



HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT, AND MICROECONOMIC REFORM

Reference: Australia Post's rural and remote letter delivery services

MELBOURNE

Monday, 22 July 1996

OFFICIAL HANSARD REPORT

CANBERRA

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND MICROECONOMIC REFORM

Members:

Mr Vaile (Chair)

Mr Albanese	Mr Peter Morris
Mr Bob Baldwin	Mr Neville
Mr Ross Cameron	Mr Randall
Mrs Crosio	Mr Tanner
Mr Hardgrave	Mr Wakelin
Mr McArthur	Mr Willis
Mr McDougall	

Terms of reference:

The committee is conducting an inquiry into rural and remote letter delivery services, having regard to the need to meet the Government's social objectives of providing universal access to a letter service at a uniform rate of postage and the role of postal services to reasonably meet the social, industrial and commercial needs of those communities, with particular reference to:

the need for and extent of Australia Post's Community Service obligations

the costs and funding of these Community Service Obligations given their size and Australia Post's commercial obligations

the capacity of Australia Post to maintain current performance standards and options for increasing those performance standards and options for increasing those performance standards under section 28C of the *Australian Postal Corporation Act 1989* in those communities

whether any further reduction in Australia Post's reserved letter service at this stage would diminish Australia Post's capacity to maintain and/or increase its Community Service Obligations in these communities.

As part of the Inquiry the Committee should consult with rural and remote users on postal service requirements and should have regard to the needs of specific community groups such as Aboriginal and Torres Strait Islander communities, pensioners, people with disabilities and low income households.

WITNESSES

BAULK, Mr Brian Keith, Divisional Assistant Secretary, Communications, Electrical and Plumbing Union, 139-155 Queensberry Street, Carlton South, Victoria 3053	30
CASTRO, Mr Maurice Charles, Group Manager, Strategic Planning, Australia Post, 321 Exhibition Street, Melbourne, Victoria	3
COBBOLD, Mr Trevor, Director, General Research Branch, Industry Commission/Productivity Commission, PO Box 80, Belconnen, Australian Capital Territory	45
GILLROY, Mr John Stanley, Chief Executive Officer, Major Mail Users Association of Australia Limited, PO Box 708, Strawberry Hills, New South Wales 2012	97
GOULDING, Mr David Nevill, Industrial Officer, Communications, Electrical and Plumbing Union, 139-155 Queensberry Street, Carlton South, Victoria 3053	30
HANNA, Mrs Jane Mary, Acting Director, Postal Policy Section, Telecommunications Industry Division, Department of Communications and the Arts, GPO Box 2154, Canberra, Australian Capital Territory 2601	63
HILL, Mr Rowland, Group Manager, Corporate Communications, Australia Post, 321 Exhibition Street, Melbourne, Victoria	3
KERR, Mr Robert, Acting Head of Office, Chief of Staff, Industry Commission/Productivity Commission, 28th Floor, Collins Tower, 35 Collins Street, Melbourne, Victoria	45
MARSHALL, Mr James John, Group Manager, National Operations, Australia Post, 321 Exhibition Street, Melbourne, Victoria	3
MURPHY, Ms Janet Anne, Assistant Secretary, Access, Education and Finance Branch, Federal Bureau of Consumer Affairs, Department of Industry, Science and Tourism, 50 Blackall Street, Barton, Australian Capital Territory 2600	86
NEIL, Mr John Brian, Assistant Secretary, Enterprise and Standards Branch, Telecommunications Industry Division, Department of Communications and the Arts, GPO Box 2154, Canberra, Australian Capital Territory 2601	63

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Australia Post's rural and remote letter delivery services

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Present

Mr Vaile (Chair)

Mr Ross Cameron

Mr Neville

Mr Hardgrave

Mr Wakelin

Mr McArthur

Mr Willis

Mr McDougall

The committee met at 9.05 a.m.

Mr Vaile took the chair.

CHAIR—I declare open this public hearing on the inquiry into Australia Post’s rural and remote letter delivery services. This is the first public hearing of the newly established House of Representatives Standing Committee on Communications, Transport and Microeconomic Reform. The inquiry into Australia Post’s rural and remote letter delivery services has been reinstated and continues the work of the previous committee from the 37th parliament. The previous inquiry received over 200 submissions, and public meetings were conducted in rural and remote areas in Victoria, New South Wales, Queensland, the Northern Territory, South Australia and Western Australia. Four public hearings were also conducted in Canberra. This evidence will assist the new committee in completing the inquiry.

The focus of the inquiry is on Australia Post’s community service obligations. Australia Post is required by law to deliver a standard letter from anywhere to anywhere in Australia at a standard rate of 45c, regardless of the costs incurred. The committee is considering ways to maintain and strengthen Australia Post’s services to people in rural and remote areas. We will explore various options for extending community service obligations and improving quality of service.

In addition, the committee is considering a new term of reference relating to a charter of responsibilities for Australia Post. The purpose of the charter is to put in place standards of service that will satisfy the postal needs of the Australian community into the next century. The charter will encourage Australia Post to adopt world best practice in areas such as delivery times, retail outlets and postal services to rural and remote areas.

The major purpose of this hearing is to collect evidence on the charter of responsibilities. Australia Post and consumer groups will have the opportunity to give evidence. Another matter before the committee at this hearing is the method used to pay for community service obligations. The Productivity Commission supports the use of direct budgetary payments while Australia Post supports the current method of cross-subsidisation.

The committee will be taking evidence from Australia Post, the Communications, Electrical and Plumbing Union, the Productivity Commission, the Department of Communications and the Arts, the Federal Bureau of Consumer Affairs and the Major Mail Users Association of Australia. I now call representatives from Australia Post.

[9.07 a.m.]

CASTRO, Mr Maurice Charles, Group Manager, Strategic Planning, Australia Post, 321 Exhibition Street, Melbourne, Victoria

HILL, Mr Rowland, Group Manager, Corporate Communications, Australia Post, 321 Exhibition Street, Melbourne, Victoria

MARSHALL, Mr James John, Group Manager, National Operations, Australia Post, 321 Exhibition Street, Melbourne, Victoria

CHAIR—Are there any amendments to your submission or would you like to make a short precis of that as an opening statement?

Mr Hill—Thanks, Mr Chairman. With your agreement, I would like to run through, very quickly, the contents of our submission. I understand it is already available to committee members but I think I can summarise it very quickly for you. It addresses two broad areas: firstly, rural and remote delivery issues arising from the work of your predecessor committee under the previous government; and, secondly, the charter of postal responsibilities which you have invited us to comment on.

To begin, I would like to make an overall observation of the outcomes of the inquiry so far from our perspective. From the submissions you have received and from the more than 20 public meetings and the public hearings that have been held nationwide, and from our observations when we travelled with the committee, there appears to us to be wide acceptance of the value and level of services provided by Australia Post. In rural and remote areas, the major concern appears to be to hold existing service levels, rather than to expand them. We are confident that the recommendations from this inquiry will reflect these observations.

Turning to some specific issues—we have outlined these in our submission—in approaching this inquiry, we ourselves initiated a review of our mail delivery services in about 2,500 communities in rural and regional Australia, covering about 180,000 delivery points. Just over 11 per cent, that is 21,000 households or businesses, have opted for enhanced mail services as a result of our survey. This relatively low level of change, we think, reflects the effectiveness of our coverage to date. We have not found an overwhelming need by people or requests from people to have a change to their services.

Of course, a small number continue not to be serviced; we estimate this to be less than one per cent of households. About 5,000 of these are in very remote or inaccessible areas without infrastructure to reach them, or where a service could only be provided at a very high cost. There are about 75,000 further households in very small communities, within walking distance of a postal outlet, which do not get property delivery. When account is taken of all these, we estimate that more than 99 per cent—as high as 99.9 per cent—of households and businesses receive from two to five deliveries a week to their preferred delivery point.

With regard to Aboriginal communities, the inquiry was told earlier that about 51 Aboriginal communities do not receive a mail service. We have consulted with ATSIC. As a result, two now have LPOs

and 27 have CPAs. Discussions are continuing with ATSIC about servicing the remainder of those 51 communities.

The remote area subsidy scheme was raised in the inquiry. We want to make clear that its operation has never fallen within our legal responsibilities. Aircraft operating under the RASS scheme now carry passengers and freight as well as mail. Should the government close the scheme, we would appoint contractors under our normal policies and procedures, and the mail service would be maintained.

There was discussion about extending CSOs to cover educational material and medical tests. Both are already carried under the same infrastructure that carries the mail. So, from our perspective, we do not see a service or social benefit from this initiative.

Turning to the charter, we see the charter as a good initiative. The concept reflects modern consumer expectations that there will be a clear expression of what they can expect from their service provider. It fits with our commitment to achieve world best practice in all that we do. So we wholeheartedly accept and endorse the idea. In doing so, we believe it should inform users of their postal service rights, outline the obligations of both senders and receivers, publicise where they can seek further information and redress, and ensure there is consultation with users. We believe this is best achieved by a simple, customer-friendly presentation of our existing obligations; that is, those which already exist under section 27 and section 28C of the act. We see the charter based on the requirements of these two sections.

Such a charter established under 28C would set global performance standards to cover delivery frequency, speed and accuracy, with minimal levels of acceptable performance specified. For example, it could specify five deliveries a week to 98 per cent of delivery points; one delivery a week to not more than 0.1 per cent of delivery points; and not less than 93 per cent on-time deliveries each year.

It could set minimum levels of our representational presence, for example: no fewer than 4,000 postal outlets nationally, no fewer than 10,000 mail lodgment points nationally, and no fewer than 12,000 stamp dispensing outlets. It could set the maximum time deliveries will take consistent with customer expectations, for example: the next day for across town metropolitan deliveries, the second working day for deliveries between metropolitan and country areas in the same state, and third working day for deliveries between metropolitan and country areas between states.

It could establish the circumstances in which the property delivery service would not exist, for example: when a cost exceeds a set maximum—today we take that maximum of \$1,200 per year—when a community is very small and people can walk conveniently to the postal outlet to collect mail, or where the collective choice of a community is for delivery to a postal outlet. The charter would explain how complaints can be made, and what a user can do if he or she remains unhappy with the response. It could set out what users can expect by way of compensation when we fail to meet our undertakings.

If you accept this proposal we believe that there would be no need for amendments to the act as it now stands. After all, the service we provide is already meeting community needs. As I said at the outset, we believe this inquiry has found wide acceptance of our services—a fact that, we believe, is supported by our own surveys of customer response to our services. As far as knowledge of the charter is concerned, we could

undertake to ensure there is wide distribution of the charter and the information that underpins the charter. We have submitted full details to the inquiry of our rationale for such an approach and, as well as that, we have endeavoured to put together a draft charter that would cover that sort of approach. We are happy to discuss this further with you.

CHAIR—I will start with the first question. With regard to the charter, you have clearly set out that, as far as Australia Post is concerned, you would be happy for that to remain as is with the performance standards set out in section 28C. Do you see the charter as only being oriented towards Australia Post's customers? What about some of the LPOs and other agencies? Do you think there should be reference to that in the charter?

Mr Marshall—If we start at the beginning, the charter is about obligations which create rights. The obligations are set out in section 27 and the obligation to provide a postal service. I think the obligations are owed to the community and therefore the charter is about the rights of individuals, households and businesses in the community. The relationship with the LPOs is one of contract. It is a contractual relationship and, if you like, the LPOs are a means by which the obligations are fulfilled. In my view, the contractual business obligations should be kept out of the charter.

Mr NEVILLE—Mr Castro, you will recall we discussed this in the earlier inquiry. In theory, what you say is fair enough, but in practice however—especially in the case of the CPAs—there is no guaranteed income for a CPA postmaster today. In fact, he has to battle along on stamps, a few money orders, sell a few cards and things like that. He might have a few post office boxes. He might do a bit of mail sorting. He does not have any other source of income. You will recall that in the last inquiry I complained about the fact that Australia Post had been less than helpful to those CPAs, some of whom, when they were your own postmasters, handled electricity, gas accounts and so forth. But for some reason under the new set-up the CPAs were deleted from that activity. I know that in a number of small communities in my area that facility went to the local shire council. While I would applaud the shire council having that in the absence of an Australia Post provider, I think that gutted the ability of a CPA to make a reasonable living. Most of the CPAs I talk to are going to be in big trouble as electronic transfer of data and information in the postal and financial sense continues over the next few years or next decade or so.

I think there needs to be in the charter—if not stated explicitly—implied by some other clause in it that Australia Post has a responsibility to provide the basic outlet in these communities in its charter of responsibilities to make sure that there is some method of keeping that person or that facility in those small communities. I do not think you can just say that, because we have a contract with these people, it should not be part of the charter. Because you know as well as I do that the contract per se will not guarantee the delivery of a postal receive, a stamp outlet and so forth in some of those small communities. That is my concern.

Mr Castro—We have something like 3,500 contractors—between, I suppose, 2,900 licensed officers and 450 to 500 CPAs. They are another form of contract and, in effect, they do less business. The charter would commit Australia Post to continuing to service the market by whatever means is required. By doing this, the charter would say that we would hold no less than 4,000 offices open. Among the 4,000 offices open you would have a large proportion of LPOs and CPAs. Australia Post would be duty bound to make the

arrangements viable for those people. The charter, in my view, cannot really accommodate what needs to be a commercial arrangement. You really need to be able to make sure that those people are in the best position to do business and earn their money. The alternative might be to provide for a specific subsidy to keep them open, but I do not think that is really in contemplation.

CHAIR—Just going back to the point with regard to section 28C of the act, what is the view of Australia Post with regard to the possibility of amending that section of the act to incorporate a fully laid-out charter responsibility in the act?

Mr Castro—I have difficulty with the notion of legislating the charter. The charter is already in section 27. The obligations are all there. The charter is the vehicle by which they are expressed. So if you look at the total scheme, the obligations are there in section 27. The minimum auditable, quantifiable global standards are in section 28C. The charter really stands between what is already there in the legislation and the processes that we follow—the policies, the guidelines, the corporate plan. So the scheme that we put to you was one which was conceived to have no duplication and no confidence. The charter at best is a fine tuning and a mode of expressing the entitlements of the community.

CHAIR—Just for my benefit, as you are a GBE, does the Auditor-General do a performance audit on Australia Post?

Mr Castro—They have done a performance audit, yes.

CHAIR—Is that an annual requirement?

Mr Castro—No, it is not. It is a selective matter. There was a performance audit carried out some years ago.

CHAIR—How long ago was the last performance audit carried out?

Mr Castro—I do not have the precise year but if you want it I will take that on notice.

CHAIR—In your submission you indicate that, once established, a copy of the charter would be delivered to every address in Australia. Do you have any idea of the cost of that?

Mr Hill—We have done a quick estimate of both the production costs and the distribution costs. The production cost for a simple charter—we have based the costing on just a DL two fold, three page—would be about \$300,000. We would undertake the distribution to all delivery points if that is what the government wanted.

Mr NEVILLE—I am sorry to hark back to the last inquiry, but in a way it is a continuing inquiry. You spoke to us about giroPost as a new, innovative form of banking. This matter has been heightened by another tranche of closures of country banks, this time by the National, which did not close many banks at the time that Westpac and Commonwealth were doing it. I think it has heightened this need that we spoke about in the last inquiry of some innovative form of banking in some of these small communities. Shouldn't

the charter of responsibilities then include something taken in combination with the dramatic changes in banking and electronic transfer of information and funds?

I will give you an example. I think you may have picked this up yourselves from the *Sydney Morning Herald* a few weeks ago. A decade ago, one per cent of our extraction of money took place on ATMs and seven per cent of our business transactions went on electronic transfer mainly in the form of a bankcard type operation—a total of eight per cent. As of last year, ATMs, EFTPOS and various cards now total 40 per cent. That has had a profound effect on country banking and one can understand why some smaller branches have become unviable, and, to a certain extent, that will impact on Australia Post because various people have got faxes and are doing things differently from the way they did them a decade ago.

Having regard for that, and having regard for the need for some innovative form of banking, and that you once had Commonwealth Bank agencies in nearly all your post offices, is there not perhaps a need in your charter to talk about Australia Post continually surveying innovative forms of electronic transfer of information and funds?

Mr Hill—I think, Mr Neville, we are approaching the banking as a commercial proposition. We are not approaching it as a community service obligation in any way. It is a rapidly changing market as you have pointed out. We are looking where opportunities exist. There is a cost for us in providing that service. We have to balance the cost against the opportunities that exist. That is what we are doing very carefully.

Mr NEVILLE—How far advanced is that program since we last spoke on it?

Mr Hill—I think from memory we have about 2,600 outlets with giroPost facilities in them.

Mr NEVILLE—What can they do through giroPost?

Mr Hill—Simple transactions—open an account, check an amount in an account, withdraw funds, transfer funds and pay an account.

Mr Castro—If the intention is to provide people in the bush with a substitute banking service when one of the four major banks, for instance, National Australia Bank, withdraws, closes its branches, you have to be careful when you think of Australia Post as a substitute. The activities and the kinds of services that we provide are simple services. They are not the full suite of banking services.

Mr NEVILLE—I think we recognise that.

Mr Castro—Yes, and I think if the needs of people in the country for banking have to be considered within some sort of general framework of CSOs, this should be done carefully rather than just putting a bandaid on.

Mr NEVILLE—I understand that.

Mr WILLIS—Do you know how many banks are actually involved in the giro facility now and

which of the majors, if any?

Mr Castro—Only CBA among the majors. All the others are regional. We have Metway, Challenge, Citibank and the Bank of Melbourne. There are eight or nine.

Mr Hill—Nine, I think, in total.

Mr WILLIS—There is nothing preventing the National Bank or any of the other major banks from becoming part of this arrangement except reaching a commercial agreement with Australia Post, is that right?

Mr Hill—Absolutely. We are prepared to take on all the banks if they so chose to use our service.

Mr Castro—But, of course, you would also have to factor in their strategies. Because these banks are competitors, they do not cooperate. So the branch network is part of their competitive armoury.

Mr WILLIS—Have any of the other major banks shown any inclination to become part of the giro arrangement?

Mr Hill—Not to my knowledge. We have had discussions with them on a number of aspects, but none have expressed a keen interest to join it.

Mr HARDGRAVE—Mr Chairman, I would just like to go to the heart of what I imagine the concept of the charter is supposed to be. It is about successfully meeting the expectations of the Australia Post customer. The basis of the charter would be looking seriously at some of the key complaints that would come forward about Australia Post performance. Are those sorts of complaints looking basically at the core services, not at the expected possible expansion of your services? What core services are there complaints about, and how is the charter going to meet those concerns?

Mr Castro—I think that the complaints are of different kinds. People might complain about a letter which they might expect and which does not turn up that day—it turns up a day late, or what they think is a day late. You may have parcels which arrive in poor condition; they may be damaged. There may be articles which are lost. They are the kinds of bread and butter complaints.

Mr HARDGRAVE—How seriously do you take those complaints when you receive them? Do you see them as an indicator of what might be wrong in a more global sense?

Mr Castro—We take them very seriously, and we use our system of complaints as an early indicator of trouble spots. We use the complaints system to indicate the areas where service needs to be looked at. Obviously, if you have two or three complaints on a particular mail path the flags go up and you have a look at why the service is not what it should be. I should say that if you are thinking of mail paths, you would probably have in excess of 300 million mail paths end to end, and you need all the help you can get to make sure that the performance is what it should be everywhere, and complaints are just this kind of mechanism. But, of course, the system is being upgraded and improved.

Mr HARDGRAVE—Do you expect, once you have flagged your intention to have a charter to Australia Post consumers, that you are going to start to see people focused more on Australia Post performance and therefore maybe complaints will actually increase?

Mr Castro—We really do not see any reason why complaints should increase. If you hold yourself open to complaints, this should be an indication that you are prepared to build on the trust that already exists. One of the interesting bits of information that came to notice was that Australia Post is one of the services most intensively used, but it is also the one that has the least number of complaints. If you improve a complaints system, I think people will see value in that rather than complain more.

Mr HARDGRAVE—Do you think there is such a small number of complaints overall that perhaps people have just seen there has been little point in complaining—nothing is going to change?

Mr Castro—Complaints are not to be feared. In a business sense you should encourage people to tell you. You might have seen this in Melbourne—it is quite common: if you like our service, tell your friends; if you don't like it, tell us. That is the way we want it.

Mr Hill—Through you, Mr Chairman, we have established inquiry centres in every state. Over the last two years we have progressively put them into place. The existence of those centres is known and the telephone numbers are available through the telephone book, so we are already dealing with a situation where people do have the opportunity to speak to us to inquire about services and to inquire about what they might perceive as failures when they have not yet become failures. And that is a lot of inquiring about delivery rather than failures. It seems to be a large part of what we have to deal with.

Mr HARDGRAVE—To sum it up, you are very gratified that the charter as you have proposed will set forth the circumstances by which a lot of those core complaints are going to be alleviated, prevented?

Mr Castro—Yes. I think that the charter does much more than this. The one thing that it does do which is new is an undertaking that complaints—domestic complaints—will be resolved within 10 days of lodgment. This is something that does not exist now, and I think that that should be something which inspires confidence. The other thing too is that if you are going to live up to this charter and you have every intention of doing that, then you would put more resources and much more focus on the process.

Mr HARDGRAVE—One final and consequential question of that, Mr Chairman: what is the cost of those additional resources to meet these higher expectations?

Mr Castro—We have not estimated that accurately. We expect that the task will be undertaken. It is part of our drive to lift the quality. If we are going to get to world best practice we must achieve a low level of complaints or no complaints.

Mr ROSS CAMERON—What is the average waiting time for a customer in metropolitan post offices during peak periods?

Mr NEVILLE—For what service?

Mr ROSS CAMERON—Say you walk in and you may want to buy a letter; you just join the queue. How long does it take to get to the front of the queue if you walk into the office in your GPO, say at 12.30?

Mr Hill—We do an annual survey of customer perceptions and attitudes to post. In that survey we do ask what people's perceptions of waiting time is. From memory, when we did it last year, 3½ minutes was their average perception of waiting time. We asked them how that compared with their bank. It was roughly the same time as the bank. We also asked them what was the speed of the transaction at the counter. Again, from memory, it was a little over a minute for us, which was, I think, half what they perceived the bank transaction time to take.

Mr ROSS CAMERON—From a rostering standpoint, do you roster on part-time casual people for that peak period? Is that the way it works?

Mr Hill—We are moving to have a counter system that is much more responsive to peak demands. As part of that we are moving where we can to part-time employment.

Mr ROSS CAMERON—Do you have other resisting constraints on that in your industrial relations commitments?

Mr Hill—We are moving—I could provide you with the percentage change that has occurred—but we are making progress in increasing the number of part-time employees for that purpose.

Mr ROSS CAMERON—At the moment, does anything stop you going out tomorrow and employing 100 people to come in for two hours from 12 until 2 o'clock, something like that?

Mr Marshall—It is not quite that simple because the whole rostering arrangement of that office needs to be worked through across the demand for the day. That is the task that the local manager has to perform and that is the manner in which we expect that office to be staffed. It is a matter of local negotiation to work through what those requirements are and how the current staff fit into that. But, of course, it is part of a wider network, so there is a significant amount of movement of current people across metropolitan areas between offices, so there is a fair amount of flexibility.

I have not got the figures with me, but there has been a very significant increase over the last couple of years in the proportion of part-time resources in our retail counters and retail shops. That is a process that needs to keep on being monitored because our demand shifts and changes as well. It is not a point that you reach and you say, 'I've reached Nirvana now. I have got the right mix of people.' The demand may change on you; that is just a fact of life in retail.

Mr ROSS CAMERON—It seems to me in the non-peak periods you get great service. The question is—this goes to the charter I guess—what do you put up? The ANZ bank did their much publicised 'You won't wait more than five minutes.' The critical thing for them was a breakthrough in their IR flexibility which gave them the capacity to put people on for two hours at the peak period of the day. My question is: can you, under your present arrangements, put people on who just come in for two hours as casual employees at the peak period of the day?

Mr Marshall—The simple answer to that is yes. In those circumstances, we prefer to employ part-time people rather than casuals, because we have to invest in training. It is our objective, and it is part of our enterprise agreement process, to have the flexibility to be able to put people, and to employ people, where the demand for their work is.

Mr McDOUGALL—I have a question which is a little different in relation to parcel delivery and charter of responsibility. How would you see your responsibility to the contractors whom you contract with to carry out the service? Is that a service of delivery? The question is based on the standards you set and the consistency of those standards across Australia in relation to creating the charter of responsibilities and standards that you set for them to be able to carry out the service but, at the same time, to be able to make a profitable operational business.

How do you come at setting the standards that you then ask them to contract to? What sort of checks and balances do you put in, to ensure that what you are setting is a realistic setting that they can achieve and still come out with a profitable business? I ask that on the basis that, if we are going to have a charter of responsibilities and if, at the end of the day, you simply continue to turn over contractors because they cannot meet the set of standards you set and still make it profitable, you will continue to go from contractor to contractor. What are you proposing to do, and what standards are you going to set as a benchmark to be able to achieve that end result with a continual contractor, rather than having one who keeps on changing?

Mr Marshall—It was a long question. I assume the point of the question ends up coming down to a question of money. Is that the nub of the question?

Mr McDOUGALL—I suppose I could be a little more direct by saying that I am getting a lot of complaints from contractors.

Mr Marshall—About their income?

Mr McDOUGALL—Yes, about their income. They cannot meet the standards you are setting as a standard. At the end of the day, the charter of responsibilities is back to the people who are going to receive the parcel. If the person in the middle is going to be put in the position that they get turned over every six or 12 months because their business is no longer profitable, where is the set of standards that is going to be set by Australia Post with the contractors to be able to ensure continuity of service? Responsibility of service is not only between you, as Australia Post, and the person who receives the parcel but, to me, there is the responsibility of Australia Post to the contractors that they also contract to.

Mr Marshall—I understand the question. The process we employ is a tendering process. There are a couple of ways in which we go through that process, but I do not think I should go through all that detail here. Suffice it to say that, in respect of contractors, we operate in an open market. From time to time, a tender is called for a particular piece of work. If there is a particularly low tender, such that the person who is managing the tender process believes it is an inadequate amount of money to perform the work, then we require that person to interview the prospective contractor and ask the contractor to look at whether they can, in fact, undertake that amount of work for that amount of money. If the answer is yes, then they get the job. If the answer were that we, as Australia Post, stand in judgment over people's capability to do that job that

they tendered for for the amount they tendered for, and if we made judgments that the lowest tenderer could not do the work without then admitting to that, we would be in a lot of trouble.

