

29 August 2008

Committee Secretary
Senate Select Committee on Fuel and Energy
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Secretary,

Inquiry into higher fuel prices

The Post Office Agents Association Limited (POAAL) submits the attached paper for consideration by the Senate Select Committee on Fuel and Energy for the above Inquiry.

POAAL represents the business interests of thousands of small business people. They include the owner/operators (Licensees) of almost 3000 Licensed Post Offices (LPOs). LPOs form almost 80% of Australia's network of post offices. POAAL members are also made up from the 5,000 Mail Contractors who deliver mail and parcels under contract to Australia Post and about 650 Community Postal Agents.

As the peak industry body representing private operators in the Australian postal industry, POAAL has a significant interest in fuel prices because of the importance of fuel to the domestic and global postal industry.

If the Committee would like to clarify or discuss any matters raised in our submission, POAAL representatives would be available for discussion.

Yours faithfully,

Ian Kerr
CEO



POAAL

Post Office Agents Association Limited

ACN 006 382 314

SUBMISSION TO THE

SENATE SELECT

COMMITTEE ON FUEL

AND ENERGY

August 2008

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Introduction

Rising global oil prices have dominated headlines in recent years. This inquiry provides a timely opportunity for reasoned and informed discussion of the factors that influence fuel prices, while also investigating the effects of rising fuel prices.

POAAL, the peak industry body representing private operators in the Australian postal industry, has a significant interest in fuel prices because of the importance of fuel to the domestic and global postal industry.

POAAL's chief concern is that rapidly rising and fluctuating fuel prices are having an adverse impact on our members' businesses, and that in turn this will threaten the services that they provide to the people and businesses in their communities.

The following submission details how higher fuel prices impact on the operations of our members' businesses and the resultant impact on families, small business, and rural Australia.

Our submission also touches on the role and activities of the Petrol Commissioner and the current use and future application of alternative fuels in the Australian postal industry.

BACKGROUND

1. The Post Office Agents Association Limited (POAAL) represents the nearly 3,000 small business owners of the Licensed Post Office network that comprise almost 80% of the Australia Post retail network. Our members are also drawn from the operators of the approximately 5,000 mail contracts, delivering mail and parcels to Australia Post customers across the country, together with around 650 Community Postal/Mail Agents. (Further information on the background of our organisation may be found on our website www.poaal.com.au.)
2. Our members are all small business owner/operators with an estimated investment of at least one billion dollars in the Postal business alone. They are the front line for the services provided to Australian communities, especially in regional, rural and remote areas of Australia.
3. In contrast, they are contracted to one of the largest and most powerful organisations in Australia. Australia Post is a Government Business Enterprise (GBE) regularly ranked as one of the top ten employers and amongst the top six financial performers in the country. It has a huge management infrastructure and powerful resources at its disposal.
4. Licensed Post Offices are operated under licence from Australia Post. Each LPO forms part of Australia Post's retail and delivery network. Licensees are small business people, and their businesses provide the framework for delivery of postal services in their area. The Licensee is responsible for all business expenses, including providing premises, operating overheads such as utilities, and staff costs.
5. Mail Contractors deliver mail on contract for Australia Post. Mail Contracts usually have a term of five years. Australia Post requires that all Contractors are incorporated. The Contractor owns or leases the vehicle(s) used to perform the contract, as well as being responsible for all other costs such as fuel, servicing and any staff costs.
6. POAAL also offers membership to courier owner/drivers who operate their own courier business or work on contract to a larger courier firm such as Fastway Couriers or Corporate Express. These couriers have no contractual relationship with Australia Post.

