

Stamp of approval

Australia Post faces a Claytons inquiry

It was an unusually lyrical Richard Alston who addressed a conference of the Post Office Agents Association in Hobart in August.

'The post office is an enduring icon of Australian life, and despite our willingness to embrace the technological changes which are sweeping the nation, the simple act of posting a birthday card, sending a Christmas present to a grandchild or a handwritten letter to a long lost friend provides us with a great sense of community and belonging' the Senator, Federal Minister for Communications and the Arts, said. 'It's a social adhesive if you like. And for all the wonders of the Internet you can't send a hand-knitted jumper through cyberspace.'

You can, however, send it via TNT or any of several other private delivery services. Provided, that is, that the package weighs more than 250 grams and costs more than \$1.80 to send: for these figures represent the outer limits of Australia Post's statutory monopoly.

Whether this monopoly should be preserved, and if so to what extent, is currently being considered by the National Competition Council, which is conducting an inquiry into the operations of the Australian Postal Corporation Act 1989.

The inquiry's terms of reference calls on the Council to advise on 'practical courses of action to improve competition, efficiency and consumer welfare in the postal services sector . . . [having] regard to the objective that the legislation/regulation should be retained only if the benefits to the community as a whole outweigh the costs'

The Council is also asked to 'have regard to . . . the Government's commitments to maintain Australia Post in full public ownership and provide a standard letter service to all Australians at a uniform price.'

A surprisingly gentle brief, really,

for these times. One can't help suspecting that it did not come naturally to the signatory, a certain Peter Howard Costello.

The Federal Government has much in common with Australia Post on the issue of competition in postal services. Certainly, they seem to share a speech writer.

At the postal agents conference, Senator Alston said: 'As Minister for Communications, I am particularly aware of the challenges you face in a rapidly changing communications landscape. While the letter monopoly has restricted competition for the carriage of personalised addressed, hard-copy communications, letters are still fully exposed to competition from electronic messaging technologies, including the telephone, fax, e-mail, the Internet, paging services and voice mail. These services are faster and often cheaper than letters and increasingly accessible to business and households.'

By contrast, Australia Post's opening submission to the NCC inquiry says: 'While the letter monopoly has restricted competition for the carriage of personalised addressed, hard-copy communications, letters are still fully exposed to competition from electronic messaging technologies, including the telephone, fax, e-mail, the Internet, paging services and voice mail. These alternatives are faster and cheaper than letters, and increasingly accessible to business and households.'

Regardless of who copied, the point is valid, and is one of the important reasons why the Federal Government is unlikely to take the free market axe to Australia Post in the near future.

It is not that the postal service isn't big or important. As the NCC says in the inquiry options paper released in October: 'Postal services are critically important to meeting the communications needs of Australians. Australia

Post delivers four billion mail articles annually to eight million households, businesses and communities. Postal services are provided through over 4 000 retail outlets.'

But there is a safety valve: there are several other forms of communication available, and they are rapidly improving in reach and performance. Faced with this electronic challenge, the postal service will only remain important so long as it performs well.

And Australia Post *is* performing extremely well. Indeed, the transformation since it was corporatised in 1989 has been astonishing.

The amount of time lost to industrial disputes has fallen from 7150 days in 1989 to 60 last year. Productivity has improved by 33 percent over the same period. On-schedule delivery of mail items improved from 88 percent to 93 percent, while mail volume grew by more than 30 percent. There has also been considerable growth in the financial services provided by post offices, with the number of transactions increasing from 25 million in 1992 to 150 million this year. And all this has occurred while the standard postage rate has remained at 45 cents for nearly five years. Australia, Senator Alston has said, enjoys the fourth-lowest standard postal rate in the OECD.

The other great thing about Australia Post from the Government's point of view is that it turns a quid. Since 1989, the Federal Government has received \$891 million in dividends and capital repayments and a further \$1.6 billion in taxes and charges.

What is more, Australia Post is sufficiently confident of further improvement that its own submission to the inquiry suggests progressive reduction to its levels of protection. This would reduce the so-called 'reserved services' monopoly to items weighing



less than 125 grams with a postage rate of less than 90 cents by 1 January 1999. The price limit would be further reduced, to 45 cents, by 2001. Under these conditions, the corporation says, it will be able to preserve the 45 cent standard charge.

This raises a question: why does this large and successful business need monopoly protection at all? The answer is an acronym: CSO, which stands for community service obligation, a statutory requirement which can be placed on Australia Post under the Act for reasons of social equity.

