



POAAL

Post Office Agents Association Limited
A.C.N. 006 382 314

Submission to:
The Senate Economics Legislation Committee

Inquiry into the price of petrol in Australia

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Introduction

The Post Office Agents Association Limited (POAAL) welcomes the opportunity to provide a written submission on behalf of its members regarding the price of petrol in Australia.

Prior to preparing this paper, we invited comments from our members across Australia, especially those who are directly affected by the day-to-day fluctuations in fuel prices.

Our submission will include comments on the following:

- Variations in the retail price of petrol at particular times
- The relationship between the wholesale price and the retail price of petrol
- Regional differences in the retail price of petrol
- Price of diesel fuel
- Impact on individual mail delivery contractors
- Impact on postal and logistics industry
- Impact on couriers
- Impact on customer service
- Long-term impact of rising oil prices

Australia Post contracts out a large portion of its delivery network. According to its 2004/2005 Annual Report, there were 5421 mail contracts Australia-wide. This large mail contract base enables Australia Post to keep costs and administration to a minimum. The use of contractors to deliver mail gives Australia Post savings in superannuation; holiday entitlements; sick leave; vehicle purchase, maintenance and running costs; workers compensation; and administration costs.

About POAAL

The Post Office Agents Association Limited (POAAL) is the national independent body that represents the owner/operators of Licensed Post Offices and Contractors who deliver mail under contract to Australia Post.

POAAL was formed in 1939 to assist the owner/operators of privately owned post offices. Today, there are almost 3000 privately owned post offices spread across Australia, and they form almost 80% of the retail postal network. In addition, there are in excess of 600 Community Postal/Mail Agents operating Agencies in small mostly rural and remote communities.

Mail Contractors: POAAL also assists Mail Contractors. There are over 5000 mail contracts across Australia, ranging from contracts to deliver parcels in metropolitan areas through to rural roadside delivery mail contracts that can each cover hundreds of kilometres of outback Australia. Many Licensees and Community Mail/Postal Agents are also Mail Contractors.

There are significant numbers of Mail Contractors who operate their mail services in rural and remote areas. These loyal and committed people have their own community service obligations, and the local residents are very appreciative of their presence and service to the community. They ensure that mail (both business and private), including medicines and educational material, is delivered, despite extremes of weather, terrain and distance.

Couriers: POAAL also has a category of membership for courier drivers who operate either as independent couriers or on contract to larger courier firms. They are not connected in any way to Australia Post.

About Mail Contractors

Mail Contractors deliver mail under contract on behalf of Australia Post. Contracts are usually for a specified term, typically for three or five years.

There are several classes of mail contracts, such as:

- Parcel Contracts – delivering parcels usually to metropolitan areas
- Street Mail Contracts – delivering letters usually to outer metropolitan areas, regional towns and small country towns
- Roadside (RSD) Contracts – delivering a mix of mail to rural and remote communities
- Line Haul Contracts – transporting large consignments of mail from one point to another
- MessengerPost Contracts – Australia Post-branded courier service
- Depot Bag Contracts – transporting bags of mail to pickup points for street delivery

Each of these classes of contract operates under the standard Australia Post Mail Contract.

Australia Post selects Contractors following a competitive tendering process. As part of the tender, the Contractor specifies a fuel component of the tender price. This fuel component will be used to determine any payment variations as a result of fuel price fluctuations during the contract term.

Australia Post specifies or approves the vehicle to be used for the contract, be it for example a delivery van, bike or truck.

Mail Contractors are typically individual operators. As such, they are unable to drive efficiencies that large postal or logistics operators can access through their buying power. Contractors are unable to engage in fuel hedging strategies to reduce the impact of future petrol price rises.

Fuel price reviews under the Mail Contract

The standard Australia Post Mail Contract has allowance for fuel price reviews, whereby the Contractor can apply for the fuel component of their payment to be varied through a review. The provision for the review is contained in Clause 10 of the Mail Contract.

The contract is eligible for a review under Clause 10 where the wholesale price of fuel in the State capital city has varied by +/- 7% and it has been at least three months since the last Clause 10 review. Previously, there was only scope for fuel price reviews every 12 months, and then only if a 10% threshold had been reached, but following pressure from POAAL in creating awareness of this inequitable practice, Australia Post introduced amendments to the mail contract fuel price review.

Nevertheless, even with the amendments, three months can be a long time with regard to petrol prices, especially in regional areas where petrol prices are higher than in city areas.

