



POAAL

Post Office Agents Association Limited
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8 August 2011

Committee Secretary
Senate Select Committee on the Scrutiny of New Taxes
Parliament of Australia
PO Box 6100
Parliament House
CANBERRA ACT 2600

Email: newtaxes@aph.gov.au

Dear Sir or Madam,

Carbon tax and the postal sector

The Post Office Agents Association Limited (POAAL) is the national association representing the owner/operators of Licensed Post Offices. There are nearly 3000 LPOs across Australia, comprising about 80% of Australia Post's post office network. POAAL also represents Mail Contractors who deliver mail under contract for Australia Post.

POAAL holds concerns regarding the impact of the proposed Carbon Tax on the postal sector – in particular LPOs. The small business owners who operate LPOs are limited in their ability to pass on to customers any increase in operating costs that might arise from the introduction of a carbon tax.

The proposed carbon tax will increase Australia Post's operating costs. Because of price controls on Australia Post's reserved service, Australia Post is unable to simply increase prices across the board to compensate for increased operating costs.

If the Committee has any questions regarding POAAL's submission, I may be contacted at the POAAL National Office

Yours faithfully,

Ian Kerr
CEO



POAAL

Post Office Agents Association Limited

POAAL submission to the
Senate Select Committee
on the Scrutiny of New Taxes:
Inquiry into Carbon Tax Pricing
Mechanisms

August 2011

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Background

1. The Post Office Agents Association Limited (POAAL) represents the nearly 3,000 small business owners of Licensed Post Offices. The Licensed Post Office network makes up about 80% of the Australia Post retail network. Our members are also drawn from the operators of the approximately 5,000 mail contracts, delivering mail and parcels for Australia Post to customers across the country, and from the network of about 630 Community Postal & Mail Agents. (Further information on the background of our organisation may be found on our website www.poaal.com.au.)
2. Our members are all small business owner/operators who have invested heavily financially – and personally – in the Australia Post retail and mail network either through purchasing a Licensed Post Office or successfully tendering for a mail contract. Post office licences are purchased on the open market, and prospective Licensees undergo extensive training. They are the front line for the services provided to Australian communities, especially in regional, rural and remote areas of Australia.
3. Licensed Post Offices (LPOs) are operated under licence from Australia Post. Each LPO forms part of Australia Post's retail and delivery network. Licensees are small business people, and their businesses provide the framework for delivery of postal services in their area. The Licensee is responsible for all business expenses, including providing premises and meeting the costs of business overheads such as utilities and staff costs.
4. Many LPOs are operated in conjunction with another small business such as a general store, convenience store, newsagency, pharmacy, or stationery and gift sales.
5. LPOs are considered to be franchises under the *Franchising Code of Conduct*. The LPO network is the largest franchised retail network in Australia.
6. The number of delivery points, i.e. households, in Australia is increasing while overall letter volumes are declining. According to Australia Post's 2009/2010 Annual Report, there are some 100,000 new addresses being added every year.¹ In the 2009/2010 financial year, addressed letter volumes fell by 5.5%.²
7. Australia Post is expected to operate in a manner consistent with sound commercial practice and to pay a reasonable dividend to the Commonwealth.³

¹ Australia Post Annual Report 2009-10, page 2.

² Ibid, page 9.

³ Australian Postal Corporation Act, Section 26 and Section 38(c).