Community Service Obligations

7. Australia Post is obliged to meet Community Service Obligations (CSOs) as set out in the *Australian Postal Corporation Act 1989*. These obligations include:
 - a. Providing a letter service for domestic and international mail;
 - b. Providing this service at a uniform rate for domestic standard mail;
 - c. Making the service accessible; and
 - d. Providing a service that, within reason, meets the social, industrial and commercial needs of the community.
8. Specific standards have been set in order for Australia Post to satisfy its CSOs. These standards include servicing at least 98% of all delivery points at least five days per week and 99.7% of all delivery points at least two days per week, as well as ensuring that at least half of all post offices are located in areas considered rural or remote.
9. Australia Post's 2006/07 Annual Report notes that the financial cost of meeting its CSOs was estimated to have been \$97.3m¹. However, by virtue of living in country areas, many Licensees, Agents and Mail Contractors already suffer a financial burden in order to meet Australia Post's CSOs. These costs include higher travel costs, food costs and fuel costs.
10. Outside of metropolitan areas, Australia Post relies upon Mail Contractors and LPOs to meet its CSOs.
11. Because of Australia Post's obligation to deliver to rural and remote areas, other transport, delivery and logistics companies are able to rely on Australia Post's network to service rural and remote areas without the need to develop their own regional infrastructure.

¹ Australia Post Annual Report 2006/07, p112

About Mail Contracts

12. Australia Post contracts out a large portion of its delivery network, especially in regional and rural areas.
13. According to Australia Post's 2006/07 Annual Report, there were 5,295 mail contracts Australia-wide². A Contractor may hold multiple Mail Contracts, which is reflected in Australia Post's disclosure that there are 3,524 Mail Contractors. Of those 3,524 Mail Contractors, 2,801 operate contracts in rural and remote areas³.
14. Australia Post requires that all Mail Contractors be incorporated.
15. There are several different categories of Mail Contract, including:
 - a. Parcel Contracts – delivering parcels usually to metropolitan areas;
 - b. Street Mail Contracts – delivering letters usually to outer metropolitan areas, regional towns and small country towns;
 - c. Roadside Delivery (RSD) Contracts – delivering a mix of mail (including letters and parcels) to rural and remote communities;
 - d. Line Haul Contracts – transporting large consignments of mail from point to point;
 - e. MessengerPost Contracts – the contracted arm of Australia Post's courier service; and
 - f. Depot Bag Contracts – transporting bags of mail to pickup points for street delivery.
16. Each of these classes of Mail Contract (with the exception of MessengerPost) operates under the standard Australia Post Mail Contract.
17. Australia Post selects Contractors following a competitive tendering process. As part of the tender, a fuel cost component is specified as part of the tender price.
18. As independent owner/drivers, Mail Contractors are unable to absorb price increases in the way that a larger organisation (such as Australia Post) might. Nor are they able to drive efficiencies available to large postal or logistics operators through their buying power. Similarly, because of their small size, Contractors are unable to engage in fuel hedging strategies to reduce the impact of future fuel price rises.
19. Mail Contractors cannot pass on cost increases to their customers. Mail Contractors are locked into a contract with Australia Post. The contract does not allow for the volatile nature of oil prices.

² Australia Post Annual Report 2006/07, p132

³ Ibid, p45

20. Australia Post Mail Contractors do not have the capacity to absorb increased fuel costs. Higher fuel costs have an immediate effect, leading Contractors to consider:
- Reducing 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.
 - Reducing the amount they pay themselves from their contract fee. POAAL is aware of Contractors whose take-home pay is \$14,000pa. Their pride in their work and their sense of duty towards their community are sometimes all that keeps them going. (Not to mention the threat of financial penalty from Australia Post for failing to perform their Contract.)
 - Resigning their contract. This will be discussed under “The impact of higher fuel prices”.
21. Contractors use a range of vehicles to perform their Mail Contracts, including delivery vans, utilities, trucks, sedans and the ubiquitous red “postie bikes”.
22. Fuel volumes consumed in the course of performing Mail Contracts vary depending on the distances travelled, the nature of the terrain, the vehicle used and the number of delivery points.
23. The inability to absorb rising operating costs (such as fuel) is a major reason for Contractors resigning their contracts with Australia Post. As one recently retired Contractor put it:

“I have been involved with Australia Post for over 35 years and in that time I have seen many Contractors come and go. They all seem to find out after one term of their contract that it’s too hard for too little return. Who is the winner? Australia Post, of course!”