A Contractor in Wodonga summed up the metro/regional difference thus:

“In Wodonga we pay on average 10-14 cents per litre more than in Melbourne. We are concerned that the data Australia Post uses does not reflect petrol prices outside of Melbourne.”

Australia Post does not inform the Contractor when their contract is eligible for a fuel price review – the onus is solely upon the Contractor.

Even when a Contractor’s fuel price review is successful and Australia Post grants the Contractor an increase in their contract fee, Australia Post does not pay the increase retrospectively. Payments are in arrears. This means that the fuel price being used to determine the contract fee is always out of date, and often the price of fuel has increased yet again by the time that the reviewed price is being paid to the Contractor.

Fuel price reviews can be a double-edged sword, since these reviews can also be initiated by Australia Post. Should the fuel price drop by 7%, Australia Post can take advantage of the situation and perform a fuel price review. If the Contractor’s payment is decreased, the Contractor is stuck with that reduced price for the following three months or more, which disadvantages the Contractor immensely when fuel prices rebound and increase immediately following the review.

A Contractor from Northern Victoria made this comment:

I recently applied for a petrol review and AP reduced my contract fee because three months previously the fuel price was in a dip. But I’m currently paying the highest price in the last 14 months.

I was told that I can reapply for another fuel review in 3 months’ time when AP’s figures will reflect the current rise. But what could happen to the price of fuel between now and then?

AP’s fuel price is always three months behind the game.

Australia Post does not publish or make available the wholesale fuel rates that it uses for fuel price reviews. This is not moving the goalposts – this is removing the goalposts altogether.

The cost of fuel is beyond the control of both AP and Contractors.

However, publication of the fuel prices that are used for Contractors' fuel price would provide some transparency. Australia Post has previously stated that it uses the wholesale price of petrol as a gauge of price fluctuations. Contractors question if Australia Post's data reflects the pricing trends of petrol at the pump.

Contractors are required to stop and lock their vehicle when leaving the vehicle to perform delivery. Thus the nature of the work is stop-start, which means that vehicles are not performing at peak fuel efficiency. As a result, there are no real economies to be made in order to reduce fuel consumption, meaning that Contractors are at the mercy of local petrol prices.

The following example is from a Parcel Contractor in Queensland:

We presently have a Toyota van. The manufacturer's specification for fuel consumption is 11.6 L/100km, but of course we get nowhere near that with the constant stopping and starting. We tendered based on our consumption experienced on our mail run over the last few years – 4.4kms per Litre.

In contrast to the steady rise of inflation, vehicle servicing costs, and other business expenses that Contractors bear, fuel price rises have an immediate effect on the viability of the contractor's business. Fluctuations during the week or month can heighten that effect as quite often Contractors have to fill their vehicle with petrol on the "high cost" days. Unlike the family car, which can be just partially filled on high cost days, Contractors need to have significant reserves of petrol to perform delivery within their delivery timetables. It would be disastrous for a Contractor to run out of fuel part-way through a delivery round.

The following comment is from a Mail Contractor in WA: (July 2006)

I have a mail and parcels round in rural WA. I do my deliveries in a Toyota 4-wheel drive. I do about 115km per day and have to fill up with petrol at least 3 times per week.

When I took over the mail round in December 2005, petrol was costing about \$1.12/L on average with the usual daily fluctuations.

The highest I have paid recently is \$1.39/L and regularly pay between \$1.31/L and 1.35/L. I can't remember the last time it was less than \$1.29/L.

When I applied for a Clause 10 fuel price review in June I was told by Australia Post that the Australian Bureau of Statistics had not recorded a significant rise in the wholesale price of fuel!

Contractors do not have the capacity to absorb increased petrol costs. Increased fuel costs mean that they must reduce spending in other areas in order to purchase fuel. POAAL is concerned that this could lead to reduced spending by Contractors on critical maintenance, servicing, tyres and other safety measures.

Impact on customer service

The competitive tendering process for mail contracts encourages tenderers to cut costs as much as possible in order to win a contract. It is an unfortunate reality that some people are sufficiently desperate to work that they will tender at an unrealistic and unsustainable price. Fuel price increases hit these Contractors hardest.

These Contractors are also most susceptible to encountering financial trouble and being unable to continue performing the mail service. This has an adverse impact on customer service, resulting in mail delays and mis-deliveries.

This situation is well expressed by a Mail Contractor in rural NSW:

We re-tendered for our contract back in February/March 2006. Our contract was up for tender, with the new contract starting July 2006. We quoted \$1.20 per Litre. Now, come July (start of our contract) prices are \$1.45 and we are unable to put in a fuel price review for another 3 months. I think that if we are required to quote fuel costs 4 months ahead we should be allowed to put in a submission for a fuel price review when the contract starts. Doing roadside delivery uses a lot more petrol per km and when you are already 25 cents down, it makes it very expensive.

