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TECHNOLOGY AND THE ARTS LEGISLATION

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SENATE
ENVIRONMENT, COMMUNICATIONS, INFORMATION TECHNOLOGY
AND THE ARTS LEGISLATION COMMITTEE

Friday, 16 August 2002

Members: Senator Eggleston (*Chair*), Senator Mackay (*Deputy Chair*), Senators Bartlett, Lundy, Tchen and Tierney

Substitute members: Senator Greig to replace Senator Bartlett for matters relating to the Information Technology portfolio

Participating members: Senators Abetz, Bolkus, Boswell, Brown, George Campbell, Carr, Chapman, Conroy, Coonan, Chris Evans, Faulkner, Ferguson, Ferris, Harradine, Harris, Knowles, Lees, Lightfoot, Mason, McGauran, McLucas, Murphy, Ray, Watson and Wong

Senator Allison for matters relating to the Communications portfolio

Senator Stott Despoja for matters relating to the Information Technology portfolio

Senator Ridgeway for matters relating to the Arts portfolio

Senators in attendance: Senators Eggleston and Mackay

Terms of reference for the inquiry:

Performance of Australia Post in relation to the World Trade Organisation and franchising related matters.

WITNESSES

GROSSER, Mr Chris, Group Manager, International, Australia Post 1

JACKSON, Mr Mel, Group Manager, Retail, Australia Post 1

McCLOSKEY, Mr Michael, Corporate Secretary, Australia Post 1

**THOMAS, Mr Brenton, General Manager, Enterprise and Radiocommunications,
Department of Communications, Information Technology and the Arts 1**

WARD, Mr Gary, Manager, Franchising, Australia Post..... 1

Committee met at 12.36 p.m.

GROSSER, Mr Chris, Group Manager, International, Australia Post

JACKSON, Mr Mel, Group Manager, Retail, Australia Post

McCLOSKEY, Mr Michael, Corporate Secretary, Australia Post

THOMAS, Mr Brenton, General Manager, Enterprise and Radiocommunications, Department of Communications, Information Technology and the Arts

WARD, Mr Gary, Manager, Franchising, Australia Post

CHAIR—I declare open this in camera hearing of the Senate Environment, Communications, Information Technology and the Arts Legislation Committee and welcome everybody here today. Today's hearing takes up an offer originally made by Mr McCloskey at the budget estimates hearing in Canberra on 27 May to organise a briefing at which appropriate Australia Post personnel could respond to questions that could not be answered on the day. Mr McCloskey kindly formalised that invitation in a letter to the committee on 4 June. On 20 June, the committee formally resolved, under the provisions of Senate standing order 25, to inquire into the performance of Australia Post in relation to World Trade Organisation and franchising related matters. That standing order allows this briefing to take place as an in camera hearing. I must advise witnesses, however, that it is the intention of the committee to publish all of the evidence you are about to give. I propose to put the motion that the transcript be published at the conclusion of the hearing. I also remind departmental officers, specifically Mr Thomas, that they will not be asked to give opinions on matters of policy and that they will be given reasonable opportunity to refer questions to superior officers or to a minister if the need arises.

The committee has before it a request under standing order 36 to permit Ms Jane Mulligan, Senator Mackay's adviser, to observe today's proceedings. Given that the proceedings are to be published at the conclusion of the hearing, I believe that such attendance is acceptable subject to the hearing's in camera status not being breached in the interim. It is the wish of the committee to extend an express invitation to Ms Mulligan to attend and, there being no objection, it is so ordered. Before we start with opening statements, I understand that Australia Post has been advised by the secretariat that certain documents have been requested to be provided to the committee. Do you have those documents available and, if so, could you please table them?

Mr McCloskey—I do. I think those documents are in relation to the second element of the hearing; they are the franchising ones. The first set of documents related to some correspondence that we referred to in the estimates hearing in May, and I have copies of that here. This correspondence has been also provided as part of our answers to questions taken on notice. I think that is probably still going through

the system, so this correspondence has probably not been available before this to the committee.

I seek some guidance in relation to the other two documents that we were asked for. One was an Ernst and Young report into the review of the PostShop franchise concept and pilot sites. I have that here. It is, I have to say, a commercial-in-confidence document of the report that was commissioned by Australia Post from an external agency Ernst and Young. The second report is the Deacon report, which does not relate directly to the franchising issue but I do have a copy of it here. Again, it is an external report. It is also one that has been commissioned and provided on a commercial-in-confidence basis.

CHAIR—I was going to ask you whether you had any objection to the committee publishing the documents. You obviously do in relation to those two.

Mr McCloskey—My preference would certainly be to ask the committee to respect the commercial-in-confidence nature of these two documents.

CHAIR—Were this an estimates committee hearing, any document tabled would have to be published. Since it is an ordinary committee meeting, it is possible that commercial-in-confidence rules apply. However, the committee reserves the right to publish any document provided to it. If you are going to table these documents, you have to bear in mind that the Senate may decide to publish them.

Mr McCloskey—I understand that. Obviously, we are very happy to make the documents available to the committee, but our request would be that their commercial-in-confidence status be respected.

CHAIR—What I am saying, though, is that the Senate may subsequently decide to override that request. If you table the documents, you should bear that in mind.

Senator MACKAY—Perhaps I can assist. As everybody knows, there has been a lot of discussion about the issue of commercial-in-confidence. There are new procedures, which are being carried by the Senate, in relation to commercial-in-confidence whereby it is incumbent upon Senate committees no longer to simply accept the word of witnesses that something is commercial-in-confidence without seeking further information as to why it is. Further, the view of the Senate is now that that does not in itself raise a ground for nondisclosure. We ask that witnesses give reasons why something is commercial-in-confidence and what impact, from your perspective, disclosure would have. This is for your information. It has been the subject of an enormous amount of discussion and debate within the Senate. The Senate now has this view in relation to commercial-in-confidence. So for bodies, such as Australia Post and Telstra, it is not sufficient these days to simply assert commercial-in-confidence; you have to explain why.

Mr McCloskey—I am not personally seeking to assert that the two documents are commercial-in-confidence. They are actually marked and circulated internally with commercial-in-confidence on them. Really, I am seeking to draw the committee's

attention to that fact and to ask, insofar as it is possible, that that commercial-in-confidence status be respected.

CHAIR—If you are happy to table them under those circumstances, we accept them. But you may prefer not to table them, which is really what I was suggesting to you, if you are concerned about those issues.

Senator MACKAY—In which case, you have to explain to us why you will not—seriously. Just because something is marked commercial-in-confidence, does not mean it is as far as the Senate is concerned.

Mr McCloskey—I think we are happy to.

Mr Jackson—Yes. Certainly, there is some financial commercial-in-confidence information in there in terms of the Ernst and Young report. It relates to a franchise model we have developed which, I guess, we would not like to have sprayed around everywhere. Also, with regard to the Deacon report, it was an internal document. We commissioned an organisation to explore the current situation in terms of consultation and communication. It was something for our own consumption. It identified a number of issues from other parties and us in respect of how consultative arrangements operate. Again, we have tried to contain that, at this stage, in the process we are using there to review the consultative arrangements. Those are the key elements of what they contain.

CHAIR—As I said, if you are happy to table them within the parameters outlined to you, we will accept that there are certain aspects of these documents which you regard as being commercial-in-confidence. But you have to bear in mind that the Senate may wish you to justify that claim and reserves the right that it may, in fact, determine to publish the document.

Senator MACKAY—Chair, if we decide to go down that track, maybe we could give them the opportunity to expunge whatever sections they regard as commercial-in-confidence, in terms of the figures, et cetera, before we publish. I am happy with that.

CHAIR—Okay. We certainly do not want to compromise your commercial position.

Mr McCloskey—We will be happy to table them on that basis.

