tiered pricing system (MTC 1991, p. 11). Charges for bulk mail will be set commercially given the present and expected levels of competition.

Cross-subsidisation between Sweden Post's business areas will no longer be permitted and structural separation of the post office activities is favoured. It is expected that the Ministries for Social Service and Culture will meet the costs incurred by Sweden Post in delivering mail to the visually impaired and newspapers, respectively. The Government already compensates Sweden Post for maintaining a nationwide payment handling service (PostGiro), and in so doing ensures that the network of postal outlets remains at 2000 throughout Sweden.

Sweden Post is now able to set prices commercially, within limits, and will be remunerated for providing additional social services. Given this, and a report claiming that Sweden Post holds a natural monopoly in the supply of a nationwide postal service, the Government considers that there

is no need to compensate Sweden Post for providing a nationwide service for single standard letters at a uniform charge. Sweden Post has accepted the proposal for deregulation providing that the need for compensation is reviewed in three years and it is treated the same as private operators.

F.7.6 Main lessons

Sweden Post provides a mail service covering a large area with a dispersed population. It does so effectively in a highly competitive environment and there may be some lessons for Australia.

The first is that allowing greater competition in postal services is unlikely to result in more than one nationwide service provider. Rather, it can encourage greater efficiency in some parts of the process of providing a letter service (such as line-haul and final distribution).

The second is that, provided a postal authority is adequately compensated for the provision of social services, it should be able to operate in a fully commercial manner and compete effectively with other suppliers of postal services.

F.8 European Community (EC)

F.8.1 Background

The European Community's postal services accounted for nearly 1.3 per cent of its GDP in 1989. In 1987 the Single European Act stated that a single market for goods and services would operate in Europe after 1992. In light of this, the EC Commission released a 'Green Paper' in May 1992 on "the development of a single market for postal services". Table F.1 shows the extent of the different degrees of regulation and autonomy amongst European postal authorities.

EC postal authorities

Postal authorities under state administration operate within government departments which are accountable for postal operations, while public enterprises have financial autonomy and are accountable to the government. As limited public companies, the Irish and Dutch postal authorities are independent from government control but accountable to their governments which are 100 per cent shareholders.

While it is difficult to make direct comparisons, the most commercially successful of these postal authorities are the Dutch and the British. Countries such as the Netherlands, the UK, Germany, Denmark, and Belgium have created a competitive and autonomous postal environment in anticipation of a deregulated European postal market.

Table F.1: EC postal authorities

<i>Country</i>	<i>Status Authority (1991)</i>	<i>Financial (thousands) (1991)</i>	<i>Employment (% of revenue) (1988) (1988)</i>	<i>Surplus/Deficit (target%:actual%)^b (1989)</i>	<i>Service^a</i>
Belgium	Public Enterprise	Financial Autonomy	45	-5.9	90 : 68
Denmark	State Administration	Separate Budget	28	-4.3	97 : -
Germany	Public Enterprise	Financial Autonomy	314	-17.3	90 : 81
Greece	Public Enterprise	Financial Autonomy	10	-23.1	90 : -
Spain	State Administration	No Financial Autonomy	64	-44.4	100 : 38
France	Public Enterprise	Financial Autonomy	270	-6.8	81 : 70
Ireland	Limited Public Company	Independent	10	-0.7	90 : 84
Italy	State Administration	No Financial Autonomy	208	-39.9	90 : 17
Luxembourg	State Administration	No Financial Autonomy	2	-6.4	100 : -
Netherlands	Limited Public Company	Independent	59	+2.6	94 : 93
Portugal	Public Enterprise	Financial Autonomy	115	-26.7	92 : -
United Kingdom	Public Enterprise	Financial Autonomy	185	+3.4	90 : 80

a Service represents the percentage of correctly addressed letters that are delivered within advertised times.

b Independent survey results. Postal administration figures are often substantially higher.