Impact on Licensed Post Offices

8. POAAL understands that the proposed carbon tax will increase a number of costs – such as utilities – associated with operating an LPO.
9. Licensees sell postal products and services which have fixed prices. The basic postage rate (BPR) – which determines many Licensee payments – has been increased only three times in the last 17 years. In order for the base domestic postage rate to increase, Australia Post must apply to the ACCC. The application then undergoes a rigorous and public examination in order for the increase to be granted. The last increase to the BPR (from 55c to 60c) was approved in May 2010 and took effect from June 2010.⁴
10. Licensees will not be able to pass on to customers any increases in LPO operating costs that may arise from the introduction of a carbon tax.
11. There is limited scope for Licensees to reduce their energy usage.
12. Those Licensees whose LPO has a turnover of under \$2m may have the opportunity to benefit from a change in the rules for business asset tax deduction. Some Licensees may be able to take advantage of the change to purchase equipment that would reduce energy usage and annual operational costs such as solar panels. This would of course require the capital to be available to invest in such equipment – a challenge at LPOs operating under tight margins.
13. POAAL holds serious concerns that Licensees will be expected to simply absorb the increased operating costs and battle on. This will put further pressure on LPO owners, especially those in rural areas who may be already struggling courtesy of population drift and the decay of local industries.

Impact on Mail & Parcel Contractors

14. Mail & Parcel Contractors are independent contractors who deliver mail and parcels for Australia Post. All parcels in Australia are now delivered by Parcel Contractors. In regional, rural and remote Australia most mail deliveries are performed by Contractors.
15. Most Mail & Parcel Contractors use light commercial vehicles such as vans and 4WDs; the standard “postie bike”; or in some cases a station wagon or ute. A small number of Contractors use trucks, typically for long haul routes.
16. The impact of the proposed carbon tax on Mail & Parcel Contractors may be minimal if, as the Government has indicated, small vehicles will be exempt from any carbon pricing for the foreseeable future. However, many Contractors operate on tight margins, and slight cost increases can have a direct impact on the viability of their business.

⁴ Australia Post Annual Report 2009-10, page 15.

17. Under the structure of the contract relationship between Mail & Parcel Contractors and Australia Post, Contractors can apply for an increase in their contract fee when fuel prices increase by more than 5% over a 3-month period. If the price increases arising from cost increases in the manufacture and distribution of fuel are in line with the Government's predicted 0.7% increase in the cost of living, this will mean that, in the short term at least, Contractors would have to absorb any small increases in fuel prices due to a carbon tax. Over time, the increases in fuel costs will be passed on to Australia Post.
18. Under the terms of the standard mail contract, Contractors can apply annually for a variation of their contract fee in line with CPI. This is to account for increases to other operating costs, such as vehicle servicing. As with fuel, in the short term Contractors would have to absorb any increased operating costs. However, over time, increases in other non-fuel operating costs would be passed on to Australia Post.
19. There is certainly no allowance made under the mail contract for Contractors to pass on any increases in operating costs to individual households.
20. Therefore, in the 12 months following the introduction of a carbon tax Contractors would have to absorb any increased operating costs resulting directly or indirectly from a carbon tax. After that initial year, most of the cost increases would be passed on to Australia Post. There are 5000 individual mail contracts, so the resulting increase in costs for Australia Post would be significant.

Anticipated impact on Australia Post

21. POAAL understands that Australia Post is not among the top 500 polluters identified by the Government, however the carbon tax will undoubtedly impact on Australia Post's operating expenditure.
22. The biggest cost increases will be for electricity, gas and the costs Australia Post incurs through its procurement of goods and services. It would be anticipated that most of Australia Post's suppliers' operating overheads will increase and that they will be looking to pass these expenses on to their customers. This means that costs across Australia Post's supply chain will grow.
23. For the first two years transport will not be subject to the carbon tax, so the cost to Australia Post of running its fleet of cars, vans, trucks and motorcycles should not be impacted. However, aviation is not exempted from the tax, so the cost of using domestic airlines to transport mail (including ordinary domestic mail and Express Post mail) interstate will increase.
24. In year three of the operation of the proposed carbon tax, major transport companies will no longer be exempt from the carbon price, and as a result Australia Post will see a reduction in its annual diesel fuel tax credit.