CHAIR—It is where I start and it is a very interesting point. Although it is not part of the responsibility to the consumer, ultimately it has an impact on the service that is delivered if someone goes through that open tendering process not fully understanding what the cost implications of providing it as a contractor are. They get into the job; they are locked into a contract with Australia Post to provide that service, and ultimately the level of service dramatically drops because their tender has been too low. You do not see any responsibility as far as Australia Post is concerned in making sure that all those people that are tendering for those contracts are fully aware of the cost structure of providing that contracted service? At the end of the day, it can very clearly have a detrimental impact on the level of service provided by Australia Post which reflects back to the charter of responsibilities.

Mr Marshall—That is the whole point of interviewing these people, to ensure that they do understand exactly what is required of them for the amount that they have tendered for, despite the fact that the tender document should precisely state what is required of them. So there is that check in the process.

The other check in the process is that while the contract is there and in operation, obviously Australia Post is monitoring the effectiveness with which the contract is being performed. Where there are difficulties, one party should be talking to the other about either unsatisfactory performance, on the one hand, or that the circumstances of the contract have changed, on the other.

It is my experience that normally, if these contracts become a problem, it is not because of the initial basis of the contract but because something has changed. Maybe the volume has gone up and the person can no longer handle that volume within the normal working day—that kind of thing.

Mr McDUGALL—As you said, they tender. But is it not true that Australia Post actually sets the standards by giving the tenderer a number of parcels, which it believes the tenderer is going to have to deliver in a given period? And on that basis, Australia Post is actually leading the tenderer anyway. What happens when you set a figure—and let us say that you set a figure at 800 items a day and the figure comes in at 1,200 items a day—are you satisfied that the process within your contract arrangement allows for that increase to ensure that the contractor is properly compensated for that increase? How often do you review those standards that you set, that they have to tender to?

Mr Marshall—If we are talking about metropolitan parcel delivery contractors, my understanding of these contracts is that they are based on a piece rate, so that if the volume goes up, they get more money. The question is whether the person has the resources to handle the increased volume, if that is the example we are talking about. The standards that you are talking about are standards which require them as contractors—not necessarily personally, but as contractors—to deliver a certain number of parcels across the working day, within a time frame, in other words. That is just the nature of the parcel business. Obviously, that puts a constraint on the time period. The other question is: what resources do they have available to do the work?

Mr McDUGALL—Is it not is true, though, that the basic contracting rate is set on a basis that an

individual goes into a parcel delivery service on one's own and that tendering processes reflect that in a cost per item; and that, if one were to go above the minimum that is set and were to expand by 25 per cent, the ability for that person to be able to employ in order to compensate is minimal, because it has all been done originally on a one-person operation?

Mr Marshall—No; that is not universally true.

Mr McDOUGALL—That is not? I have one further question on that. Is it true that you have set different standards in different states in relation to the question of what the minimum demands are on those individual contractors?

Mr Marshall—What you are describing as a standard is a number of parcels to be delivered in a working day. I do not think I would describe that as a standard; that is a workload for the person to bid on. I hasten to try to draw the distinction there. The question really is how much work there is to be done and who is going to do it. The issue for the contractor is what resources he has available to do that job when he tenders for that job.

Mr McARTHUR—Could I just change the thrust of our discussions to the matter of industrial relations? We will be talking to the union after discussions with you. In your presentation in Canberra you suggested that you had about 31,000 employees and that you were a very big employer of personnel, judging by any Australian company. So the industrial relations arguments are very important for maintaining the charter of responsibilities and the delivery of the standard letter and other articles. I note that, by international comparisons, the 45 cent letter stands up pretty well in the middle ground, so it would appear that Australia Post are reasonably efficient in utilising their work force.

But I would just raise a couple of specific matters. I notice that the first paragraph of the statement of understanding between the union and Australia Post says:

. . . participate more in the problem-solving and decision-making at their own workplace . . .

and that in No. 5 it says:

. . . implementation difficulties arising out of National agreements are to be referred to higher levels before implementation so that consultation can take place at those levels.

It seems to me that there is some conflict between the argument that there will be arrangements at the local workplace, whereas there will be special discussions between senior management and senior union officials as to the range of terms and conditions across Australia. Would you care to comment on that? After that, I want to raise some other industrial relations matters.

Mr Marshall—Perhaps I could comment on that. The nature of agreements that occur at the federal level is really to set a framework within which people can then get on with their lives at the local level. A good example of that is the issue that was raised earlier about how you staff a counter. I guess that, many years ago, beyond my memory, we probably used a great formula of some description that probably helped

nobody, including the customer. We rely these days on having set a flexibility framework within which people are able to make their arrangements at the local level so that, at the local level, people are able to work through what staffing arrangements they ought to be putting in place to service the customer need that walks through their door each day of the week, at whatever time it walks through the door. That extends to things like extended trading arrangements and so on, so I hope that example answers your question.

Mr McARTHUR—What if there is an argument at the local level? Does that immediately go through to senior management and senior union officials to sort out? That is historically, as we would judge it from afar, to be the case.

Mr Marshall—I guess if the argument is not going to be resolved at the local level that memorandum of understanding has the issue rising up and eventually if it is not resolvable it goes to the IRC.

Mr McARTHUR—There is certainly a lot of pressure on management because of this delivery pressure to concede most of the points on any industrial relations argument, because they have got to deliver the mail within the prescribed times according to the charter of responsibility. So there is tremendous pressure to solve the problem and keep going.

Mr Marshall—Absolutely. There is pressure also on our people to solve the problem because they have got to face those customers who walk through the door, and if they are not handling them well they feel it as well.

Mr McARTHUR—What percentage of overtime do Australia Post employees enjoy compared with their weekly pay rates? Is there a relativity there that is of concern to Australia Post?

Mr Marshall—The amount of overtime that gets worked is basically in terms of the need to deal with a very unpredictable workload. We have something in our core business that is pretty close to a manufacturing outfit and a distribution outfit. The thing that we do not control is the demand that hits us at any point in time, and we have to deal with that demand with a mixture of part-time resources, full-time resources and overtime. So it is a fact of life that we need to use that resource, just as we need to use other resources to move the loads that come to us unpredictably across the week, across the hours of the day, so that we can meet those standards.

Mr McARTHUR—You are not conceding there may be a relativity problem, that there is more overtime in the average employee's salary package than other businesses would use?

Mr Marshall—That is possible. I do not have figures to substantiate that or otherwise, but what I would suggest to you is that we run a different business to most other businesses in the sense that most businesses are able to predict the workload that comes through their door that has to be shifted within a four, eight or 12 hour period, depending on the location.

Mr HARDGRAVE—I ask the question: what is mail?

Mr Castro—Can I attempt to answer this one for you. The mail is a traditional term and in a

simplistic kind of way it really means letters, it means messages, it means packets, it means parcels—all of those things which are probably up to a certain mass limit which go from one person to another person.

Mr HARDGRAVE—It is not really just those sorts of personal messages from one person to another. There is a lot of pre-sorting of bulk mail from major organisations such as banks and so forth actually partially doing the job of Australia Post for their clients, those large groups. The level of discounts is where I am heading to. I must say that, having gone through a recent federal election campaign, I can certainly vouch for the great variation in the quality of service that is afforded and the understanding within various post offices about the types of discounts that you can qualify for. On some days it depends on who you get. There is one chap in one of my local post offices who I avoid like the plague. He has got his union delegate badge on and when he hears I am from the Liberal Party I always feel I am paying more, and when I find—I will give you her name later—a marvellous woman in the centre of Brisbane who was most helpful you grab hold of those people and use them. What I am getting at is this: there is to my mind a major clash within Australia Post as far as pre-sorted mail is concerned, the level of discounts and the style of service that is afforded people who do their pre-sorting. Can you comment about that?

Mr Castro—I think if there is a problem it should be broken up into manageable pieces. The issue of service is one that can be addressed. It is whether in fact you feel you have not got the service or the quality of advice that you are entitled to; that can be addressed. I imagine that this has to do with specifics because there is no evidence of a general problem in this area. But of course if there are specifics, and there always will be, we are prepared to do what we can to fix that problem.

The second issue you mentioned was the level of discount for the work done. That is a fairly complex issue. You are really talking about the level of pricing for different kinds of products that Australia Post puts out.

You also mentioned earlier that bulk mail has some work done by the sender, which is very true, and this was one way of utilising the economies that you get from electronic processing. We gave the sender the benefit of the cost savings and the discount represents the share that we give the sender for doing some of that work. I think the level of discounts varies by product. They vary by the degree of work that is done for us. They vary in a number of different ways, by type of service. We think it is a very fair pricing structure. But, if you have any specifics, we can always look at those.

Mr HARDGRAVE—Sure. What about the mail houses? I am thinking specifically about banks and organisations which are always sending bills, statements and other matters through the mail. They do a lot of the work for you and I would imagine that they add to a deal of the predictability about volumes. Would you agree with that?

Mr Marshall—With respect to the first issue—that they do a great deal of the work for us—I think what you need to see in 1996 is an integrated process. What a mailing house is able to do is to pre-sort the mail by computer before it ever becomes a physical item. That is what most of them do. They run it off their inserter straight into mail trays or whatever container. It comes to us already pre-sorted without them effectively doing very much at all, other than produce what they were going to produce and using some software to pre-sort their customer database. I think that that is a far cry from the days when the discount was

for their physically sorting the mail after it had been produced. We see it as an integrated process. There obviously is not very much point in our charging them the full rate so that they mash it all up, give it to us in a pile, and then we have to run it back through our equipment when obviously that process would be a more expensive process.

Mr HARDGRAVE—I will give you a specific instance. The major mail users of Australia have reported that one of their members recently lodged 750,000 items at a discount rate. They were all pre-sorted and qualified for the discount but 1,800 of them were loose and needed some sorting. Someone within the system decided that the 1,800 price would apply to all 750,000 items. So that in itself was a major cost to the organisation involved. How would something like that occur? Is there not sufficient understanding within Australia Post about the discount system?

Mr Marshall—I cannot answer a question about a specific like that. I would not know the answer. I can say that, in order to protect our revenue, we look at the quality of what we are receiving and whether the work has been done or whether the work has not been done. The question of the approach we take to any particular customer depends on the record that they have had as a customer in meeting the quality requirements that we ask of them, just as any manufacturer would ask of their supplier.

Mr Hill—Mr Hardgrave, if you give us that information we are more than happy to follow it up and provide you with an answer.

Mr HARDGRAVE—Thank you.

Mr Castro—Let me add one last thing. Mr Hardgrave has been talking about prices, the fairness of prices and pricing structures and the like. I should have said at the outset that these are reserved services and, as such, the prices are regulated and controlled. They have received prices surveillance inquiry and assent.

Mr ROSS CAMERON—I have four questions, and I am hoping I can get a brief indication of where you are on those four. Firstly, let me say that, in terms of the generosity of Australia Post services, I appreciated the fact that, at the end of the financial year when I went to get my \$6,000 franking credit, I sent my staffer down and he came back with a \$60,000 franking credit. So I have got my allocation to run the next election campaign, thanks to your generosity there!

We talked about the fact that you are confident that you are getting the flexibility of arrangements in terms of multiskilling and part-time staff to deliver a quick service at peak periods, and you think that you are doing better than the banks in that regard. If the banks are saying they can do it in five minutes, are you prepared to commit to a five-minute maximum waiting period in the charter?

Mr Hill—We will have to think about that, if we may.

Mr ROSS CAMERON—Okay. I note KPMG's involvement in monitoring a sample of letters, which seems to me to be a positive step on your part. Would you be happy for us to appoint an independent organisation, such as KPMG or someone else, on a contract basis to monitor ongoing performance of the charter objectives across all categories?

Mr Castro—Mr Cameron, I really must draw your attention to 28C and 28D. 28C, which specifies the minimum performance standards which will underpin the charter, has got 28D, which comes into operation as soon as standards are prescribed by regulation. 28D really says that the Auditor-General will audit these performance standards. So there is no need for another agency.

Mr ROSS CAMERON—So you are happy that the Auditor-General will?

Mr Castro—Yes.

Mr ROSS CAMERON—And that will be an ongoing review process?

Mr Castro—As soon as the regulations come into play, 28D is activated.

Mr ROSS CAMERON—Okay. In the UK, they started out with large areas under their charter and they found that the needs varied from location to location, and the remote area question comes up here. Would you be prepared in the charter to differentiate down to the level of individual postcodes in terms of time and quality of service?

Mr Castro—To answer your question again, the performance standards are set nationally, and they have built into them the mix of rural and remote as well as metropolitan areas. I really cannot see how that can be done sensibly, but if you have any thoughts we would certainly consider them.

Mr ROSS CAMERON—This is my last question. We will be meeting with the union after this. We have had a tribunal in New South Wales, and its finding is that, in the union election process, fraud and corruption were fairly endemic. I understand that 11 of the delegates have been prohibited from standing again unless they are willing to submit to a handwriting sample. Is that problem limited to New South Wales or, in your view, is it a national problem?

Mr Hill—I could answer that. We are certainly aware of, and are watching, developments in New South Wales very carefully. As you have made the point, it is a matter that has occurred within the union. In the judgment that Justice Moore has made, he has been quite clear that there is no criticism of management in any way. We are unaware of this sort of problem existing anywhere else.

Mr WAKELIN—Mr Hill, my question follows on from Mr Neville's question about the viability of the small agencies and the various outlets you have got out there, and the change and the need for flexibility. Do you have a comment to make about the cut-off of transactions? I understand that it is based on a certain number of transactions per annum, et cetera. Is there anything offering in technology there which may just assist this viability criterion where the smaller ones just do not quite meet the cut-off point? Can you give me some guidance on that?

Mr Castro—What we are looking at is a lack of demand. If you do not have enough business, it does not much matter how cheap the technology is going to be. You have to have a minimum threshold of business, and as far as justifying the investment we have now gone down as far as we think the traffic will justify.

Mr WAKELIN—What is that currently?

Mr Castro—We have 2,600 offices out of 3,400.

Mr WAKELIN—But what number of transactions are you down to now? Do you remember?

Mr Castro—Per day?

Mr WAKELIN—Yes. Or per annum. My understanding is that it was around 4,000. Would you take that on notice?

Mr Castro—Yes.

Mr WAKELIN—Thank you.

Mr Hill—We are looking at a limited extension of the electronic service. Again, it comes back to what Mr Castro has said.

Mr WAKELIN—I understand that.

Mr Hill—It comes back to where demand exists. We believe that there is an opportunity for some further small extension of electronic services to some of those other agents.

Mr WAKELIN—I am, obviously, drawing the general conclusion that technology is changing all the time, that the application of technology is changing, and I am acutely aware that some of these services hang in the balance. Mr Neville was making the point as well that sometimes technology can assist. It would be horrific for some smaller communities if some of these services were discontinued. An improvement in technology might provide a viable service. I just bring it to your attention that I am interested in that area.

Mr Hill—Thank you. Yes, we are watching changing technology very carefully.

Mr Castro—If the problem is one of lack of demand, you could perhaps remedy this by reducing the number of points at which you could provide the service and have a minimum threshold there. People might have to travel a little further, but then the service would be available.

Mr WAKELIN—I am thinking in terms of 50 or 100 kilometres. It may not be practical. For example, hypothetically—if I can just quickly take it up—you might close a bank or two, or bank agencies, and that may in turn help the viability of a particular agency. With improvement in technology, perhaps there is the option there which may help. And that is all I am trying to draw your attention to.

On the retail sector I am interested in what we would call ‘complementary products’. I am not talking about the retail mail sector. You are obviously putting quite a lot of one-stop shops into a lot of communities. I think that I have opened about four in the last year or two. Perhaps we should get a definition of what we call the complementary products: the toys, the cards and that type of thing. Could you just define comple-

mentary products? Are we talking about the same kind of thing? In other words, are they newsagent type lines?

Mr Castro—Complementary products include packaging materials, stationery, cards, books and all of those things. I am not sure that I understood the question.

Mr WAKELIN—No. I have not come to the question; I am just asking for the definition of the complementary product. The first part of the question is: do you have an understanding of what percentage of your overall business that might be?

Mr Castro—It is very small.

Mr Hill—We will perhaps have to take that on notice, but it is a very small percentage.

Mr WAKELIN—Yes, I understand that. The point of my question is that there is an acute sensitivity from other retail outlets, as you would well understand. There are comments made from time to time that there are controls on them for selling stamps, for example, and then your operations appear to have unfettered competition on them. The comment is made, and I am told regularly, that the same rules apply to you as would apply to them in terms of commercial conduct. Nevertheless, the view pervades. How do you see that operation and do you see it expanding or staying about the same in the future?

Mr Castro—It is true that complementary products have grown a little bit and are making a useful contribution to the bottom line. I hesitate to use the economic concept of economies of scale. If you have the staff there then you can always sell a little bit more to a customer who walks in than selling new products.

Certainly, as far as the organisation is concerned, we can see some further growth in our sales of retail products or complementary products because there is a lot of traffic through post offices. We see that this is something the corporation can benefit from, but I should say that we are very conscious of the fact that people might be frightened that Australia Post deals unfairly with the customer. The issue of cross-subsidisation is very closely watched. Every one of the products carries its full share of overheads and we do not—

Mr WAKELIN—The ACCC has not been invited to—

Mr Castro—No, but during the Industry Commission inquiry there were allegations of cross-subsidy, and they could not be proven. In fact, the commission tried several times to get the people who made the allegations to prove it but it did not happen. You can hardly say that the Industry Commission is sympathetic.

Mr WAKELIN—Concerning the 45c stamp and your postie network, do you have a percentage figure that your postman might be of that 45c?

Mr Castro—All of the business that we do up to 45c is considered 45c business because, although they are discounted as bulk mail, they are treated as 45c letters.

Mr WAKELIN—I am not looking for anything too specific. Obviously, there is a labour component.

Mr Castro—It accounts for 90 per cent by volume and 80 per cent by revenue of the reserved services figure that is published in the annual report.

Mr WAKELIN—Your actual physical delivery of that 45c item is what I was trying to get in terms of cost of labour and overheads. It is a difficult figure.

Mr Castro—It is a difficult figure, yes.

Mr Marshall—It is very difficult to generalise, but it would be somewhere between 20 and 25 per cent, somewhere in there.

Mr WAKELIN—Thanks very much.

Mr WILLIS—Gentlemen, in the submission that you made in October last year you made some reference to the impact of the reduction in the protection from 10 times to four times the standard letter rate for the reserve letter service. You said then that it was

too early for the real impact of these measures to show up, but you did refer to the fact, for instance, that there had been a very sharp drop in the growth of international mail. I wonder, since it is nine months later, whether you are able to give us any further information about what has actually happened as a result of that reduction in protection and what conclusions you therefore draw from it?

Mr Castro—It is probably best to examine this issue in two parts. There is the international outgoing mail, which was the major step in deregulation, and then there is the domestic reduction from \$4.50 to \$1.80. On the international side, there is no question that the rate of growth has dropped. We see more competition from established transnational operators. The level is still holding and we have to fight a lot harder to retain the business that we do have. The competition has already shown its effects in cutting the rate of growth.

The other thing is that when you change the structure of the industry it takes time for new players to come in and for new relationships to be established. The short answer is that we expect competition to become harder and to put more pressure on us as the new entrants become established and develop relationships.

On the domestic front, the reduction from \$4.50 to \$1.80 was a large reduction in nominal terms, but it was also accompanied by some interesting circumstances which applied at the time. We knew that a number of couriers—for example, bicycle couriers—carried letters for \$1.80 or \$2. They were doing that in breach of the monopoly. That is very hard to police and it is difficult to get any kind of redress. The first thing that has happened is that the drop in protection has recognised reality—in a sense, competition was already there.

The other thing is that, in that part of the market, when you get competition you do not get it in straightforward ways. When people compete they are not going to offer like with like because that is the

hardest way to get new business. You change your product, you change your terms and you try to innovate. A further complication is that in that area of the market the letters part was reserved, but magazines, printed matter, catalogues and leaflets were not reserved. That was a very large part of the market in which you had entrenched people. So they are growing. It is growth we feel we are not getting, but it was not a very big part of the business.

Mr WILLIS—What loss of business has there been as a result of this reduction in protection?

Mr Castro—It is a very difficult measure to get on the domestic side.

Mr WILLIS—I think you did have projections of what the impact would be if there were further reductions in protection. If you can make those projections about what

might happen if there were further reductions, then you must have some idea of what has actually happened through reductions that have actually taken place.

Mr Castro—Yes. They show up in loss of revenue growth and profit. I do not have those figures with me right now. If you are interested in that, we will take it on notice.

Mr WILLIS—One of the issues before the committee is the matter of whether there should be any further reduction in protection. It seems to me that, since we have had a year and a half of experience of reduction in protection, we ought to have some fairly concrete analysis of the outcome of that. We do not have that, from what I can see. What we have is some material which is three-quarters of a year old and which is tentative. It has also been said that it is too early to make real assessments. Before the committee winds up, it should have some more detailed analysis from Australia Post as to what the impact has been.

Mr Castro—When you are looking at issues of protection there are different layers. In the upper layers the barriers tend to be underutilised; there is an analogy with the tariff. If you have a very high tariff, the upper layers do not really protect. As you get closer to your core business the barriers become lower and then the effect and potential for disruption are considerably greater. So I do not agree that having experience with the top so much per cent is an indication of what happens to the rest. As you get close to what is, in effect, the heart of the business, the potential for havoc is considerably greater.

If it comes to that, it is very difficult to estimate and we have attempted that. We attempted to do that on the basis of what sorts of objective information are available. There was a study conducted in England by Cuthbertson and Richards. They had really looked at the cross-elasticity between first-class mail and second-class mail. Cross-elasticity means that if you reduce the price of second-class mail then the demand for first-class mail would fall. They measured that in the context of the British experience, and this is not identical to what we would face if we had competition, but nevertheless it is based on their experience and it is based on similar relationships.

They had found that the price elasticity of demand, that is the volume reaction to a price drop, was minus 1.5. If you had a drop of 10 per cent in price for second-class mail, you would have an increase of 15 per cent. A drop of 10 per cent in price meant an increase of 15 per cent in volume. Obviously this would produce a very strong and very devastating effect. We have turned this down and we have made some

estimates. To cut a long story short, if you were to reduce protection to, say, 45c it is quite possible that the profit impact would be between \$70 billion and \$100 billion per year. The reasons for this are that you would lose volume; you would lose market share. Because we are dealing with a fixed cost network, these changes in revenue have a less than commensurate impact on costs. You cannot save too much when you lose a little bit of volume and therefore the loss of revenue falls on the bottom line.

Mr WILLIS—Am I correct in assuming from what you are saying that you do not see a great deal of impact from the reduction from 10 times to four times but four times on you see a considerable impact being likely to occur?

Mr Castro—Yes. As you get closer to the areas that are really sensitive, the pressure is potentially vastly greater.

Mr WILLIS—But in terms of the reduction that has taken place you do not see that as having had very much impact on the profitability of the organisation?

Mr Castro—It has not had an enormous impact. It will develop some more.

Mr Marshall—It is fair to say that our growth rates are not what they were a couple of years ago in the domestic area, and the mix of our business has been changing; so there is some evidence there has been a change. I cannot quantify that exactly, but I think there is some evidence that the growth rates in our domestic mail business have come off from what they were a couple of years ago.

CHAIR—With regard to the reserved and non-reserved services, they are obviously, in a majority of cases, provided through common facilities. What formula does Australia Post use to allocate expenses between reserved and non-reserved services?

Mr Castro—We do not use a formula. We use empirical evidence and causal relationships. We go out and find out what causes what and on the basis of surveys, which are updated constantly, we attach costs to activities. We have surveys which are conducted at the workplace to find out what time it takes to do a particular process and then you apportion that part of a person's day and hence their costs to that product. The other thing too is that the allocation of higher levels of costs—the costs which are less tractable because you might be having, say, a manager spending his or her day over a range of products—is done through what is called the technique of ABC, activity based costing, which again is empirically based.

CHAIR—Do you apply that sampling to different outlets at different parts of Australia?

Mr Castro—Yes.

CHAIR—Just how extensive is that?

Mr Castro—It is very extensive. It is very extensive because it is the heart of our product costing system. The product costing system was examined by the Auditor-General during a Senate inquiry and the product costing system received a big tick. Other people have looked at the product costing system, people

like Ernst & Young and KPMG. Again

the system is in line with normal commercial practice. Even the Prices Surveillance Authority looked at the system. It is a fair system of allocation.

CHAIR—Mr McArthur, do you have a question? We are just getting close to the limit of time here.

Mr McARTHUR—Is Australia Post contemplating the introduction of electronic first-stage sorting in bigger mailing exchanges such as Redfern, which could give rise to problems? What is Australia Post's attitude to community service obligations being put as a line item on the federal budget?

Mr Marshall—It is true that we are planning to change the network we have, but it is not true that we are planning to create anything like what is being described in relation to Redfern. Let me explain the differences. First, in the 1970s we had a single facility that serviced every part of Australia Post's infrastructure business in one place. We are not proposing to do that in our two major cities. We are proposing to have a three major facility network in the metropolitan areas of our two major cities.

I also draw attention to the fact that we operate, quite successfully, a one facility network in Perth and a one facility network in Adelaide, and we have done so for most of this century. The imperatives that are upon us to make changes to our network are that we now have within Sydney 18 separate processing facilities. The transport infrastructure and the degree of probability that things will go wrong on a daily or hourly basis in a network like that is unacceptably high. It puts strains on us being able to achieve quality in our business.

We need to take account of the changes that have occurred around the world in technology. Our intention is to proceed into a capability to do a full address read on a letter, as is done in some other parts of the world, and to push that technology to a deeper level of sorting mechanically than we are able to do with a postcode. If you want to do that, in essence, you need to change the shape of the network to do it.

Mr Castro—I think this is a very interesting question which is revisited regularly. Probably the best way to express it is to say that Australia Post has a CSO which is co-extensive with its core business. If you are going to envisage anything other than what is being done now, it would have to be a good deal better. The trouble that you will get in agreeing the amount and in agreeing what is to be delivered has got to be more than offset by the benefits of the alternatives. In short, we operate a system now which has the incentives for Australia Post not only to deliver what it is accountable for in the best way but to do it as cheaply as possible. In fact, if a large part of the CSO is the uniform price, it is very hard to see how you could pay Australia Post to cross-subsidise when in fact it is in the nature of the measure that the people who get the discount should pay for the people who have to incur a higher cost. I am saying that the line appropriation would be an inferior way of funding Australia Post CSOs.