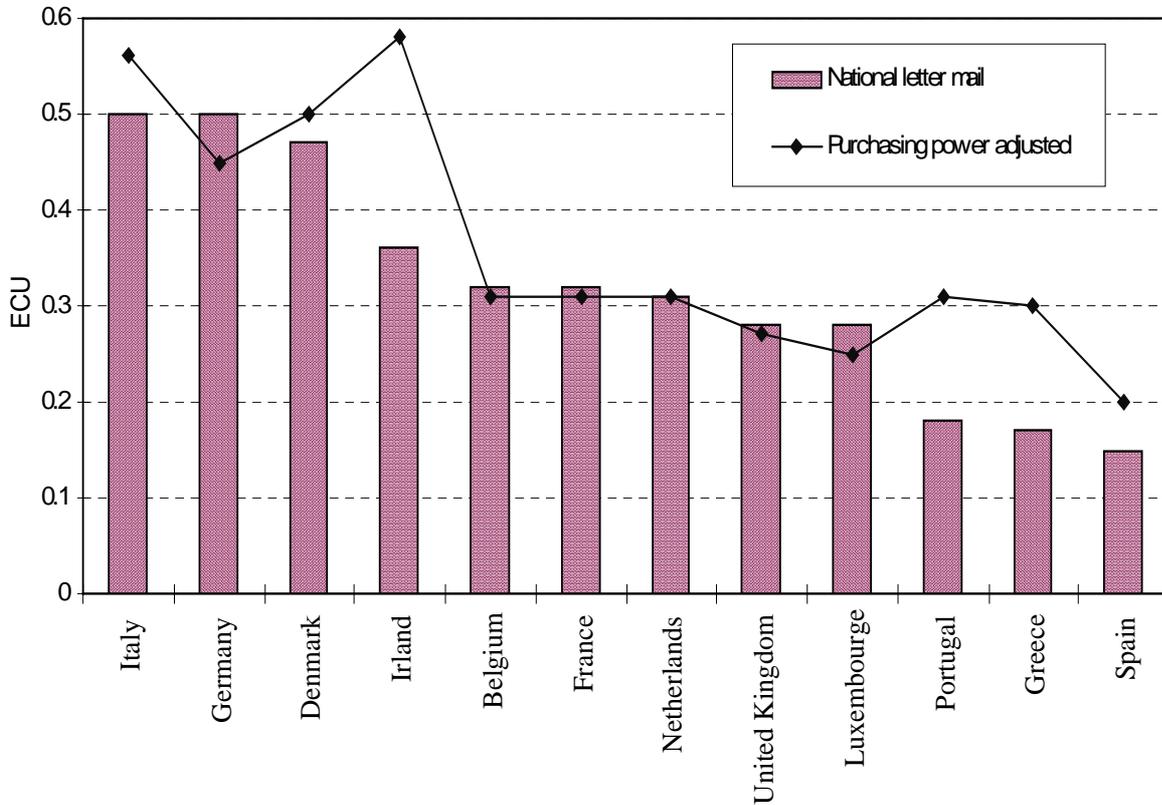
- Independent results are not available.

Source: CEC 1992

In Figure F.8 the purchasing power adjusted tariffs show that it is relatively more expensive to send a standard letter in Ireland than in Germany, despite the nominal tariff being lower in Ireland. Cost structures of the different postal administrations are affected by population density and transport infrastructure, as well as by investment in postal mechanisation. On average, labour accounts for some 75 per cent of postal authority costs.

Variations in profitability are caused by differences in commercial expertise and efficiency, as well as tariff policies. Apart from in the Netherlands and the UK, no postal authority has clear accounting methods that segregate activities into distinct profit or loss centres (International Management 1990, p. 46). Tariffs set by postal authorities are not always related to costs, as reflected by the majority of the European Community's postal administrations running at a loss.