25. These increases in operating costs will place increasing pressure upon Australia Post's business, in particular the reserved service. As noted above, the last increase to the BPR (from 55c to 60c) was approved in May 2010 and took effect from 28 June 2010. Despite this price increase, Australia Post will not profit in this financial year from its reserved service because the cost of providing the service exceeds the revenue earned from it.⁵
26. The ACCC also shares the view that "there is currently significant pressure on Australia Post's reserved service revenue streams resulting in a substantial forecast under-recovery of reserved services costs."⁶
27. In the ACCC's May 2010 decision, it noted that it considers that no further changes to reserved service prices should be required for the period 2009/10 to 2011/12.⁷
28. Under Section 26 of the *Australian Postal Corporation Act*, Australia Post is to "perform its functions in a manner consistent with sound commercial practice." This notwithstanding, Australia Post is subject to a number of Community Service Obligations (CSOs), which serve the purpose of safeguarding access, pricing and service levels.
29. The CSOs include obligations to:
- a. Provide a letter service at a single uniform rate within Australia;
 - b. Maintain a network of 4000 post offices (2500 in rural and remote areas);
 - c. Deliver to 98% of delivery points five days per week;
 - d. Deliver to 99.7% of delivery points no less than twice per week; and
 - e. Maintain a network of at least 10,000 street posting boxes
30. In 2009/2010, Australia Post met all its CSOs and performance standards. It is estimated that meeting CSOs in 2009/2010 cost Australia Post \$120.5 million.⁸
31. A carbon tax will increase the cost burden to Australia Post of meeting its CSOs.

Can Australia Post find cost savings?

32. In recent years, Australia Post has made public its intention to reduce its impact on the environment. Australia Post has implemented a strategy to reduce its carbon emissions by 25% while at the same time reducing its operating costs. In the context of a carbon tax, Australia Post will no doubt continue to seek to reduce its resource consumption which in turn would reduce its levy and other expenses. By reducing consumption and wastage, Australia Post would also be reducing its carbon footprint.

⁵ Australia Post Annual Report 2009-10, page 15.

⁶ ACCC, *Australian Postal Corporation 2010 Price Notification Decision*, May 2010, page 4.

⁷ Ibid.

⁸ Australia Post Annual Report 2009-2010, page 98.

33. Australia Post already has some electric-assisted pushbikes in service – although this will be of limited value if a carbon tax applies to electricity used to recharge the electric vehicles.
34. Australia Post has installed aerodynamic devices on its trucks and Australia Post's truck drivers have been put through environmental driving courses to minimise fuel usage. Australia Post's fleet is renewed every seven years, and Australia Post constantly monitors alternative fuel options. One of the few viable alternatives is compressed natural gas (CNG), and POAAL understands that Australia Post is planning to trial a CNG van and truck shortly. Advantages of CNG-powered vehicles include lower operating costs (compared to diesel fuel) and reduced dependence on oil, the latter becoming increasingly important in a world where oil prices are volatile.
35. More recently Australia Post has been an early adopter of the trend to move its corporate fleet away from larger cars and towards compact or hybrid vehicles. Traditionally, Australia Post's corporate vehicles have been six cylinder sedans, however Australia Post now has a contract with Toyota and is in the process of replacing its six cylinder Ford Falcons with four cylinder vehicles, or six cylinder hybrid vehicles where a larger vehicle is still required. As noted above, the advantages of a hybrid may be lost if a carbon tax applies to electricity.
36. There may be opportunities for Australia Post to further encourage its staff to reduce energy consumption and wastage in the workplace. The possible savings that could be generated from any staff initiatives are unknown.
37. Another means for Australia Post to reduce its costs would be to reduce the number of delivery days, whether for selected areas or for the whole of Australia.
38. A change to delivery frequency would require a change to Australia Post's Community Service Obligations.
39. A reduction in delivery days would result in a reduction in income for Mail Contractors affected by the change. With reduced income on offer, it would also become more difficult for Australia Post to attract quality Contractors to perform mail services. Should a variation to the CSOs be proposed by the Government, POAAL would seek extensive consultation with the Government and Australia Post on the matter.
40. With respect to Australia Post's parcels business, Australia Post may be able to increase prices in response to increased operating costs. The delivery of parcels is a competitive business, with Australia Post subject to competition from domestic and international carriers, meaning that there are pricing sensitivities for parcel post services. POAAL is of the opinion that given the competitive environment, Australia Post will first look to find efficiencies or reduce costs in its parcel delivery chain before considering an increase in parcel post pricing. This could in turn put pressure on Parcel Contractors and Licensees involved in the delivery of parcels.

