

## **Productivity Commission Retail Inquiry Draft Report Australia Post Response**

### **Introduction**

1. This submission seeks to address a number of issues raised in the draft report and in the course of this inquiry, in particular to clarify a number of ambiguities about the role Australia Post plays in the regulatory framework that operates at Australia's borders.
2. Australia Post also seeks to highlight the broader context surrounding this inquiry, whereby many sectors of the Australian economy are facing significant disruption as it makes the transition towards a digital economy.
3. This disruption creates both challenges and opportunities for all Australian businesses, something Australia Post well understands and appreciates not just from its everyday interactions with businesses but also from the impact that the internet is having on its own mail volumes and revenue.
4. For most of Australia Post's 200 year history, its work has revolved around the daily delivery of letters, combined with its complimentary offering of parcel delivery or processing agency bill payments. Decades of investments in infrastructure, the training of tens of thousands of staff and the dedicated efforts of thousands of small businesses have given Australia one of the world's most efficient, reliable and low-cost postal services.
5. But the shift towards a world where fewer letters are sent and more transactions are done online, means Australia Post needs to shift its efforts and resources to meet changing customer behaviour and expectations. And with the pace of change accelerating at a rapid rate, Australia Post is under pressure to do this quickly. However, because Australia Post is often the lifeblood of so many communities it is acutely aware of the need to ensure that any changes it makes do not leave these communities or organisations vulnerable.
6. Australia Post has embarked on its Future Ready business renewal program, which is about ensuring its sustainability in the digital economy. Through this, Australia Post is also committed to working with Australia's many retailers, and the local manufacturers that stock their shelves, to provide them with a platform for success in the digital age.

## Chapter 4 Trends and issues related to online retailing

### Section 4.10 Constraints to online growth – adequacy of current logistics to support online retail

#### Product delivery logistics

7. As the Productivity Commission notes (page 103 of draft report), Australia has a fully competitive parcels market. To compete effectively and to either sustain or grow market share, participants in this market must provide high quality products and services at competitive prices.
8. Australia Post has proven to be a major player in the growing business to consumer parcels market given its range of competitive parcel products and services.
9. The network reach of Australia Post is also an important differentiating factor for customers. Australia Post has invested in a national distribution network that helps ensure that it is able to deliver parcels all over Australia on time (in accordance with its published standards) and at competitive prices.
10. Australia Post provides customers with the option of a regular or an express post parcel service. Service standards, which are set out below, will vary by the service used and by destination (with the standard for the regular parcel service reflecting the use of road/surface transport):

#### Sending parcels within the same State

Service	Posted for delivery	Delivery by (business day after posting)
Express Post parcel	Between places in the Express Post network	Next day
Regular parcel	Within metropolitan areas of capital cities, or within the same city or town or environs	Next day
	Between a metropolitan area of a capital city and country locations	1-3 days
	Between country locations	1-4 days

## Sending parcels to other States

Service	Posted for delivery	Delivery by (business day after posting)
Express Post parcel	Between places in the Express Post network	Next day
Regular parcel	Between Sydney / Brisbane; Sydney / Melbourne; Melbourne / Canberra; Melbourne / Adelaide	Second day (between metropolitan areas)
	Between Sydney / Adelaide; Melbourne / Brisbane; Melbourne / Tasmania; Adelaide / Brisbane; Adelaide / Canberra	3 days (between metropolitan areas)
	Between other capital cities	4-5 days (between metropolitan areas)

11. Australia Post has consistently exceeded its parcel delivery standards. By way of example, the table below sets out how Australia Post's delivery performance has tracked against its target of delivering 96% of domestic parcels on time for the last three financial years:

### Delivery performance

Financial Year	Target	% on time
2008/2009	96.0	96.4
2009/2010	96.0	96.8
2010/2011	96.0	96.2

12. Australia Post considers that it offers its customers fast and efficient delivery for all services and at highly competitive prices for comparable services. Australia Post would

stress that any comparisons drawn between the services offered by participants in the parcels market should be on the basis of 'like' services.

13. Australia Post is happy to assist the Productivity Commission in any queries it may have in respect of the parcels market in general and Australia Post's parcel products and services in particular.