CHAIR—Just on that point, I know that in recent times we in this country continually refer to some experiences that our near neighbours, New Zealand, have had. In New Zealand the standard letter rate price has been reduced from 45c to 40c and the reserve services are set at two times the standard letter rate as opposed to our four. Has Australia Post had the opportunity to compare its performance and level of

protection with New Zealand Post?

Mr Castro—We do not compare levels of protection as a matter of routine, and you would be aware, Mr Chairman, that this is a decision that is made by the government when it looks at the structure of an industry. We have not really had occasion to look at the relationship between the level of protection in New Zealand and their performance. From our perceptions, the current rate in Australia is appropriate.

Mr ROSS CAMERON—Just following up on Ralph's question, it does seem to me that at the guts of our inquiry are two issues—the content and method of administration of the charter—and then this issue of what level the multiple should be set at. I agree with Ralph that it would be helpful if we could get some hard data.

In New Zealand my understanding is they reduced the multiple down from whatever it was to two. Prices then came down, but New Zealand Post became increasingly profitable. We are looking at the impact on growth for the market as a whole, not just on Australia Post. What is happening is that with reduced prices they are actually increasing the total circulation of material. It would seem to me helpful if we could get some harder data both on the impact of the reduction from 10 to four for Australia Post and, if possible, for the market as a whole.

Mr Hill—We will get back to you.

CHAIR—Take it on notice.

Mr NEVILLE—I would like to follow up on something Mr McDougall was raising about the relationship with contractors and taking up Mr Castro's point that contractual arrangements, perhaps, should be not part of the initial charter of responsibility. Would it not therefore be appropriate in some specified areas like the relationship of Australia Post to its contractors to have a charter of arrangement or a charter of responsibility quite separate from the umbrella charter? I am not trying to split hairs here, but I just want to pick up on a few points he made.

I will cite what has happened in Biloela, a town in my electorate, where Australia Post has moved out and two mail contractors have taken up the urban services. The point Mr McDougall made is quite good because some of the things Australia Post did not take into account were this catalogue mail and what we euphemistically refer to as junk mail which was four times the volume of what the contractor had been led to believe and it was impossible for him to do his run in the prescribed time.

The second thing is that no cognisance of the fact that the traffic act in Queensland says that postmen can go on the footpath but not contractors. Australia Post had nothing to do with that. The police are turning a blind eye to it, but it is something that needs to be addressed.

The third thing is that no arrangements were made to cover the contractors for insurance or to provide a facility for them to cover themselves. After all, you guys have had three, four or five decades of experience. You hand this over to contractors who are still your human face in the marketplace. I think Mr McDougall has made a very valid point, because I have seen happen over and over again that the expectation

of the contractor is not matched by the support from Australia Post for the contractor.

I would really like you to look into that as part of this overall charter of responsibility. I can provide you with the details of this specific case if you want me to.

Mr Hill—We would welcome that, Mr Neville.

Mr Marshall—We are aware of the latter two difficulties and we are working on those at the moment. The issue of insurance is something that has come up recently in the context of a couple of cases and we are working very hard at fixing that problem.

The issue of workload, however, is something that does need to be fixed at the local level. My concern is that setting another framework is not necessarily going to fix problems that have obviously occurred through people's inexperience, I would suggest, in setting a contract like that in place. I have to stress to you it is not in our interests as a business to have these sorts of situations arising. It is not in our interests as a business to have people who take time to train and so on turning over because they cannot cope with it. I am at pains to stress to you that there is a lot of motivation there to fix these problems anyway. It may be that, in the particular circumstances you have described, there is a level of inexperience because there had been another way of doing that business prior to this change occurring.

Mr NEVILLE—You were doing it yourselves.

Mr Marshall—Yes, exactly, but I am talking about the administration of a contract. I do not know the details, but we will certainly take that one up.

CHAIR—I would like to thank the representatives from Australia Post for their attendance this morning and their frankness. I apologise that we have gone a little bit over time, but I thought it was fairly important that we had a frank discussion, particularly with regard to the new members of the committee.

The secretariat will send you a proof copy of the evidence which you can check out and return. It would be appreciated if those questions that have been taken on notice could be answered and the information delivered to us as soon as possible to assist the committee in winding up its report. Thank you for your attendance.

Short adjournment

[10.53 a.m.]

BAULK, Mr Brian Keith, Divisional Assistant Secretary, Communications, Electrical and Plumbing Union, 139-155 Queensberry Street, Carlton South, Victoria 3053

GOULDING, Mr David Nevill, Industrial Officer, Communications, Electrical and Plumbing Union, 139-155 Queensberry Street, Carlton South, Victoria 3053

CHAIR—I welcome representatives of the Communications, Electrical and Plumbing Union to give evidence now. We have received a submission. Would you like to make a short opening statement?

Mr Goulding—Not really. We will certainly take questions.

CHAIR—On page 1 of your submission you commented that a charter should not be a bland mission statement or be restricted to the obligations currently prescribed by the act. Could you elaborate on this comment?

Mr Goulding—There is a propensity for organisations to have to get a set of buzz words, for want of a better way of putting it, which really do not mean anything at all. It looks all very nice and inspiring but it does not really mean anything in the scheme of things, so we are trying to suggest we avoid it.

CHAIR—What specific service standards would you suggest should be included in the charter?

Mr Goulding—Specific service standards in respect of delivery times et cetera.

Mr Baulk—At the moment there are service standards set down which were contained within the second enterprise bargaining agreement of what is known euphemistically as 8, 11 and 3, that being 8 a.m. for private boxes, 11 a.m. for the business community and 3 p.m. for residential. It is a fairly significant exercise working towards those service standards. My understanding is that there is a significant achievement of those service standards out there in the states. I suppose what we would say really is that perhaps they should be the standards we are talking about. I think some states have even bettered those standards.

CHAIR—I understand you were here during part of the evidence that was given by the previous witnesses and that there was a bit of discussion with regard to the provision of those services by the LPOs and contractors. Does the union have a position on that? What would the union's attitude be to that? All your members who are going to work for Australia Post are going to be bound as part of the process with a charter of responsibility in the service that is provided. Does the union have a view on the operation of the contractors at that level of Australia Post?

Mr Baulk—I suppose we recognise that contractors are a fact of life. We would recognise that in order to provide the full range of services and to deliver to every pocket within this country you cannot necessarily do that with full-time staff. It has to be done in some respects by contractors. I suppose, yes, we recognise the need for contractors there. We recognise there will be balance as well. We do have a concern

about some of the latter comments about contractors which were raised during the very last question. We have had some concerns about the level of work that has been placed onto contractors.

We are having some discussions in respect of that. Quite frankly, we would say that there is some exploitation going on with contractors.

CHAIR—Going back to the charter of responsibilities, should the charter include a section on the responsibilities of postal customers, in so far as your members are the front line of the organisation dealing with customers and we are expecting the organisation and your members to provide a certain level of service? This would be the aim, I suppose, of a charter of responsibility, but often there can be impediments put in the way of providing that service by the level of understanding that the customers have with regard to addressing parcels, envelopes and that sort of thing. Do you think that should be spelt out in a charter?

Mr Goulding—Do you mean providing that the customer meets certain standards?

CHAIR—Yes.

Mr Goulding—I do not think there would be anything wrong with that: putting some sort of obligation on the customer.

Mr Baulk—It is something that has never been really considered. The only consideration we have ever thought about is, firstly, providing good service, but we do look for some responsibility from the customers, in the actions of the customers themselves. Primarily, when we talk about delivery, it is the usual story of dogs. We would not see that as being part of a charter, really. It is, quite frankly, something we really have not considered.

Mr HARDGRAVE—From the outset it should be noted that your union played a major role in dragging, as you suggest in your submission, Australia Post from being a bureaucratic dinosaur with all its inherent problems into being something of a far more responsive and responsible organisation. It is worth noting that for the record. Drawing on the experience that you gentlemen represent, and looking ahead, what kind of forecast do you see as far as new technology impacting on Australia Post goes—and, therefore, putting some industrial pressures into the system, again in so far as the changing circumstances of Australia Post in the future go?

Mr Baulk—There has always been, if we talk about technological change in a very general sense, a concern about the impact of alternatives on the traditional letter. To go back to 1980, an international study was done by W.D. Scott, which was making predictions that, by the end of the 1980s, one-third of traditional letter mail would go by facsimile and therefore, as such, there would be an impact on the volume of letters. That does not seem to have occurred, world wide.

It seems that there has been growth in the letter; but always in the back of this organisation's mind is that that would suddenly come to a halt or we would go into negative growth. I believe that the German post office has gone into negative growth, and so have one or even two other European post offices. There is always concern about that; therefore, this organisation some time back had to face up to technological change and the need to make Australia Post a lot more efficient and productive, so that costs could be kept down and

it would be competitive in those areas where there is already competition or where in the future there may be even further competition. That is the view we have taken in respect of technological change.

Mr HARDGRAVE—What about the impact of change in the formula for the reserved service, if we were to bring it down to two times or three times, instead of four times the standard letter rate? What sort of impact do you forecast? Is it possible to do? Have you done some numbers on that kind of thing?

Mr Goulding—We have not studied it, we have not considered the implications of it. Is the committee aware of the impact that bringing it down from 10 to four has had?

Mr HARDGRAVE—It has been suggested earlier today that there was a great impact.

CHAIR—On the bottom line, as far as the work force is concerned, are you prepared to comment on that?

Mr Baulk—I suppose it is difficult for us to make any sort of informed judgment about what the impact would be. I think Australia Post would probably be better at that. They are the ones who access the fairly significant and lengthy data to make some sort of analysis of what the possible impact could be. Let me say that our understanding is that it is not Mr Jones to Mrs Smith or vice versa mail, to use that term, but it will impact on the business mail and the bulk mail that is lodged with Australia Post. That will obviously have a detrimental effect in that respect. I am not sure whether this was mentioned this morning, but what post does work on is volume. It needs volume.

Mr HARDGRAVE—And do you find that organisations like mail houses help with regards to coping with expectations as far as volume is concerned?

Mr Baulk—Yes.

CHAIR—In your submission you suggest that the charter should also include a joint statement of understanding and industrial participation. Would you like to elaborate on that a bit?

Mr Baulk—You have to look at Australia Post, I suppose, over the last 10 years to get an appreciation of the fundamental change that has occurred in industrial relations. It would be fair to say that back in 1987, 1986 it was very much a top-down approach. Let me say as well that this organisation was very much a top-down approach too. It was a case of the federal office of the organisation making decisions or the federal executive making decisions and those being passed down the line to the workplace.

The 1987 second tier case before the Industrial Relations Commission provided a big shock to the organisation. That was a fairly significant case before the Industrial Relations Commission comprising of a full bench, lengthy inspections with a single commissioner and submissions put to that single commissioner and a report from him going back to the full bench. That would be the major case in that second tier period. That was accepted by the federal executive, but there was a major backlash from the work force out there. As a consequence of that, I think the organisation took a step backwards to have a look at itself to say, 'We can't keep going with this top-down approach, we need to allow the membership to have a greater say in the

organisation.’ So there was fundamental change to the organisation to allow a greater say and a bottom-up approach. At the same time, the joint statement of understanding was also negotiated, and that did arise from industrial problems, particularly in this state, which has changed the whole complexion.

I think when you look at the statistics in respect of the number of industrial disputes within Australia Post, they are far lower than the national average now. There is a completely different work force that is out there now to what there was before. I think that, whilst it is probably a lot harder to deal with that, particularly from the position we are sitting in, there is a much better work force out there, there is a work force that has a greater say with respect to their own facility and trying to resolve those disputes, which are inevitable anyway, at that level prior to it coming up to our level.

Mr WILLIS—Do you think the corporatisation of the organisation had anything to do with the changed industrial relations arrangements?

Mr Baulk—As much as I would probably like to take full credit, I suppose there are other factors that come into play. I am not so sure whether that really was the catalyst for the industrial relations changes. It obviously has some significant bearing on the changes to management thinking and those systems put in place. The whole lessons of the 1980s have generated the direction we have both gone in to achieve those results.

Mr WILLIS—Given that you have such dramatic improvement—I think the committee is very much aware of that quite dramatic change in time lost in industrial disputes, et cetera—what kind of change do you think would imperil all that? In particular, do you think there is any change in particular arrangements that might imperil that?

Mr Baulk—I do not wish to get involved in debate about the current changes to the Industrial Relations Act. I think there could be some change in respect to that. Whilst there is this devolution down to the local level, there is still some element of control in that. There was reference made by Mr Marshall before to the changes to the network that were going to be occurring, principally in Victoria and New South Wales. The level of technology that we are going to be talking about between now and the year 2000 will affect all states. Australia Post has used the term in other forums that this is probably one of the most significant changes that has ever occurred in this country.

When you look at the breakup of Redfern into decentralised networks and also the Victorian breakup into a decentralised network, it is going to be a lot more difficult and it is going to take a lot of resources with respect to the change to the network that has been put forward by Mr Marshall before. Therefore, if that is going to have a level of achievement, it needs to have a reasonable amount of control, it needs to have a lot of input and it needs to have a lot of people participating in that sort of change. Any system that breaks that and does not allow for that reasonable amount of control could have a detrimental effect in that respect.

Mr ROSS CAMERON—I have some different questions. The first one relates to the question of demand management and flexibility, particularly at the counter, during peak periods. We are looking at what Australia Post could commit to in terms of the maximum waiting time. It raises the issue of the flexibility of staffing arrangements, rostering and the capacity for, say, multiskilling of personnel to work both behind the

counter and sorting mail. There is also the question of the freedom to utilise part-time workers during those peak periods for two hours a day or something like that. The management from Australia Post said they were moving towards an environment of greater flexibility. Can you give us an update of where that process is at the moment.

Mr Baulk—Prior to the second enterprise bargaining agreement there was what was known as quotas on the level of part-time employment. That covered all streams, whether it was retail, mail processing or delivery. The second enterprise bargaining agreement did away with quotas completely. It allowed for discussions in line with the devolution process to occur at the state level and at those sorts of levels rather than at my level. Quite frankly, I do not know, nor should I know, what the appropriate staff needs to be in some small post office out in the country. It is more appropriate that those people who are the experts at that local level and perhaps at the state and regional level are the ones to work it out. That was in the enterprise bargaining agreement, which was certified for the Industrial Relations Commission. Therefore, we would say that there is a significant amount of flexibility out there. Obviously, perhaps there is room for more.

I find the question of multiskilling difficult to understand when you talk about retail because they are all multiskilled. When you look at the breakup of the retail and delivery, that is not in all places, but you find in lots of places the delivery has gone off to delivery centres and the retail shops solely concentrate on retail. Those people should have been trained in all the functions that are necessary for the retail side of things.

In traditional post offices where you might have a mixture of the indoor component, being the retail, and the outdoor component, being delivery, there might be some sorting knowledge on the part of the counter hand. But more than likely the staffing requirement is such that it would be difficult for them to be taken off the counter at that point to go and do work at the back. They might do it before opening hours or they might do it when there is a bit of a lull, but basically retail people are retail people and delivery are delivery.

Mr ROSS CAMERON—We are saying, for example, that the sharp end of this discussion will be what figure ought Australia Post put in as a maximum waiting time during peak periods? Does the union have a view on what is deliverable?

Mr Baulk—No. It is something I do not suppose we have really considered. Providing it is a realistic figure I do not think we would have too much of a problem with that.

Mr ROSS CAMERON—In most of these charters around the world there is some statement about integrity for businesses, whatever the organisation is, and both Mr Hardgrave and Mr Willis have talked about the contribution the union has made to modernising and improving the efficiency of Australia Post. We have had this judgment passed down in New South Wales which, I think it is fair to say, is very highly critical of aspects of the election process within the union. It seems to me you run the risk of the gains that you have contributed to being caught or wiped away by this perception of an entrenched culture of fraud or dishonesty within the union itself. It is obviously a serious issue. I think people want to have confidence. Mail is a very personal thing and a very important commercial thing; people want to have confidence in the integrity of the process. I would be interested to know what the union is doing to address some of those issues, and what can we do to give people confidence that things are changing in that regard?

Mr Baulk—Could I firstly give some quick overview of the union? The union itself has 170,000 members, made up of three divisions—it is basically a federation—the communication, electrical and plumbing. My background is not electrical or plumbing; therefore I do not think I am competent to comment on those two divisions. The communications division, which has about 80,000 members, is made up of 14 branches across the country. That is made up of two branches in each state plus what is known as the Optus branch, plus what is known as the technical officers' branch.

The proceedings you are referring to before His Honour Mr Justice Moore relate to one of those branches, albeit it is a big branch. Before I come to what we are doing, perhaps I might comment that I did hear a question that you raised with Post before about whether that could be construed nationally, those sorts of problems. Let me say, within what I said before, in my 30 years of being an Australia Post employee and in the last 20 years of being connected with the organisation, none of those other 14 branches has ever had irregularities run before either the Federal Court or the Industrial Relations Court. I would not want to put my head on the chopping block, but I think I could safely say that those other 13 branches, given that irregularities have never been raised, are fairly safe, that they have been engaging in free and democratic election processes.

We are extremely concerned—when I say 'we', divisional executive of the communication division—about the current proceedings. The difficulty I suppose we have got is that at this point there has been no-one identified as being involved with some of those fraudulent activities. There is a court expert who delivered a report last week to His Honour. That was only released to the legal representatives or the parties appearing before His Honour. That matter is on at 9 o'clock again today. I do not know whether that report has been released, but prior to us walking in here there was no knowledge whatsoever of anybody being involved. That is the problem. Whilst there have been ballot papers identified as having been filled in by one or more people, no finger has been pointed at anybody. In fact, even His Honour has made reference to that; that there is no-one.

Mr ROSS CAMERON—Hasn't Justice Moore said that there are 11 trade union delegates who cannot stand again unless they submit themselves to a handwriting sample?

Mr Baulk—No. What he actually said, and what the orders were, was that the 1994 election was declared void for the New South Wales postal and telecommunications branch. Those people who held office prior to the declaration of the 1994 ballot can assume office, but they have had to go through the process of filling in 20 or more ballot papers. Therefore a court handwriting expert could assess those handwriting samples against the ballot papers in the 1994 election.

For whatever reason—and we do not know—11 people determined that they would not fill in those ballot papers. They therefore cannot assume office in the interim. He has not gone that far, and our understanding is that he would not have the power to stop them from nominating for office in the future. His powers do not go that far. Their only inhibition is not being able to act in the interim pending the declaration and a fresh election.

Mr McARTHUR—I was encouraged by your comments in relation to discussions at the local level. If there was a dispute at the local level mail exchange in one of the states and the local union members

wanted to go one way, for example in reference to sorting rates which I gather is a fairly important point of principle with the union, what would be your attitude as the federal executive member in resolving the conflict as between the union's national policy on sorting rates compared to a local mail exchange which wanted to improve productivity and change the sorting rate ratios?

Mr Baulk—I do not think that is the problem. The organisation has devolved the responsibility down to the state and local level. Whilst I do not have an example on sorting rates, there have been numerous cases of individual facilities which have actually negotiated what is known as a section 170 agreement of the Industrial Relations Act, which provides for changes to the award either based on trade-offs—we used to use that term—or productivity improvements that would actually go to the cost of the changes that had been made.

There are numerous agreements in that respect which have been negotiated at the local level. I had a bit of trouble understanding the question because we are in this new area. If we were talking about a few years ago when we struck strictly to policy, then yes, I could understand that there would be a problem. The majority of members might wish to sit down and negotiate an agreement with the local management and that agreement is then certified before the Industrial Relations Commission, bearing in mind that it has to go through the executive for its endorsement as well.

Mr McARTHUR—The national executive?

Mr Baulk—That is purely from a legal point of view to give the authorisation of the divisional secretary.

Mr McARTHUR—What if he disagreed with it? For example, it was a fundamental plank of the union's policy and you disagreed with the local policy setting arrangement?

Mr Baulk—Unfortunately, I have not had to face that experience at this point. If we want to be hypothetical about it, I suppose it would not be a case of saying nationally, 'Well, that's it. You can't do it'. We would want to sit down with the people concerned to find out the reasons why, bearing in mind that a lot of those local agreements have involved a lot of our state officials in there. We would say that, if there was going to be a problem, it would be identified early in the piece.

Mr McARTHUR—So if one mail exchange had a more productive sorting rate than another, you would not mind that and you would be happy to stick with that?

Mr Baulk—I think you will find that that is the fact of life now. Let me clarify that. From our point of view, sorting rates basically relate to the staffing level. The last thing that we would want is excessive levels of overtime. Excessive levels of overtime create problems, not only for Australia Post but certainly for us as well. There have been numerous instances where it has crept up. Once a certain amount of overtime becomes a feature of that centre, it then becomes part of their income, their budgeting and, therefore, when it falls out we have problems.

Mr McARTHUR—You are saying on the record that you are unhappy with these excessive levels of

overtime that are taking place in some exchanges?

Mr Baulk—If there is evidence of excessive overtime, we would have a major concern about that.

Mr McARTHUR—And you would help Australia Post to redress that?

Mr Baulk—Yes, that is a feature of this third EBA. There was an exchange of letters in respect of the third EBA whereby we would sit down and have a look at the overtime levels. The data that is coming forward is not reliable at this point. We are seeking some sort of reliability in that data before we make any further assessments.

Mr NEVILLE—In your submission you talk about provision of a basic express in parcels, networked to all communities. That is part of the charter of responsibility. Do you see it as a CSO as well or just as a general statement of responsibility?

Mr Baulk—Would the charter take the view of replacing or supplementing community service obligations?

Mr NEVILLE—No, I just wondered what was in the union's mind—whether it was purely part of a general charter of responsibility or whether you saw those two things as part of a CSO or an implied CSO.

Mr Baulk—It is more the case that it is an implied CSO. Whilst express and certainly parcels are not part of the reserve service, there is an expectation amongst all communities that Australia Post would provide a service.

Mr NEVILLE—That is a general view held in the unions?

Mr Baulk—Yes, that is right.

Mr NEVILLE—Sorry I missed part of your evidence; I was called out to the phone. We were talking about contractors. Do you have a requirement, say, with the Transport Workers Union that contractors who perhaps were former Australia Post employees remain members of the union, or is that purely voluntary?

Mr Baulk—No, it is purely voluntary. We do have eligibility to cover contractors, and we were having some discussions with Australia Post and contractors.

Mr NEVILLE—Do you represent them to Australia Post as a sub-unit of your organisation?

Mr Baulk—We don't have a large number of contractors.

Mr NEVILLE—Not sufficient to make a case for them, for example?

Mr Baulk—I am not sure if you were here when I made the comment before that there is a level of concern within the organisation about the workload that is being placed on the contractors. I think the

example you might have raised would not be just one isolated case; there might be numerous cases out there. We do not have direct evidence of all that, but we are getting feedback from the state level.

Mr NEVILLE—You do not mention them in your statement of understanding. Do you believe that there should be a separate statement of understanding drawn up between Australia Post and its contractors, as it is becoming an increasing phenomenon, or should it be part of your statement of understanding?

Mr Baulk—That document was negotiated in the context of us representing our members and Australia Post. We did not consider it to be representative of those people who would fall outside the membership.

Mr NEVILLE—You would have no objection if they formed a national association?

Mr Baulk—There was an association some years ago, I understand, which collapsed for reasons about which I am not sure. I suppose we would have a concern—and I would be blunt about this—that the Transport Workers Union has never been an organisation within Australia Post.

Mr NEVILLE—No, I recognise that.

Mr Baulk—And we would have concerns about, say, the Transport Workers Union covering those people. It could well work that they do have some members.

Mr NEVILLE—I suppose my final point is that these contractors sit on the periphery of Australia Post and your organisation, and they impact on both. They can be an efficiency generator for Australia Post and, if exploited, they can act to the detriment to your members.

Mr Baulk—Yes.

Mr NEVILLE—The question I think I am asking you is this: where does the union see them being categorised?

Mr Baulk—I am not sure I—

Mr NEVILLE—Could you come back to us on that?

Mr Baulk—Yes. I would like to come back. I am not really sure I fully understand what direction you are going in.

Mr NEVILLE—The point I am making is this: if they are exploited they could, for example, be quite useful to Australia Post because they are going to deliver a service more cheaply and that will impact positively on Australia Post's overall figures. Whether it is just or not may not be the point. Some of them are your former members. They appear to have no organisational representation in the process to any extent. Again, if they are exploited it will impact on your members' ability to find jobs and so on. Where do they sit in the great scheme of things, and should they have some form of representation?

Mr Goulding—We certainly believe that they should have some form of representation, and we will be actively endeavouring to provide that.

Mr NEVILLE—I suggest that no-one is doing it at present, either on an association level or on a union level.

Mr Baulk—I think that is correct. Can we come back to you on this?

Mr NEVILLE—With the Chairman's permission, yes.

CHAIR—Just coming back to the charter again, Australia Post has suggested that its performance standards set out in section 28(c) of the act should focus on the global performance of the enterprise while the charter should focus on the individual customer's expectations. Further, in evidence this morning it seemed to be indicated that the charter should be a less formalised document rather than being set out in legislation or regulation. Does that meet your definition of a charter of responsibilities?

Mr Goulding—The charter as a less formalised document would be what we are specifically hoping to avoid in that it would become something like a mission or a vision statement. We would not share that view.

CHAIR—But would you not see that as a charter responsibility, as some benchmarks for performance to be measured against, or are you satisfied that what is set out in the standards in the act are the acceptable standards to measure that performance?

Mr Goulding—I think benchmarks would be quite reasonable to have in such a charter, but it certainly has to be, as we have said before, achievable and realistic.

Mr Baulk—I think benchmarking is an exercise that Post are engaged in at this point with other international post administrations. I suppose the problem is making sure you get like with like or comparing apples with apples. When you look at some post offices, in the US for instance, I suppose abysmal would be about the best word you could use when talking about their performance. When you look around some of the other ones as well it is a bit difficult to compare like with like or Australia Post with a lot of those other administrations. For instance, I suppose New Zealand is difficult to compare with Australia, really because of size. Canada is probably about as the close as you can get for doing some like with like comparison. When you do some comparison with Canada, I suppose Australia Post comes out way ahead of Canada Post. Benchmarking is not a problem provided it is going to be comparing apples with apples.

Mr HARDGRAVE—On the question of the charter, I wonder whether you agree that reliability of service is in fact the key ingredient in the success or failure of Australia Post. Do the workers of Australia Post essentially have that kind of focus themselves as far as reliability is concerned?