CHAIR—Thank you. Having done that, I would like to invite Australia Post to open the briefing by giving the committee a comprehensive account of what work it has been doing on the European Union General Agreement on Trade in Services request to the Australian government regarding postal services and what its implications are for Australia Post's future operations. That backgrounding of the committee will form a useful basis for subsequent questioning. Mr McCloskey and Mr Thomas might wish to add a few comments from the department's perspective.

Mr Thomas—There may be some issues during Mr McCloskey's statement that he might want to refer to me, which will probably cover off on the statement that I was intending to give anyway.

Senator MACKAY—Before you do, we did also ask for a copy of the discussion paper that had been prepared by the department on WTO GATS, and I do not think you referred to that, Mr McCloskey, when you talked about documentation. It was not on the list.

Mr Thomas—If you do not already have a copy, I am happy to provide it to you.

Senator MACKAY—So that is available?

Mr Thomas—Yes. I think it is on the department web site as well.

Senator MACKAY—I do not know whether the chair has seen it.

CHAIR—No, I have not.

Senator MACKAY—If we could get the chair a copy, that would be handy.

Mr Thomas—Absolutely. No problem.

Mr McCloskey—I do have a brief opening statement which I hope will cover off the issues that are of interest to committee. As the committee would appreciate, Australia Post is by no means an expert in the highly complex area of WTO and GATS arrangements. We have, however, maintained a watching brief as developments have occurred in the postal and courier services sector of the GATS. As you are aware, earlier this year the Department of Communications, Information Technology and the Arts sought comments from interested parties in Australia on the application of GATS to the postal and courier services sector in the current round of WTO negotiations. In Australia Post's submission in response to that paper, we proposed that the Australian government should pursue a number of issues as follows: the discussion and agreement of a new, clearer classification scheme for the sector to remove the distinction between postal and courier services, fair trading in postal and courier markets, full market access and national treatment for non-reserved services, the application of WTO most favoured nation principles to regulated mail and clarification of the relationship of the Universal Postal Union—that is, the UPU—treaty and GATS as it applies to the UPU international letter class mail payment system, known as terminal dues. We understand that the government has not made any undertakings or offers in regard to the sector, and it will be considering its position in light of all information presented to it, including GATS negotiating positions, offers and requests from other members of the WTO.

The committee has previously shown particular interest in the sectoral proposal of the European Communities on postal and courier services. That proposal, submitted to the WTO Council for Trade in Services in March 2001, seeks a reclassification of

postal and courier services to better reflect the current market characteristics of those services. In particular, the EC proposal recommends the establishment of eight subsectors within that classification. The EC proposal also identifies short- and long-term goals. In the short term, it seeks market access and national treatment compatible with universal service obligations from all WTO partners. What they are seeking requires full commitments in the areas of courier and express delivery services, the handling of addressed parcels and packages, the handling of addressed press products, the handling of non-addressed items and document exchanges. In the longer term, it seeks gradual market opening and national treatment for other areas—that is, written communications and registered or insured mail.

An informal EC paper leaked to the press in April this year foreshadows possible EC requests to Australia in a wide variety of areas—11 in all—ranging from professional and business services to the financial and energy sectors. With regard to the postal and courier sector, the leaked paper suggests that the EC may request that Australia make full commitments for market access and national treatment in five of the subsectors mentioned previously. The subsectors in question are already fully accessible to overseas suppliers in that they do not form part of Australia Post's reserved service. If the content of the leaked document is ultimately reflected in the formal initial negotiating request delivered to Australia as part of the GATS negotiating process, it will be considered by the government at that time. For our part, Australia Post has not at this stage undertaken any extensive analysis of complying with any GATS request. However, the making of a commitment in areas of the postal and courier sector which are already accessible to overseas suppliers should have no impact on the Australian market or on Australia Post.

In conclusion, I emphasise that Australia Post would not support the listing of the reserved service as an offer in the schedules to the GATS. As mentioned in our submission to the Department of Communications, Information Technology and the Arts, any offer in this area would place Australia Post at a financial disadvantage while other posts maintain a monopoly and would ultimately threaten the current arrangements for Australia Post's universal and community service obligations. We will be happy to answer any questions the committee may have.

Senator MACKAY—I wonder whether you wanted to add anything, Mr Thomas.

Mr Thomas—I have a couple of very short points which essentially go to process; a lot of these are matters the committee is possibly aware of. The Department of Foreign Affairs and Trade is coordinating the development of an Australian negotiating position on GATS. Effectively, DFAT is taking the role of a whole of government coordinator on the entire issue, and is providing guidance to various departments as to the appropriate process throughout this negotiating phase. As part of this process, DFAT approached the Department of Communications, Information Technology and the Arts last year seeking industry comment on postal issues. I understand that it also approached a number of other departments in other sectors to seek input from other industries—which I understand is also part of its normal processes.

Initially we produced a discussion paper on the basis that this is quite a complicated issue. There is a lot of uncertainty as to processes and all of those sorts of things, so we thought we would produce a discussion paper to assist and to give context and background to the issue. We provided that to the two major industry groups—Australia Post and the major mail users groups—in the first instance. Subsequently, we provided it to POAAL and the CEPU upon request from those two organisations.

The discussion paper states that, unless otherwise specified, submissions coming in would be treated as public information. As a result, we have passed on the submissions that we have received to the Department of Foreign Affairs and Trade to assist them in their processes. I will give you a brief update on the process and clarify a few of the issues that are associated with what are effectively these negotiating proposals that are out in the public domain—the leaked documents, as well as the various other documents that exist. These documents have no formal status. They are a part of the negotiating process in what is called the ‘preparatory phase’ of the negotiation round. They are made public but they have no formal government-to-government status. The stage that we are currently entering is where there will be formal requests made by countries to other countries, and they will be the formal documents that we will provide all the analysis on and examine in detail as part of our input on the implications for the postal sector.

I can advise that, approximately a week ago, the Department of Foreign Affairs and Trade received some requests in relation to the postal sector, as it has in all the other sectors. DFAT has also advised us, however—to anticipate a possible question from the committee—that these remain confidential at the moment on the basis that this is a negotiation process and that these are effectively government-to-government discussions at this stage. DFAT has also characterised the current stage we are in as a pre-negotiation stage. It has said that the full negotiations will get under way in about the middle of next year. What DFAT describe as the ‘end game’, the final point, is what it is aiming for in 2004. As the committee is no doubt aware, though, these GATS rounds tend to drag on considerably beyond the scheduled date. That is all that I want to say, and I am open to questions.

Senator MACKAY—One of the things that concerns me, and probably concerns a number of parliamentarians, is at what point does parliament get involved in the process of negotiations about these initiatives, which potentially may have quite a considerable impact on our country in terms of service provision down the track? DFAT is saying that it has got some requests, presumably from the WTO?

Mr Thomas—No, they are from other countries.

Senator MACKAY—So they are from the EEC or trading blocs?

Mr Thomas—Yes.

Senator MACKAY—I understand the constraints you are under to not tell the committee because they are confidential, but something that concerns me is at what

point do we know? What is the process for consultation? It is government to government; where does parliament get involved?

Mr Thomas—That question is probably best directed to DFAT who are not here, unfortunately. But there is, on the DFAT web site, a section called ‘Consultations with Australians’, which goes into the consultation process more broadly. One other point I should make is that the GATS process—and this is also on the DFAT web site—cannot place any obligations on governments in terms of their ability to regulate. So governments still have the prerogative to change regulation and adjust regulation, independent of the GATS process. For example, one of the issues that has come up in great detail in the CEPU and in the POAAL discussion is the reserved service. The GATS process cannot impose a requirement upon the Australian government that it does not agree to through its own internal government processes.

Senator MACKAY—That is not the way real life works, I suppose. Certainly there would be some retention of sovereignty, in terms of regulatory or legislative mechanisms. But given that this is not a legislative process, that it is an international treaty process, when does this go to parliament for consideration, if at all? I understand that you are not DFAT, so it makes it a bit more difficult to answer.