Contrary to widespread belief, the obligations imposed on Australia Post are neither numerous nor particularly expensive.

Under the Act, Australia Post has only one CSO, to deliver standard sized letters according to three criteria:

- a letter service must be provided to all parts of Australia at a single uniform price;
- the service must be reasonably accessible to all; and
- the service must meet reasonable performance standards.

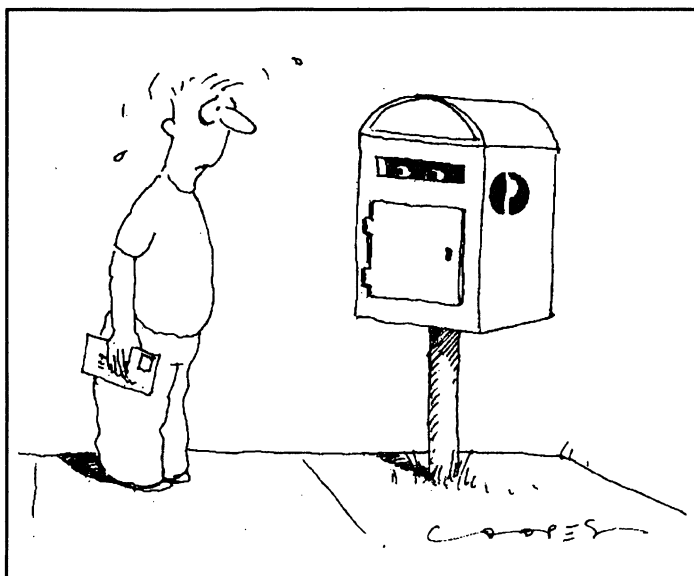
Australia Post is not obliged to deliver large letters or parcels, provide express post services, courier services, or financial services such as bill payment, banking and money orders. (However, as the corporation points out in its submission, the level of community expectation that these services will be provided is so great they almost count as 'de facto' CSOs.)

According to the NCC options paper, the total cost of the CSO in 1995-96 was \$67 million, less than half of which related to the provision of services to remote and rural communities.

What if the standard letter monopoly was dropped? Could the CSO be paid for in some other way? This might be a direct payment from consolidated revenue (relatively simple, but vulnerable to cuts at budget time)

or a levy on competing service providers, along the lines of the USO in telecommunications (a recipe for bitter argument).

What about complete deregulation? The options paper notes that in this event 'there would be pressure on Australia Post's business' but adds that 'Australia Post's extensive network gives it a substantial marketing advantage. Australia Post would be expected to use its ability to deliver in rural and remote areas to attract mail for other destinations, offering a total mail service package.'



Competitors might find life *more* difficult, the paper says. This is because Australia Post is currently obliged to allow its competitors access to its delivery network.

'Under [complete deregulation] there is no access regulation other than the application of the general access provisions in Part IIIA of the Trade Practices Act . . . unless Australia Post has strong monopoly characteristics, which is unlikely for most (if not all) of its services, Part IIIA . . . would not apply'

There would be some benefits. 'Most benefits would flow to business and particularly those businesses generating large volumes of mail being delivered in the cities and large regional centres.'

Against this: 'In some remote ar-

eas. . . There would be a combination of increases in prices and reductions in service. . . In many rural areas there would not be any change in services. However, the impact in remote areas is likely to be greater than is socially acceptable.'

This is not a likely scenario. The political cost, particularly in rural areas, would be great, the potential economic benefits would be slight, and most of the stakeholders who have made submissions to the inquiry are reasonably happy.

The contrast with the United States, where the postal service has been subject to strong criticism in recent times, is striking.

The NCC options paper says: 'So far, many of the contributions to this review have indicated overall satisfaction with the service provided by Australia Post.'

Surely someone has something critical to say? Yes, but it is pretty mild.

'Many submissions have identified areas where they believe there is room for Australia Post to improve its performance,' the options paper says, and goes on to list: flex-

ibility when dealing with major customers; the cost, quality and reliability of services in remote and rural areas; methods for calculating inter-connection discounts; and opportunities for the private sector to provide new and innovative services.

It has also been asked 'whether it would have been feasible for Australia Post to reduce prices rather than merely freeze the postal rate'.

Some people are never happy.

Senator Alston seems to be, however. One section of his Hobart speech was titled 'A pat on the back for Australia Post'. It is reasonable to expect the National Competition Commission to do something similar.

The inquiry is expected to report in March next year.

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