## Chapter 6 Appropriateness of current indirect tax arrangements

### Parcel volumes & low value threshold

14. There has been significant volume growth in inbound international parcel traffic since the Global Financial Crisis. Australia Post estimates that in the financial year 2010/11, the volume of inbound international parcels grew by 56%. This compares to a growth rate of 28.1% for the previous financial year.
15. As these parcels are sent to Australia by overseas postal administrations, Australia Post does not have a relationship with the senders of parcels. This means that Australia Post is unable to verify what proportion of the parcels were generated by an online purchase, or to what degree the growth in inbound international parcel traffic is driven by the growing popularity of overseas online shopping among Australian consumers and or the continuing strength of the Australian dollar.
16. As the Productivity Commission notes (page 152 of draft report), the current growth in the volume of parcels entering Australia is placing pressures on the existing facilities of Customs, AQIS and Australia Post. In the case of Australia Post, the volume growth in inbound international parcels has led to an increase in the work and costs associated with the facilitating role that Australia Post plays in border control and screening of this traffic at its four international gateway facilities. By way of illustration, in the financial year 2010/11, Australia Post estimates that it increased its number of full time equivalents (FTEs) at its international gateway facilities on average by 24% (there are variations across the facilities) compared to the previous financial year so as to cope with the increased volume of inbound international parcels.
17. As the Productivity Commission also notes (page 181 of draft report), in addition to the fees that Australia Post pays AQIS under AQIS' Fee Determination and the overtime charges paid to the Customs, these costs are fully absorbed by Australia Post under current cost arrangements.
18. Further, unlike other operators in Australia, including integrators, the payments that Australia Post receives for the processing and delivery of inbound international postal traffic is governed by the arrangements established by the Universal Postal Union (UPU). The arrangements do not provide Australia Post with the ability to cost recover from senders or overseas postal administrations for specific Customs or AQIS processes.
19. Australia Post agrees with the assessment of the Productivity Commission (page XXXII of draft report) that any precipitate action to lower the current \$1000 low value threshold would significantly increase the number of international mail items being screened and examined by Customs (as well as AQIS). As a consequence, without appropriate

planning, there may be processing and delivery delays and significant additional infrastructure costs (e.g. storage of parcels while awaiting the acquittal of taxes and duties).

### **Screening at International Gateways – Role of Australia Post**

20. Australia Post notes that a few submissions made to the Productivity Commission inaccurately describe the role of Australia Post in the screening processes of Customs and AQIS for inbound international postal traffic.
21. It should be stressed that Australia Post has no involvement in the actual screening of postal articles for Australia's security and quarantine requirements or in the assessment, payment or collection of customs duties and taxes. Responsibility for these matters remains strictly with Customs and AQIS.
22. Australia Post does, however, play a facilitating role in the clearance processes of the border agencies.
23. Australia Post is required to present all inbound international postal articles for risk assessment and screening by Customs and AQIS respectively at Australia Post's four international gateways. It is the border agencies that determine whether a particular postal article is 'low risk' or below the low value threshold.
24. Only after the postal articles are screened by the border agencies are they lodged into the Australia Post domestic network.
25. Currently, postal articles targeted by Customs and or AQIS pending completion of formalities in respect of GST, import duty and or security/quarantine matters are stored by Australia Post. In the case of duty and or tax formalities, Australia Post, at its own expense, notifies the concerned addressees that they are required to contact Customs. A First Notice (PPC1) is issued to the addressee providing information on the postal article based on the details declared by the sender. The First Notice would also include information on, and the forms needed for, customs clearance processes.
26. Postal items of particular interest to Customs and or AQIS are referred to a second inspection process. Australia Post staff are required under Australia Post's enabling legislation, the *Australian Postal Corporation Act 1989* (Cth) (and not international agreements – page 181 of draft report) to open such postal items for assessment by Customs and or AQIS. After the inspection is completed, the items are then resealed by Australia Post staff.
27. Addressees have one month from the date of a First Notice to have their postal articles customs cleared. Subsequent reminder notices (referred to as Second Notice and Final Notice respectively) are also sent (again at Australia Post's own expense) to the addressee

if no action has been taken by the addressee. If the postal article is not cleared within one month, the postal article will be returned to the sender or treated in accordance with any alternative instructions given by the sender.