The impact of higher fuel prices

24. As noted above, Mail Contractors do not have the capacity to absorb increased fuel costs. Increasing fuel costs are forcing growing numbers of Contractors to consider resigning their mail contract.
25. Australia Post's commitment to driving tender prices as low as possible leaves Contractors at the mercy of increases in fuel costs.
26. POAAL holds grave concerns that mail services to rural areas are under threat due to higher fuel costs. Rural areas are especially vulnerable to loss of mail service because in the event of a Mail Contractor resigning his/her contract, it can be difficult for Australia Post to maintain mail delivery services to the area while securing the services of a replacement Contractor.
27. The resultant loss of mail service would have an immediate and deleterious effect on a community.
28. Rural communities are among some of Australia's most disadvantaged. They have limited access to services such as health, education, public transport, internet and mobile telephony. Their populations are ageing, and the postal service plays an important role in sustaining these communities.
29. Mail is a critical service for business and Government. This is especially so in rural areas. Business and Government rely upon mail to reach customers and clients:
 - a. Supply of products
 - b. Invoicing and receipting
 - c. Forwarding of payments via mail
 - d. Direct mail
 - e. Unaddressed advertising mail
 - f. Educational and training material
30. There have already been instances where high fuel costs have forced Mail Contractors to resign their contract. This must not be allowed to continue. Services to the bush must not be neglected.

Petrol Commissioner

31. Currently, the Petrol Commissioner does not have a high profile among POAAL members.
32. POAAL is unable to comment on whether or not the activities of the Petrol Commissioner have had any impact on the price of fuel.
33. Data provided by the FuelTRAC monitoring service⁴ shows that there can be significant differences between the movement in fuel prices in metropolitan areas and the movement of fuel prices in country areas. While country residents understand that there will usually be a difference in price between city and country areas, it is difficult to understand why fuel price movements differ so wildly.
34. POAAL recommends that the Petrol Commissioner engage in wider consultations and discussions with major fuel user groups or their representatives (such as POAAL) to connect with owner/drivers and understand their needs.

⁴ Historical FuelTRAC fuel pricing data is available from the Australian Automobile Association website, <http://www.aaa.asn.au/issues/petrol.htm>

Maximising competition and providing information to consumers

35. In rural areas there can be limited or indeed no competition on petrol prices due to there being only one or two local petrol stations, therefore no amount of information to consumers will influence fuel pricing in those areas. As a Contractor from rural Victoria noted:

“I buy my fuel from our local service station in a small country town. They are very quick to put the price up on the bowser if oil prices go up but bring it down very slowly if there is a decrease in oil prices. We have to travel 32km to buy our fuel cheaper from the nearest town which is not practical for a mail contractor working from a small rural town.”

36. In metropolitan areas there may be some benefit in providing fuel price information to consumers.
37. Even then, the existence of various supermarket-linked fuel discounts could distort fuel price reporting.

Alternative fuels

38. It is widely acknowledged that oil reserves are finite, and that the pace at which those reserves will be used is unpredictable. With this in mind, major postal operators such as TNT, Deutsche Post and La Poste (France) are preparing their postal businesses for the post-oil era.
39. Australia Post has lagged behind its international peers. In 2007, Australia Post announced that it would be trialling two hybrid-powered trucks⁵. POAAL understands that in recent months Australia Post has commenced a trial of an electric-powered delivery scooter.
40. Australia, unlike European nations, has a widely dispersed population, meaning that the lessons learned in overseas domestic postal markets may not apply to local conditions. Australia Post must be encouraged to escalate its trials of alternative power vehicles.
41. Australia Post has recently commenced development of its Corporate Responsibility Strategy. Part of this strategy is to realise cost savings through energy efficiency and reduction of fuel consumption.
42. As part of this Corporate Responsibility Strategy, it may be that Australia Post will specify that preference will be given to tenderers for mail contracts who use alternative fuels or low-emission vehicles. Presently, Australia Post's competitive tendering process does not encourage the use of alternative fuels or low-emission vehicles.
43. It is worth noting that Australia Post has failed to seek the involvement of either of its two major stakeholder groups – POAAL representing Licensees, Mail Contractors and CMA/CPAs, CEPU representing employees – in its working group that is developing this Corporate Responsibility Strategy.