Mr Thomas—I have to ask you to direct that question to DFAT. I am sorry, I cannot answer that.

Senator MACKAY—Are you aware of whether it does?

Mr Thomas—No, I am not aware as to whether it does in the process.

CHAIR—Would it come to the treaties committee?

Mr Thomas—It would eventually come to JSCOT, yes.

Senator MACKAY—My concern is that parliament probably ought to be involved at a more contemplative stage rather than at a point where something is on the verge of being signed.

Mr Thomas—I appreciate your concern, but I think it is really a matter for DFAT and then for a discussion that may be resolved eventually by ministers.

Senator MACKAY—I wonder whether DFAT could provide a response to the committee in relation to that question?

CHAIR—Yes, we could request that.

Senator MACKAY—In relation to the outline that we got from the commencement of the hearings, could you give us a bit more information about this process, as far as you are aware of it? When was Australia Post first approached? What sort of analysis has Australia Post undertaken? I appreciate that you have a view

that none of the requests thus far would have an impact on the reserved service aspects of Australia Post. Have you done any analysis? Could you give me a time line on how Australia Post first got into the act in relation to this?

Mr McCloskey—We were provided with a copy of the department's discussion paper earlier this year and we responded to that in early June. That was when we first became involved.

Senator MACKAY—How did you respond?

Mr McCloskey—We responded by written submission on the particular issues that were raised by the department for discussion. In addition to that, we indicated that we would be glad to be part of an ongoing process as the issues developed, in terms of having our views heard.

Senator MACKAY—Do you have a copy of the submission that we could look at?

Mr McCloskey—Yes, I have a copy here which I am happy to table.

Senator MACKAY—This is the submission that went back to the department, based on the department's original discussion paper?

Mr McCloskey—That is correct.

Senator MACKAY—Broadly, what is in it, seeing we do not have time to speed read our way through it?

Mr McCloskey—I will ask Mr Grosser, our Group Manager, International, to take that question.

Mr Grosser—The paper begins with a view on our community service obligations and tries to present a few pertinent facts about Australia Post and its operations. We seek then to provide a view on a number of issues and questions that were raised in the document presented to us by our department. Mr McCloskey gave a summary of several of the important issues that came out within the document. Perhaps we might turn to each of these and make a few comments in regard to each one, if that would help.

Senator MACKAY—We would appreciate that. That would be very useful.

Mr Grosser—It begins with support for further discussion and agreement on a new classification system. You may have come across various views on this, saying that the postal and courier services sector perhaps should not be in the next round of GATS. Others suggest that they should clarify one segment of the business. Some proposals that have gone forward for discussion at the council level—and this is the council within the WTO addressing trade in services—suggest that quite clearly there needs to be some major reform in this area. Here, I should reflect on the proposal—I

think it is the Swiss proposal—that was made to the council which brings up the issue of the existing definition for postal and courier services within the telecommunications sector. It refers to postal services and specifically it raises the concern that they are currently defined as being part of a state monopoly. The way that postal services have emerged in the last five years is such that postal services in some quarters are provided by semiprivate operations and by private organisations who are still obligated to provide universal service performance within their own areas. In some cases, postal services of a sort are provided by express operators. So there has been a blurring of definitional issues in the market.

Senator MACKAY—Where is this definition that you are referring to?

Mr Grosser—There is a current definition that exists within the GATS framework under the telecommunications sector. It is known as the GATS sectoral classification list. The document is referred to as MTN GNS/w/120. There is quite specific terminology in use there for defining postal services—such terms as postal services related to letters, related to parcels, counter services and other postal services. There are courier services—which are defined in various modes—and trucking and transfer services. The important point I wish to raise is that they talk about the difference between postal and courier services according to this classification, in that postal services are supplied by a state monopoly whilst courier services are supplied by private companies. That is not the case in the world market situation today.

Quite clearly, the European Community have led the way in defining this for their own purpose of harmonising the European postal systems and providing directives to those. They have worked up a classification system and they have put forward to GATS, the WTO council, this matter of proposing a new classification system. We are saying that this matter should be discussed and a new agreement should be reached on postal and courier services. We have not, however, declared that one position is preferable to any other.

Senator MACKAY—What is the Swiss proposal that you referred to?

Mr Grosser—It is just one of a number of proposals in regard to items that Mr Thomas indicated were issues for discussion presented to the Council for Trade in Services in the lead-up to the negotiating period which commenced on 1 July 2002. The actual date of it is 4 May 2001. It is a document that was submitted by Switzerland entitled *GATS 2000 Postal and Courier Services*, with the reference S/CSS/W/73. Its proposal outline says that it is ‘submitting this proposal on postal and courier services for consideration. It is intended to stimulate discussion’—this is not a negotiating proposal; it is a discussion proposal—‘towards a more comprehensive coverage of postal services.’ So it is a discussion document directed to the terminology and the classification system for postal and courier services within GATS. That was the first point. We said that from an Australia Post point of view we would be supportive of such discussions and a new agreement being reached.

The second point Mr McClosky mentioned was fair trading in postal and courier markets. We were asked by our department to comment on circumstances within

Australia and in overseas markets. Australia Post has not taken a strong foothold in any overseas market, and we had to decline to comment on those overseas markets, but we said we could make fair comment about the Australian market. We indicated that there are others who might be able to inform the department and, in turn, DFAT in regard to overseas market conditions. Quite clearly we support fair and open trade arrangements, where it is appropriate. You have already heard Mr McClosky's comments on our position on our reserved service. We went on to say that we supported full market access and national treatment in regard to the non-reserved services.

We understand full market access under the terms of GATS—again, I am speaking as a nonexpert, and I stress that point—to mean that there should be no significant barriers to entry, which could be in local and national legislation of sorts, that might impose on a foreign national a different set of circumstances within the marketplace compared with a national party. That is complemented by the words 'national treatment', that you are seeking to have a foreign party treated with the same presence as that of a national resident. In that regard, our elements on competition are supportive of fair market arrangements and in the spirit, too, of views that have been present by the Australian government on competition policy. In fact, I have joined our government colleagues at postal forums where the government has spoken broadly on the policies in regard to competition within the Australian marketplace.

We went on to add one further point about the application of the most favoured nation arrangements and their principles to regulated mail. This is a fairly complex matter in the postal world. We regard there to be unfair trading arrangements that currently have been adopted between posts for the purposes of paying for the delivery of letter-class mail which comprises both regulated and non-regulated segments. Over the years, we have developed a policy on the way we would want to go forward in the trade arrangements for letter-class mail and have convinced our departmental colleagues that an appropriate way of going forward is to ensure that the trading terms between countries for this are fair, consistent and abide by WTO rules and regulations. In particular, at the time of the signing of the Universal Postal Union treaty that goes back to Beijing in 1999, the Australian government declared on the signing of that treaty that they would exercise the rights and obligations of that treaty consistent with a framework that respected the rights and obligations of the WTO principles, the treaty and GATS.

Senator MACKAY—What does that mean?

Mr Grosser—It means that we would seek to trade with countries on an equal footing, and this is where the most favoured nation issue comes up. The current system for payments for letter-class mail is divided between industrialised and developing countries. Developing countries get a better deal. In our own region, if I can focus here on the Asia-Pacific, Singapore and Hong Kong are regarded as developing countries and Australia is regarded as an industrialised country. Singapore and Hong Kong get a better deal going into Europe than we do. We are at a competitive disadvantage going from our region into other markets. For that reason, in

terms of international arrangements we have supported this direction of most favoured nation to try to put countries on an equal footing when they enter other markets.

Senator MACKAY—What does that mean in practice? You say that Singapore and Hong Kong have preferential treatment over Australia. How is that manifested in entering markets?