POAAL would like to see AP be more meticulous in assessing the fuel components of tenders in order to ensure that the cost reflects the fuel price in the relevant city or region. This would significantly reduce the incidence of Contractors tendering at an unrealistic price to “buy” the contract.

Variation in the retail price of petrol at particular times

Contractors are at the mercy of the weekly cycle of retail petrol prices. Contractors are usually in no position to take advantage of lower price days because of the sheer quantity of petrol that their vehicles consume while performing the mail service.

As noted above, it can be a double blow if the Contractors' principal takes advantage of a temporary dip in petrol prices and pushes through a fuel price review to its advantage, meaning that when fuel prices (inevitably) rise again, the fuel price component is woefully inadequate to Mail Contractors.

Again, the lack of transparency in their contract's fuel price review process can work against the Contractor.

Diesel fuel

Many Contractors in rural areas use diesel-powered vehicles. For many years they have complained that the variations in the price of petrol do not match variations in the price of diesel, leaving them disadvantaged.

The following comment is from a contractor who performs a roadside delivery contract in rural South Australia:

Three years ago diesel prices in my town were at 92c a litre, now they are \$1.529 per litre! I will not submit a tender for a new mail contract when current one expires due to the high cost of fuel! I think that diesel should be cheaper than unleaded petrol but no one can adequately explain to me why it should be so dear.

It is more fuel efficient or more appropriate for diesel-powered vehicles to be used for some mail services; however it does not appear that the appropriate mechanisms to consider fuel price variations for such mail contracts are in place.

By and large, Contractors using diesel powered vehicles perform mail services to rural and remote communities. POAAL urges the Federal Government to consider extending current fuel grant and tax relief schemes to Australia Post Contractors serving rural and remote communities. These contractors are providing essential services to the bush, and are worthy of the Government's support.

Impact of rising petrol prices on viability of mail contracts

Increased fuel costs, where not adequately reimbursed to Contractors by Australia Post, will have a negative impact on the viability of mail contracts and therefore the willingness of people to tender for mail contracts. AP needs to attract suitable Contractors who are able to deliver the mail professionally, efficiently and courteously. It is what the Australian public expect.

It is worth noting that while the postal network provides a community service, any increase in costs due to approved increased Contractor operating costs (and operating costs of its own delivery fleet) are being borne solely by Australia Post.

Added to the direct impact of rising petrol prices to Contractors' operating costs, a side-effect of rising petrol prices is that other business and personal costs to Contractors are also increasing. As has been widely reported in the Australian media, most items have increased in price due to the increased transport costs.

If mail contracts are seen to be unprofitable due to increasing fuel costs, then we will see increased cutting of corners and an escalation in customer complaints regarding delivery. It is vitally important that the contracted portion of the postal delivery network remains viable and strong.

In Canada, Canada Post applies a fuel surcharge to certain prepaid postal products. The fuel surcharge was implemented in 2003, and is based on the average price of petrol in Canada as measured by an independent monitoring company.

If we were to see a similar surcharge in Australia in response to rising petrol costs, or an increase in some or many postal charges, it would be expected that a reasonable portion of the additional money charged to customers be allocated to fuel relief for Contractors.

Couriers in Australia

POAAL's courier members report that their businesses are being affected by rising petrol prices. Like Mail Contractors, they often have no choice but to fill their vehicles on days where the price of petrol is higher than anticipated. The courier industry is competitive, and couriers who are paid "by the job" cannot afford to have their vehicle out of action at any time.

Couriers can work long hours under strenuous circumstances with the constant pressure to meet deadlines. The increasing cost of petrol is adding to the strain.

Vast numbers of couriers use vans for their deliveries. The "stop-start" nature of the work means that, like Mail Contractors, their vehicles are consuming far more petrol per kilometre than the vehicle manufacturer's claimed fuel economy.

Broader impact on post and logistics industry

The continuing rise in oil prices has seen increased transport costs for all parts of the global post and logistics industry.

For instance, the US Air Transport Association reported that in January this year, major US national and large regional passenger and cargo airlines paid an average of US\$1.804 per gallon for jet fuel. Each month the average has risen, such that in May this year the price was US\$2.062, up 33.4% from May 2005.