⁵ Australia Post Annual Report 2006/07, p39

Impact of higher fuel prices on postage prices in Australia

44. This year Australia Post applied for an increase in the Basic Postage Rate (BPR). The BPR has been 50c since the most recent increase became effective in 2003. Prior to that, the BPR was frozen at 45c from 1994.
45. The ACCC has announced that it will not object to Australia Post's application for an increase, and the increase is anticipated to come into force on 15 September 2008.
46. One of the major reasons Australia Post gave for applying for an increase in the BPR was its increased fuel costs.
47. In April 2003, Canada Post introduced a fuel surcharge. The fuel surcharge applies to some express, parcel and international postal products. The fuel surcharge is expressed as a percentage of the base shipping price for each product. The surcharge is based on the average price of unleaded petrol, as measured by an independent monitoring company, and is reviewed monthly.
48. Given the imminent increase in the domestic BPR, it would be unlikely that Australia Post would seek to introduce a fuel surcharge in the short term. Nevertheless, if Australia Post were to introduce a fuel surcharge then allowance should be made for Mail Contractors to be allocated a share of any additional income Australia Post generates through a surcharge.

Allowing for escalating fuel prices in Mail Contracts

49. As noted above, mail contracts are awarded following a competitive tendering process. As part of the tender, a fuel cost component is specified as part of the tender price.
50. The standard Australia Post Mail Contract makes allowance for the review of this fuel cost component of a mail contract fee. The provision for the review is contained in Clause 10 of the Mail Contract.
51. The contract is eligible for a review under Clause 10 where the wholesale price of fuel (as determined by an independent fuel monitor, applicable to the capital city of the State in which the majority of the Contract is performed) has varied by +/- 7% and at least three months have elapsed since the last Clause 10 review.
52. The fuel index is not available to Contractors. After sustained pressure from POAAL, Australia Post agreed to make the current month's fuel price data available to Contractors upon request.
53. Furthermore, Australia Post does not inform the Contractor of when they are eligible for a fuel price review. The system is bereft of transparency.
54. (It must also be noted that if an application for review is not successful, then the Contractor must wait a further three months before being eligible to apply for another review under Clause 10 of the contract.)
55. Fuel price reviews under Clause 10 can be a double-edged sword, since these reviews can also be initiated by Australia Post. Should the fuel price dip by 7% – even if only for a short time and contrary to an overall trend – Australia Post can take advantage of the situation and perform a fuel price review. To compound the situation, the Contractor cannot apply for a further fuel price review for another three months, even if fuel prices rebound immediately following the review.
56. This is not to suggest that high fuel costs for Contractors are the fault of Australia Post. But the means to deal fairly with rising fuel costs is within Australia Post's means. Alternatively, the Federal Government could take the view that Australia Post delivers an essential service to all Australians, and as such extend preferential fuel excise arrangements to Australia Post and/or all its Mail Contractors.
57. The fuel index used by Australia Post for fuel price reviews does not reflect price movements for diesel fuel. Over the past 12 months, the price of diesel has increased more than the price of unleaded fuel, which means that fuel price reviews, which depend on the movement of ULP, do not reflect the true cost to Contractors of using diesel. POAAL has been pushing for the recognition of diesel fuel under the existing fuel price review scheme, and in recent days Australia Post has announced that it will amend its policies regarding fuel price reviews to allow for diesel and LPG.