Mr Grosser—In practice, it means that a very large volume mailer might well consider establishing his whole printing operation—a magazine, for example—in Singapore or Hong Kong, because it is cheaper to mail it to his European market from those locations than it is from Australia. The practical outcome is that they have an advantage in terms of what they have to pay to a delivering postal administration when entering markets.

Senator MACKAY—I am still not clear; there is a bit missing. Why is it cheaper for Hong Kong and Singapore?

Mr Grosser—I know it is a big area—

Senator MACKAY—We are very keen to hear about it.

Mr Grosser—There is this area called ‘terminal dues’ that again Mr McCloskey mentioned. It is the payment system which the posts have agreed between themselves to say is appropriate payment for the delivery fees of letters and packets entering a particular country for delivery by a related postal administration. I will give you a clear example. Let us take the case that I have mentioned of Australia and a country in Europe; let us take the United Kingdom.

The agreement between posts, known as the UPU Treaty, establishes a rate of payment that we have to pay the UK post office for the delivery of the letters and packets. What we are saying is that the structure is such that a developing country is given a lower rate for entry into that market. It can be the difference between 7c on a letter and 40c on a letter and that is in Australian terms. Currently, some of the costs imposed on industrialised countries are directed toward recovering a significant part of the real cost of an industrialised country. The developing country system has been endorsed at a global average and they are quite different rates at different segments of the market.

Senator MACKAY—What is the historical reason for Hong Kong and Singapore still being regarded as developing or is it just some anachronism? Why are they still there when clearly they are not developing?

Mr Grosser—The United Nations listing that is used for the categorisation is known as the United Nations Development List. It has been classified by them but you would look at it in terms of GDP and perhaps other characteristics and say that there is good reason for putting them in another group. You can understand that both these marketplaces, Singapore and Hong Kong, have infrastructure that would compete with Australia in terms of their print capability and, quite clearly, being at a

competitive disadvantage is one of the concerns that we have in international trade. We would wish that we would be put on an equal footing with them. We are not asking for a better position. What we are saying is that we want to be treated equally.

Senator MACKAY—That is interesting.

Mr Grosser—My final point supports the area that we have been discussing where we asked for clarification of the relationship of the Universal Postal Union Treaty and GATS as it applies to this international letter class payment system. There are moves afoot to establish a significant MOU between the Universal Postal Union and the WTO, particularly because of the importance of the postal and courier services sector which is being considered by this round of the GATS. What we are seeking is that there should be a stronger understanding of the principles that should drive these trading arrangements into the future. We have been supportive and have been a particularly strong spokesperson on this very issue and I commend our Australian colleagues from government who, at the Beijing Congress, were regarded as the leaders on this very issue of fair trading in WTO issues.

What we are seeking is that a much stronger link is established between the WTO and the UPU and that together the new arrangements that will be developed for the congress in 2004, and then implemented in 2006, will have a much better and fairer trading system than the one that we currently have. That is the nub of our directions and you have heard beneath it this very important statement that what we recognised from our own and very early, but you might say somewhat limited, work was that we had no view to push forward changes to the reserved service at this time.

Senator MACKAY—Thank you. That was a very useful. The point I would like to make is that it is important in terms of these sorts of initiatives that as much information as is necessary is provided to parliamentarians in this sort of forum. It saves a lot of trouble down the track if the legislators are taken along with the process and can voice concerns earlier on. That is something I think all governments should take on board. I think this is a useful exchange. I appreciate there is no final position of Australian Post at this point but you might clearly saying that, other than the reserved service, you are broadly happy with the rest of the market being opened up to competition. Would that be fair? I do not want to verbal you.

Mr McCloskey—The position is that, in effect, the Australian market as it stands is totally open. So any requests, in a formal sense, that are made about the Australian market that do not go to the reserved service in effect perhaps just recognise the status quo.

Senator MACKAY—Okay. In terms of the Australian market, perhaps you could give us a picture about how that is operating in practice. Putting aside the reserved service issues, what is happening where there is competition—which there is—in the Australian market? Who is around? What percentage does Post have of that market and what percentages do other people have? How is it operating in practice?

Mr McCloskey—I can give you a very broad outline; I am not sure that I would have percentages. If you take the parcel market, there is a significant degree of competition in that market. Post is probably the dominant player in the consumer-to-consumer part of that market, but in the business-to-consumer part of the market or, indeed, the business-to-business market, we would have a market share but not necessarily a significant one. In the area of express delivery, Post has its own products in its express post range, but we are competing there with the many courier companies that operate across Australia, both at a national and at a local level. Also, there are at least a couple of international postal administrations that have a presence in Australia already. I will ask Mr Grosser, who is more familiar with details there, to comment on those.

Mr Grosser—There is one that we are familiar with under the TNT brand. It has essentially been here for a long time but it is now known as TPG Group since it was bought out by Dutch interests. TNT is a brand with a long history in Australia but now it is a Dutch company. We also have Deutsche Post represented in Australia. They present themselves to mostly major mailers in Australia, seeking business type directions, and they do not appear on streets providing a service to general consumers, like Australia Post, nor do they have universal service obligations, as we do. In addition, New Zealand Post has also established a small presence here, serving a fairly small and restricted number of clients.

We have another interesting presence which is beginning to emerge in world markets. We have had a few undercurrent—if we could call them that—low-level interests at the moment. It appears there may be some operators appearing in the Australian market—they have not yet appeared—who are here solely for the purpose of consigning mail and opening what would be termed ‘offices of exchange’. We have heard from two interested parties, both European postal operators, who want to take up a presence purely for the purposes of routing mail to other destinations.

Senator MACKAY—How would that work in practice?

Mr Grosser—It is an interesting position. It is one where what they would do is established a very small office that would be working with clients both within Australia and, in some cases, maybe offshore—for example, New Zealand. The purpose would be to freight things through to a location here—it might be a small shed—and then pass them to the respective delivery markets. They would be sent on documentation from that particular office of exchange, bearing the charging code for the administration or the country from which the post offices came—for example, from Brussels, within Belgium, they could have an office of exchange in Sydney and all the charges would go back to the Belgian post office.

Senator MACKAY—That sounds a bit dodgy.

Mr Grosser—It is not dodgy. It is able to be achieved within arrangements in the way the world is moving. The borders are changing. In the past, posts had a national border by their countries’ perimeters. We are now seeing global posts emerge—and, again, this is characteristic of the way the market has moved over the last 10 years.

Deutsche Post is now a global company. It has offices all around the world. We have to contend in marketplaces which are no longer a straightforward country-to-country arrangement, and we have to deal in the rules and procedures to make those markets work.

Senator MACKAY—Is there anything else on the state of the market?

Mr Grosser—I would have to agree with Michael's comment that the competitive nature of the market has been developing for a long time. I should mention, too, that the international market going out of Australia is totally competitive. That means that anyone can carry a letter. It is not a regulated market such as our domestic market. That is an important point to make. Anyone can come into the Australian market and set up a small shop or a small warehouse for the purposes of exporting mail from either Australia or, potentially, from other countries nearby to Australia that are deregulated—for example, New Zealand. In that previous example I gave, there is a possibility that mail could be freighted from New Zealand to Australia and then, bearing the postal documentation of these other posts, re-exported on flights from Australia.

Senator MACKAY—How does Australia Post see itself as being constrained in this global situation that you referred to by the current legislative regime?

Mr Grosser—Principally in the area that I referred to earlier about the competitive disadvantage of terminal dues arrangements that are not consistent with what we regard as the most favoured nation fair trading principles. That is an area of extreme importance to us. In our domestic market, we have been in competition, effectively, for 20 or more years for international mail, although legislation was only changed as late as 1995 to deregulate the outgoing international market. We know what competition is all about. We have lived with it for a long time in the international area. From that point of view, we are certainly not in any way constrained. We are in an open market, essentially; we compete for business. In other markets, we are not well versed in being able to give a lot of comment about all the conditions, but we do know that in a number of Asian markets there are quite severe restrictions, other than on national residence, operating in those markets. They can have extreme licensing conditions. In some circumstances, they have rules about only certain operators—almost like the reserve service condition—applying to articles that we generally accept have been in open markets for a long time.