### **International Gateway Processes**

28. It should be stressed that the current processes at Australia Post's four international gateways located in the capital cities of Melbourne, Sydney, Brisbane and Perth are a direct function of: (a) existing customs and quarantine policy settings in a postal context; and (b) Australia's treaty obligations under the UPU.
29. The four international gateway facilities were purpose built by Australia Post (becoming operational in 2005) so as to enable full compliance with inspection requirements set by Customs and AQIS in accordance with their respective legislative and policy requirements. They were designed and constructed in close consultation with Customs and AQIS. Government funding for their construction was predicated on design approval by the border agencies. The facilities were also built to cope with actual inbound volumes of international postal articles in 2004/05 with some capacity to deal with changes in volumes over the estimated working life of the facilities of at least 10 years.
30. It should be noted that each of the international gateway facilities hold depot licenses under section 77G of the *Customs Act 1901* (Cth). Accordingly, matters such as the physical security of the facilities, access to international postal articles, space and facilities for examination of such articles are all the subject of the licensing conditions of Customs.
31. Further, under the 2009 Memorandum of Understanding with Customs and AQIS, Australia Post is obligated among other things to: (a) provide accommodation, facilities and biosecurity measures which reasonably meet the legislative requirements of the border agencies; (b) provide available resources and physical mail delivery mechanisms to enable the examination and processing of international postal articles by the border agencies; and (c) to consult with the border agencies regarding the planning and development of any new gateway facility.
32. In short, the operational facets of Australia Post's four international gateway facilities are heavily influenced and determined by the requirements of Customs and AQIS.
33. Customs, AQIS and Australia Post are keenly aware of the impacts that the volume growth in incoming international postal articles is having on the existing international gateway processes. The border agencies are actively seeking ways in which to manage the increased volumes including through a greater emphasis on an intelligence led, risk based approach to screening operations such as the pre-identification of low risk postal articles (be it on the basis of origin country or sender). Australia Post is working collaboratively

with the border agencies on such initiatives to achieve joint business outcomes and efficiencies.

34. A limiting factor on the scope for adopting other process efficiencies (such as electronic pre-advice of both inbound and outbound postal articles) are Australia's treaty obligations under the UPU. The UPU has 191 member countries, the vast majority of which are developing and least developed countries. While UPU member countries have made some progress in using information technology and the linking of their automated international mail management systems, there is still considerable progress to be made in extending electronic data interchange to the entire postal logistic chain, including customs clearance. As the Productivity Commission notes (page XXXIII of draft report), many UPU member countries just do not currently have the capacity to incorporate significant technological improvements to their postal systems that would permit pre-advice of their outbound postal articles.
35. Further under the treaties of the UPU, Australia is obligated to process and deliver international mail sent by other UPU member countries. As the Productivity Commission notes (page XXXIII of draft report), Australia therefore has very little say (other than what is provided for under the treaties) on how other UPU member countries organise their postal systems.
36. Notwithstanding such constraints, Australia Post agrees with the Productivity Commission's assessment that the current border screening and examination processes at the international gateway facilities would benefit from improvement. While the current processes have served Australia well for a long time, the rapid change in technology and the exponential growth in ecommerce mean a new model is needed for the long term sustainability of the border screening processes for incoming international postal articles.

### **Task Force**

37. It is in this context that Australia Post welcomes the recommendation of the Productivity Commission for the establishment of a task force (Draft Recommendation 6.2, page XXXVIII of draft report) to investigate a new approach to screening and processing inbound international postal traffic. Australia Post is keen to play its part in working towards a solution for a streamlined border clearance model for inbound international postal traffic.
38. Australia Post would, however, note the following in respect of the proposed task force and the principles suggested by the Productivity Commission for the new approach (page 188 of draft report):
  - (a) representatives from AQIS should also be invited to act in an advisory role to the task force of outside independent experts (the draft report refers only to Customs, Australia Post and the Conference of Asia Pacific Express Carriers); and



- (b) such a task force would require agreement on the principles and objectives it would follow, which should include items such as the following:
- (i) the need for any new approach to be sustainable for the long term with built in flexibilities to cope with variations in the volume of inbound international postal traffic (and not just allowing for the large expected increase in parcel volumes associated with the growth of online retailing);
  - (ii) a fair and proper attribution of the costs of the various parties involved and the need for efficient cost recovery systems, including but not limited to the scope for passing on screening costs to the end recipient; and
  - (iii) in drawing lessons from the experience of other countries, proper account is taken of the similarities these countries have with the Australian context.