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5 May 2004

Mr Brenton Holmes
Secretary
Select Committee on the FTA
Between Australia and the USA
Parliament House
CANBERRA ACT 2600

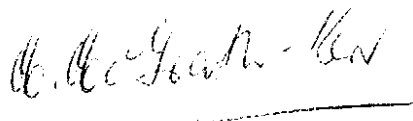
Dear Brenton,

**An inquiry into the Free Trade Agreement between
Australia and the United States of America**

Thank you for inviting the Post Office Agents Association Limited (POAAL) to make a submission to the inquiry.

Attached is POAAL's submission.,

Yours sincerely,



Marie McGrath-Kerr
Chairman

**COMMENTS FROM POST OFFICE AGENTS ASSOCIATION LIMITED (POAAL)
TO THE SENATE SELECT COMMITTEE ON THE FREE TRADE AGREEMENT
BETWEEN AUSTRALIA AND THE UNITED STATES OF AMERICA.**

The Post Office Agents Association represents almost 3,000 Licensees – that is, owner-operators of Licensed Post Offices “franchised” or licensed to Australia Post – and 6,000 mail contractors. All these people are private operators who have invested their own money in the business. We estimate the financial investment of Licensees alone in the Australia Post business to be around the \$800 million mark, so it is a substantial investment. POAAL’s interests in the Free Trade Agreement relate, of course, to the postal sector.

The Australian postal service is a highly developed and efficient industry that is coordinated by Australia Post. Both the corporate and private operators are responsible for ensuring that the Australian community as a whole has access to a host of services including:

- Timely inward and outward mail
- Access to a host of bill pay and banking services,
- Access to a very competitive retail network; and
- The benefits of substantial community interaction and employment opportunities.

We believe that these services could be severely curtailed if Australia Post were to be privatised or the Australian postal industry de-regulated and outside players allowed to enter and “cherry pick” the profitable portions of the industry.

The majority of privately owned post offices (LPOs) are situated in country and regional areas of Australia. These offices not only provide mail services they also act as a central point of contact for a rural community. Many Licensees devote their spare time to serving the community in voluntary capacities and their places of business are frequently the hub of the community.

One of the most important parts of Australia Post’s community commitment is mail delivery to the home. If deregulation were allowed to occur, this community service would most likely be curtailed unless specific funding were made available by the Government to allow the continuation of the service. We doubt that competitors operators would take on this commitment.

As small rural communities decline in size, typically the local post office is the last business to remain. However, under deregulation, the focus would be on profit and these small communities would lose their mail systems. Thus the future of the small or medium sized community or village would be further jeopardised as the focus would be shifted to regional and city areas.

In relation to the FTA processes, we believe that there should be wider public debate over, and input into, the negotiation of such agreements, which have potentially far-reaching consequences in so many areas of Australia’s community life. The decision making powers of our democratic institutions should not be limited by commitments which bind future governments indefinitely and which foreclose policy options

There is a strong possibility of a liberalisation of postal services, a move which we believe would erode Australia Post's capacity to provide the first-rate service to all Australians that is currently enjoyed. Australia's postal industry is already significantly liberalised. The only area which is not open to competitors is the reserved service, which covers articles weighing up to 250 grams.

We hope that the FTA is not just a mechanism for prising open the markets of a weaker nation for the benefit of the strong. In our view, the Australian government has a responsibility to see that this is not the case.

Reserved Services

Approximately 50 per cent of Australia Post's business accrues from the Reserved Letter Area. The product is provided to all Australians under what is known as universal service, which provides that any person can post a letter from within this country to anywhere in this country for the same price. If the market were opened up, it is highly unlikely that any competitors would be interested in servicing the whole of Australia. They would only be interested in the major trunk routes. We have heard of quotes that a letter going from Melbourne to Darwin can cost as much as \$2.40 for its processing, transportation and delivery. Clearly, a fairly significant cross-subsidy applies in that instance. There are obviously various other areas – rural areas particularly – where there is a significantly high cost and they have the benefit of a standard letter being received or sent by them at the price of 50c.

This issue has been raised on numerous occasions that competitors would only selectively target major trunk routes. That really attacks the issue of universal service. Australia Post, in order to make sure it can compete with that, would have to make a commercial decision about its rates. That has major implications for contractors, jobs and for the revenue of Australia Post.

Should the Government decide to permit foreign competition into Australia including Australia Post's reserved services that competition will do so only on the profitable elements of those reserved services. That will seriously undermine the basic economics on which Australia Post operates. If the scale of operations is interfered with then an organisation can quickly go from being profitable to non-profitable. Australia Post pays a substantial dividend to its owner – the Australian Government – and deregulation of the postal industry in Australia would have a serious adverse impact on that dividend. That in turn will have consequences for the service to the community, the investment that the contracting part of the business has made.

Should Australia Post be forced out of areas where it earns a good margin and forced to compromise its ability to keep the organisation profitable and cost efficient, this in turn may have the effect of reducing the ability of Australia Post to provide a basic level of service to regional Australia and services across the board may well be downgraded. This is the effect that cherry picking will have on the organisation.

Licensed Post Offices

The investment of Licensees in Australia Post's postal network is significant in both monetary terms, commitment and time. Licensees bought their business on the understanding of a certain amount of business and the anticipation of increased business. Under the terms of their agreement with Australia Post, Licensees are prevented from doing business for any organisations or businesses which compete with Australia Post, so if other players are permitted in the market, Licensees will lose business.

The majority of Licensees are situated in regional areas of Australia. Consequently, we would foresee either of the following happening should the postal industry be deregulated:

- Additional competitors open for business, either stand-alone or in conjunction with an already established business;
- Competitors enter those segments of the market that are profitable only to themselves in isolation.

In small and medium sized regional towns and villages, the post office plays a central role in the fabric of the community. This role is made possible through Australia Post's reserved services. Due to this and the restrictive trading placed upon Licensees by Australia Post these privately owned post offices do one thing and do it well. This is how Australia Post has evolved to be one of the world's best postal systems.

Under the guise of Free Trade, these post offices could have their capacity to earn slowly eroded without any way of addressing this due to their agreement with Australia Post. The impact on communities would be catastrophic.

Mail Contractors

Mail contractors commit to delivering more than just mail – it is not unusual for a mail contractor to drop off the bread and other foodstuffs along with chemist orders and the newspapers. Many of these contractors use roads that the majority of Australians would consider impassible, journeys that are undertaken sometimes as often as five days a week. "The mail must get through" is more than an adage, it is reality to these committed small business people and highlights their commitment to communities who would otherwise face almost total isolation.

Conclusion

Private enterprise has different priorities to government. Private industry priorities are not interested in community service which meets the needs of the community. Private industry is about delivering profits. Australia Post, with substantial work and commitment by its private Licensees and Mail Contractors, has enabled an efficient community service to be maintained.

Licensees and Mail Contractors have expressed their concern on the deregulatory or open market theme that appears to sweep through the FTA. POAAL envisages Australia's postal system in jeopardy if ad hoc competition is permitted. Our members are committed to providing the best possible service to their customers. This standard can only be achieved with the continuation of the current system which services cities, regional areas, rural areas and the outback and offshore islands. We have a big land, and much wide open space and we should encourage small business people and entrepreneurs to stay there, not threaten them with multinational competition.