Senator MACKAY—That being the case, why is there a need to change anything in the current Australian legislative regime as it relates to Australia Post?

Mr Grosser—I do not think this is an issue that I can respond to. I will turn to Mr McCloskey.

Senator MACKAY—I am wondering what the problem is, I suppose.

Mr McCloskey—We are not seeking to have any part of the Australian regulated market changed at the moment.

Senator MACKAY—Australia Post does not perceive a need to deregulate Australia Post?

Mr McCloskey—What we were saying earlier, in getting back to the WTO side, was that the Australian market currently, except for the reserved service, is effectively open to all comers and therefore the sorts of proposals floated by European communities, among others, at this stage do not impose any particular burden on Australia Post.

Senator MACKAY—If those were to come to fruition, would they require any legislative change to Australia Post?

Mr McCloskey—As I understand it, within Australia, no, they would not.

Mr Thomas—To qualify that: we are not sure exactly what the final position is. Certainly, the negotiating proposals may not coincide with the formal requests. This is a fairly important issue.

Mr Grosser—That is a very important issue, because we are all talking about that discussion phase, the proposal phase. Mr Thomas made some clear points about the stage at which requests are actually submitted. It is in the period post 1 July 2002 that the real requests appear.

Senator MACKAY—We have requests in already; is that right?

Mr Thomas—Yes, we have been allowed to tell you that much.

Senator MACKAY—I am just trying to get a grip on this whole situation, because it is being portrayed as a zero sum gain, I suppose. In terms of, say, what the WTO is suggesting or may suggest—or whatever ends up occurring—Australia Post is happy with its indicator that it will not impact on the reserved service. So I do not really understand why the EC, say, would put in requests which had a zero sum outcome.

Mr Thomas—As I mentioned, we cannot go into the issue of what is in the formal requests as they are.

Senator MACKAY—So there must be more to it than what has been described, surely. Otherwise, what is the point? If they can compete already, why would they put in requests to compete?

Mr Thomas—Mr Grosser and Mr McCloskey have pointed out that from those negotiating proposals—that is, not the requests—we do not see a huge impact upon Australia. In fact, just looking at it and making a comment personally, it shows that Australia is in a fairly strong position in our market compared to overseas markets. From a pure negotiating point of view, we may have an opportunity to go back to some of these markets and say, ‘Our markets are open in this particular area; we want some of your other markets to be open as part of the negotiation quid pro quo.’

Senator MACKAY—Without us giving anything away—

Mr Thomas—Exactly.

Senator MACKAY—in relation to how the postal market operates, the legislation, the reserved service, service implications et cetera.

Mr Thomas—As I keep saying, we have to wait and see how this pans out in its final stages, but, just looking at the negotiating proposals, I concur with Mr McCloskey's comment. I do not anticipate any major impact—or any impact—upon our current legislative arrangements for reserved services. The other interesting point to note—and again this is a personal observation—is that a number of these negotiating proposals are coming from countries that actually have reserved service themselves. In fact, nearly all of them have. I think there are only three countries in the world that have effectively removed the reserved service. One of the negotiating proposals was from New Zealand, which has actually removed part of it, but the others are from countries that have reserved service themselves.

Senator MACKAY—They were presumably asking for no reserved service in Australia—I would assume. Otherwise, what is the point of making the request?

Mr Thomas—We will have to wait and see what the requests are, but I imagine they are in a very difficult position if they ask for the removal of a reserved service in Australia when they in fact maintain their reserved service and do not intend to give it up.

Senator MACKAY—That has been known to happen.

Proceedings suspended from 1.34 p.m. to 1.47 p.m.

Senator MACKAY—Just to resume on the WTO GATS issue, as has been indicated it is probably a bit of a watching brief for the committee. I am very interested to hear that Post do not appear to have a view that anything much needs to change in terms of either the regulatory or the legislative regime that currently operates so, if there are any proposed changes, then we know they have not come from you people. I appreciate the briefing that we have been given. There was a lot more information than I have ever had on this issue before—being no expert on it. I am now moving on to something entirely different, which is the issue of the postal agents. I am not sure whether anyone wants to leave or to hang around.

When we last met, at estimates, Mr McCloskey, I asked you about concerns that had been raised with me from the licensed post offices about the impact of the franchise concept. Please bear in mind that we have not had the opportunity to read the documentation that you have just tabled, so you may be going through some of the information that is already in there—but I shall plough on, anyway. You have given us a copy of correspondence sent to Mrs McGrath-Kerr.

Mr McCloskey—Those were examples of correspondence where we provided assurances to POAAL on certain aspects of the franchising model that were causing

them concern. Also attached are some notices that went to licensees on the same points.

Senator MACKAY—Their concerns were whether the proposed franchising arrangements would have any impact—presumably financially, primarily—on them. I asked, ‘Are these assurances in writing?’ You have given me this as an example. I am not quite sure that is precisely what I was getting at. You have given me the right documentation, but is this a sufficiently ironclad guarantee to them? I am looking through the information, and I am not quite sure where there is this assurance. You say in the bottom paragraph:

Post is committed to supporting all outlets in its Retail network, and licensed outlets will always be an important component of that network. The enhanced standards and support ... will in no way diminish the support provided to the remainder of the network.

Is that quite what they were after?

Mr McCloskey—I might ask Mr Jackson to comment further, but these are just elements of ongoing correspondence between Australia Post and POAAL which are supplemented by regular face-to-face meetings. I am obviously happy to answer any specific questions you might have.

Senator MACKAY—Way back when we had the last estimates, we had an interaction and you said:

But Australia Post has provided them—

that is, POAAL—

with assurances that this proposal will not in any way impact on the licensed post office network. It is quite separate from that and it operates quite differently and it would have no impact on the market value of existing licences.

I said:

Are these assurances in writing?

You said:

They certainly are.

I say:

You can provide me with copies of those?

And you say that yes, you certainly will. Are these assurances that we talked about here?

Mr Jackson—That was early last year, when these sorts of questions were raised from POAAL. There was a number of issues, and you have just quoted a couple about

the reduction in service given to licensees as the consequence of us having franchises. The reduction in the value of the investment and cherry picking et cetera were in a series of questions asked of us by POAAL, which we responded to. On 5 March the other paper that we gave you a copy of was talking about a series of things. We have given assurances in terms of other issues that were raised, including whether there would be compulsory buybacks. We have given assurances that no, this is purely voluntary. These papers reflect that. Plus, an information bulletin went to licensees in about March last year which again pointed out very clearly that there is a strictly voluntary basis for any buybacks.

There is an explanation on the effect of the value of licences. We are trying to let people understand that this is a separate business model to the licensed post office business model. In effect it is a PostShop but instead of being operated by corporate staff—like most of our PostShops—it is a PostShop operated by a franchisee. So in fact there is no direct impact on a licence value whatsoever, because it is a completely different model and it operates under a completely different set of conditions. The franchise licences will have a certain value placed on them, the same as a licensed post office has a separate value placed on it because it has a separate set of conditions.

For instance, with the franchise we are talking about a 10-year term. At the end of the 10-year term there would be a value established for the licence. The franchisee and Australia Post would participate in that valuation at the end of the 10-year term. With an LPO it is a perpetual licence. So of course there is a different value proposition in that because they retain the licence for as long as they wish—there is no sunset clause that in 10 years they have an evaluation after which a part of that value is given back to Post and a part goes to the outgoing licensee. We have tried to explain that to people—and not just in these papers.