The Lufthansa Cargo fuel price index – a key indicator used by global carriers to determine cargo rates – reached 400 on 14 July. The index reflects the price of fuel in the world's five major spot markets. When the index remains above a predetermined threshold for two consecutive weeks it triggers an increase in the airline's fuel surcharge. The most recent increase occurred when the surcharge rose to €0.60 per kilogram (from €0.55) on May 15 after the index rose above 390.

Other national postal operators have increased domestic postage rates recently. Both the Royal Mail and US Postal Service have increased their basic postage rate this year.

These global indicators would suggest that Australians can expect to pay more for domestic and international postage products and services in the future. Australia Post has been reluctant to push for postage rises in the past, and it is worth noting that there was no increase in the basic domestic postage rate between 1992 and 2002, during which time all of Australia Post's delivery costs increased.

Domestically, it is anticipated that Australia Post will continue to look to contracting arrangements to keep its delivery costs to a minimum. This is logical and commendable, however it must be recognised that the use of contractors with vehicles to deliver mail imposes great stress on those contractors during time of fuel price volatility.

Conclusion

Australia Post pays its taxes and delivers a dividend to the Federal Government every year. Part of Australia Post's profitability is due to the efficiencies it is able to derive from contracting out its delivery services. But because of the issues with the fuel price review process as outlined above, Mail Contractors are not adequately reimbursed their true fuel costs.

It is possible that increasing fuel prices, which will impact on Australia Post's own fleet as well as its Contractors' vehicles, will erode the dividend currently paid to the Federal Government. Australia Post is not like commercial carriers and couriers; Australia Post provides an essential service to all Australians, and is subject to a Government-imposed Community Service Obligation (CSO).

In order to allow Australia Post (and its delivery contractors) to continue to meet this CSO, the Federal Government must consider what fuel relief it is prepared to grant to Australia's mail contractors.

Fair dealings with Contractors

POAAL believes that Australia Post can do more to ensure that Mail Contractors do not unfairly subsidise its fuel costs. Early consultation with POAAL and Contractors would assist with the smooth implementation of contract changes, especially changes relating to the fuel component of the contract.

Fuel excise

There is much discontent among Contractors that one of the most critical resources they require for their business is subject to a high level of taxation. A common comment from Contractors in rural areas is that the standard of the roads that they drive on to perform the mail service do not seem to reflect the amount of fuel excise they pay just to run their business.

Our Contractor and Courier members feel very strongly that while they're tightening their belts as a result of increased fuel prices, their Government should do likewise and be willing to reduce the Federal Government's share of the pump price of petrol.

Fuel grants and tax relief to diesel users

POAAL urges the Federal Government to consider extending current fuel grant and tax relief schemes to postal Contractors serving rural and remote communities. Residents in these communities need continuing access to essential services such as the post.

Ongoing monitoring of fuel prices

POAAL would like to see the Government institute impartial monitoring to ensure that the major oil companies and other companies involved in the fuel distribution network do not take advantage of uncertainty in global fuel markets and raise prices unreasonably.

Automated fuel price reviews

Although this is beyond the scope of this Inquiry, it is POAAL's strong view that with the appropriate use of technology and fuel price monitoring, AP could implement a fair and equitable automated method of varying the fuel component of the mail contract fee.

An automated fuel review process by AP, based on monthly retail fuel price averages, would reduce the effect of the severe fuel price peaks and troughs that Contractors presently endure, would be impartial and transparent, and would provide Australia Post with opportunities to streamline its administrative processes.

Future power

At present, hybrid vehicles that are electricity and petrol powered are more expensive to purchase than petrol vehicles. The Federal Government should consider appropriate incentives to accelerate the development of hybrid commercial vehicles. Contractors want to see a sustainable industry that will not be forever at the mercy of increasing fuel prices.

Australia is a big country, and the distances that have to be traversed mean that delivery vehicles must be durable and have a suitable range and capacity. Electric alternatives are now available in Europe and it is almost inevitable that in coming years we will see more electric-powered (and pedal powered) mail delivery vehicles on Australian roads.

ABBREVIATIONS AND GLOSSARY

AP	Australia Post
BPR	Basic Postage Rate. In Australia, the current BPR is the 50c stamp
CMA	Community Mail Agent
Contractors	Includes all categories of Mail Contract, including Parcels, Roadside, MessengerPost, Line Haul, Depot Bag
Couriers	Couriers who are independent or who deliver on contract for a courier firm
CPA	Community Postal Agent
CSO	Community Service Obligation
LPO	Licensed Post Office
POAAL	Post Office Agents Association Limited
RSD	Roadside Delivery
Spot market	A market in which a commodity (in this case, fuel) is bought or sold for immediate delivery or delivery in the very near future