Figure F.8: EC postal administration tariff (purchasing power adjusted), 1990

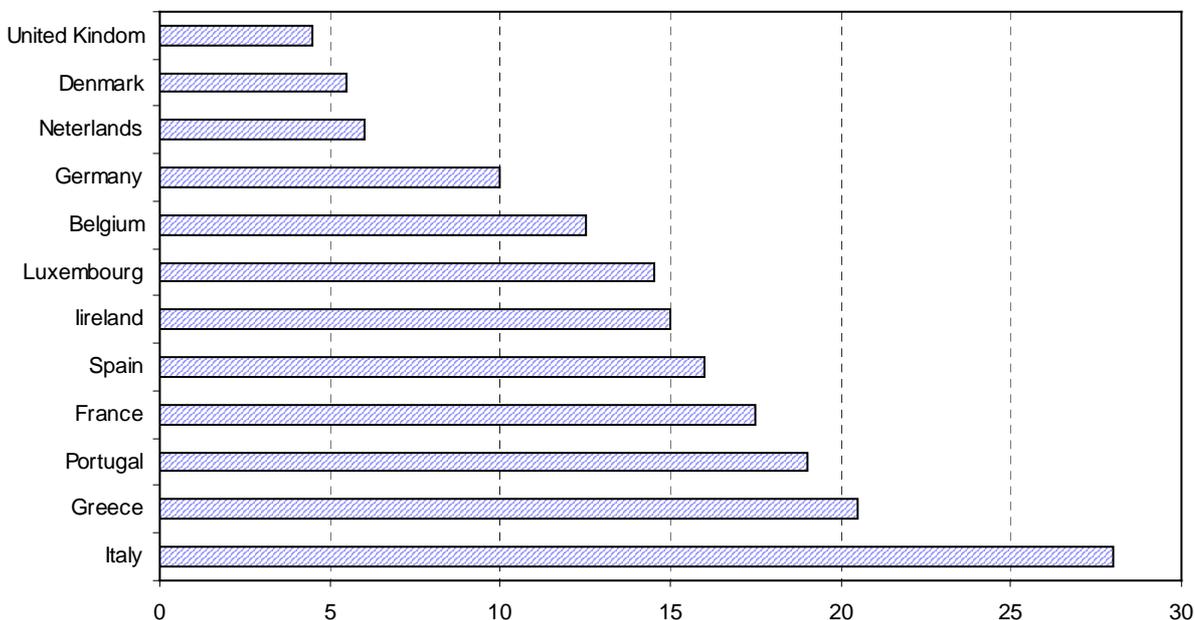


Source: CEC 1992, p. 92

Letters up to a certain weight or a certain price are reserved for domestic services in all member states, but no two monopolies are alike. No state holds a total monopoly over parcel services, and only three (Spain, Portugal and Ireland) include express services in their postal monopolies. Germany, France, and Italy maintain a monopoly over public faxes and stamp sales are reserved to the Belgian and Portuguese postal authorities. Services are reserved to the various postal authorities so that a uniform service can be provided within each country. Seven of the twelve EC countries state this goal within the legislation that reserves services to the postal authority.

Italy has the largest postal monopoly in Europe which covers letters up to 2 kilograms and the transport of parcels between cities. The UK has the lowest monopoly threshold of $\text{œ}1$ but, as noted in Section F.4, a significant reduction is proposed by the UK Government. The German reserved service weight threshold of 1 kilogram is likely to be lowered to 500 grams in the near future (CEC 1992, p. 43).

Figure F.9: **Monopoly limits expressed as a multiple of basic tariff (1990 levels)**



Source: CEC 1992, p. 43

European postal systems vary significantly in operation, price, and quality of services. A study by the European Consumers' Organisation illustrates this. For example, for a letter, Italy has the highest tariff in Europe but the poorest delivery performance; Denmark has a high tariff and an efficient service; and Spain has the lowest European tariff and also poor delivery performance (Mosca 1991, p. 2). A high threshold on reserved services does not ensure a profit if, as is the case in Italy, tariffs do not accurately reflect costs. State administration is not successful in Italy or Spain, but relatively successful in Luxembourg and Denmark. The British and the Dutch postal authorities have recently undergone pro-competitive reform and have amongst the lowest monopoly thresholds in Europe, as shown in Figure F.8.

F.8.2 Future of EC postal services (Green Paper)

The Green Paper released by the EC Commission makes proposals for the future structure, services, and basis for competition in postal services in Europe when a single economic market is formed. A single market could have a significant effect on the postal sector. If a single postal market is achieved, there could be positive effects on all other sectors of the European Community's economy. Without any degree of integration of the European Community's postal sector, divergences in both the scope of reserved services protection and service performance will increase, creating opportunity costs for parts of the Community.

In the Green Paper, the EC Commission examined both complete liberalisation and complete harmonisation of postal services. It considers that the first option would provide an insufficient service throughout the Community, while the second would be impractical due to the present diversity of European postal systems. The preferred option is for the further opening up of the postal market and strengthening of the universal service.

The central guiding principle of the Green Paper is:

... the maintenance and, if appropriate, the development of a universal postal service which would provide collection and delivery facilities throughout the community, at prices affordable to all and with a satisfactory quality of service. Then, provided that the universal service is secured, there should be as much freedom of choice as possible. (CEC 1992, p. 1)

Some of the more important proposals of the Green Paper are presented below.

Universal service

In order to maintain a universal service, a well defined set of services should be reserved to each postal authority. These should be no larger than is needed to secure the universal service objective.

Regulatory body

Each Member State should have a regulatory body to ensure that: reserved services are proportional to the universal access objective (as above); the reserved service provider treats all customers equally; and no cross-subsidy occurs between the reserved and non-reserved areas. Service standards for universal services should be set and monitored.

Postal tariffs

Tariffs for universal services should be based on average costs, with discounted tariffs covering at least marginal costs. If subsidies are considered necessary, their objectives, value, and scope should be made clear.

Remail and terminal dues

Compensation between countries delivering each other's mail should be based on the costs of delivery incurred in the country of destination.

F.8.3 Main lessons

It is very difficult to make direct comparisons because of the diversity of postal authorities in Europe. While no specific criteria for an efficient postal authority can be drawn from the European situation, some general points can be made.

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- Those authorities that are profitable and provide a relatively high level of service tend to be those which operate in a more competitive environment and with the greatest financial autonomy.
 - Relatively poor performers have limited financial autonomy and so cannot act in a competitive manner, thus requiring much higher thresholds for their postal monopolies.

The Green Paper is a comprehensive discussion document that outlines proposals for the best postal system achievable in the EC. Therefore, some lessons for the reform of the Australian postal system can be drawn from its recommendations.

Firstly, service protection should be set at the lowest level possible to facilitate the provision of a universal service, in order to allow the greatest degree of competition in postal services. A monopoly threshold higher than the level required to fulfil social objectives may hinder the pursuit of the commercial objectives of a postal authority.

Secondly, the tariffs for postal services and terminal dues should be directly based on costs. If a cross-subsidy occurs, the reasons for it and its costs should be made public.

Lastly, it can be noted that there may be a role for an independent regulator in monitoring postal performance and activities as greater competition is introduced into the postal system.

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