Having franchised PostShops does not make any difference to the value proposition of a licensed outlet. A licensed outlet operates in terms of what sorts of transaction values it takes over the counter and what sort of customer service is handled there. Therefore, the value is contained to the value of the business level handled at that outlet. Overall, we would see having franchises—which are more defined in standards and very precise in terms of what we want from franchise outlets—as enhancing the brand, and that will be reflected in those papers as well. In terms of Australia Post, it is very clear in the mind of the consumer that that means ‘post office’. We see that as adding value to the Post brand in general. Therefore, there is no real direct impact on licensees in terms of establishing a franchise outlet.

Senator MACKAY—That is not quite what they are saying. Their quite explicit view is: ‘Is the franchise concept going to adversely impact on the market value of our outlets?’ You are saying no.

Mr Jackson—That is because it is a completely separate model. There are 700 PostShops out there at the moment out of about 880 corporates. All this means is that some of those will be run by franchisees rather than being corporate, and there will be a number of licensed outlets. If licensees wish to sell them back to Post—voluntarily, at commercial rates—we may in fact be interested in buying some of those back and

converting them into a franchise. In other words, there is no threat to an individual licensee. We are not going to take away their licence; we are not going to change the conditions of their licence. We are saying to people, 'If you are interested in it, we will evaluate whether that is a relevant part of the network that we would be interested in converting to a franchised PostShop.' But, again, it is a voluntary arrangement. That is the only direct interface that a franchise could have with a licensee in terms of impact on a licensee's business.

For the rest of it, each licensed outlet operates with its own level of business and its own level of profitability, and a value is placed on that if you want to sell it. That is why we are saying that this has no impact whatsoever. We are trying to give people assurances of that. It is very difficult to write that down in black and white and make it ironclad that that is what it is. But, quite frankly, it is a completely different channel to the licensed post office channel.

Senator MACKAY—Let me try to put it another way: will the terms of the agreement for the franchise outlets be the same commercial base as they are for the LPOs?

Mr Jackson—They will be different.

Senator MACKAY—How will they be different?

Mr Jackson—I will give you an example. That actual franchise agreement will be for a 10-year term. At the end of 10 years, you have to relinquish the franchise licence back to Post and at that time a value is placed on the licence. The outgoing franchisee only gets to keep a portion of the value at the time, whereas with a licensed outlet you keep the licence forever. So straightaway there is a different commercial proposition there, because there is obviously more value in having perpetuity. That is just one example.

There are a number of terms and conditions in the franchise agreement which are substantially different. Post will actually own, set up and fit out the franchised outlets, whereas, in the case of a licensee, the licensee actually provides accommodation et cetera. They are paid a series of fees and so on for the business they transact, which reflects the fact that they have to provide all their staff, accommodation et cetera. With the franchise, the mechanism we use will be a franchise service fee, which means in effect that we will be charging them for the fitout and the lease through the franchise service fee each month. So they are two very different business models, with two different sets of circumstances for operation.

Senator MACKAY—In terms of the buyback, how would you put a quantum on a licence that was in perpetuity?

Mr Jackson—About 20 per cent of licensees do sell their licence. Business brokers obviously advise them on the business value and the market determines the amount, so it is really based on the level of turnover and EBIT from the actual outlet. The market knows that it is a fairly stable and solid business. It is not a high-risk business,

so there is obviously not a high price on it, but they are exchanged for substantial amounts of money in the marketplace to this day. It is really based on turnover, and a factor of turnover.

Senator MACKAY—It is an interesting question in terms of how you would be able to project demographics et cetera. I guess you can only go on the sorts of variables you are talking about. The other thing that is of concern is the margins that will be factored into the cost of Australia Post materials and supplies for LPOs and franchised PostShops. What is the situation there? Will there be the same margins for LPOs and the franchised PostShops?

Mr Jackson—We do not have a margin in terms of making a profit out of the materials we give to licensees and to franchisees. We give them to them at cost. The way we recoup it from a franchisee is through this franchise service fee, whereas licensees buy some things direct through our logistics unit. We are not out to put margins on materials which they require under their agreement to operate their business and for which they pay us. We do not have any objective of actually establishing a margin for those and making it different from the other one.

Senator MACKAY—So you are saying that there will be no disadvantage to the LPOs in this?

Mr Jackson—Definitely not.

Senator MACKAY—What do you think the LPO operators are generally on about, then?

Mr Jackson—It is very mixed. Recently we had some licensee forums, and lots of licensees were asking, ‘When are we going to have these? We would like to put our businesses up for sale.’ So there is a mixed view on it. There has been some misinformation spread around and, of course, that gets people uneasy and they seek more information. I think that is part of the issue. A lot of people have not seen the final model—for a number of reasons—but we have been working through a long and exhaustive process in establishing the whole model. It is quite a complex set of documents, as you can imagine. Obviously we have had to cover off on a whole lot of elements of the franchise agreement—which is quite substantial; you would be looking at 40 to 50 pages of legal documentation—because we really have to have a very clear understanding of one another’s obligations if we have franchises running.

A whole lot of development work has gone on, and we have been refining that as we have gone along the path. We have been consulting with POAAL along the track. We have not released the whole lot to all the LPOs for two reasons. One reason is that we are still evolving the business rules that we are establishing in the franchise agreement. If we put it out there before we get it about right, we are going to have a whole lot of people offering opinion on it when, quite technically—and that is what we have been trying to portray in this situation—it is another channel over here. We can say to people, ‘It is a PostShop, it is run under a different business model and a different set of rules and, technically, you do not have to worry. We will continue to

support you in the way we do now, and we will continue to invest in the way our management operates with you. We will certainly do it with this one, too, because there are other advantages in doing this.’ Largely, we established that as being about a number of corporate outlets converting into franchise and some opportunity buybacks of licensees.

We would be targeting some areas when we started. We would be talking specifically to geographic groups of licensees—and we have talked about metropolitan areas—and we would be saying, ‘This is what a franchise is,’ because it is very complex to explain a very complex franchise agreement document. We would be explaining how it would work for them, and we would be saying, ‘We would be interested to know if any of you are interested in having your licence put up voluntarily for sale to us at a fair market price, determined in the normal market sense. This is how it would operate. There is no guarantee that you would be the franchisee, because there is a set of selection criteria you would have to pass.’ We would be targeting the areas where we would be kicking off the initial franchisees rather than just broadcasting the whole thing out there about what a franchise is. Once we get it all up and running, yes, that can get out there. We have been going along the track for about three years in developing this and doing some trials et cetera, but we do not have the final document and the whole series of manuals that we are developing finished—the work is almost finished; it is very close—so that we can say, ‘This is how they work,’ because we have not yet gone out and targeted any area.

Senator MACKAY—But, clearly, because Australia Post has adopted that way of operating—that is, basically getting all the i’s dotted and the t’s crossed—that has not assisted people with their concerns about the final outcome. You are saying, ‘That’s your patch. We are not going to worry about your patch. It will not impact on you. This is a new proposal, so you really do not need to know too much about this proposal until we have made a decision on it.’ I do not think that attitude seems to be helping, to be honest.

Mr Jackson—We are working on producing a summary of the elements. We are very close to the point, a matter of a few weeks, where we certainly can go forward with it, but we do not want to release all that until we get to the position with POAAL where we consider we have given it fair and meaningful consultation. We are obliged to consult—though it does not say that we are obliged to get agreement from POAAL—on matters affecting the postal industry, and this affects the postal industry, and we are trying to make sure that it is a win-win situation. We are trying to make sure that they are comfortable with this model, that it is out there and that we are going forward on it together. That has probably been a drawback in our being able to get to the position where we were able to produce a whole lot of summary information that we could send out to licensees.