Mr Baulk—As far as the staff goes—we cannot speak for all Australia Post staff—I would say there has been a dramatic change in the level of their thinking, of understanding their responsibilities and the requirements expected of them as staff in representing Australia Post in the community and in providing a

service for the community as a whole. I think there has been a dramatic change. Sure, there is a lot more work. I am not saying that it has come to the end of the road; far from it. I think it would be wrong to say that we should be resting on our laurels because I think we still have a lot to do. But there are some very healthy signs out there regarding the attitudes of the work force

Mr HARDGRAVE—So individual workers are keen to see Australia Post work, and work extremely well and reliably?

Mr Baulk—Yes.

Mr HARDGRAVE—Will a charter assist them? I guess, taking it from a completely different angle from what we have been talking about earlier, from a stress level point of view for individual workers, knowing that these are the requirements, these are the obligations of the consumer—the customer—and these are the steps they have to take to meet them, will that assist them in doing their job?

Mr Goulding—It may well do. I think in most circumstances they are achieving far in excess of what would be a reasonable expectation. But it certainly would be of assistance, yes.

Mr HARDGRAVE—The charter would be of assistance?

Mr Baulk—I might put another side to that. Depending upon what is in the charter, it might well be that—and I suppose this is putting another twist on it—it could be manipulated and used by a manager to beat people into accepting the standards or providing a different sort of attitude, in particular, I suppose, in places where there might be some problems.

Mr HARDGRAVE—But they will understand the operating conditions so the expectation is a lot better.

Mr Baulk—Sure. I suppose it is difficult to assess, really, whether we assist or whether we hinder.

Mr ROSS CAMERON—On that issue, my understanding is, or my hope has been, that it could be a document that would be of benefit to the organisation and the employees, and also to customers. In order for that to work, it does seem to me that we want something that you can put up at the front that is publishable in every post office around Australia. Is that consistent with your understanding?

Mr Baulk—I suppose, getting back to an earlier point regarding the vision and mission statements which were put up some years ago, which were plastered all over post offices and mail centres, I am not so sure that people took that much notice of them. It looked nice on the wall. But we are just speculating. Obviously, it is not going to do any harm by having a statement there, and being in full view for everybody to see, whether it be staff or customers.

CHAIR—I still see there being a certain responsibility as part of that, if that is the road that Australia Post goes down with the charter, going back to the point I made before, as to whether the responsibilities of the users, the consumers of the service, should be fairly clearly spelt out as well.

Mr Baulk—Right.

Mr ROSS CAMERON—On that earlier matter, I understand there was an unfair dismissal action that was brought as a result of the termination of the bloke who raised a lot of those issues. Has that been resolved to date?

Mr Baulk—I would not know, frankly. The matter, as I understand it, is still before the judicial registrar in New South Wales.

Mr NEVILLE—What is the union's attitude to that person being reinstated?

Mr Baulk—I do not know the case at all. The changes to the disciplinary process occurred in 1989. All those disciplinary matters are held at a state level, or hearings are conducted at a state level. We do not get any sort of indication about it at this level, so I cannot comment on that at all.

Mr McARTHUR—What percentage of the Australia Post work force would be members of your union?

Mr Baulk—Bear in mind that we are the major union. There are four unions in Australia Post. We would probably have about 90 per cent of Australia Post's total employees, that is excluding people on contracts.

Mr NEVILLE—How much of the greater union is Australia Post? You said you had 80,000 members within the union.

Mr Baulk—That is Australia Post, Telstra and Optus. That is where the 80,000 are made up.

Mr ROSS CAMERON—What is the percentage in total?

Mr Baulk—Our percentage of Australia Post employees?

Mr ROSS CAMERON—CPU members.

Mr Baulk—Members of the CPU? Roughly about 40 per cent, I suppose.

Mr McARTHUR—40 per cent.

Mr Baulk—Roughly about that or perhaps a bit more than that.

Mr McARTHUR—Would most of the employees of Australia Post be members of the union?

Mr Baulk—I presume so, yes. But let me make it very clear, there is no compulsory unionism in Australia Post.

Mr NEVILLE—Interesting.

CHAIR—We might wrap it up there, unless you have any further comment?

Mr Baulk—I do not think so. I think what we put forward is fairly self-explanatory. I hope that we have answered to your satisfaction those questions raised.

CHAIR—I certainly appreciate you taking the opportunity to come along and give evidence to the committee this morning. The transcript of the evidence that has been taken will be forwarded on to you so that you can check it and get back to the secretariat. Were there any points taken on notice that we need to get information on?

Mr Goulding—Yes, there is one that we need to get back to you on and that is the union's view of contractors.

CHAIR—When you get a chance to do that, if you could get that back to the secretariat before too much time elapses, because we are trying to keep the inquiry rolling so that we can tidy up the report. As I say, we will get the transcript of the evidence out to you as quickly as possible. Thank you very much for attending.

[11.46 a.m.]

COBBOLD, Mr Trevor, Director, General Research Branch, Industry Commission/Productivity Commission, PO Box 80, Belconnen, Australian Capital Territory

KERR, Mr Robert, Acting Head of Office, Chief of Staff, Industry Commission/Productivity Commission, 28th Floor, Collins Tower, 35 Collins Street, Melbourne, Victoria

CHAIR—The committee has received a submission. Would you like to make a short opening statement?

Mr Kerr—I will just make a couple of brief comments. The first is to cast a note of humility over the extent to which we can help the committee. We, as the Industry Commission, did an inquiry four years ago into Australia Post. While we think many of the principles which we discussed in that inquiry are still of relevance, it is a dated document. In our experience, looking at public policy issues in this sort of area, there is a good deal of devil in the detail. We have not done any recent work in detail on Australia Post issues.

We did make a submission to the predecessor committee last year and appeared before it. If you need to have access to that, then that will make clear the sort of comments we thought might be of help to you. The secretary to your committee did pass to us some material which Australia Post had submitted to you, in particular on the question of the competitive boundary. We are happy to try to assist you on that score if you want us to make some comments on Australia Post's submission to you in that regard. We understand you have some questions on and interest in the issue of a charter. We are happy to try to respond to questions on that. From what the secretariat told us, you might also like some discussion more generally about CSO issues. We will do our best to respond to questions on that.

CHAIR—In that IC report of 1992, you recommended replacing Australia Post's cross-subsidies arrangements with a budgetary payment. One of the major reasons given is allocative efficiency. Could you explain the issue of allocative efficiency and why cross-subsidies are inappropriate? If you reject cross-subsidies on the grounds of allocative efficiency, do you also reject the universal letter rate?

Mr Kerr—Let us start at the beginning. The nature of the community service obligation is when an organisation such as Australia Post is being asked to provide a service which it would not normally do under commercial conditions—that is, it is a non-commercial aspect of its service. Then the question arises as to how to pay for it. It distils down to two choices—the current system, which is a cross-subsidy, or budget funding in one fashion or another.

With regard to the cross-subsidy, perhaps the best way to conceive of that in relation to allocative efficiency issues is if you consider that some part of the market is being taxed, that is, they are paying more than they would otherwise pay for the service they are using in order to subsidise another part of the market. You would ask yourself: what is the consequence of that tax on efficiency in the economy? Suspend that idea for a second and consider the alternative. If it is budget funding, that also would be paid ultimately by taxpayers, but a different group of taxpayers, in the sense that it would make a call on general revenue. In that sense it would be paid by all taxpayers.

Economists will tell you that any form of taxation produces some inefficiencies, some deadweight losses. The question is: is a recourse to general taxation more appropriate than taxing just part of the market? It is trying to answer that sort of question which would give you an insight into allocative efficiency losses. Just to extend the comment a little, what we are saying is that when, say, somebody posting a letter within Melbourne to another part of Melbourne is paying 45c, how much does it in fact cost to move that letter from one side of Melbourne to another? Australia Post will probably tell you it is maybe 20c. So the extra 25c is, in that sense, a tax or an extra surcharge on the service.

In order to consider the allocative efficiency consequences, you would say, 'What happens when you pay too much or more than you need to for a particular service when you do not have the funds to spend on something else you would rather spend your funds on?' We do not have an estimate of the allocative efficiency losses in those circumstances. In fact, were we to produce one, you would find a fierce debate from almost every other economist around as to exactly how you fix it. The fact that it is difficult to estimate does not mean it is not a useful reference point for the sake of the argument.

I might just add that the allocative efficiency issue in relation to funding of CSOs is not the only issue of budget versus cross-subsidy. The very important issue is the one of transparency—that is, people knowing how much it is costing.

Mr McDOUGALL—While we are on that point, would you suggest that in the private sector there is not cross-subsidy across product lines in relation to the end product going to a consumer?

Mr Kerr—No, sure there is, but in that sense that is made as part of the normal commercial decisions. For example, many companies find it convenient to have a uniform price for a particular good or service as part of its marketing strategy, but they make that as a commercial decision rather than a requirement for social policy purposes. That is the distinction. Remember I said the definition of the community service obligation is those things which are done which the organisation would not do in a commercial environment. That is not to say that there would not be some cross-service subsidy in commercial environments.

Mr McDOUGALL—I put it to you that there is a lot of it.

Mr Kerr—Yes, I am sure there is.

Mr NEVILLE—Just taking that point a step further, Australia Post is a corporatised body and their recommendation is that cross-subsidy is a more efficient system than a budgetary system. Why can't they make that judgment in the same way that a commercial organisation makes it?

Mr Kerr—I think that judgment, in my view, should be one for the government to make because it goes to the heart of how the social policy objectives are made. I go back to my point about transparency. It is more difficult in circumstances of cross-subsidy to work out what the true costs are and what their consequences are. We do not question the purpose of the cross-subsidy. It is for governments and parliaments to decide social policy objectives in that regard. Our comment relates to how it can most efficiently be delivered.

Mr McARTHUR—How do you work out the true costs in reply to this question? That is one of the difficulties everyone faces in this argument.

Mr Kerr—Yes, it is difficult to work out the true costs. Although, I did make some comment last time I appeared that the sort of numbers you need to start to address that question are, we would think, the normal by-products of efficient management information systems within the organisation. So you would expect Australia Post to know how much it costs to transport the average item from, say, Melbourne to Kingaroy or to the north coast of New South Wales.

Mr McARTHUR—Do you really think that is reasonable given the way in which the postal systems work?

Mr Kerr—I think it is reasonable of any business to have a good understanding of its cost structure. Clearly, there are trade-offs between how much time you spend tracking particular costs, and there are some judgments to be made there. I would put it to you that the current system does not give a lot of clarity as to the cost of CSOs. If you look at Australia Post's annual report—the last one available—you will see on page 62 that the cost of CSOs is listed at \$65 million, but it is not at all clear how they have come to that. It may be that the information that is required to produce that number is satisfactory to make judgments about budget funding.

Mr McARTHUR—There are also a figure of \$155 million and a figure of \$199 million or thereabouts. There are three sets of figures depending on your methodology, so it is a matter of whose methodology you accept.

Mr Kerr—Yes. There are different ways of measuring CSOs and there are arguments in favour of each. The methodology which I think is generally accepted, and the one that we would put forward, is the avoidable cost methodology. It is quite closely akin to marginal cost, but the other alternatives are fully distributed cost or stand alone cost.

Mr WILLIS—I think it is fairly clear, in support of the cost that is being used now, that the number you just mentioned pretty much fits with what was in the BIE submission to this committee last year, which for 1993-94 was \$62 million on an avoidable cost basis. So I presume it has continued to be produced on that basis.

Mr Kerr—That is right, but it is not clear just from that single number how it is underpinned. For example, when I last appeared before the committee, because the focus was on rural and remote areas, I made comments that when we did our inquiry Australia Post produced an estimate for us of that proportion of CSOs which was attributable to deliveries to the country—that is, country-country and city-country—and the answer was approximately one-third.

So if that proportion still applied—and I do not know whether it does or not because that is one of the sorts of figures that does not come out in their annual report—you would think that of the \$65 million cost which they cite about \$20 million or a bit over would be attributable to services to the bush. The point I was making at that time was that the idea of CSOs in this context was a good deal more complex than a city

subsidising the bush argument.

Mr NEVILLE—It goes beyond that still, does it not? For example, I think we get into the simplistic argument of sending something from inner Melbourne to a Melbourne suburb compared with posting a letter from Albany to Mareeba through several systems. But there are an infinite number of combinations. There is one from Melbourne to Albany, there is one from Albany back to Melbourne or from Melbourne to Mareeba and Mareeba back to Melbourne or from Albany to Melbourne. I do not know how you could analyse that effectively in any way. Should we be looking just in terms of outgoing mail from the capital cities or is there not a value to the capital city of incoming information back to the capital city? Do you know what I am saying?

Mr Kerr—Yes, and I agree with what you are saying. At some point there would be a sensible aggregation which you could use. That was my point, but there are trade-offs in collecting detailed information for the purpose.

Mr ROSS CAMERON—I have a number of questions, so if we could get shorter responses it will not take too long.

Mr Kerr—I will do my best, I am sorry.

Mr ROSS CAMERON—My understanding is that Australia Post estimates that if you move away from the efficiency benefits of a standard letter rate to a series of varied rates reflecting true cost, that you will increase the average cost by about 6c per letter. Is that true?

Mr Kerr—I cannot tell you. We have not made such an estimate.

Mr ROSS CAMERON—If you fixed the letter rate at a maximum of, say, the current rate of 45c and then freed it up underneath that, what would be the result of that? Would you be able to deliver the same quality of service within that sort of constraint?

Mr Kerr—We debated this in our report, and, indeed, it formed the basis of one of the options we put by way of recommendations. What we suggested was a maximum letter rate of the current cost of 45c with freedom to compete under that. Clearly it would have some impact on Australia Post's operations. To what extent it would result in, say, drops in revenue and therefore profits and everything else, and to what extent it would result in a dynamic response from Australia Post in terms of reducing its costs and increasing its productivity I think is impossible to say in advance. There would be a mixture of those two.

In support of that, I draw your attention to Australia Post's recent track record which, in that sense, is quite commendable. It has produced increases in labour productivity of, on average, over six per cent for the last five years. That is quite a degree of momentum in terms of cost reduction. You could go on to ask—I think I am exceeding your time limit—whether that maximum letter rate itself should not be reduced, as it was in New Zealand.

Mr McARTHUR—What was the base rate you were dealing with? Where did you start from?

Mr Kerr—This is measured each year.

Mr McARTHUR—So it is six per cent for the five years, but what was your base rate where you started from?

Mr Kerr—It is an average annual increase. To what extent there was fat there to draw on to start with I could not say.

Mr ROSS CAMERON—If you then were to fix the cost for CSOs by a budgetary payment, is it then conceivable that you could go to the market and test the cost of delivery of those services in a competitive process?

Mr Kerr—It is conceivable, yes. It depends how it is structured, I guess. It would be more difficult the wider the network, and it would be easier the narrower and the more specific the proposition. Let me make two points: Australia Post already contracts out a good deal of its operations for perfectly sensible reasons. And that is not so different, in a sense, from seeking tenders to do a particular activity.

Secondly, as you will find in our report—I do not know what the case is now because four years have gone—there are parts of Australia Post's operations which are currently directly budget funded. You will find in chapter 5 of our report some references to services for defence forces and delivery of certain medical items, I think, which are currently funded directly.

Mr WILLIS—Services to blind customers and braille items—articles, speech recordings and things like that.

Mr Kerr—Yes, and cost estimates are made of those and in that sense they are directly budget funded, or at least by the relevant agency.

Mr ROSS CAMERON—This is my last question. One of the issues we are looking at is what level the multiple ought to be set at for the standard letter rate for the Australia Post monopoly. We had a discussion this morning about what the impact would be of, say, reducing it from the current level of four times the standard letter rate to perhaps two, as they have in New Zealand. Clearly you have a different geographical terrain in Australia than in New Zealand, and probably a different demographic spread of population. Do you have a view on what the ideal rate is that will maximise quality of service nationally with greater flexibility in cost savings?

Mr Kerr—We had a view when we did the report. Whether we would stick by that I think would depend on what analysis was done of the reduction to four times, which I think would be a starting point. At the time we did this report, we suggested, I think it was, \$1.20 with a subsequent reduction by about 10c a year. That would have started at a point more than two times and brought it down towards that. I do not think it is possible to demonstrate with any certainty where to draw that boundary in advance. That was an estimate we made at the time, and I am not sure whether we would come out with the same one. I do not agree, for example, with some of the analysis in Australia Post's discussion of the consequences of different thresholds for competition.

Mr ROSS CAMERON—Should we not be able to test the impact to date of the changes which have already taken place?

Mr Kerr—You certainly should. That would be our starting point. We would want to draw some conclusions from that both here and in New Zealand. Although the market is different there, one could, presumably, draw some conclusions. Here the rate was reduced from 10 times to four times. The legislation was passed at the end of 1994 and it has been in place about a year now. You would expect to draw some conclusions from that.

Mr ROSS CAMERON—As a matter of methodology, how would you do that?

Mr Kerr—We would start looking at relative demand, basically. You would have to try to unravel general trends in demand—that is, the size of the total market—from the impact on Australia Post of greater competition. There would be a sort of threshold reaction at some point. At the moment, if you set the price at four times, I do not expect that you would get very much competition. I do not know how many products you know of where, if you set the competitor's price at four times, you would expect to get much competition. But clearly at some point there would be a flip over and competition would really start to bite. It might be at two times; I do not know; I do not think it is possible to say precisely.

Mr HARDGRAVE—I have a specific question, but I would like to ask Mr Kerr firstly to flesh out his comment in answer to one of the previous questions with regard to him not agreeing with some of Australia Post's projections. In what ways do you disagree with some of those projections?

Mr Kerr—I am not sure how much detail you want me to go into. We could, if you like, give you some written comments on this. I am referring to paper called 'Impacts of Reduced Protection'.

Mr HARDGRAVE—Are you talking about the table of impact of reduced protection?

Mr Kerr—Actually, I am looking first at the page before that where it discusses the Cuthbertson and Richards study. I have to say that the first thing that struck me was that this was a test to see whether we were awake because the percentage changes seem to be rather curiously constructed.

Mr HARDGRAVE—Are they perhaps overstating some of the effects? Is that what you are suggesting?

Mr Kerr—I would put it more bluntly than that. They have made an arithmetical mistake. Leaving that aside, I think the problem that I have with this sort of analysis is that what they are trying to do is to draw some conclusions from the study in the UK—and it is right for them to look around and see what is available—about impact on first and second class letters when the price of the other one changes.

The technical term describing this is the 'cross-price elasticity of demand'. So, for example, in day-to-day terms, if the price of wine falls, are you going to change your consumption of beer? They have got a cross-price elasticity of demand of 1.5. In fact, they have taken the wrong number from the study. There are two cross-price elasticities in the study: one is 1.5, and the other is 0.5. The relevant one for their purposes

should be 0.5.

Leaving that aside, the main problem is that they are looking at a large-scale change, whereas, when discussing elasticity, economists tend to use it for discussion at the margin. That is, if a price changes by one per cent, what is demand going to do? Whether that sort of analysis, and those sorts of numbers are any help at all in changing a price from \$1.80 to \$1.35 when Australia Post is competing with 45 cents, is really impossible to say.

Mr HARDGRAVE—You really cannot multiply it tenfold, or whatever.

Mr Kerr—I would not. Let me use their own numbers. For example: the price multiple has gone from 10 to four. That is a reduction of 60 per cent. With their cross-price elasticity of 1.5, they would have a loss of market of 90 per cent. Has that occurred?

Mr WILLIS—That is from four down, not from 10 down.

Mr Kerr—That is from 10 to four, a decline of 60 per cent.

Mr WILLIS—Yes. But looking forward from here and looking at the impact of reduced protection, I think that the elasticity factor they are using there relates to moving from four, not from 10, does it not?

Mr Kerr—They have used it.

Mr WILLIS—There is a difference. As you said yourself: if they are moving from 10 to four, you might not have much effect at all and at some point, you have a bigger effect.

Mr Kerr—You are quite right. But they have used the elasticity regardless of the starting point. They have used the same elasticity from four to three, three to two, two to one, et cetera.

Mr WILLIS—But not from 10.

Mr HARDGRAVE—When we talk about looking at, say, setting the maximum price of the cost of a standard letter—that proposition you have put forward—have you considered the precedence of such a change and its impact on a number of other sectors? Have you looked at the cost of providing services for telecommunications, for instance, outside the Sydney, Melbourne, Canberra triangle which, I understand, is subsidised by activities within that particular triangle? In other words, if we start looking at Australia Post and, perhaps, if we are trying to drop the standard letter rate down to 25c around the city limits, all of those sorts of consequences could flow into other sectors, and the impact could be quite something. Have you considered that particular angle?

Mr Kerr—I am not sure that I fully understand the question.

Mr HARDGRAVE—The question of cross-subsidies is obvious in the major south-east population centres of Australia—Sydney, Melbourne, and we throw in Canberra because it is half-way between. It is

evident in a lot of other sectors that activities such as communications are subsidising activities in the more remote areas of Australia. It happens simply by volume and the number of participants. Surely, if you are going to start varying things such as the standard letter rate that will have some desirable effects within that triangle, if you like. The impact could also then flow over to other sectors where they are going to point also at an idea of varying their rates and charges, and perhaps increasing charges in areas outside the Sydney, Melbourne, Canberra triangle.

Mr Kerr—I agree that the principles which led you to a discussion of the costs and benefits of cross-subsidy should apply regardless of market, whether it is the triangle you refer to, or telecommunications, or any other market. The difficulty with analysis of Australia Post, I think, is that it is a network, and networks are notoriously difficult to analyse. You cannot just lop a bit off the end because then you are losing the inherent characteristic of the network. It was for those reasons that in this report we came out with the conclusion that the government should continue to use Australia Post and its network to deliver the sort of service it believed the community wanted.

That is one question. But the next question is: how to pay for it, and that is worth a separate debate. Whether it should be done by cross-subsidy, or by direct funding, is the point I was making earlier. There may well be relationships between one market and another which bear on those sorts of questions. It was not much discussed in here except in the context of expected growth in the mail market, and substitution between it and telecommunications markets. I am not quite sure if I have answered your question but I am doing my best to.

Mr HARDGRAVE—My concern is that, whilst it may work in a test tube situation—in a laboratory sense in a major metropolitan area—to reduce the cost of letters, the impact on the whole system may well have the opposite effect. In other words, if user pays principles apply in sending a letter from Brisbane to Mt Isa, within the same state, it will cost a lot more to provide that service than sending it from Melbourne to Mildura within the same state. One has to be very mindful that there is a different world outside the Sydney, Melbourne, Canberra triangle.

Mr Kerr—Indeed. And you will find in this report, and no doubt in Australia Post's annual report, that it does talk about differential cost of providing services. The recommendation we were making at this time was for a maximum charge which helps to deal with the problem you are talking about, but it would not put a floor under competition within markets where things could be done more cheaply. So the idea of a maximum charge is that nobody would be worse off and some people would be better off.

Mr WILLIS—I will probably take this slightly off the issue and back to how you pay for the CSO. You were saying before that you thought that there was an argument essentially for 'on budget' rather than cross-subsidisations, through allocative efficiency factors et cetera. Practical factors to bear in mind with regard to that are, firstly, that governments do not normally welcome suggestions for further impositions on the budget and, secondly, once they are there, they are open to attack on an annual basis as you look for ways in which to make savings on the budget. Those are two fairly compelling factors in arguing against putting it on budget.

I accept that, theoretically, there may be a case but in hard practical terms it is sitting there like an

open invitation for cuts each year. The result of that may be—if it is impaired significantly—that either the charter responsibility to deliver the CSOs gets impaired or you force Australia Post back onto cross-subsidies anyway to try and pay for it. What do you have to say about that?

Mr Kerr—Clearly there is a great deal of political reality in that observation. I would just make two points: there are CSOs which are budget funded—

Mr WILLIS—Sure, it is a very small number though.

Mr Kerr—The Commonwealth is perhaps less advanced in that area than some of the state governments which have had budget funded CSOs for some time. No doubt they are subject to the sort of scrutiny and questions that you are mentioning. Nonetheless, they have survived.

The second point is that there is a sort of counterpart set of considerations and that is that the more the cost and funding of CSOs is disguised, the more likely there is that there is less pressure on the provider—in this case Australia Post—to improve its performance. \$65 million is an estimate. How do we know that, in fact, those CSOs could not be provided for \$40 million or \$30 million? Budget funding tends to produce that degree of scrutiny and discussion which cross-subsidy tends not to.

Mr WILLIS—Or it might produce less than the full cost of providing the CSO whereas the present system, presumably, does provide the full cost.

Mr Kerr—I will come back to that. Trevor Cobbold has a comment.

Mr Cobbold—There are two other comments that are worth making. One is: why should the beneficiaries of, say, the pharmaceutical benefits scheme or any other social policy of government have their position reviewed annually while other beneficiaries do not? It seems to me that if governments are reviewing their social policy, then the opportunity should be to review all the beneficiaries of that social policy and also the costs. I do not say that this applies to Australia Post, but on other occasions we have found that the beneficiaries of the CSO in a government requirement have, in fact, not been the people who have been targeted. That is another reason to suggest that an annual budget review is a good thing—to make sure that the people at whom you are targeting a policy are, in fact, getting the service.

The other observation I would make is that in the case of a cross-subsidy versus direct funding, there is the question of who should bear the tax. If the users of Australia Post services, particularly those who use its services more intensively than other firms in the private sector, are bearing the cost of that CSO, then that is making it more difficult for them to compete with their overseas competitors. That is an argument for considering that if it is in the interest of the Australian community to have a particular social policy, then the general community should fund it rather than some particular users of a particular government owned enterprise.

Mr WILLIS—I was thinking about where you have got the community service being provided by a commercial organisation. It is more likely that the government will cut back in that area rather than where either it provides the community service or it is not provided at all. In this case, if you cut back, then the

pressure is on the organisation to either live up to its charter or pay for it through cross-subsidies. Inevitably, the government would cut back on it and, increasingly, you would go back to cross-subsidies anyway.

Mr Kerr—Its capacity to fund it through cross-subsidies is directly related to the degree of competition it faces. You cannot cross-subsidise, in effect, if you are open to full competition.

Mr WILLIS—Sure; that makes it more difficult.

Mr McDOUGALL—Being new to this committee and obviously not involved in the previous work that was done, I am still trying to come to grips with the argument that you have put forward. If you were arguing that we are finding it very difficult to come to the true cost of this cross-subsidy, and you questioned that, how is it so much easier to be able to do that through a budgetary payment system?

