



POAAL

Post Office Agents Association Limited

ACN 006 382 314



SUBMISSION FOR THE

AUSTRALIAN COMPETITION & CONSUMER COMMISSION

in regard to the

INQUIRY INTO THE PRICE OF UNLEADED PETROL

July 2007

Post Office Agents Association Limited
PO Box 18042
COLLINS STREET EAST
MELBOURNE VIC 8003

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 unleaded 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, eg 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. However, fluctuations in fuel pricing also substantially impacts on their business.

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 an integral 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.

As a result, when it comes to buying petrol at the pump these owner/drivers are in the same position as the average consumer. They do not have access to rack rate or a commercial fuel card.

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. Most of them need to fill the fuel tanks of their vehicles on a daily basis.

Transparency

The supply of petrol is sometimes viewed as a community service, a staple similar to milk and bread. The community feels entitled to be informed as to why the price paid at the pump fluctuates.

One of our members illustrated the point well:

The continuous increase/decrease in the fuel price has a direct bearing on the profitability of my company. It is hard to sustain, let alone explain, increases in fuel prices by 15cpl or more, just depending on the day of the week. Can you imagine what would happen at the local bakery if the baker decided to increase the price of a loaf of bread on certain days?

Consumers need to be reassured that they are not being “ripped off”. It is one thing for petrol wholesalers and retailers to make a profit, it is another thing altogether for them to hold a captive market to ransom.

Choice

It is at least possible for motorists in city areas to “shop around” for petrol. Services such as Motormouth provide information to motorists so that they can make informed decisions about buying petrol at the pump.

It must be noted that motorists in country Australia have very little choice as to where they buy their petrol. There may be only one service station in town, and rarely would such a station be a “discount” service station such as can be found in the larger metropolitan centres.

Country motorists may also have limited access to alternative fuels such as bio-diesel. Reduced competition can work against the motorist.

Diesel fuel

Many Contractors in rural areas use diesel-powered vehicles. They have also noted that there are unexplained variations in the pricing of diesel.

As one contractor puts it:

It wasn't too long ago that the price of diesel was at least 20c per Litre less than the price of unleaded petrol. It would be interesting to know what has happened to the production of diesel for the price to now work out to be consistently more expensive than unleaded petrol.

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.

By and large, Mail Contractors using diesel powered vehicles provide mail services to rural and remote communities. If the ACCC is to effectively investigate fuel pricing in Australia, diesel must be included.

LPG

Increasing numbers of Mail Contractors and Couriers are using LPG-powered vehicles. Contractors have noted that in the last three years the price of LPG has skyrocketed. A Mail Contractor from NSW commented that:

LPG has risen up to 100% over the past three years. In July 2004, LPG could be purchased at around 30cpl – today it is in the mid- to high-50s, and has gone over the 60cpl mark. And it always follows a similar pricing pattern to petrol, with certain days of the week more expensive than others.

In some country areas, LPG is often either unavailable or has limited availability.

Impact of rising petrol prices on viability of mail contracts

Increased fuel costs can have a negative impact on the viability of mail contracts and therefore the willingness of people to tender for mail contracts.

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, and confirmed by our members, 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 2006, 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 2006 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 increased their basic postage rate in 2006.

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, as did those of Mail Contractors.

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

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 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.

Fuel excise

Although perhaps outside the terms of this inquiry, 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.

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 Federal 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.

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 and sustainable 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.