We have sent out a number of things that are some of the key elements that people have asked questions about. There are only half a dozen of those: yes, there will be term licences; no, there will be no compulsory buybacks et cetera. Those are just a few of the key elements without going into all the detail about how you can get your licence terminated and all that. That is in those other 40 pages.

We have still got a couple of errors that we are trying to sign off on with regard to legal issues. Some of those are with regard to our termination clauses et cetera. We are very close to that. We would certainly be happy to put it out then. But we are only going to target certain areas in Australia. Primarily, our initial foray will be into the Sydney metropolitan area, into a number of outlets. Those people in the Sydney metropolitan area would be the only ones affected anyway, initially, and we would give them very extensive briefing sessions if they wished to participate.

Senator MACKAY—Let us go back to basics, for me anyway. In the studies that have been done for Australia Post on the franchise concept, what do you see as the benefits for Post—and please add to comments you have made already—compared to the current LPO structure?

Mr Jackson—The LPO has a certain set of terms and conditions in the contract. They operate as an independent operator for postal business and as an agent for other financial services business on our behalf. In those contractual obligations, there are certain obligations on them and us—what we will do for them, what they will do. I guess it is fair to say that the existing LPO agreement does not have very tight controls on the offer. In other words, licensees can sell other products. They only have to sell a certain amount of postal products and a couple of others. They have to do the giroPost and the billpay business, of course; that is mandatory. But anything else is really up to them.

So we do not have a very clear standard on what an LPO will offer, what will be the product range or what it will look like. We certainly have a series of fit-out options for them. With a franchise, it will certainly be a black and white offer. They will be approximately 150 square metres and they will offer this full range of products. In the eyes of the consumer, it will be very clear. There are other franchisers like Shell Express and Shell—there are two separate ones there. Essentially, the general community will come to understand that the ones with the brand PostShop will always get that range of products at a PostShop. So the franchise operation is really to clearly specify what the offer is, the range of products and what it looks like for the consumer, whereas a licence contract does not allow us to have that tight control over it for a whole lot of contractual obligations.

To migrate the existing licence network into that form would be very difficult because you have 3,000 of them. It is four or five segments. If you looked at it, there is a whole lot of very small ones and it curves up. You have a few at the top end which might have 1,200 or 1,500 customers a day. You might have 50 like that and then you have smaller ones. They probably segment into about four segments. To be able to incorporate the whole operation system and the whole terms and conditions of a franchise in the way we want to operate it by simplifying some things in terms of payments would be very complex. POAAL has suggested adapting it to the existing LPO agreement. We have tried to have some lawyers explain to them why this is too complex. It is almost like putting a 40-page contract as an addendum to an existing 40-page contract, to use that as a crude example, with a completely separate set of rules.

We are saying that it needs to be a stand-alone terms and conditions contract for franchisees because it is very different. Many elements are very different. We have provided summaries to POAAL and shown where the essential differences in the elements are between the licence agreement and the franchise agreement. There are quite a number of pages of elements listed to show them where there are differences.

Senator MACKAY—Clearly, there must have been deficiencies that Post identified in the LPO system that caused Post to look at some kind of change or augmentation in terms of the franchise system?

Mr Jackson—There are a number of deficiencies there, and some of those we have worked on, so it is not as if we are saying that we cannot address those, because we have a consultative agreement with POAAL and we work on those things. As late as two weeks ago, we reached agreement on a new selection and training process for licensees. Working in consultation with POAAL, we reached agreement on what we think is a good model to go forward with. We have it out there and we are trialling it for three months. If there are deficiencies there, we can correct those. Some of them might be much more substantial. For instance, there is an advantage in that franchise operation because Post has a stake in the value of it, whereas with a licensee it is a perpetual licence—that is, it is sold off at some point in time, and maybe Post has not participated in the sell-off because an existing licensee onsold it. With a franchise, Post has a stake in the value, so it is a completely different proposition.

You can imagine that a licensee has come forward, maybe after having taken a redundancy from another position, which does happen, and invested their savings into this business to give them an occupation until they get to retirement. If we were to come along and say that we want to change it to a 10-year term and that we are going to have a stake in it, it would be unpalatable and it would be unconscionable conduct if you were operating with the licensees. We cannot change the licence agreement to cater for conditions we want to have a part of in the franchised PostShops.

Senator MACKAY—Did you attempt to renegotiate the original agreement between Post and the LPOs?

Mr Jackson—We have talked to POAAL about those things along the track, but they are miles apart. You would have no chance of being able to renegotiate that condition alone—and there are a lot more like that—and to integrate it into the existing agreement when you have 3,000 licensees with that agreement and when they bought them under those terms. We would be virtually coming along and saying, ‘Sorry, those terms are now out of date and we want this set of terms.’ It would be unpalatable. We would not even attempt that. Some of those are very fundamentally different. Certain bits along the track probably have a lot of commonality. A lot of the things that are in the LPO agreement are common to the franchise proposal, but there is quite a number that are not. I cannot remember off the top of my head, but I have the list of comparative differences, and there is quite a number that are quite different. We would not even attempt to negotiate that in because it would be imposing something on the investment that licensees have in their businesses now, which would be quite unconscionable of us.

Senator MACKAY—How many PostShops will there be ultimately?

Mr Jackson—That is very difficult to say at this point because of a number of factors. We have a whole lot of corporate outlets now: there are 886 or something of that order, and about 700 of those are pure PostShops. Some of them are the more traditional older ones and some are in places such that they may be converted to PostShops under the franchise system because they fit that stratum of the network which it is relevant to. In terms of how many we will have in the end, I would suggest that we will have more than we have now because we will be converting some of those existing corporates that are not PostShops into full-blown PostShops. Some licensees might want to sell their businesses to us on a voluntary basis, and we might be prepared to buy them if they had the appropriate number of customers each day and were in the right locations such that we would say, ‘Yes, that is appropriate for a PostShop franchise.’ We would be prepared to buy those back, subject to the terms being acceptable to us and to them.

Senator MACKAY—Are those criteria you just referred to—traffic, location et cetera—in those documents you gave us earlier?

Mr Jackson—No, we have not given you all of that detail. There is a whole lot more detail behind it. Those are the areas we are targeting first-up. As I said, we will be targeting the Sydney metropolitan area—that is, areas with, on average, 600 customers a day; some large strip and neighbourhood shopping centre style locations. That is where we will be targeting. Again, we have to look at outlets and at locations. It is not just a case of saying, ‘Yes, let’s attack all of those.’ It has to be appropriate for this model. So there is a very significant difference, and we will be approaching the franchises very much separately from licensees—unless they want to sell back to us and it fits our model.

Senator MACKAY—At the end of the day, how many PostShops do you think there will be in Australia?

Mr Jackson—Currently there are 700. It is very difficult for me to give you an absolute figure, but I would say that we are looking at about 150 franchise operations over about the next three years. Let us add 150 onto that. If none of those are now PostShops that would be the equation, but of course some of them probably are corporate PostShops or could be converted, so you will be counting the same again, so it would not be 150 more.

Senator MACKAY—Is this a long-term aim of ultimately replacing the LPO network?

Mr Jackson—Definitely not.

Senator MACKAY—How isn’t it?

Mr Jackson—The LPO network is very relevant to a whole lot of segments of the business, and we certainly are committed to that. There are a whole lot of things we

are doing with that as well—we are not just standing still with the LPOs and doing this. We are trialling a business benchmarking system for LPOs at the moment. We are doing other work with them in terms of giving minimum payments to the very small ones on the end of the scale, to maintain those. There is a whole lot of things we are doing with that network. We certainly will not be out to replace the LPO network by any means. As I said, out of the 150 we have envisaged having of the new franchised PostShops over the next three years or so, I would suggest that about 50 might be buybacks of licensees who voluntarily want to sell back and it fits our model. If it does not fit our model, we would express no interest in it and we would just let it go on as it is.