Mr Kerr—It does not, of itself, make it easier. It makes it a good deal more important because the discussion would need to have that sort of information available in order to proceed sensibly. But I would mount a case for greater clarity of the cost, regardless of the method of funding.

Mr NEVILLE—Let me pick up Mr Hardgrave's point. I apologise to Mr Willis; I did not mean to cut him off like that but I was very keen to pick up this point. Say that we move beyond the golden triangle of Sydney, Melbourne, Canberra and cite an extreme case where we might take the four major capitals and Canberra. If we allowed a private contractor, for example, to compete openly in that market, without any other obligations to the rest of Australia, might we not see a new letter rate of 18 or 20c or something quite low but, in so doing, a skewing of the rest of Australia which would require other areas not currently requiring CSOs to be pulled into a new CSO, because of the withdrawal of services?

Let me explain how that might happen. Other than the taxation component, the profitability of the private organisations—say, a TNT type of operation—would go to that company and not back into the common purse, as indeed Australia Post's profit does at present, notwithstanding the fact that they pay a dividend to government. If you had, in this extreme case, a private organisation picking the eyes out of it, might you not create a situation where you required an even bigger community service obligation to service the rest of Australia, rather than the present one which is quite modest by comparison with the total profitability of Australia Post? Do you take my point?

Mr Kerr—Yes. I understand exactly. The question really revolves around what the minimum size is to maintain a profitable network.

Mr HARDGRAVE—That is a good question.

Mr Kerr—It is unknowable, in advance. What Australia Post is currently facing is competition at the margin.

Mr NEVILLE—Yes; but I question a premise of yours. You have questioned everyone else's premises. Let me question a premise of yours. You used the words 'than might otherwise be the case' when you were talking earlier. But the case is not 'otherwise': it is a case of four, five or 10 decades of Australia

Post having achieved a system. The 'otherwise' case—and I do not know if I express myself very well—is the private operator. You talk about the 'otherwise' case as if somehow Australia Post was otherwise. Australia Post has been the one that has nurtured and cultivated—at first as the PMG and later as Australia Post—this system. Surely it should not be made to have to bend to the commercial market; rather, the commercial market should be made to bend to it. Do I make myself clear?

Mr Kerr—I will make two comments and by those you will be able to tell whether or not I followed your question. One is what I said before that, if competitors start to pick the eyes out of the market or engage in cream skimming or whatever else it is called, clearly you would expect that to have an impact on Australia Post operations, its revenue, its market size et cetera. Whether those impacts would reach the point where what are currently profitable operations of Australia Post become unprofitable and thereby make a call on CSOs—clearly, at some point that would be the case. What I am saying is it is very difficult to say with networks where that would occur. We think Australia Post has—just from observation, from its increasing rates of return, from its productivity gains as I have mentioned—stood up pretty well to the limited competition they have been facing so far. As a matter of expectation I think they would probably face up well to an increase in the level of competition, so that is one point.

My second point is that the rates of return which you would expect rival organisations to be aiming at should be, broadly speaking, the same that the government expects of Australia Post. If there were no protections for them, their ability to maintain operations is simply a direct result of their capacity to compete and how good they are at the business. I think the sorts of things you have been mentioning in terms of the history are probably to Australia Post's advantage rather than to their disadvantage. When I come to send a parcel I think first of Australia Post and I think most of us do, even though there are some competitors in terms of delivery services, such as TNT et cetera, as you have mentioned.

That said, the performance of the private sector operators has been also quite impressive. I can recall a discussion, for example, with a European multinational which has extensive operations in Australia which made the point that our distances here have turned out to be an advantage in terms of how good we are at moving things around through our distribution systems. He claimed his operations—it was a German company—in Australia were more efficient using the existing distribution systems, including TNT and/or Australia Post, in moving things, say, from Melbourne to Perth than they were for his head office counterparts in moving things from Frankfurt to Istanbul. The competitors we have in the market here including, potentially, Australia Post have the capacity to perform quite well. The question is: does Australia Post need statutory protection or to what extent does it need statutory protection to survive?

Mr McARTHUR—Can we just explore this argument that the cross-subsidy depends on the monopoly of the standard letter rate? It would seem to me that most commercial operations have innately some more profitable lines and some less profitable lines of their operation. In a funny way there is a lot of cross-subsidisation of commercial activities because of the changing marketplace, the changing demands. Could you expand on your argument that you do need the monopoly letter rate to provide the cross-subsidy, compared to the normal commercial arrangements where Australia Post might be subjected to a range of competition and some lines would be more profitable than others and the cross-subsidy revenue will be available out of that normal business position?

Mr Kerr—Yes. I had made an attempt to respond to a similar point from Mr McDougall. It is not that the private sector does not have any cross-subsidies, it is just that we are defining CSOs as those cross-subsidies which would not voluntarily be entered into for normal commercial reasons. That is where Australia Post is cross-subsidising to the extent that it would not choose to do so as a commercial operation. Clearly they, like any other business, would wish to have some sensible and rational pricing structure so that not every letter going between different points had a different price. That would be administratively horrific and the customers would soon get thoroughly disenchanted with it.

So there may be good commercial reasons for cross-subsidies, but to the extent that the cross-subsidies go beyond those commercial reasons then they would need to be funded and the capacity to charge some customers higher than a cost reflective price is directly related to the protection of that market. If you are Australia Post and I am a competitor, your capacity to charge a certain price for a product above what a normal commercial market would charge will depend on whether or not I am allowed to compete in that market with you. If I am allowed to compete, I will simply bid a lower price and you will not get much of the business. So in that sense it is related to the statutory protection.

Mr McARTHUR—It is a line ball.

Mr Kerr—Trevor does not think my answer is good enough.

Mr Cobbold—The other consideration is that for those private firms that, say, operate national pricing policies it is obviously a commercial decision. But in so doing they take the risk that another competitor may come in and undermine their market in their most profitable areas because they have put the price up higher than it otherwise needed to be.

CHAIR—Unless there is limited competition.

Mr Cobbold—Unless there is limited competition. But there are areas where that does occur. The point about Australia Post is that it is protected from the risk of that commercial decision. It does not have to take the risk—it is protected.

Mr WAKELIN—I have a general question in terms of the transport industry. We might be reasonably good at it but it seems to me that we could be a lot better at it. Could you make a comment on some of the savings that might be within the transport industry for Australia Post? Just a quick observation on that. The second one is: is there anything from the USOs in the telecommunications industry that you might like to put into the discussion?

Mr Kerr—The effect on the transport industry of increased competition and therefore increased performance by Australia Post: I do not have any direct numbers on that, but I would presume a look at the input-output tables would give one some idea to what extent input costs for transport more generally are affected by communications costs. I would hazard that all Australian industries would benefit by reduced communications costs in the postal area, probably less than they used to because the balance of their communications, I presume, is shifting in the direction of electronic communications rather than physical communications. But there would be some benefit; I do not know how large it would be.

Mr WAKELIN—On the USOs and the telecommunications industry, I was more particularly thinking in terms of the way that money is collected—Optus, Telstra, Vodaphone, et cetera. I am interested to see whether there was anything in that model which offered us anything in the Australia Post situation.

Mr Cobbold—I would not like to hazard a judgment on it but I think the model used since we reported on Australia Post would be a model worth looking at. A consideration which one ought to bear in mind is whether it would be a fair method for alternative suppliers. Part of the problem in the case of Australia Post is that nearly 50 per cent of the net cost of the CSO is incurred in urban areas. If a competitor set up its own independent network in those urban areas, then allocating a cost of the CSO according to their market revenue, as occurs in telecommunications, would be quite inequitable and add to the costs of those competitors.

Having said that, it is a model that could be worth looking at to see whether modifications could be made in the case of Australia Post. But certainly one would have to bear in mind the nature of the network and the activities of the competitors.

CHAIR—Just on that issue of where the suggestion has come in that report with regard to paying for CSOs out of a budgetary line item, would you see a differential of charges? How would you see it working? The first problem we have identified today is how you establish what the costs of the CSOs are but then how do you go about paying for them? Do you have a differential charging system? Do you have a claimable rebate by people in remote areas?

Mr Kerr—No, it would basically be a budget funding for Australia Post itself. It could either be a forgiveness on the rate of return or an injection into their budget. As for forgiveness on the rate of return, by that I mean if they have a corporate plan and their owner, the government, has projected that it wants a 12 per cent rate of return or something of that order, and if the CSOs are agreed to be worth \$60 million, then their required rate of return would be 12 per cent minus \$60 million, whatever that comes to. It is probably nine or 10 per cent, something of that order. It could be delivered in that fashion.

Indeed, one suspects, although it is not entirely clear, that that is currently, partly, what is going on. In other words, it seems to be that there is a degree of both cross-subsidy and also forgiveness in the rate of return. If it were not the case then there would be some double counting in the presentation of the costs of CSOs.

CHAIR—So as far as establishing a dollar amount for CSOs in the budget is concerned, I think we have established that that would be a difficult exercise. Do you think that it will be just as difficult to go down the telecommunications model in trying to establish who is going to contribute? How many hundreds of different contractors are outside the protected area? Who is going to contribute what into a fund, the way I understand it is with Austel, to provide the CSOs in the telecommunications area? You have three carriers at the moment that can establish their market share but in parcel delivery, letter delivery, it is infinite. It also becomes a difficult area.

Mr Kerr—We have not studied it but no doubt you are right, it would be difficult. The difficulty would relate both to the total quantum of the CSOs which you are trying to fund and then to what sort of

base you should use to differentiate between the contributions of the different players. It might be a total revenue base and you take x per cent of that, but then you have the sorts of problems Trevor Cobbold was mentioning in terms of separately distorting impact on different types of businesses if they are not all identical. Yes, it would be difficult.

Mr McARTHUR—What is your interpretation of the disincentive effect of having a CSO on a budget line item that would be created within the Australia Post organisation—where they are waiting for the \$150 million or the \$50 million, whatever is determined, just to emerge out of the budget coffers and therefore there is no incentive to their work force, their management, to improve their efficiency over time?

Mr Kerr—The incentive should arise from a decent discussion as to how large the budget funding should be. There should be a degree of pressure on Australia Post to deliver CSOs in a ‘least cost’ fashion. That least cost would be the budget discussion. At present, you could well ask what the incentive is on Australia Post where they are being paid through cross-subsidies, through a not particularly well identified process for the current cost. There are disincentive dangers on either side.

Mr NEVILLE—I cited the extreme end of the argument; let me cite the other extreme. We are out in the country on a bush run where the van that takes out the letters, the CSO component, also takes out the mail and might also take out the break and the milk. If you destroy the viability of that service by in some way withdrawing the Australia Post component, how do you add to the productivity of Australia? Productivity is not just a theoretical concept: it is a practical one on the ground, is it not?

Mr Cobbold—Often that service will be contracted out in the first place by Australia Post. We are not arguing at all that the service should not be there. If it is government policy to provide that service to a rural and remote area, then what we are talking about is the best way of delivering it.

Mr NEVILLE—Yes.

Mr Cobbold—We are not calling into question the extension of the network to those areas. It is a question of how we best do it at the cheapest cost but, at the same time, maintain a good service. One of the recommendations in that report, as I recall, was in fact a recommendation for Australia Post to look at lifting the quality of service to those areas.

Mr NEVILLE—That is correct.

Mr ROSS CAMERON—Looking at the Telstra and Optus situation, we have seen a very substantial reduction in the local call rate. Your thesis moves forward on the basis that there is a lack of competitive or incentive pressures to force productivity gains and price falls. How much scope do you think there is, if you fixed the maximum rate at 45 per cent of the current level and then said you were going to open up the market so that anyone, effectively, could come in? What do you think it would cost under that scenario to send letters around Sydney or from Sydney to Melbourne?

Mr Kerr—I do not think it is possible to say precisely. At the time we did the report, we had some suggestions that city services might be provided at around 20c. Indeed, some of Australia Post’s own costings

seem to point in that direction. But you could ask your question in another way. You could ask if there is also a case for a reduction in the maximum. This was the point I tried to make earlier. New Zealand, for example, has operated with a two times competitive threshold and has recently reduced its letter rate, yet it still seems to be producing reasonable rates of return.

Australia Post's last annual report reported a rate of return of 18.7 per cent. Very commendable; and no doubt the Department of Finance was particularly happy to see how much dividend payments might be forthcoming! But, if the government's target is a normal rate of return, you might ask yourself what set of prices would bring that back towards a more normal rate of return. That would provide you with some idea of what is possible. Perhaps it was an exceptional year; I do not know.

Mr NEVILLE—Do you think competition is more likely to achieve that, and profitability as well?

Mr Kerr—Competition is not a be all and end all, but it has proved to be a pretty useful mechanism to improve performance in all sectors of the economy. You would expect there to be a bit of pressure on prices if the competition was real.

CHAIR—Thank you. The evidence that has been recorded on *Hansard* will be forwarded to you for checking. I think there were a number of points that you took on notice that you might be able to provide some information on.

Mr Kerr—I did offer but I am not sure whether you said yes to providing you with some more comments on the Australia Post analysis.

CHAIR—It would be much appreciated, yes.

Mr Kerr—Did you want to discuss the charter issue? I did not have a lot of points to make on that but I know that it is an issue which you have brought up with other people.

CHAIR—We have. But we had on our agenda that we were mainly going to discuss the attitude and some of the recommendations in that IC report with regard to the cross-subsidisation as opposed to a budgetary line item. Did you want to make a brief comment on the charter?

Mr Kerr—We do not have any special words of wisdom on the charter. We make the observation that, if it is a form of regulation, all forms of regulation have costs as well as benefits. It is very easy to look at the benefits of these things but there might also be costs, including putting performance caps on expectations and things of that sort. It is something that needs thinking about.

CHAIR—Thank you for your time today. If you could provide that information to the secretariat it would be much appreciated.

Mr NEVILLE—A point was made about that British model of the first and second class postage being about the only denominator to which Australia Post could refer. Could we ask Mr Castro to provide us with some evidence of, say, the effect that the lower rate of postage at Christmas time has upon mail

volumes. That might give us some indication of that area. There have been years where that has applied and other years where it has not.

CHAIR—I am sure we will get the opportunity to express that to Australia Post outside the formal hearing.

Luncheon adjournment

[1.36 p.m.]

HANNA, Mrs Jane Mary, Acting Director, Postal Policy Section, Telecommunications Industry Division, Department of Communications and the Arts, GPO Box 2154, Canberra, Australian Capital Territory 2601

NEIL, Mr John Brian, Assistant Secretary, Enterprise and Standards Branch, Telecommunications Industry Division, Department of Communications and the Arts, GPO Box 2154, Canberra, Australian Capital Territory 2601

CHAIR—We have received a submission from the department. Would you like to make a short statement before we move to questions?

Mr Neil—Thank you. The department has made two submissions to this committee, both of which have focused on the service aspects of the terms of reference, that being our perspective on what the main purpose of the committee was. The most recent submission is a departmental submission; it has not been considered by government in any sense. Our view is that a charter, as brought into prospect by the government's pre-election policy, can provide a link between the overall service standards under section 28C of the act and the levels of services which individuals can expect in their own particular circumstances. We think the charter is a form of loose contract between Australia Post and its customers, whereas the 28C standards are a form of contract, if you like, between Australia Post and the government. With those couple of comments, I am prepared to take questions.

CHAIR—What form do you think the charter should take? Has the department a view on that?

Mr Neil—Our submissions indicate that we do not see the charter as being a formal part of legislation but rather an undertaking which sets out what Australia Post is undertaking to provide in the way of services to its customers, fairly broadly determined. It should be somewhat more detailed than what might be included in legislation, in terms of overall standards for the performance of the organisation as a whole.

CHAIR—Do you see it reflecting some of those standards that are set out in section 28?

Mr Neil—It should certainly reflect those as a base but it should be a little more detailed and give people an understanding of what they can expect if they happen to live in a particular locality of Australia, for example.

CHAIR—In your submission you listed some of the benefits of a charter. Could you briefly elaborate some of those issues?

Mr Neil—I think a charter of responsibilities can provide a number of benefits. For a GBE like Post it can, in a sense, substitute for the rigours of competition in certain areas by providing some benchmarks on standards which the government and the community expect of it. It does, as I said before, provide a clear statement of what customers might expect—or it should. It should strengthen the customer service culture in the organisation itself, provide for consultation between Post and its customers and the community in general,

and provide a well explained complaints and compensation procedure where levels of service are not satisfactory. It would also provide a broader base for public accountability, another mechanism for public accountability on top of annual reports, parliamentary review of estimates and those sorts of issues.

CHAIR—In the monitoring of Australia Post's activities as a GBE, and no doubt your department would do that, is the department satisfied that, as a GBE, Australia Post is making enough progress as far as productivity gains and returning profits to the shareholder are concerned? Do you think that, because of the part monopoly environment that they operate within, Australia Post are resting too much on their laurels and relying too much on that monopoly protection?

Mr Neil—Our view, in common with a lot of commentators and so on, is that Post is a very well-performed GBE. It is probably unique in being one of the two GBEs in the country that actually make positive returns to the federal government. I think its very strong financial performance does raise some questions about whether the community is obtaining the best mix of benefits from that performance. Benefits from strongly performing organisations, such as Australia Post, can be realised in a number of ways. Some of them have been discussed earlier today in terms of the price and quality of services to the community overall, the level of CSOs and the extent of them, taxation and dividends paid to the government, and the pay and conditions that are enjoyed by Australia Post employees.

So all of those issues need to be looked at and it is for the government to make a judgment about whether the mix of benefits between, say, the price and the level of dividends that it is getting are, for example, the ones that it considers to be most appropriate.

CHAIR—Just going back to the charter, in contrasting the standards in section 28C and the proposed standards of a charter, do you think that the charter would probably be a little more flexible and would not have the rigidity of the standards in the act?

Mr Neil—I think that is one of the advantages of having a non-legislative charter. If you go for a legislative charter, that obviously has a degree of rigidity in it in terms of how you go about changing it from time to time. It implies a level of enforcement that you are going to bring to bear. You would only have a legislative charter if you really wanted to apply the force of law to certain activities. That would be my view. So I think a non-legislative charter has considerable advantage and can be more detailed but without introducing a high degree of rigidity.

Mr McDougall—When the government first set up Australia Post I became aware that there was a payback of capital as part of the agreement. So when we read Australia Post's report, we see a profit, we see a payment to government in terms of taxation and then we see this capital payment. I am of the understanding that in the next 12 months the last payment will come forward. That will then obviously put Australia Post in a different financial position for the following years because my understanding is that that capital payment then ceases. In effect, if you look at their current performance, that would mean that they would go from \$300-odd million, with \$100 million profit, to \$300 million, if you kept the same figures, to \$200 million profit. On what basis was that capital payback figure set? Has that been taken into consideration with the questions at which we are looking at the moment—the fact that they are going to then be far more profitable on paper?

Mr Neil—I think the decision for the government to take a capital repayment out of Australia Post actually dates back before my time, so I cannot give you very explicit detail. But I assume that it was based on a judgment about the issue I raised before about the mix of benefits. The government determined at the time that, quite apart from normal dividend payments, there was an ability to repay capital. Given Australia Post's strong financial performance and the strength of its balance sheet, it could make these payments over a period and return benefits to the general community via the return to government and redistribution via the budget system.

Mr McARTHUR—Can you advise the committee of how you evaluate the performance of Australia Post from a departmental point of view? Do you read the literature, do you talk to Australia Post or do you talk to consumers? How do you come to some of these judgments of whether they are good or bad?

Mr Neil—The general accountability arrangements for government business enterprises provide for a system of confidential corporate planning. Three-yearly corporate plans are provided on an annual basis to ministers for consideration. They set the financial and service parameters for Australia Post. They are supplemented by quarterly reports on progress against budget which are analysed and advice is provided to ministers. Beyond that, we rely on discussions with Post, discussions with other players in the industry, general representations that ministers receive about service and issues that are raised in relation to Post.

Mr McARTHUR—What hands-on evidence have you got that Australia Post do or do not do a good job? You are relying on second-hand evidence. When does the department really go and have a look at it?

Mr Neil—I am not sure what you mean by hands-on evidence. I would have thought that the financial accounts and so on are hands-on evidence of one aspect of it. If you are talking in terms of service, we rely, to a large extent, on feedback from the public.

Mr McARTHUR—The government might have a different view about Australia Post. They might only be interested in the rate of return to help Treasury. I am asking how you evaluate whether customers are getting a good deal or not, whether the 45c standard letter rate is internationally comparatively good, bad or in the middle. That seems to be a judgment that would be worth looking at. If you are talking about rate of return and budget, have you challenged the capitalisation of Australia Post, what it is really worth to get that rate of return?

Mr Neil—In terms of the issue of assessing their performance, the approach to assessing Post's performance across the board has largely been by a system of periodic reviews, the last one being the Industry Commission review. The government had already set in train arrangements for a further review to take place in 1996-97, so there is another review of the remaining limits on competition to Australia Post. In that sense, in between it is really just a system of ongoing monitoring of performance, and Post has, over recent years, performed extraordinarily well. To that extent, there has not perhaps been an in-depth examination of Post in the last couple of years.

Mr McARTHUR—You are saying to me that you are really relying on the 1992 Industry Commission report on which to base some of your evidence. What else have you done since then?

Mr Neil—We have not done any large-scale, in-depth studies of Post in the last couple of years, since the new act was put in place. We are expecting to undertake that sort of work, prospectively, for the 1996-97 study. We have asked the BTCE to do a study of the current industry structure and some aspects of that, in preparation for that.

Mr McARTHUR—On what criteria do you think Australia Post has done a good job? In maintaining the standard letter rate charge over five years, has that had an inflationary effect, or on their return on capital?

Mr Neil—In terms of most financial measures, in terms of the return on asset ratios and those sorts of issues, it is performing very well, and probably in advance of what we would set as a rate of return target under the arrangements for rate of return targeting. That, in itself, raises the issue of whether there are other ways in which you could realise the benefits. For example, could you reduce the price of a standard letter and still allow Post to be a well performing GBE? There is some sort of evidence that that may well be the case, and it is one of the sorts of issues that might come out of a further review.

Mr McARTHUR—What have you done to check the valuation? If the return on assets is so good, who has evaluated the correct or otherwise valuation of Australia Post?

Mr Neil—We are in the process of trying to establish rate of return targets. There have been discussions between Post, ourselves and the Department of Finance about these sorts of issues and we have consulted with Finance on whether we think the methodology used, et cetera, is appropriate.

Mr McARTHUR—Do you think it is right? The valuation of the assets, that is the key argument. Is that within range?

Mr Neil—I have no evidence to suggest that the information that Post has been putting out about its performance is in error in any substantial way.

Mr McDOUGALL—In relation to assets, Australia Post say that their assets are \$2.2 billion. When did they come to that figure and how long is it since that was reviewed by an outside body? I think that was the point that Mr McArthur was getting at.

Mr Neil—I do not know offhand.

Mr McDOUGALL—Could we get that information?

CHAIR—I think it is a more relevant question for Australia Post because Australia Post is operating as a GBE.

Mr McDOUGALL—Who owns all the assets.

Mr Neil—The source of my information on that would be Australia Post. If I took it on notice, I would seek information from Australia Post.

Mr McARTHUR—The department is making these evaluations and we are just challenging that validity. It is not for Australia Post to provide the valuation; it is for the department to say whether those valuations are right or wrong.

CHAIR—Are you putting that question to Mr Neil?

Mr McARTHUR—I have been pursuing that for some time with my friend here.

Mr Neil—Have you an outstanding question? It is not clear to me that you do.

Mr McARTHUR—I am challenging the valuation. Has the department challenged the—

Mr Neil—If you are asking whether we have subjected that to some sort of comprehensive analysis by an outside body, the answer is no.

Mr McARTHUR—Thank you.

Mr HARDGRAVE—How unrealistic is the notion of imposing world best practice on Australia Post?

Mr Neil—The question is: how do you define world best practice and how do you define appropriate comparators? It is the same as you applying it to any other organisation. It is as good as the information you can get on performance overseas and here.

Mr HARDGRAVE—How realistic is that though to impose a standard? I cannot think of any other country that would have a similar geographic criteria.

Mr NEVILLE—Canada.

Mr HARDGRAVE—Yes and no. Do we look at Canada and Russia then as an example to apply that to Australia?

Mr Neil—You can try a number of approaches. You can try to find more or less comparable sorts of organisations and so on. That might be extremely difficult when they find lots of reasons why there is not a good degree of individual comparison. The other approach is to take a range of performances or key benchmarks for a range of organisations with different types of characteristics, see where Post performs and watch how Post performs against them over a period to see whether Post is doing better than the trend or not. None of it is an exact science, obviously.

Mr HARDGRAVE—Do you set a lowest common denominator and apply it across the country?

Mr Neil—I am not quite sure what you mean.

Mr HARDGRAVE—Do you factor in all the different elements that typify Australia Post's

operation?

Mr Neil—Your approach would rather depend on the quality of the information you could get. The extent to which you are able to take into account all those factors really depends on how good your own information systems are.

Mr HARDGRAVE—I do not want to see us imposing something that is not connected with the real world.

Mr Neil—I think you are talking about references to world best practice in this context as a general concept of trying to improve the standard of performance.

Mr HARDGRAVE—The current buzzword kind of thing.

Mr Neil—Who knows? Post might actually be world best practice at the moment.

Mr ROSS CAMERON—It seems to me that one of the risks of a document like a charter is that it can be about giving people a warm inner glow without really delivering major cultural change, benefits of the customers, et cetera. One of the ways to address that issue is by the strength of the monitoring review enforcement, for want of a better word. Then the question comes up: should the charter be just an expression of the legislative obligations under 28C, whatever they become, or should it be a broader document than that? Would it be better not to have the force of law and to have more of a morally binding character about it? It seems to me that the consensus is moving more away from the legislative minimalist model and saying that it should be something bigger and more comprehensive than that.

My question is: if you move away from that legislative model, when you come to the enforcement or monitoring role, is the Auditor-General an appropriate organ for review of this process? Likewise, the Auditor-General is looking at Australia Post among how many other dozens and dozens of government organisations that have limited resources. It will tend to look at the requirements of the act and look at the performance on an annual report type basis. Shouldn't we be looking at giving some resources to perhaps an independent private sector, commercial or government body resourced on a week to week or month to month basis to review the performance of Australia Post against whatever criteria we actually wind up with?