58. POAAL is pushing for the introduction of a fairer system of reviewing the fuel compensation payments made to Mail Contractors by Australia Post.
59. POAAL proposes a system of monthly automated fuel price reviews.
60. Each month, Australia Post would apply the relevant fuel index to the fuel cost component of each contract, and vary the Contractor's payment appropriately.
61. This simple system would be fair to both parties, transparent, easy to administer and easy for Contractors to understand and monitor.
62. Contractors recognise that under a system of automated fuel price reviews, should the average fuel price fall then their contract fee would be reduced.
63. There are benefits to Australia Post for implementing monthly automated fuel price reviews:
 - a. It will enable Australia Post to retain experienced Mail Contractors;
 - b. Australia Post will be able to drive administrative efficiencies;
 - c. It will help reduce the potential for disputes between Contractors and Australia Post;
 - d. Australia Post will gain more accurate costings of its delivery activities, in particular for future applications for review of the BPR; and
 - e. Australia Post will gain more accurate costings of meeting its CSOs.
64. POAAL has requested that Australia Post implement automated monthly fuel price reviews. Australia Post has refused, noting that in its opinion there are "more pressing issues" than high fuel costs that need to be resolved.
65. There is a further inequity in the existing system for fuel price reviews, in that tenders are called some months before the contract commences. This means that the fuel price upon which the tender fuel costs are calculated can be wildly out of date. This could be simply fixed by Australia Post adjusting the fuel price component upon commencement of the contract.
66. It must be noted that what POAAL proposes in no way negates the competitive tendering process. Contractors would still be encouraged to submit a competitive tender price to Australia Post, however the days of Australia Post's delivery arm being subsidised by Contractors must come to an end.
67. Australia Post has very recently written to Contractors offering to temporarily lower the threshold for fuel price reviews from 7% to 5%. While this is a positive step, it fails to address the major issues relating to timing of reviews and transparency of the review process.
68. It is worth noting that Mail Contractors are at the mercy of the weekly cycle of retail fuel prices. Contractors are usually in no position to take advantage of lower price days because of the sheer quantity of fuel that their vehicles consume while performing the mail service.

Conclusion and recommendations

69. Australia Post is a GBE. It pays taxes and delivers a dividend to the Federal Government each year. Part of its profitability derives from the efficiencies it is able to generate from contracting out its delivery services.
70. The Australian taxpayer is not expected to subsidise Australia Post's operations. Nor should Mail Contractors be expected to subsidise Australia Post's delivery operations.
71. Higher fuel prices have already had an impact on Australia Post's own delivery fleet, as shown by its recent application for an increase to the BPR.
72. Contractors play an integral role in enabling Australia Post to meet its CSOs. If the community places value on these CSOs, it must not neglect Contractors' plight.
73. There continues to be 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 does not seem to reflect the amount of fuel excise they pay just to run their business.
74. POAAL recommends that part of the Petrol Commissioner's remit be to monitor the differences in fuel price movements within a State.
75. POAAL recommends that the Petrol Commissioner engage in consultation with owner/driver organisations such as POAAL.
76. POAAL recommends that Australia Post introduces automated monthly fuel price reviews for its Mail Contractors.
77. POAAL recommends that Australia Post formalises its offer to take into consideration diesel and LPG fuel costs when performing mail contract fuel price reviews.
78. POAAL recommends that the Federal Government consider appropriate incentives to allow Mail Contractors and other owner/drivers to invest in alternative fuel vehicles or low emissions vehicles.

ABBREVIATIONS AND GLOSSARY

AP	Australia Post
BPR	Basic Postage Rate. (At present, the BPR is 50c, but will rise to 55c from 15 September 2008.)
CEPU	Communications Electrical Plumbing Union, the union representing Australia Post employees
CMA	Community Mail Agent
Contractors	Includes all categories of Mail Contractor, including Parcels, Roadside, MessengerPost, Line Haul, Depot Bag
CPA	Community Postal Agent
CSO	Community Service Obligation
GBE	Government Business Enterprise
LPO	Licensed Post Office
POAAL	Post Office Agents Association Limited
RSD	Roadside Delivery