Senator MACKAY—Is Australia Post anticipating that the PostShops will be profitable?

Mr Jackson—Most definitely.

Senator MACKAY—They will make money?

Mr Jackson—Yes.

Senator MACKAY—Has any modelling been done in relation to the profitability of the PostShops?

Mr Jackson—Yes. We have had four trial sites: one in Victoria and three in Sydney. They have been going for just over a couple of years. That model seems to be operating very successfully. The Ernst and Young report you received was a very early appraisal of those operations.

Senator MACKAY—Good; I was going to ask that.

Mr Jackson—Since then they have even gone on to bigger and better things. We are very confident that this model offers something for the franchisee—as well as for Post, obviously. I have talked to some franchisees personally, and they are quite excited about it. They are asking us when we are going to have more. The model seems to fit in terms of meeting both needs; it is a win-win. For somebody to invest their money, they have to get something out of it as well, but Post also takes some value out of it. It is our brand. They are really only getting a franchise to use our brand, which is quite a powerful brand.

Senator MACKAY—Has Post done any modelling in relation to what the network may look like? You have PostShops, LPOs, community post offices et cetera, so there is a fairly interesting picture emerging. Have you done any modelling—particularly in terms of demographic change, business et cetera—about what the network might look like?

Mr Jackson—We have done some modelling. An extensive modelling exercise kicked off about three months ago. We got some software in place in all the states and

we are coordinating it at a national level here. We are coming up with a future blueprint. A lot of that is location, but it is also a format. As an example, we are experimenting with other formats of outlets. In the case of Sydney, we are experimenting with a kiosk style, which is like a Mr Minute. We have one operating at Parramatta Westfield. It is a corporate, but it is a satellite to a corporate office in the downtown area. With the larger regional shopping centres, for instance, we can then have two outlets of a smaller nature, and still make them profitable by not having a large scale. We find it is best to disperse the customers, and we can get better value in our sales efforts by having less queuing and smaller operations.

We are experimenting with a whole lot of formats. We have another couple, which are a variance on our traditional PostShop, on a trial basis at the moment. We have a very small leased area with the counter area adjacent to the mall space. We are trying to contain our costs. We have a lot of transactions and a lot of customers—a million customers a day—but we obviously have very small value transactions. We have to be able to make sure the fixed costs of our leases and fit-outs et cetera are small.

Once we do this network modelling of where we need outlets—remembering we have the community service obligation to maintain the number of outlets and we have to have a buffer with those numbers so we do not sail close to the wind—we will be able to ensure we are planning to have outlets where they are more relevant in the future. There are some places in the metropolitan area which are oversupplied by outlets. We will be looking to have a blueprint that we can work towards over a long period of time. We will not be doing it all in one year, but at least we will have a clearer blueprint on where we go with outlets and what types of outlets we will put into those areas.

Senator MACKAY—So, once the blueprint is complete, Australia Post will be saying, ‘These are the sorts of services we need in these particular areas and this the kind of mix we require. We need fewer outlets here and more outlets there, and whatever.’

Mr Jackson—Yes, and we would be saying, ‘We would see that one as a typical franchised PostShop, we would see that one as a typical licensed outlet and that one as a corporate et cetera.’ The larger regionals would be corporates. We have been doing a little bit of work on that but we certainly have not got it all finished yet. We have started some trials of different formats, so when we get to a network blueprint point we will know what sorts of these formats will fit the various parts of that blueprint of the network.

Senator MACKAY—This will be a fairly extensive exercise, by the sound of it.

Mr Jackson—Quite massive, yes. I only just resourced the role about two months ago, so we have started the journey but there is certainly a lot of work to do.

Senator MACKAY—Who is doing that? Is that being done internally?

Mr Jackson—Yes. It will be done in conjunction with the states, because we are organised on state business units, and corporate headquarters is responsible for establishing the policy. We will be coordinating from the corporate headquarters here, but the states will be doing some of the on-the-ground work. A whole lot of software, ESRI data et cetera will be used in the geodemographic mapping so we will know where populations are and we can plot the forecasts. We will know where commercial districts are designated, we will know the time lines on those and where we will need to be moving to, so we will have a very comprehensive blueprint down the track. This is quite a large exercise. But going back to your original question, Senator, I do not think the network will change massively; I think it will move to more appropriate locations for customers and we will have more targeted offers for customers.

Senator MACKAY—When will this blueprint be finished?

Mr Jackson—There is a good two years work in it, just trying to get it all nailed down, because we still have some evaluations of trials to go and there are a number of other ideas we have that we want to trial, so we do not have all the formats yet for what we might want to offer, let alone a location basis and then what format fits what location.

Senator MACKAY—Do you have a time line of two years?

Mr Jackson—That is a rough estimate. We are not nailing it down to say we have to have it now, because we have got priority areas now where there are decisions made every day on changes that happen like shopping centre extensions. We have our local area managers keeping tabs on movements now, but we want to have a much longer blueprint so we know where we are heading in the long term.

Senator MACKAY—And this blueprint will underpin some kind of strategic plan that would be a 10-year plan or a 20-year plan?

Mr Jackson—It would be a 10-year broad plan with about a five-year horizon on it, more precisely. Things move and change, and costs and whole business environments are moving rapidly, so we need to be adapting quickly to what happens in the business environment.

Senator MACKAY—Chair, I would not mind hearing a bit more about this at some stage.

CHAIR—Okay.

Senator MACKAY—I would like to hear what it is looking at—the sort of software, for instance. Clearly, if this is going to underpin a decade-long plan by Post, it might be worth informing us on a without prejudice basis—obviously Post can change its mind.

Mr Jackson—Yes, and plans have to be flexible because things do change. But that will be progressing. As I said, we have just started off—it is in the very early days. We are just getting some training for people and trying to pull together a big action plan for it all.

Senator MACKAY—We will let you know when we are interested—probably a bit further down the track.

Mr Jackson—Okay.

CHAIR—Would you plan to maintain corporate PostShops long term? Or would you plan to have an almost completely franchised operation?

Mr Jackson—We would plan to always have corporate PostShops for a whole lot of reasons. We see it as important to have PostShops of our own for whole lot of market experiments and things like that. It is very difficult to impose some trials on franchisees when they have their investment in their business. That is one reason that quickly comes to mind. A lot of franchise operators do the same—they maintain some owned outlets as well as outsourced ones.

We might not have as many corporate ones as we do today, and we are looking at various areas where we think they should be outsourced. We have had some preliminary discussions with the CEPU in terms of looking at the policy conversions. In some of the areas where we were thinking we should convert, we have undertaken to work with them to look at how we can improve the profitability of those outlets under a corporate operation. At this stage, I would say, yes, down the track, we will always have corporate outlets but it might not be as many as it is today.

CHAIR—Thank you.

Senator MACKAY—What I need to do now is go away and read the reports that have been provided to us by Australia Post. I am a bit hampered because I have not had a look at those at this stage, but I can put further questions on notice through either the Senate or the estimates round in November. That might do me for the moment, unless there is anything more you want to add.

Mr Jackson—Your questions would be the best thing to answer because I could talk all day, but that would probably not be relevant to you, Senator.

Senator MACKAY—Concerning commercial-in-confidence, be aware that you have to be very careful about what you expunge. The Clerk of the Senate has very firm views in relation to commercial-in-confidence these days, so do not get the black marker out too readily. If you do expunge information, it really does have to be germane in relation to financial implications, et cetera, and not just stuff you do not want people to know about, to be honest. It is not just you; it is the same for a lot of people.

CHAIR—That includes today's hearing. I thank everyone for their attendance and cooperation. Is it the wish of the committee that the transcript of today's proceedings and several exhibits, excluding those two which have been designated commercial-in-confidence, be published? There being no objection, it is so ordered. I declare this meeting adjourned.

Committee adjourned at 2.28 p.m.