Mr Neil—I think that depends on your assessment of how big the nut is you are trying to crack. Do you think the issue of Australia Post's performance is of such a magnitude as to require you to apply an additional resource for monitoring or enforcing? If you do not think that is necessary, why put the weight of law on it. Why not have monitoring regulated to the level of the problem that you think might exist? My immediate response would be to say no, you do not need an additional body. The current arrangements that exist, with the additional supplementation of standards under the act—if the committee and the government decide that is the most appropriate way to go—plus a consumer charter, should provide a fairly high level of assurance that Australia Post's continuing performance will be monitored and that they have got appropriate standards.

Mr ROSS CAMERON—That comes back to some of the earlier questions which some of the other

members were asking on how big the nut is. One of the problems is that we have got very little data to know the answer to that question.

Mr Neil—In terms of community acceptance of performance of Australia Post, I think you are not in a bad position to assess that, and I would have thought that was the key thing for a customer charter.

Mr ROSS CAMERON—Yes. That raises the question that if you are in a monopoly situation, which everyone has grown up with over the course of their lives—haven't been exposed to any other alternatives; never contemplated other alternatives—if that is the whole historical pattern of service delivery, it is not likely that you are going to generate a huge ground swell of discontent about the way, historically, something has been done. What we are asked to consider is, if you have got a monopoly over a commercially valuable set of services, it may be that to say 'I think that telecommunications customers were treated with a certain amount of contempt for years' will introduce a competitive element immediately the rate for local calls drops, not by way of one or two points but by a huge amount. I think the problem we have is that we just do not know how big the nut is. At the moment we are having difficulty getting some independent data beyond, 'Well, people have always received this service this way and they are not having a riot about it now, so we presume that it must be a good service.'

Mr Neil—I think if there is not clear evidence that there is a problem in the service—and leaving aside the competition issue as to whether Australia Post can or cannot wear more competition—and if you assume more competition means that there will be greater incentives for them to perform better, then that is an issue that the 1996-97 review should address. I think it is really a question of the committee determining whether, from the submissions made by Australia Post, it is providing an adequate level of service as is legislatively required, and whether the committee is able to determine whether there are other areas of service that need to be improved or particular areas that the committee recommends should improve—recommendations in relation to the future framework for continuing service improvement. I do not see it is insurmountable from my side, but it could be different from your side.

Mr ROSS CAMERON—One of the previous submissions was that the risk of regulation and of setting minimum standards is that you may in fact set a cap on the quality, innovation, creativity or efficiency of a set of services. By having to regulate the market in this way we may in fact place a subconscious ceiling on the drive to innovate and deliver benefits. Do you see that as a risk?

Mr Neil—Yes, I agree it is a possible risk. There is also the issue that if you set inappropriate standards then the community is being made to bear costs for the provision of a service that it may not have to bear.

Mr WAKELIN—In 1992 TNT and Mayne Nickless made some accusations about the reserved and unreserved components of Australia Post and the way one might support the other. Do you have any evidence that might have supported what Mayne Nickless and TNT were saying?

Mr Neil—No.

Mr WAKELIN—Do you have any disquiet about what they were saying?

Mr Neil—I do not specifically recollect the TNT and Mayne Nickless argument in the report. I have not gone back to it in recent times.

Mr WAKELIN—With regard to the ability of the audit office, this accountability thing and your role as the department in giving advice to government, what about the role of the Auditor-General and the Audit Office in having a look at some of these issues?

Mr Neil—The audit office has a statutory role to ensure that accounts are accurate and those sorts of issues. We rely on their performing that role professionally.

Mr WAKELIN—How long ago did they do an audit on Australia Post?

Mr Neil—They would have done a standard audit on their accounts. I presume they do those annually. The question arose earlier about a performance audit. I do not know when a performance audit was done.

CHAIR—There is reference to the last performance audit. The other issue was that they are waiting for the establishment of the regulations and then, I understand, there will be an annual performance audit.

Mr WAKELIN—With regard to heritage items, \$29.2 million is the estimate which Australia Post puts on that. They say it could be included as part of the CSO. Would you regard that as an accurate assessment?

Mr Neil—Is this their estimate of the cost of maintaining heritage properties?

Mr WAKELIN—Yes.

Mr Neil—I have no reason to say it is inaccurate. I cannot vouch for it having done an audit of it.

Mr WAKELIN—You would only be going on what Australia Post told you?

Mr Neil—Certainly.

Mr WAKELIN—Should Australia Post be permitted to sell those heritage buildings?

Mr Neil—In my view, Post should be able—

Mr WAKELIN—Where they are not appropriate—

Mr Neil—Yes, if they are buildings surplus to Post's requirements for its business, whether it is heritage listed should not necessarily determine whether it is retained or not. It should have to abide by the law and any government policies in relation to how it goes about the disposal of the property in terms of ensuring either consultation with the community or making sure that any heritage orders and so on are met and continue to be met.

Mr WAKELIN—What component of the department, how many staff and what amount of time would be spent in advising government and scrutinising Australia Post? What sort of review process do you have?

Mr Neil—We have one postal policy section which currently comprises four staff.

Mr WAKELIN—Full-time?

Mr Neil—Yes, they are full-time. They have one other function at the moment which is to oversee the program to deliver the TTY relay service to the deaf as well, as part of their function.

Mr WAKELIN—In the hierarchy of the department, who would that senior person report to?

Mr Neil—He reports to me as branch head and in the normal way through division head, deputy secretary, et cetera.

Mr WAKELIN—To the minister? What is the connection to the minister?

Mr Neil—It depends on the nature of the issues. The usual approach is for me to send minutes to the minister on the range of issues, on quarterly reports or issues that come up. People will brief the minister or his office according to need.

Mr NEVILLE—In talking about the community service obligation and how you really assess that in its various dimensions, are you saying to us that it is very hard to assess what the real figure is in terms of the defined community service obligation and the implied obligations, such as access to stamps and delivery of parcels, which are not strictly CSOs but which the public see as such? Then there are things such as heritage, which we have just discussed. Is there not some way of assessing these other than what has happened thus far? It seems to me that we have great skills in Australia but no one can really put a figure on it. Everyone questions Australia Post's figures but no one seems to be able to come up with a better formula.

Mr Neil—As was discussed this morning, there is a range of methodologies for addressing CSOs, depending on—

Mr NEVILLE—Why hasn't the department done anything about that over the years?

Mr Neil—I think the department has contributed to the debate on CSOs in various ways in relation to a range of areas that it has dealt with. But it is not something that you can set by legislative fiat or say that there is an absolute truth about it.

Mr NEVILLE—But so many things hang on that. For example, you alluded to it yourself—that we do not really know whether the 45c figure could come down because we do not necessarily know if Australia Post has been subjected to as much rigour as it could have been. One of my colleagues mentioned that the Optus/Telstra activity has emphasised that there is a lot of fat in there. Let us say we had a three-year period in which we went over to a bottom-line budget figure for the CSO and then threw the rest of Australia Post

open to competition. What sort of scenario do you think might come out of that?

Mr Neil—I have no idea. It really depends on your bottom-line budget figures and lots of other factors.

Mr NEVILLE—Of course. You have answered my own question, haven't you?

Mr Neil—You seem to me to be looking for a degree of certitude or exactitude that you are not going to get.

Mr NEVILLE—That is right.

Mr Neil—What you have to do is to think about what is the most appropriate framework for this service to be delivered in. By setting up Post as a corporatised body we have said that it has to operate more or less as a corporation, earn a profit and operate on an essentially commercial basis. Then the questions arise: how much competition do you want to put in? Is competition going to drive it to ensure that we provide the service to the community at the lowest price?

The general view in this and a lot of other areas has been yes, so you then have a look at that. It is really the issue I raised earlier about looking at the mix. The thing I did not mention before about the mix of benefits you get out of Post is that the other factor which is always at play is: what is the extent of competition that ought to be brought to bear on it? That raises the sorts of issues about what then will happen to price and its rate of return to the government, et cetera.

Mr NEVILLE—But until we reach this exactitude, it seems to me that we keep following the argument around but we never get to the point where you could open up Australia Post to any form of other competition.

Mr Neil—I do not necessarily agree. I think you can make some assessments based on the range of information that is available. Government rarely has perfect information on which to make these sorts of decisions, so you look at the balance of probabilities based on the evidence that is available to you and pick a mix of policies based on that. There have been suggestions recently, given the continuing strong performance by Post, that the mix could be looked at again. Some of the factors that you could look at include price. What this committee is looking at is services and CSOs, as to whether they could be or should be increased.

Mr NEVILLE—This might be an unfair question and a very hard question: assuming we could have identified a very accurate CSO and assuming that the department had carriage of that amount of money from the budget to Australia Post, do you believe you could have protected the total amount from the recent budget cuts that went across all departments? This is a crucial question for people in the bush. Do you really believe you could have protected the CSO from that cut?

Mr Neil—It really depends on the nature of the arrangement that was in place and a range of political factors which are clearly beyond my control.

Mr NEVILLE—If you had carriage of it in your department on behalf of the government in this current circumstance and you were told to have an efficiency dividend and various other cuts across your department, would it have been protectable?

Mr Neil—You are assuming that it was my job to protect it anyway, but that is another issue.

Mr NEVILLE—No.

Mr Neil—It is a question that is unanswerable. It is what happens in the discussions in ERC and the sorts of debate on where the balance of policies for the government lie. It really depends how important maintenance of the CSO is to the government of the day.

Mr NEVILLE—Do I take it from your comments on a charter that you would like to see the implied CSOs spelt out in it, talking about parcel delivery and heritage?

Mr Neil—I think there is a case for the statement to go beyond simply the USO type services, to say what Post is undertaking to provide its customers in areas where it is undertaking to provide services across the board.

Mr NEVILLE—Broadly then, you see those things better spelt out than left in generality?

Mr Neil—The level of detail to which they go is a matter for judgement. In some cases they would only be very general undertakings rather than absolute requirements to provide something without fail, et cetera. But I think the general point is that the statement would go beyond the simple delivery of the 45c letter.

Mr WILLIS—You referred before to a review of regulatory arrangements forthcoming. When precisely will that review occur and who is going to conduct it?

Mr Neil—The government is committed to a review in 1996-97.

Mr WILLIS—That is this year.

Mr Neil—Yes, it is during the course of this year. I do not think any formal decision has been announced about who will do it at this point.

Mr WILLIS—So it is still a decision for the government to make, is it?

Mr Neil—Yes.

Mr WILLIS—You referred also to the annual reports. I agree that that is a way in which the government keeps a pretty good tab on what is happening with its GBEs, with that system, through the annual report which is signed off by the Minister for Finance and the portfolio minister and the organisation. The quarterly reports that have been instituted in the last couple of years certainly help to keep tabs through

the year. What is your impression of the way in which the organisation has performed against those corporate plans over recent years? Are there any areas where it is done significantly better than the plan and any areas where it is done significantly worse than the plan?

Mr Neil—As my colleague was suggesting, in financial terms, it has tended to exceed planned targets pretty regularly in the period that I have been involved in. That raises the argument as to whether the planned targets have been set too low or whether it is simply being able to perform brilliantly. Certainly in financial terms it has performed better than planned.

Mr WILLIS—Any there areas where it has been worse?

Mrs Hanna—No, I do not think so.

Mr Neil—There is not one that springs to mind.

Mr WILLIS—Nor to me, but I thought you might have had one.

Mr Neil—No.

Mr McARTHUR—Previous witnesses have challenged the whole concept of a charter, one witness saying that you need to be careful as it is not a set of words. Another witness suggested that charters have both positive and negatives and can create a set of regulations within themselves. Mrs Hanna, what is your view and what is the department's view on those comments? Is the department in favour of a charter or is it just another mission statement to get away with the politics of it?

Mrs Hanna—As a consumer of services, I think that a charter would be very useful if it set out the conditions that I could expect out of a service provider, not just warm, fuzzy words but concrete facts, such as 'I live in Canberra, I can expect that my mail will be delivered to Sydney within a day or two.' I would want concrete things that I can judge its performance against as a user. Yes, I think it would be useful if it did that.

Mr McARTHUR—It might become a minimum benchmark that the mail goes from Canberra to Sydney today, but in three years' time you might do better than that because of a change of transport. Why wouldn't a charter just become a set of words that provided some benchmarks? I was just looking at some of the sorts of statements you have made here. You can read them any way you like, just to suit yourself. I challenge you to say what the charter really means, even in your own submission. You say, 'Minimum standard—X% of mail delivered on time and accurately.' What does that mean? You could say that at any time you like. Australia Post endeavours to do that, but who makes a benchmark judgment?

Mr Neil—That is an overall benchmark if you set standards under section 28C for the performance of the organisation overall. What we are talking about in the charter is the sort of undertaking that if I live in Kaleen, ACT, and I post my mail by 5 o'clock, it gets to Sydney by 6 o'clock the following night or whatever. There are those sorts of individual types of standards. If the mail does not arrive, I can go and say, 'But your charter says.' The question is: what effect does that have on Post? I think the point about the

charter should be an evolving document as well. If there are reasons why standards should be increased, the charter ought to reflect that.

Mr McARTHUR—Is it going to be an evolving document?

Mr Neil—We would see it as being one.

Mr McARTHUR—You haven't quite answered me as to whether you are in favour of the charter or not.

Mrs Hanna—As a user of mail services, I think it would be very useful to have a document that tells me exactly what I can expect.

Mr McARTHUR—Written in precise terms or written in terms that might be political and suit both sides of the argument?

Mrs Hanna—No, written in fairly precise terms. As I say, I want to know, without having to read the mail box, when my mail is going to be delivered to another place, so I can get my birthday card to Auntie Meg on the right day because I know that it is going to take two days to be delivered.

Mr McARTHUR—What would be different from the position now if you have a corporation running Australia Post with a set of corporate responsibilities both to their shareholders and to the public they serve as customers? What will change the whole thing now that you have a charter, a bill of rights type thing?

Mrs Hanna—If you have a corporation that is doing a good job and satisfying the demands of its consumers already, it probably will not make a great difference.

Mr McARTHUR—Why are we suggesting we have a charter, if they are doing a good job and they are meeting their corporate and community—

Mrs Hanna—Because I think it does go further than that. It is an information document as well as a standard setting document. It is something that informs people.

Mr McARTHUR—BHP ought to have a charter.

Mrs Hanna—Yes, well they probably do.

Mr ROSS CAMERON—Australia Post has provided some indicative three scenarios about the impact on their profitability of setting the monopoly design, if you like, at different multipliers of the basic stamp rate. Are you familiar with those three scenarios that they have put forward in their submission?

Mr Neil—No, not very.

Mr ROSS CAMERON—Does the department have a view about what level the monopoly rate ought

to be set? I think it is currently four times the standard rate.

Mr Neil—There is no firm departmental view. We would rely on the forthcoming review of the remaining limits on competition to obtain the data and the information necessary and assess the outcome of that sort of review to come to a position and advise the government.

Mr ROSS CAMERON—Is it fair to say that the department just does not have the resources to generate independent data on which to make those sorts of decisions?

Mr Neil—It depends on what you mean by resources. We do not have in-house staff who are working on the issue of analysis at that depth. If we thought there was a need and there was a requirement to provide government with that sort of information on a particular occasion, we could generate it by a range of means. Apart from this sort of review, you could get a consultant, or an academic body, or the BTCE or one of the other organisations to undertake a review and do work of this nature for you.

Mr ROSS CAMERON—It may well be that Australia Post data is right on the money. While we accept it is not a perfect world and we are never going to get perfect data, it seems a bit ad hoc just to say, 'Well, there's a certain amount of data out there. There's a certain amount of feeling in the community or among customers. Just try to think about what sort of mix you want.' I think from our standpoint we would certainly like to get some harder data. Is it the function of the department to provide an independent perspective to government on the functioning of GBEs like Australia Post? I would have thought that would have normally been part of your brief; wouldn't it?

Mr Neil—It is part of our brief to provide advice to government on a continuing basis about the operations of the GBE. Bearing in mind that it is a GBE and has been set up to operate at arms length, we are not there to second guess the business decisions of the organisation.

In relation to what you are talking about here, in terms of a competition review, there are mechanisms. It is basically a resource issue. Yes, we could have an ongoing research organisation hanging off my branch, for example; but I am sure that Mr Willis, when he was Minister for Finance, might have asked a question or two about it when he was in the ERC. So it becomes one of those issues.

The process of reform of Australia Post has been done by a series of reviews with progressive changes to legislation which have taken the form of corporatisation and then increasing the level of competition. You would expect another review to probably follow that trend. It is just a progressive process. So, from time to time, you review where things are. To actually address the competition issue, which I think is the issue you are really getting at, yes, you need more detail and you would need some more in-depth analysis than is probably currently available. This is one of the reasons why there is a 1996-97 review.

Mr ROSS CAMERON—So we do not know who is conducting that yet; is that right? Who is going to do the review?

Mr Neil—The government has not announced who is going to do it as yet.

Mr McDOUGALL—Talking about this charter of responsibility and the points you just made in relation to standing at arms length from the activities of Australia Post, you talk about setting things like a frequency of letter delivery within that charter of responsibility. Australia Post is an autonomous body in the sense that it is a GBE answerable to its shareholder, the government. Australia Post sets a frequency of letter delivery. Who accepts, or does not accept or challenges whether or not that standard that has been set by Australia Post is adequate?

Mr Neil—I think in the framework of the current review this committee could offer views on that issue. If the thing does not progress to that sort of level during the course of your work, then Australia Post would put its views on the charter to government and it would be a matter for the minister or ministers to express a view on whether they thought it was adequate in light of the information that was available to them.

Mr McDOUGALL—Therefore you do not see that as a departmental responsibility to challenge, or is it purely simply to accept?

Mr Neil—It is our role to provide advice to the minister on whether what is put up by Post would meet the government's policy. We would not challenge it—if that is the terminology you want to use—but we would certainly assess what they are putting up and whether we think it is appropriate in terms of the government's policies as announced.

Mr WAKELIN—In your comments you mentioned the potential to overlook pockets of underperformance, which, I guess, relates to your four staff, limited resources and the relationship with the Auditor-General. I presume you would have mentioned them—Mr Willis has already asked this question—but were there any obvious pockets of underperformance?

Mrs Hanna—No. All we can really judge that on is consumer feedback, and in reality Australia Post does not generate a lot of—

Mr WAKELIN—Sorry; feedback? You were talking consumer feedback, were you?

Mrs Hanna—Yes; that is, to identify—

Mr WAKELIN—Thank you. You have led into my second question. I want to pick up Mr Neil's point about an arms-length GBE. Can you just define what you mean by 'arms-length'? What do you think is a proper relationship between a government department and a government owned facility like Australia Post?

Mr Neil—Australia Post is set up as a government business enterprise with a board and a management that are there to run the business and to make the decisions about the day-to-day business consistent with the legislative responsibilities and any directions or guidelines that are set by the minister. I think it is not our role, as I said before, to try to intercede in the operations of the business or to try to second-guess business decisions that are made by the board and the management, who are all getting paid to do that. I think our role is to ensure that, over all, the operations of the business are conducted within the legislative framework, within the corporate reporting guidelines that are set by ministers for finance and our minister and

so on.

Mr WAKELIN—I was just interested in that term ‘arms-length’—that you were not in there visiting them every week or something like that.

Mr Neil—It is that as well, but it is fundamentally the difference between having the services delivered by a government department as opposed to-

Mr WAKELIN—Hands on. Thank you. What involvement should the consumers have in the process of monitoring Australia Post, and what indeed do they have from a departmental point of view?

Mrs Hanna—We would rely on feedback through complaints that are received by the minister.

Mr Neil—Post has its own consumer council and advisory councils as well.

Mr WAKELIN—Sorry?

Mr Neil—I am not quite sure what it is called, but Australia Post has its own—

Mr WAKELIN—A postal services consultative council; is that the one?

Mr Neil—Yes, it has a consultative council of some description that it refers to.

Mr WAKELIN—There would be from time to time some quite serious complaints, I would imagine.

Mr Neil—In terms of complaints that we get that come to the minister, depending on the level of the complaint we either make inquiries about them directly or refer them back to Post if they are questions about whether a particular letter arrived a day late or whatever. That can be managed at that level. It really depends on the nature of the inquiry we get about Post’s activities.

Mr WAKELIN—But what is the relationship between the consumer and the consultative council? Are there consumer groups that monitor? Do we have a *Choice* type organisation having a look at Australia Post? What is the consumer activity out there that really is monitoring standards? Could you give me an indication of that?

Mrs Hanna—No, that is their own advisory council.

Mr Neil—Post is subject to some monitoring by the former Prices Surveillance Authority.

Mr WAKELIN—Thank you.

Mr McARTHUR—I will just quote from your department’s submission:

A charter can provide a transparent mechanism to place ongoing pressure on performance levels in the absence of

competition. It constrains an organisation from resting on a monopoly power and encourages a higher level of performance.

Australia Post, on the evidence they have put before us, does have a considerable level of competition across-the-board, but not in the standard letter rate which we argue about. The charter seems to me to be going back to the public service attitude which prevailed in the PMG-type days, where the government provided a service, compared with the current attitude where customers and profitability are the key criteria which Australia Post works on under the new organisation. What justification have you really got in putting forward this charter? It really goes back to a more original concept of public service attitudes because you can interpret all these words either way, depending which point of view you want to have.

Mrs Hanna—You are asking us to justify a platform—

Mr McARTHUR—The department is putting up a review about a charter. I want you to defend it.

Mr Neil—I think our—

Mr McARTHUR—Give Mrs Hanna a go.

Mrs Hanna—The government has a platform to have a charter in place so we have provided a submission that addresses the advantages of that policy.

Mr Neil—Our view would be that a charter provides simply another means—it is not the be-all and end-all. We would argue, probably, in all sorts of forums, that the best way of achieving a lot of these benefits is through the competitive pressures that you put on organisations. To the extent that Post is not subject to such pressures and continues to have reserved services then it is worth looking at other measures. I would have thought that a customer charter, in these circumstances, is a reasonable measure. I do not think it necessarily harks back to outdated public service approaches. It is meant to provide a degree of transparency and ability for people to actually measure the level of performance. It has been used in other cases as a mechanism for other public service-type organisations. If you are making the comparison that you are actually putting something on to Post which is, maybe, more applicable to a public service organisation, that reflects, in part, that Post does remain part of the public sector.

Mr McARTHUR—You are not getting away from the fundamental debate of whether it is competitive and providing a service to customers. The question is how much real competition we allow for Australia Post to enjoy on the standard letter rate community service obligation. That is what all this committee is about. Are you really saying that this will be just another mechanism to help out with a bit of a political problem?

Mr Neil—No, I think it is a mechanism to provide some greater transparency and some better information to customers about the level of service they can expect from public sector organisations.

Mr McARTHUR—This set of words does not provide you with any transparency at all because you can read them both ways.

Mr Neil—The degree of transparency really depends on the nature of the customer service guarantee or charter that comes out at the end of the day. I do not think you can make judgments based on a few general comments we have made about the possible benefits. I agree with you about that.

Mr McARTHUR—We have been all over Australia and looked at what customers think and what Australia Post thinks. Each set of circumstances were a little bit different wherever we have been. It is very hard to put up a set of charter responsibilities that cover the whole of Australia—urban, rural, inner-city—and say that they will all be the same. Surely the customers—

Mr Neil—No, I agree they will not be the same. They will have—

Mr McARTHUR—How can you cover every contingency by drawing up a charter?

Mr Neil—You certainly cannot cover every contingency because it would have to be too detailed. There will be a level of generality but I would have thought it would be something more detailed—

Mr McARTHUR—If it has a level of generality why would you put it up?

Mr Neil—You will put it up if you consider that it provided a greater detail of transparency and understanding for the people that it is meant to serve—for the customers. If you did not think it provided any additional benefit then obviously you would not recommend it.

CHAIR—We will just move on, if we can, Mr McArthur.

Mr McARTHUR—Thank you.

Mr NEVILLE—You are talking about a spirit of competitiveness having to be there. I recognise that a department has got to keep a GBE at arm's length otherwise there is no point in having a GBE. But at the same time I am surprised that the department does not have a stronger view on it, even if this committee does not agree with it. Have you studied, for example, how New Zealand got its basic letter rate down and still retained its community service obligation? What mechanism did they use to achieve that? What is happening in Canada, perhaps, in a similar field? You can see that we are groping to make sure we do not damage a very important institution and that we maintain an equally important community service obligation. I would have thought that one of our greatest allies in that exercise would have been the department.

Mr Neil—Firstly, I do not expect this committee to do something that would damage the organisation or the CSO, on the basis of my view that this committee's role is really to address the level of services that the community expects of Australia Post, and therefore to determine, at least in a broad sense, what the level of CSO might be. I think that the review of whether Australia Post should be exposed to greater competition is a matter for another day. It is for the review that has been presaged by successive governments.

Mr NEVILLE—But I do not think that the previous government or this government would have asked us to probe that CSO thing so succinctly, and the new government would asked us to look at a charter of rights, if it were not implied in that that it was looking to some greater form of competition. I saw it more

than just as a periodic review of Australia Post, but we seem to be going in never-ending circles on it. Have you studied the New Zealand case, to see how they might have achieved it? They seem to have achieved both a commensurate CSO and a lowering of the basic letter rate—presumably, without too much damage to the dividend to government. Do we know how they did that?

Mr Neil—No; we have not done any detailed analysis of what has happened in New Zealand. In the same period, Australia Post has managed to freeze the standard letter rate and, therefore, there has been a real terms decrease, which they claim as significantly good performance. It has continued to return high and increasing dividends to government. As I indicated earlier, those sorts of issues raise questions which bear further examination. What I am suggesting is that the place for that further examination is the review of the remaining limits of competition, which has been part of the policies of successive governments.

Mr NEVILLE—I see.

Mr HARDGRAVE—It obviously begs the question: from a Department of Communications and the Arts point of view, Australia Post is a fair way down the list of concerns.

Mr Neil—No; I do not think that is true at all. The fact that Australia Post is a relatively well performing GBE does colour the extent to which we might be addressing these particular issues. There is a program. The law only came into force in 1994. The government set a program of further review in 1996-97. There is the question of the amount of activity you can actually undertake on those issues while you have got other issues that you have to deal with on a continuing basis.

Mr HARDGRAVE—There are a lot more technology based, exciting issues to deal with than Australia Post, I guess. It is more or less a steam institution, compared with the higher tech ones.

Mr Neil—Not necessarily; no. There are just a lot of other issues to deal with in relation to Telstra and other areas, such as radio communications policy and so on.