41. There remains the issue of international competition for domestic parcel delivery business and the issue of transfer pricing.
42. Postal corporations operating in countries without a carbon tax will be at a competitive advantage over Australia Post, further enabling them to compete for offshore warehousing and parcel delivery business for Australian businesses, in particular e-commerce businesses.
43. International parcel post flows and pricings are governed by a number of treaties made through the Universal Postal Union (UPU). These treaties outline how Australia Post receives payments from international postal organisations for processing and delivering incoming international mail. These payments can be factored into the pricing for international parcels sent from overseas to Australia.
44. In a recent submission to the Productivity Commission's Retail Inquiry, Australia Post noted that the "UPU's payments arrangements are complex, subject to price floors and caps, and do not properly reflect the true processing costs of many destination postal administrations, including Australia Post. Under the UPU's payment arrangements, Australia Post gets paid the same amount for the processing of inbound international mail irrespective of its actual costs of delivery. As a result, the pricing of international parcels destined for Australia by origin postal administrations may be lower than it should actually be if properly costed and based on sound commercial practice."
45. In the same submission, Australia Post states that the payments it receives under the UPU's terminal dues system (that is, the payment from other postal administrations for the processing of inbound mail and small parcels) is well below the cost of delivery within Australia.⁹
46. If a carbon tax were to be introduced, Australia would need to attempt to renegotiate its payment structures under these UPU treaties, otherwise Australia Post would be further disadvantaged financially for every overseas parcel it delivers in Australia.

⁹ Productivity Commission, *Economic Structure and Performance of the Australian Retail Industry Draft Report*, July 2011, page 99.

Summary

47. While the carbon tax has been proposed with the intention to reduce pollution, there appear to be practical outcomes of the proposed carbon tax scheme that will damage the ongoing viability of parts of the postal network.
48. Small business owners operating LPOs will have limited ability to compensate for any increases in operating costs because of the fixed prices of products and services offered at LPOs.
49. Because of their size and the nature of their businesses, LPOs will not be able to drive savings in operating costs through attempts to reduce energy usage or wastage.
50. Mail & Parcel Contractors will be expected to absorb price increases in the short term, resulting in decreased operating margins and greater financial stress. However, any increased operating costs should eventually be passed on to Australia Post through contract price adjustments.
51. POAAL forecasts that any carbon tax will increase Australia Post's operating costs, and while Australia Post may continue seeking efficiencies and working to reduce its energy usage, there will be a tangible negative effect on Australia Post's bottom line and its ability to meet its Community Service Obligations.
52. A carbon tax may necessitate a review of Australia Post's Community Service Obligations in order for Australia Post to manage its costs and not be reliant upon the Government for funding.
53. A carbon tax will increase Australia Post's delivery costs, making it more attractive for businesses to seek to transfer warehousing and delivery offshore to countries with no carbon tax.
54. If a carbon tax were to be introduced, Australia would need to attempt to renegotiate its payment structures under various UPU treaties, otherwise Australia Post would be further disadvantaged financially for every overseas parcel it delivers in Australia.

Glossary

ACCC	Australian Competition and Consumer Commission
BPR	Basic postage rate
CNG	Compressed natural gas
CSO	Community Service Obligation
LPO	Licensed Post Office
POAAL	Post Office Agents Association Limited
UPU	Universal Postal Union