Mr ROSS CAMERON—Just following up Mr Neville's question, I want to understand something. At the moment, do you not have a view about what the level of competition should be set at?

Mr Neil—Not a precise view; no.

Mr ROSS CAMERON—Is there any view, though? Does the department have a view?

Mr Neil—No. The department does not have a precisely formulated view at this point, until some more substantive work has been done on the issue. We would form views then. We might have individual views based on the evidence that is currently available about whether or not it could stand more competition, but that would all be fairly speculative at this point, without having some more significant analysis done.

Mr WILLIS—But you would make a submission to the review?

Mr Neil—A further review? Yes.

Mr WILLIS—To the review that you told us about: you will make a submission to that?

Mr Neil—Yes, we undoubtedly would make some sort of submission to it. It would be a question of what sort of submission depending on the information that is available to us.

Mr ROSS CAMERON—I certainly would not want to be so trenchantly critical. It just seems to me that the one critical issue at the heart of this whole issue is one on which the department does not have any view. It just surprises me.

Mr Neil—I do not think we have a formed view because what I am saying is that I do not think the detailed analysis of the competition issues has been done. We have got views on some of the other issues before this committee and we would hope that the work of this committee would help to inform us on some of those issues and provide us with some data on which to provide advice to ministers. Part of our role is to synthesise what comes out of here and put that in the form of well framed advice that the minister can make policy decisions on and on which any legislative change can be framed. Part of our role is to synthesise what comes out of here as much as to provide input.

CHAIR—We have gone a little bit over time, but I would just like to thank the representatives from the department for coming along this afternoon to give evidence before the hearing.

Were there any outstanding matters that you took on notice to provide information on? I do not think there were. The copy of the transcript will be provided as quickly as possible for you to check and return to us.

Mr Neil and Mrs Hanna, thanks very much for coming this afternoon.

[2.45 p.m.]

MURPHY, Ms Janet Anne, Assistant Secretary, Access, Education and Finance Branch, Federal Bureau of Consumer Affairs, Department of Industry, Science and Tourism, 50 Blackall Street, Barton, Australian Capital Territory 2600

CHAIR—Welcome. Did you want to make a short opening statement to the committee?

Ms Murphy—The Federal Bureau of Consumer Affairs is a division of the Department of Industry, Science and Tourism. The federal bureau has made a submission to the inquiry and I welcome the opportunity to appear before you today to expand on or explain any of the points raised in this submission.

The government's service charter initiatives stem from its pre-election commitment to develop a set of performance criteria for government departments, agencies and utilities that provide customers with information on the level of service they can expect. Additional and separate commitments were made with regard to Telstra and Australia Post. The service charter initiative provides the government with an ideal tool for quality of service measurement. Charters can help an organisation to enhance its economic performance by requiring specific targets and standards to be developed that can be compared within and across an organisation. Charters also provide customers with a demonstration of an organisation's commitment to quality of service delivery and with information about the kinds of service they can expect.

The Minister for Small Business and Consumer Affairs, Geoff Prosser, was given the responsibility by the Prime Minister to develop a framework for service charters. The minister has proceeded to give effect to this task and has written to his ministerial colleagues requesting information about the kinds of service charter initiatives under way in their portfolios. He has also proposed to establish a task force comprising representatives from business, consumer groups, government and utilities which will develop good practice benchmarks for designing, developing and monitoring service charters. In addition to developing these benchmarks, the task force will also be asked to recommend priority areas within the Commonwealth public sector for the adoption of charters. The benchmarks developed by the task force are due for completion by 31 October 1996.

I believe that the committee's work in considering the establishment of an Australia Post charter will assist the task force in the process of developing benchmarks for charters and I look forward to the release of the committee's findings. In the same way, the work of the task force may provide assistance to the committee. I will be pleased to talk about these and any other issues. Thank you.

CHAIR—On the model for a charter, how do you compare that with your organisation's proposal and can the Australia Post model be improved?

Ms Murphy—I should preface my comments by saying I have seen Australia Post's model only less than an hour ago. I was attempting to read it while listening to the proceedings so I have not been able to give it a rigorous analysis. My early judgment is that Australia Post's draft charter contains most of the elements we would expect to see in a good service charter. There are some very good examples in it about

what areas should be covered, how they should be described and how they should be laid out. However, there are a number of areas we think fall short of what we would see as an ideal charter. If you would like me to expand on those I am happy to do so.

Overall, there seems to be a little bit of confusion in the way the draft charter has been drafted between Australia Post's responsibilities and those of customers. One of the clear examples is in item No. 4: By what time should I post? Ideally a charter would, in fact, be worded slightly differently in the sense that Australia Post would undertake to clear mail from metropolitan and major centres by a certain time rather than requiring the customer to post mail by a certain time.

CHAIR—There is an importance in this to send that message to the consumer, though, isn't there?

Ms Murphy—There is, but I think Australia Post should outline its undertaking and then perhaps what that might mean for what the consumer should do. The key importance about a charter is that it is outlining the undertaking which the service agency is making to its customers. The flavour in this document tends to, at times, stray into what the responsibility of the customer might be in the area of the service agency's responsibilities.

I think perhaps the introduction to the charter could be a little bit more explicit. It should ideally explain how the charter was developed and whom it was developed in consultation with. There is an issue with Australia Post as to whether its charter should cover just the mail delivery aspects of its operation or other non-mail services such as bill payments, giroPost and some of those other areas. It would also be useful if the introduction to the charter outlined to what extent these undertakings apply to agency outlets which have been franchised by Australia Post and, if so, who has ultimate responsibility for ensuring that these commitments are met.

The draft charter does not cover areas to do with office hours which would be ideally put in a charter. It does not cover issues to do with counter staff courtesy or waiting times which, given that much of Australia Post's interaction with customers is over the counter, I think would be useful to include in the charter.

Some of it is a little bit negatively worded. Ideally, the charter would go into a little more detail about how Australia Post's undertakings would be monitored, how they would be reported on and how and how regularly the charter might be reviewed. That is my preliminary analysis and they are some of the issues I think, ideally, the charter would need to address to be what we think would be a better charter.

CHAIR—Australia Post's proposal for a charter does not include an overall monitoring process. You may be aware that delivery times are being currently monitored by KPMG. Do you think that some sort of monitoring should be part of the charter?

Ms Murphy—I think it should.

CHAIR—Who should be responsible?

Ms Murphy—I think Australia Post is responsible for that.

CHAIR—Yes, but a private independent body like that?

Ms Murphy—I do not think it matters as long as the body which is undertaking the monitoring is seen to have a degree of integrity about the way it does it. It could be a private body or it could be somewhere else within the public sector. The key thing is that it is preferably external to Australia Post itself.

CHAIR—You indicated that within your department you are doing a bit of work so far as charters for responsibility for service providers. Bearing in mind that you have just had the first opportunity to have a look at the proposed charter responsibilities for Australia Post, could I ask you to provide the committee with a critique on that?

Ms Murphy—We would be happy to do so. Yes.

CHAIR—That would be very handy.

Mr ROSS CAMERON—How important do you think it is for the effectiveness of the charter for a visible statement to appear at point of sale?

Ms Murphy—I think that it is very important. I understand that Australia Post has undertaken to have the charter advertised at the point of sale, as well as delivered to every mail address and mailbox, which I think is an excellent sign. I think that it is particularly important at the point of sale for information to be available about where the customer can go if there is some problem with the service and if there is a complaint to be made. Ideally, a charter is not a huge document. It could even be postered on the walls of each Australia Post outlet.

Mr ROSS CAMERON—In the actual impact of this thing, it seems to me that the way it is presented at point of sale is going to be quite important as to whether it is a useful and effective document. Would you be trying to do a broad set of principles that you could fit onto one page of bullet points or—

Ms Murphy—Most charters are either fairly short in length—a couple of pages—or there is one page summarising the key elements of the charter, and the details of the charter might be provided separately. Either way, it has to be clearly set out, and it has to be in very plain language. One of the comments I did not make about the draft charter is that there seemed to be a number of caveats implied in the charter. I think that a charter should be a little bit more specific about what it is going to do without introducing caveats which are only probably going to confuse the consumer and which also add a degree of cynicism, I think.

Mr ROSS CAMERON—With regard to the effectiveness of the charter, it would seem that those who will have responsibility for delivering on its obligations need to feel a sense of ownership of that document. Do you think that there is a risk that if we prescribe something and use the compulsory power of legislation, that employees of the organisation will tend to feel that this is something being imposed on them, rather than something they feel a sense of ownership of and identification with?

Ms Murphy—There can certainly be a danger in prescribing something like a charter through legislation. There are benefits in prescribing a charter through legislation where you have a provider like Australia Post which is, in many aspects, a monopoly provider. But it is far more desirable if the organisation and the staff are willing to commit to developing a charter and do it voluntarily rather than through legislation. It does generally give a degree of ownership, provided that the process of developing a charter is undertaken in consultation with the range of necessary stakeholders.

Mr ROSS CAMERON—The department is acting as advocate for consumers?

Ms Murphy—We do not pretend to be a consumer organisation. We are part of the bureaucracy, but we certainly have a major role in presenting consumer views and issues to government, yes.

Mr ROSS CAMERON—Ultimately, what we are trying to do is enhance performance and outcomes for consumers and employees. There is some concern that a charter may be used as a sop, if you like, to avoid embracing the more robust competitive pressures as a way to enhance performance. Does the department have a view about where the consumer interest lies in that regard?

Ms Murphy—Ideally, if your consumers—not all of them but a representative group of consumers—are involved in drafting the charter, the sorts of standards and expectations that are set should be ones which are not too minimalist but which would present what a client should reasonably expect of a good Australia Post. If that process is followed and if the mechanisms for monitoring and implementing a charter are robust, then there is no reason at all why the standards should not be met and why it should not be a very valuable document.

Mr HARDGRAVE—I am wondering about the old terminology of ‘the consumer’, because there are about 18 million of them potentially, and it is certainly not a ‘one size fits all’ analogy, particularly with the diversity of service expectations of rural and remote versus inner metropolitan. From your perspective and from your understanding of the issue, what is more important to the consumer: the cost factor involved in the mailing of the letter or the reliability of service?

Ms Murphy—That would vary from consumer to consumer. For some consumers, cost would be more important and for others, reliability would be more important. Generally we try to balance the two aspects. But it does depend on your individual consumer. Some will not mind if the mail takes a day or two longer to deliver as long as the price of the stamp does not go up.

Mr HARDGRAVE—Is there a satisfactory level of ‘most consumers’? Is there a threshold? Australia Post’s figures provided by KPMG show that not less than 93 per cent of standard letters each year are delivered on time—hundreds of millions of letters: I will just take their word for it. Is there a point where that reliability factor would decrease to a satisfactory level, if the costs also went down? Is there any work being done on that sort of thing?

Ms Murphy—There is no work being done on that of which I am aware. The key that you have pointed out is that Australia Post does not commit to having 100 per cent of its letters delivered within a particular time frame; it makes allowances for what are going to be obvious slippages in some circumstances.

It is an 'on balance' issue, at the end of the day, and you are not going to be able to get 18 million people to agree. Even if you got six consumer representatives around the table, you would probably get some fairly differing views. But there is no doubt you would be able to work out some kind of consensus approach.

Mr HARDGRAVE—I am looking at the trade-off that could exist as far as reliability of service versus cost versus a number of other factors that come into play.

Ms Murphy—We would argue that a good charter, if well developed, increases both efficiency and effectiveness. There is no reason why you cannot provide the two at the one time. Quality should not necessarily be sacrificed to keep costs down, or vice versa.

CHAIR—Going back to some of your opening comments with regard to the proposed charter that has been put forward by Australia Post and the point about responsibility for consumers, would you agree that there should still need to be some implication? In the way you have reworded that one phrase, there was still an implication of responsibility for the consumer.

Ms Murphy—It is quite appropriate for a charter to set out the customer's responsibilities as well as the service provider's responsibilities. My comment earlier was that some of the service provider responsibilities are inappropriately set out as customer responsibilities. But it is quite appropriate to cover both aspects in the one document. That means that both parties are well aware of where they stand.

CHAIR—Sure. What involvement do you think consumers should have in monitoring the activities of Australia Post against a charter of responsibilities?

Ms Murphy—There should be a role for consumers in monitoring a charter. Probably the simplest way of doing it is for Australia Post to set up a monitoring committee, which might comprise two consumer representatives as well as some other interested representatives, to whom Australia Post could report reasonably regularly against any standards it sets out in its charter. That is an important part of maintaining the genuineness of the process. It is a good way to have any consumer concerns or complaints channelled in a structured way as well.

CHAIR—As far as communicating the spirit of the charter to consumers is concerned, it was indicated that a copy of the charter would be mailed out to all consumers. You also alluded earlier on to the fact that maybe it should be on display in post offices and agencies. Do you think that is a good idea?

Ms Murphy—I think it is a very good idea as long as it is not hidden away in a corner 20 feet high. If it is across the counter and visible I think it is a very good idea. While you are waiting in your queue you can be reading the charter of responsibilities.

CHAIR—You would be able to read about how long it took to get served.

Ms Murphy—Yes, about how long you should not be waiting!

CHAIR—I am not sure in your comments earlier whether you touched on the standards that are set

out in the act under section 28 as to what sort of crossover there should be between those standards and the charter of responsibilities, whether they should be completely separate or whether they could be amalgamated. We are waiting on standards to go into regulations as well following the review.

Ms Murphy—Yes.

CHAIR—Should a charter of responsibilities be a totally separate issue to those standards?

Ms Murphy—It is a bit hard to say in the absence of the standards yet but ideally a charter would comprise the standards or a precis of the standards. It might be a bit difficult, they might not be in plain English. So a good charter would at the very least contain a precis of those standards as well as any additional standards. Ideally, a charter should go beyond the minimum standards that would be set out under the legislation.

CHAIR—Under that particular section of the act, do you support the notion of the Auditor-General doing a performance audit of Australia Post annually as against those standards that will be in the act and in regulations?

Ms Murphy—The Auditor-General would be one option. There would be a number of other options as mentioned before such as KPMG undertaking regular audits. I think the key is that there is an independent audit of those standards, preferably annually, but it need not necessarily be the Auditor-General. That is an option.

Mr NEVILLE—As the department's consumer eyes, for want of a better expression, do you think that Australia Post fulfils its community service obligation?

Ms Murphy—I cannot comment on behalf of all consumers. I would say that probably most consumers are unaware of Australia Post's community service obligations to start with. I think most people are—

Mr NEVILLE—Do you get many complaints about the community service aspect of their operations?

Ms Murphy—We get very few complaints about Australia Post, very few indeed. I have probably seen two in the last 18 months.

Mr NEVILLE—Let me put it another way. Do you think that the community service obligation is sufficiently broad in respect of the 45c letter delivery to all parts of Australia and the retention of heritage buildings and those sorts of things? Are you happy enough with that? Do you think it is fulfilled reasonably well?

Ms Murphy—I am really not in a position to comment in detail about Australia Post's community service obligations. I am sorry, it is not an area that I am very familiar with. I have read them but I really could not comment on their adequacy or otherwise.

Mr NEVILLE—So your interest here today is solely the charter of rights?

Ms Murphy—Purely the charter, yes.

Mr WILLIS—What do you think of the provisions in respect of service failure or non-delivery of the service as promised?

Ms Murphy—In 18?

Mr WILLIS—In 16, 17 and 18. That seems to be focused a bit on compensation for failure but I am not sure that that encompasses just not delivering within the time specified earlier in the charter, for instance.

Ms Murphy—I think that is true. That was actually one of the other points we made, that it does not cover the more general mail provision aspects and it may well be that the charter might say we cannot provide you with any compensation if we cannot deliver your letters within one day. But the charter should spell out what the situation is with respect to the other undertakings that it gives.

Mr WILLIS—What do you think of the idea that is being thrown around in Britain in talking about charters where they were contemplating, at least a couple of years ago, the possibility of monetary compensation for train travellers if the trains were more than five minutes late? Do you see any possibilities for this kind of development in a charter, not just for Australia Post but perhaps more generally here?

Ms Murphy—Certainly, some of the other utilities in Australia do provide some sort of monetary compensation, or at least a rebate off bills, if certain obligations are not met. That is probably easier to do with an organisation that has regular bill paying facilities. It is an option, but one would have to weigh up the administrative costs against the benefits for consumers who may want to claim back \$5, or whatever it might be, because a parcel was delivered a bit late. ExpressPost's offer of a replacement service at no charge is probably a very appropriate way of addressing aspects of compensation. You would have to look quite carefully at other, particularly monetary, forms of compensation that might be offered, particularly with an organisation like Australia Post, which would be handling millions and millions of articles in a year.

Mr WILLIS—Do I take it from that that you are generally not unhappy with the approach that is contained here?

Ms Murphy—Generally. I do not think it goes far enough, in the sense that it has only homed in on three areas that are covered in the charter, and ideally it should be covering other areas as well.

Mr WILLIS—It seems to me that the other areas are covered by 'How do I make a complaint?' You ring up the customer service centre, or you write to the general manager of Australia Post in that state and say, 'Hey! My letter arrived after four days instead of after three or two.'

Ms Murphy—Indeed; and you have let them know about your complaint and there is probably not much they can do about it in those circumstances anyway. Often, all people want is to have their complaint heard sympathetically, and people are not always looking for some sort of monetary compensation unless

there has been a reasonable loss. There is no obligation on a charter to include customer service obligations or customer service guarantees with monetary compensation. It is nice if they do, but it is not an essential part of a charter.

Mr HARDGRAVE—Mr Willis's question raises an extremely interesting aspect because, once it is laid out in a contractual sense, if they fail to deliver the contract, basic consumerism would suggest to me that I would be quite within my rights to produce proof that Australia Post had failed to deliver the letter within the agreed time, and therefore I would want my 45c back.

Ms Murphy—Which is probably why they, very pragmatically, have not included those sorts of compensation issues in the area of the charter covering compensation.

Mr HARDGRAVE—But the fact that it is not there might leave the door open for heaven knows what sort of legal challenges.

Ms Murphy—What you then have to do is simply state, for your 45c letter deliveries, that Australia Post will do its utmost to meet its obligations in this area but cannot offer compensation if they are not completely fulfilled. At least that statement in itself will tell the customer what they are and are not entitled to.

Mr HARDGRAVE—And that is a fair threat hanging over Australia Post's head though, too, is it not?

Ms Murphy—If they are only undertaking to meet it in 93 point something per cent of cases and you happen to be part of the remainder, that is probably a pragmatic issue that you cannot resolve.

Mr HARDGRAVE—Is that the way out for Australia Post? 'Look, I'm sorry, but you are actually a part of the seven per cent.'

Ms Murphy—They probably would be part of it.

Mr ROSS CAMERON—Do you think consumers have a legitimate expectation to be served within a particular period?

Ms Murphy—Do you mean waiting in queues and those sorts of things?

Mr ROSS CAMERON—Yes.

Ms Murphy—I do not think consumers like waiting in queues for long periods. It is very hard to set standards in those areas, but I think it is worth while for some statement to be made. 'We will undertake to serve customers within three minutes,' or it may well be, 'We will attempt to be as prompt and efficient as we can,' but at least it is giving some kind of message that Australia Post does not like having its customers standing around in queues any more than its customers do.

Mr ROSS CAMERON—It does seem to me there are these two different models where one is a prescriptive, mandatory, compulsory model; the other one is a voluntary, moral, non-binding model but hopefully influencing the culture model. Is there a preferred model?

Ms Murphy—On the whole, our minister's preferred approach is only to enter into regulation when it is absolutely necessary. Ideally, where voluntary initiatives like codes of conduct or charters can be introduced, they should certainly be tried on that basis. If they fail on that basis, then you may look at other options. You may look at legislative options. In this particular case, where Australia Post is already going to be required under legislation to provide CSOs and minimum standards of service delivery, it could be seen as a bit of overkill to have a charter enshrined in legislation as well. From a consumer perspective, one of the benefits of not enshrining it in legislation is that you can normally put more in a voluntary charter than you can in the type that is prescribed under legislation.

Mr ROSS CAMERON—One of the things we are wrestling with is what should be the relationship between the prescribed standards under 28 or 27C, or whatever it is, and the charter.

Ms Murphy—I do not see why they could not be quite complementary. If the charter as its starting point uses the minimum standards that will be prescribed and then builds upon those, I think it could be quite complementary. It is really Australia Post saying, 'This is what we are absolutely required to do. This is what we are prepared to do over and above that.' I think that sends very good messages within the organisation as well as to its customers.

Mr NEVILLE—Having a quick look at this again, do you think that the delivery aspects of the community service obligations should be spelt out in a charter? They are minimum standards for country and provincial areas.

Ms Murphy—I think so, if it is possible to spell them out in a fairly plain way, without making a huge document. It would be ideal if they could be an attachment to the charter.

Mr NEVILLE—What about a thing like the parcels delivery, which is not exclusively held by Australia Post but in practical terms for people in regional and rural areas, it is the only service? Should it be mentioned as an implied CSO?

Ms Murphy—If it is not required as a CSO under the act it would probably be a bit misleading to include it as an implied CSO.

Mr NEVILLE—But you would spell out the rest of the other aspects that are firmly in place?

Ms Murphy—It would certainly be well worth while looking at doing that, yes.

CHAIR—Ms Murphy, thanks very much for coming along to the hearing today. The secretary will provide you with a copy of the *Hansard* record to check. Would you mind returning to the secretariat, at your earliest possible convenience, a bit of a critique on the charter from your department's perspective. It would be very handy for the deliberations of the committee.

Ms Murphy—We will do it at our earliest possible convenience.

CHAIR—Is there any chance of having it done within a couple of weeks?

Ms Murphy—Yes, I think we should be able to do that.

CHAIR—Thank you very much.

[3.25 p.m.]

GILLROY, Mr John Stanley, Chief Executive Officer, Major Mail Users Association of Australia Limited, PO Box 708, Strawberry Hills, New South Wales 2012

CHAIR—We have received your submission. Would you like to make a short opening statement to the committee?

Mr Gillroy—I have made some comments on page 6 which I have called, in short ‘15 points’. I think they sum up the essence of the submission. As I said in the covering letter, my members are the big spenders with Australia Post, by definition of the association itself. They are the large commercial organisations of Australia which, about 10 years ago, felt a need to have a small, narrowly focused lobby group, which is the MMUA.

It is very important to establish at the beginning that all my members are very appreciative of the services that Australia Post gives. We have a number of complaints; but they are not for this committee, they are for Australia Post. There is a recognition that Australia Post has a very valuable part to play—a part that really is not replicated by any other organisation or combination of organisations.

MMUA approaches all issues related to Australia Post by simply saying, ‘They’re our commercial partners. How do we make the deal work better for both of us?’ I have made a reference to the point that we have a love-hate relationship. We feel it is unrequited love, so we would be delighted to see any measures taken to come to an arranged marriage concept. Throughout this there is a concept of forcing Australia Post to get into bed with us. What happens when they get into bed is another question, but we really cannot exist without them.

There has been a lot of talk today about competition and opening up. It would be fair to say that, from the MMUA’s point of view, the competition that exists in the marketplace today is not sufficient to make it terribly interesting and exciting. So we come back to the point that, in many respects, Australia Post is the only option we have got. We would like to see it opened up to competition right throughout, simply for the sake of making Australia Post far more receptive to its customers’ needs.

It is interesting to see that the charter has been approached with the concept of Australia Post’s responsibilities. Having only seen their draft this morning—a bit like Janet Murphy, I have been looking through it quickly in between comments—one wonders why it is not a charter of user rights. That approach has been taken by government over the last decade or so, with charters written in terms of the rights of the users rather than the responsibilities of the providers of the services. I put that suggestion before the committee and would be more than happy, perhaps later on, to follow that up with some comments.

Although Australia Post is a GBE, a lobby organisation normally has wonderful last resort to the minister, possibly through the department; or through the minister’s staffers; or, in the long run, directly to the minister. All that is missing with Australia Post. All its customers can do is say something to Australia Post and hope to goodness that they will do something about it. That is not to say that they do or they don’t.

Setting a due process concept before you, there is no due process that we normally understand in the lobbying sense of being able to go to an organisation's political masters.

A lot of what has been discussed here today—for example, line budgeting with the CSOs—has that element attached to it where the user of the service actually feels they can get in contact with the legislation and say that it is not quite the way it should be, even if it is only at, say, Senate estimates committee level. That is what is missing from the present structure. We would, therefore, like to see something introduced that in a sense—and I use the word carefully—forces Australia Post to talk to its major customers in a much more realistic and commercially realistic way than it needs to today.

I have been interested to listen to the concept of that annual reporting processing—which we address on page 6 of my paper at point X—being floated around by a number of folk in terms of the Auditor-General. We had not thought so much of the Auditor-General, but I can see that there is a function there. There is a distinction that we would like to make between the Auditor-General doing a financial audit—which is, say, element No. 1, the standard audit—and the performance audit.

My understanding of a performance audit—I have been through one in another setting, in Health—is that it is a very long, convoluted process. It is more related to the Auditor-General reporting back to government on whether the program is being run according to government policy. But today I am hearing a different approach. We are talking about Australia Post delivering a service down the line to customers. So I just make that distinction. We would not see the performance audit, as I understand the performance audit—unless it has changed—to be really providing what we would want to see.

In relation to the concept of an independent audit process as possibly KPMG, I would like to make the point to the committee that KPMG's audit is not of the commercial mail; it is of a very small part of Australia Post's domestic service. That phrase has not been used at all today. You have talked only about the KPMG audit, which is the audit of the domestic mail, not of the commercial mail. The vast bulk of the revenue comes out of the commercial world.

The concept that Mr Neville has been pulling in and out all day long about the 45c and the hypothetical terms that Mr Ross Cameron has been talking about the 20c cost within a metropolitan area are of no worry to our members. We do not see that as a problem that there is a cross-subsidisation—and that is another term that is used that has different meanings to different people.

In a sense we cannot exist without a decent network and Australia Post has the only decent network to deliver letters and Mr Neville's parcels. That is very important because, although there are alternative parcel companies available, they do not come up to Australia Post standards. I have made this point in my submission. When you get to the section on world best practice, for example, whom are you going to measure Australia Post against? They are one of the best anyway.

The United States Postmaster General last month stood up and went cock-a-doodle-doo about how wonderful it was that they had hit 90 per cent. In New York City it is only 87 per cent and in Los Angeles it is 86 per cent. Australia Post are not quite the 93 per cent they say, but they are 92 per cent, which is just under, so it is pretty good anyway. Why would we want to compare Australia Post with other world services?

From the point of view of my members—all of whom are in quality service programs, world best practice type programs—their concept is to give to Australia Post a requirement to do the world best practice exercise, but to do it internally and keep its results to itself and use it as an internal mechanism to better its services.

I, therefore, want to come back to this concept of the KPMG auditor. We had been asking for a long time for that domestic auditing or measurement to be extended to commercial mail. I think that is on a standard performance process. Unless there is a measuring of commercial mail, the whole thing is unrealistic.

Apart from that, there is the concept of a charter and measurement. From what I was actually measuring, I was interested to hear the federal bureau's comments along the way. It seems to me that, if we are looking at processes of delivery et cetera rather than outcomes, we are missing the point and the outcomes are really what we are on about. That is probably enough at this stage and I will answer questions.

CHAIR—I might start by running over a few things. I am not defending Australia Post, but the reference to the KPMG was actually not as an audit but a monitoring process that they had been through. I take the point that you made that it was restricted to domestic or private mail. The other question that you implied was with regard to the discussion and some of the questioning that have taken place today with regard to the performance audit by the Auditor-General. That is a performance audit. In the last three years I have been a member of the Joint Committee of Public Accounts of the Commonwealth parliament which reviews all those audits. They are performance audits; they are not just financial audits. They look at how a GBE or a government entity is operating, whether it is efficient and effective, as well as how that compares with government policy.

My personal understanding of the discussions that have taken place during the questions that have been asked with regard to the use of the Auditor-General to do a performance audit is that it is going to be against the standard set out in 28C in the act. As that says, it is consistent with prevailing performance audit methodology. It is about performance and service delivery and, as you quite rightly point out, a quite separate issue to the 'tick tick' financial audit.

Mr Gillroy—This raises the issue of cross-subsidisation. What the committee has been alluding to today is using the 45c to subsidise rural and remote, and as I said we have no problem with that. The problem that my members have is where that revenue could be put against other business activities of Australia Post. For example, the retail shops, Sprintpack and EdiPost. The reference from the Industry Commission to their looking at this issue in the 1992 inquiry come out of complaints made on a large scale by our folk who have suspicions. I have to say they are suspicions; they may be justified or unjustified and they are certainly unproven suspicions.

On the other hand Australia Post says, whenever we have asked the question of them, that they would be foolish to see any of their divisions not operating on a profitable basis. But then the question has to be asked: what is the return on investment concept that is wanted from any of these other business areas? I think it was Mr McDougall who raised the question of companies being prepared to cross-subsidise other products within the range for various marketing reasons. For example, EdiPost, competes in some instances directly with some of the folk members of MMUA. If there were a long-term projection of that for 20 years instead

of five or 10 years, or whatever the figure was, surely there has to be a question raised somewhere by someone—and certainly not by their competitors—asking if the ROI factor is reasonable? Is the term reasonable? Does it measure up? All these sorts of issues.

Mr HARDGRAVE—Earlier today I raised a matter brought up in your submission with regard to one of your members being charged a full rate for three quarters of a million postal items because 1,800 were incorrectly mailed. Did you raise this also with Australia Post? If you did, what was the result?

Mr Gillroy—No. It only came up on the day I was finalising the paper and that had to get down to Mr Boyd by Thursday.

Mr HARDGRAVE—Can you give us a rough explanation or general explanation about the background behind this particular case?

Mr Gillroy—This is indicative of an approach that has been taken by Australia Post on correct addressing. It is in the charter. If you look at the charter you will see a reference to this sort of thing. On page 6 of the charter they say a mail sender has to properly address. As I mentioned in our paper, at this stage what that means is that in capital letters, in typeface, you will have the suburb, the state and the postcode. In this particular instance the member concerned has not changed its computer software to pull the state into line; the member intends to do so but has not done so.

Our argument is that the vast bulk of that shipment or that lodgment were in bags which did not go through the machinery of Australia Post but which went direct to the mail centres or post offices. Only 1,800 of them had to go through the machinery. The point that was being developed before that was that the Australia Post discount process is partially based on the fact that savings for them will be passed on to the user. In this instance a hardline approach was taken, the bottom line was ruled off and the answer was no.

Mr HARDGRAVE—But in that particular case was it, perhaps, the track record of that particular operator?

Mr Gillroy—No. I do not particularly wish to give the name out here, but I am quite happy to write to the committee with the details. The company concerned—I have cleared it with them—is a very reputable company. Obviously, with a mailing of 750,000, which is a regular mailing, you will understand it is one of the large companies in Australia that is generating direct marketing.

Mr HARDGRAVE—This sort of complaint would be a matter that would normally be taken up either by the member or your organisation?

Mr Gillroy—Yes, and it is not raised with the committee in the sense of saying to the committee, ‘Look, we’d like you to deal with this complaint.’ It will be picked up with Australia Post and run with Australia Post. We are just giving an example of the sort of thing that happens where there is a monopoly.

Mr HARDGRAVE—Does Australia Post adopt, as you suggest in your submission, a take it or leave it approach when you raise these matters with them?

Mr Gillroy—Our members feel that.

Mr ROSS CAMERON—We have just had the Bureau of Consumer Affairs give us some evidence. Their evidence is that they get very few complaints about Australia Post—two in the last 18 months. On the other hand it seems to me your very presence as an organisation, as a professional lobby group, with a fully paid executive—

Mr Gillroy—Part-time.

Mr ROSS CAMERON—A part-time executive, indicates that we have a problem. In your introductory remarks you said what is needed is some mechanism to force Australia Post to talk to its major customers. It strikes me as odd; commercial organisations around the country are bending over backwards to talk to their major customers, yet we have to force Australia Post to talk to you. I am not asking you to bag Australia Post. Maybe this is a separate question, but we talk about the extension of the KPMG study from the domestic to the commercial. Is there a concern on your part that the commercial is not as reliable as the domestic delivery rates?

Mr Gillroy—There are about three or four questions there. Firstly, the fact that there is an MMUA does not mean there is an unhappiness with Australia Post. It simply means, like it does in any industry, that there is a certain security blanket approach from within an industry, that you can have a focal point person speaking to the body politic, as it were, without the focus being on the individual company.

MMUA came about because in 1986, at the famous Redfern exchange, which the union mentioned this morning, there was a massive industrial strike, and it held the mails up for quite a considerable time. Suddenly, companies like Readers Digest and American Express discovered that their cash flow had frozen up and they had no mechanism within their corporate groupings of companies to speak to Australia Post about these things. They thought it would be helpful if they had the MMUA so that, if ever this were to occur again, there could be a link between the two bodies to talk things through and come to some arrangement which applied over industry generally. From there has come the development, I suppose, of MMUA, what it does and how it does it. It is just a natural thing within any industry and I do not think that this committee should see that there is a problem.

If I have given you the impression that Australia Post does not talk, I should not have, and perhaps it is the wrong choice of words to say ‘to force Australia Post’. In (vi) on page six I said, ‘Australia Post needs to be recognised as being in a commercial partnership with its customers.’ In other words, from your point of view you need to recognise, and that recognition needs to be formally written into law.

The reason we are doing this is that, as we say above, it is a monopoly situation. Whether we like it or not, it is a monopoly. If you pull out the reserve services, it is still going to be a de facto monopoly in view of the fact that there is no other deliverer of services with the network that Australia Post has. From our point of view, we would like to see a formal structure in place, hence the concept of a charter of user rights rather than a charter of Australia Post’s responsibilities. This process has been recognised in health care, for example, where it has been developed.

Individually, Australia Post talks to members, but there are always, within any industry, collective issues. We talked with Australia Post last year about the issues relating to correct addressing and what was involved with that. We have started discussions with them on things that their union was talking about this morning, the bar coding technology which puts the bar code on the envelope, because that is going to be another big change. These are issues where it is much more convenient for all of my members to focus their point within the group.

Mr ROSS CAMERON—Is there a feeling that, where somebody has personally addressed a direct piece of personal mail, there is a person sending it who has an expectation it is going to be received on an individual to individual basis? Presumably that elicits a level of care. Do you have a concern where you are talking about 750,000 pieces of the same article of mail with a commercial rationale that you do not get the same level of care?

Mr Gillroy—No, I do not think our members would feel that they do not get stroked. They do not feel entirely happy at times, but I think that my members—and you have seen some of the names I have given you—feel that when they need Australia Post's attention they get it. I am talking about a broader approach.

Mr ROSS CAMERON—When you talk about extending the KPMG study to commercial, what is in your mind? What is the rationale?

Mr Gillroy—First of all, the members who do their own surveys seem to be saying largely that Australia Post commercial deliveries are roughly the same as the KPMG domestic side. Therefore, we are not trying to say to Australia Post, 'Look, show us the commercial figures because we feel they are a lot lower.' But they are important to have in terms of benchmarking. I think they would like to make that point, that there is not a hidden agenda here, that there is a commercial need to have figures to be able to show that the delivery is such and such rather than trying to say, 'Australia Post, you must do better.'

Mr ROSS CAMERON—So you think it would actually benefit Australia Post?

Mr Gillroy—Yes. Obviously there is a benefit back to the commercial user. If suddenly it is shown that commercial use—to be stupid—is 50 per cent and the other is 95, we would want to make sure people like you knew there was a major difference. But the fact is that we do not believe that is there.

Mr McDOUGALL—I have been asking some questions today about frequency and what frequency rates should or should not be and whether they are satisfactory, on the basis that it would appear that the frequency of delivery rates is set really by Australia Post. I noticed that your organisation covers a lot of financial institutions in some form or another.

With regard to the volume of mail, are your members satisfied with those delivery times they are talking about? With technology developing as it is today, we know that a lot of financial institutions already ask for bills to be paid by transfer rather than by mail. In the near future we will probably get bills by transfer as well, and on that basis you could be doing Australia Post out of quite a significant amount of business in both transactions. So are your members, who are such a big component, happy with the delivery

schedules and the frequency as stated?

Mr Gillroy—I am sure that I do not have to tell a politician that was a leading question. I am not going to tell you that they are happy because they always want it better. I would have to be honest and say they would want to see a faster turnaround, but you have to be realistic. It is easier said than done and there is a recognition on our part that we would be better off to have set delivery times and have them kept than to try to tighten it even tighter than it is.

One of the other issues that you have raised is the question of whether or not bills will come through an electronic process. There is a three-day conference here in Melbourne this week on this whole question of what is known in technical terms as 'the document'. There is a lot of opinion that the average person in the street does not want to come home from work, switch on the television set and see how much he owes Telstra and that there will always be a place for the piece of paper. Certainly there seems to be a feeling amongst our members that at least for four or five years we are not going to see an onslaught.

I think it was someone from the union who spoke today about W.D. Scott's projections where things would be and they did not come off. I do not think there will be a dramatic drop from the point of view of our members. It was interesting that one of the questions that was asked of Australia Post was what banks are using giroPost. The answer came back that out of the big players it was only the Commonwealth because the others were seeing an advantage in paperwork.

One of the reasons that bills are being paid is that people recognise that the in-house processing cost is such that it would be good if you could save the money down this end by getting, say, Australia Post to run it through giroPost, and a lot of the public utilities are seeing that.

Mr WAKELIN—You mentioned that it was an arranged marriage, but I also understand that it is not possible to be a little bit pregnant too in your whole approach to CSOs. It is fascinating. You obviously have a lot of private enterprise in your group and you generally make the point that CSOs really should be taken out of Australia Post, that they really should not be a Commonwealth obligation. In other words, it is the Commonwealth obligation that actually forces it upon Australia Post.

Mr Gillroy—Yes.

Mr WAKELIN—It really does crystallise the argument about what it then does to the commercial relationship with Australia Post and particularly, as you say, the huge customer which is the business sector. So I am grateful for that forceful presentation. To me it has really hit home.

Mr Gillroy—I thought the Industry Commission—I hate to say it—supported us, but we certainly support what they said.

Mr WAKELIN—But we got into Mr Willis's position too in meeting around the table—the political reality of each year cutting back.

Mr Gillroy—I thought he played dirty politics as an ex-Minister of Finance, but I will not go into

that just now.

Mr WAKELIN—You touched on the remote services and how important it was for the USA situation, but for the committee's purpose of determining how it should be done and can be done do you advocate totally unreserved competition—in other words, total competition—in every sector?

Mr Gillroy—I have had this lobby group as a client for about three years and I have been interested to see a turnaround in the last 18 months. Whereas before there was a feeling that deregulation—the buzz word usually used for it—was not really what they wanted, now there is a feeling that Australia Post could be made even better if there were even more competition. But, at the same time, it is recognised that no-one really wants that if Australia Post can still provide the services it does. I sense that the big users of Australia Post are very appreciative of the quality of the service that is provided but want it to be even better. They see that what has opened up is an opportunity to make Australia Post more competitive; therefore, we will go for that.

Mr WAKELIN—Australia Post sets its own standard—

Mr Gillroy—Yes.

Mr WAKELIN—And that is the dilemma, whether you have charters, whether you have competition or whether you have the business groups there knocking on the door or whatever—

Mr Gillroy—Mr Cameron is picking me up on the word 'force'. We would like to see them forced to take into account the sorts of things that Ms Murphy raised about the consumer or the user as a stakeholder. There is a big difference between the user of a commercial service and the stakeholder of a GBE. If that sort of idea of commercial partnership that we are trying to develop is picked up and run with, then the stakeholders—and we are pretty big stakeholders—have a function to perform, because it is not the stakeholder going in and saying, 'We want to do this because it is best for us.' It is a stakeholder going in and recognising what is there.

Throughout the day there have been a number of questions from the committee to various people on the implications of the changes that have come in from 1994. I was sitting up the back fidgeting and wanting to say, 'Well, I can tell you what the implications were from the commercial side. In comparative terms, the services aren't there.' So people are sticking in their mind with Australia Post because they are not seeing the competition yet as good enough to eat into Australia Post to any large extent.

Who goes to the back of Bourke—with all due respect to the people from the back of Bourke—with the range of services? But, if you are a direct marketing company that is centred in either Melbourne or Sydney—where most of them are—or Brisbane perhaps, you have got to use the service that goes there.

Mr WAKELIN—I was fascinated by 'correct addressing costs'. I am sure I have run into this in the electorate office.

Mr Gillroy—Yes.

Mr WAKELIN—You have to have certain criteria and you say, ‘Why in the hell would you have it like that?’ You have just made the point that bar coding does not require that same thing. You have gone to significant costs for the first part of the procedure and then you have got to change it again.

Mr Gillroy—Yes.

Mr WAKELIN—That sort of monopoly practice, in my opinion, is what we are talking about in terms of putting costs back on the user.

Mr Gillroy—Yes. When you are talking about large numbers, cutting the state off the address is not very important if you are just writing a letter, but if you put that extra section in it is ribbon and it is time running through the machines. They are little costs that people build into the system.

Mr WAKELIN—That sort of monopoly practice seems to be illogical to me at times.

Mr Gillroy—But the technology process that Australia Post went to a lot of trouble to explain to us when we were complaining is very logical in the way they want it done, so we accepted that. The NRMA is saying that they spent about three-quarters of a million dollars on making all the changes that bring all their systems into line with correct addressing. Having just done that, they are then faced with yet another possible range of bar coding. I have raised the issue; I just cannot put my finger on it at the moment. Folk are now saying, ‘There are all these changes to get some discounts. We had better do some real good cost accounting to see whether the time and effort and the money at the end of the day is really worth the discount that is being offered.’

Mr McARTHUR—Who do the Major Mail Users represent? Secondly, what practical arrangements—you mentioned one just a minute ago—do you think should develop between yourselves as big suppliers of mail to Australia Post that could enhance the commercial arrangements?

Mr Gillroy—I have given you names of some of our members in the covering letter there. It is the fourth paragraph down. Perhaps if I turn the page over to our list of directors, that will give you an indication—

Mr McARTHUR—What is the definition of your members?

Mr Gillroy—How do you get in? The constitution requires an expenditure level of about one-quarter of a million dollars a year, which is not a very large amount. Because it has the name Major Mail Users and because its membership list includes bodies like American Express, Readers Digest, NRMA, the Commonwealth Bank, ANZ, Westpac, Medibank, Medical Benefits, Telstra, Optus and all those sort of companies, that is the company that you are in; so it tends to sort out folk.

Within the mailing houses, which is a subgroup within the industry itself, there are 15 mailing houses. I would think that there are 15, 16 or 17 mailing houses large enough for us to feel that they really need to

be involved.

Mr McARTHUR—That is in direct mail type activity?

Mr Gillroy—No, mailing houses are people who take politician's letters at election time and do all the paperwork and then put it through the mail. There is a big tendency on the part of the large companies to recognise that running a separate mailing department is not cost-effective. So that has been outsourced. So there is now a growth industry coming through the ranks of the mailing houses. We had Coopers & Lybrand survey 12 of our mailing houses. They spend \$3.9 million a week on the 45c postage stamp. The average salary they pay is about \$30,000. It is a contribution to the economy because they can take an average person and put them into a little better skilling group and income bracket. They are contributing quite well.

Mr McARTHUR—What about the commercial arrangements that you might enter into with Australia Post?

Mr Gillroy—They do that individually on a contractual basis between Australia Post and the individual member. We do not come into it at all. There was talk today about differential incremental discounts, et cetera. They are separate contracts that Australia Post enters into with each company. Each company is then bound not to reveal the dealings with the other companies, and they do not. We do not ask them to break the law on that. We would like to, though. We would like to know what everyone is getting.

Mr NEVILLE—The question becomes one of having the full range of differential discounts examined. We know in-house that Australia Post has a lot of levels. They have the Christmas mail. They have various levels of bulk postage. They have the magazines and catalogues and so on. We use the service as politicians that costs about 7.4c per item to have things sent to the householder. So there is a large differential between 7½c and 45c.

Mr Gillroy—Are you talking about unaddressed mail?

Mr NEVILLE—Of course, but it still has to be delivered. It may not have to be sorted, but it still has to be delivered. In your opening remarks, and correct me if I got it wrong, you said you were not all that worried about the community service obligation being a cross-subsidised service, that your members did not see that as the crucial issue.

Mr Gillroy—It is the definition of cross-subsidisation. The point I was making was that Australia Post has the responsibility for the whole of Australia and has established a network of collection and delivery. As part of the process it has recognised that the people in the metropolitan areas, as it were, might well have their letters delivered for a lower cost by Australia Post than from, say, Melbourne up to Broome. But that is part of what we pay in Australia for the huge distances.

Mr NEVILLE—You do not have any argument with that?

Mr Gillroy—No, because we make great commercial use of that. In realistic terms, we say that is part of what we pay for.

Mr NEVILLE—Do you recognise the importance of mail going out from Sydney as well as mail coming in?

Mr Gillroy—Unquestionably.

Mr NEVILLE—That is the point we have tried to probe, both at this inquiry and at the previous one, and we have found very few of the economists want to recognise that aspect of the value.

Mr Gillroy—Yes, but we are not economists; we are business people.

Mr NEVILLE—The other thing that worries me a little bit about your presentation is: are you sure you are not just playing it safe? If the market were freed up and the community service obligation was corralled in some form of budget line, it might well be that, while Australia Post might deliver some services more inexpensively, others might become a little dearer. Are you sure your members are not just playing it safe? We have the third or fourth best service in the world—if not the best, it is certainly in the best three or four—and we are getting it done at 45c with the opportunity for discounts, so let sleeping dogs lie.

Mr Gillroy—No. I think the point we are making here is that the community service obligation is part of being an Australian. We look after folk in those isolated areas and to the best of our ability we write all our programs on a uniform and national basis. It does not matter where you live because, as best we can, we provide a service which is uniform and national.

Mr NEVILLE—Having said that, can you see any method whereby, in protecting the community service obligation, there could be some incentive or some competition put into the market that would encourage the basic mail rate to come down in much the same way as the Optus-Telstra rate?

Mr Gillroy—I have not touched on it here but it is in the paper. We are suggesting the concept of an Austel Postel and perhaps a regulation approach to alternative service providers to Australia Post.

Mr NEVILLE—Should they contribute to community service obligations?

Mr Gillroy—Absolutely.

Mr ROSS CAMERON—Are you saying there ought to be regulated access to the infrastructure of mail service delivery by other service providers?

Mr Gillroy—We have not gone as far as that, but I guess the argument does end up there. We have not really talked about that. I will take that into consideration. I guess what we are saying is that Australia Post has a unique service which is very valued by the major users of it. We would not want to see that just ripped down for some ideological thrust. That would be crazy. But at the same time, if you want to make the service a little better and help it grow in competitive terms, what we are suggesting is that you loosen it up.

We see that if the community service obligation were taken off and put into a line budget approach and Australia Post is the best provider of those services, by all means do that. But if ABC company can

come along and say, 'We can produce something as well,' but they may wish to tap in to the services, what does that mean? Would we have blue as well as red and yellow delivery boxes in the streets, like the Optus overhead lines?

Mr WILLIS—I think that, with the points I have raised with Mr Neville, I was having the same trouble as he was in seeing what you meant when you said earlier that you thought that cross-subsidisation was okay—that it did not seem to fit with the submission—but I think I have got some idea of what you mean now. But it does seem to me that, if you put the CSO on the budget and remove all the reserve services, in Australia Post it is going to be a much smaller organisation. Probably the real question arises then about what the cost of the CSOs are.

A much smaller Australia Post, presumably, is going to have much more difficulty in delivering the CSOs than a much larger Australia Post, I would have thought. It may be that there will be some damage to the CSOs and you might eventually finish up endangering what you seem to see as a highly valuable element, and that is having a uniform service at a uniform price across the country. You are not just saying here, 'Loosen it up.' You are saying, 'Let's remove all the reserve services.' It seems to me that if that step was pursued fairly quickly it would mean that you would be likely to cause significant damage to what you see as the most important part of the service.

Mr Gillroy—You have added something to my words—'very quickly'.

Mr WILLIS—If I have, I will correct it.

Mr Gillroy—We did not say 'very quickly'. The 1992 inquiry said 'Remove the reserve services', and again this morning the Industry Commission folk here said they had a time frame for it, working its way down in steps. I would like to just make that point: we are really just going back to the 1992 inquiry and saying we agree with that approach. But can I just say that I do not believe that we would see a diminution of Australia Post's share of the market if what we are suggesting took place. Australia Post has shown over probably the last decade—certainly over the last five years—an amazing ability to grow, to meet challenges in the marketplace, to meet challenges of services and to introduce new services. One of the elements that is in the terms of the inquiry is about the retail services which one can read as not so much retail but the peripheral of the ancillary services.

Our point is that they can do whatever they like so long as they are not subsidising these out of the money we are paying for our mail and it is on a commercial basis. But why would Australia Post, with the aggressiveness that it has got in the marketplace at the moment, be willing to let go of what it has already got? I do not see—

Mr WILLIS—I do not think they would be willing to let go, but it might just be pinched off it by people who can compete once the reserve services are removed.

Mr Gillroy—I think there is a big question mark over that. I guess it is a question of the chicken and the egg. At the moment there is no-one in the marketplace who has got the network that Australia Post has; therefore, there is no real competition for a lot of it. Some of the references this morning were to the

creaming of the process. It is very easy to deliver to, say, every street in Sydney and Melbourne; it is not so easy to deliver to every street north of such and such parallel.

Mr WILLIS—That is what would happen with the removal of the reserve service, is it not? You get people who would pick the eyes out of the business. The really low cost stuff would be done by someone who could service all the suburbs of Sydney, say, or some part of the suburbs of Sydney.

Mr Gillroy—We do not want to see that. I hope it does not suggest—

Mr WILLIS—And all that sort of low cost stuff for Australia Post would be gone.

Mr Gillroy—Yes.

Mr WILLIS—And they would be left with the higher cost element and the CSOs, which are totally uncommercial.

Mr Gillroy—And if you took your draconian approach that is what would happen, but I am glad we are not doing that because what we are doing in our paper is something different.

Mr WILLIS—I am not so sure about this.

Mr Gillroy—What we are saying in our paper is: do not let that happen. Have a regulated concept the way that Austel came in and sat on top of the telecommunications industry and said, 'Look, you're not going to pick the eyes out of it all. You've got to provide a service and we've got to protect what we've already got.' We would see that similar structure.

Mr WILLIS—Optus is not required to service the Northern Territory or any particular part of Australia; it is up to it what it services. It is not required to provide a uniform telephone service across Australia.

Mr Gillroy—This is what comes from trying to argue with a polished politician. Opening up Australia Post to a wider range of competition—we recognise what you are saying—we would not want that to happen. So what we would like to throw up to the committee is the concept of a regulatory body. Perhaps I should not take examples. A regulatory body will do. So the regulatory body ensures that that does not happen but also opens up so that, if somebody wants to come in, they have to pick up some of the outback services as well—some of the rural and remote.

Mr NEVILLE—Have any of your multinational clients had experience of competitive services in other countries? They obviously would have discussed it with you. If so, how do they do it? Do they have a stamping system? Do they have stamps? Do any countries have a parallel service? I have never seen one. I have never seen a stamp that says 'Optus, Canada' or something like that on a stamp. Do any countries have parallel services?

Mr Gillroy—We have not discussed it. That is the first point you raised. One of the reasons why we

do not get into comparisons with overseas is that our folk feel that Australia Post is fairly good. While we would want them to love us more, we feel that the service they provide is fairly good. So there is not a concept of, 'Let's run to America and see what they do.' America is full of parcel delivery companies and other sorts of companies that run around, but you pay dearly for those services. Anybody who has been overseas and sent something back by Fedex knows only too well: 'Where are dear old Australia Post when you need them?'

Mr NEVILLE—So none of your clients knows of any universal parallel service?

Mr Gillroy—I am sure they do, but I have not asked them.

Mr NEVILLE—I just thought it might have come up. If you are the lobbyist for them, they would have said from time to time, 'In Canada, this happens,' or, 'In New Zealand, that happens,' or, 'In Germany, such and such happens.' You do not get much of that at all?

Mr Gillroy—No.

CHAIR—We have just about reached the end of our allotted time. I would like to thank Mr Gillroy for coming along this afternoon to give evidence to the committee. The secretariat will forward to you a copy of the evidence that has been taken this afternoon for you to check. I do not think there are any outstanding matters that you were going to get back to us on; there weren't any questions that you took on notice. Thanks very much for your appearance.

Resolved (on motion by Mr Wakelin):

That this committee authorises publication of the proof transcript of the evidence given before it at public hearing this day.

Committee adjourned at 4.18 p.m.