



May 19, 2015

General Manager
Small Business, Competition and Consumer Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Madam / Sir,

Thank you for inviting us to make a submission on your final report. We noted with high interest and particular attention the topics reported on that fall under the areas within the supply chain. We applaud the recommendations made to improve competition however we feel there are certain areas where additional attention and recommendations would greatly assist in delivering better competition results.

A most concerning area we believe is the current dominant position and influence that Australia Post has in determining and heavily influencing the parcel delivery systems within Australia. Over recent years parcel movements within Australia have increased significantly mainly due to the increase of on-line shopping and direct delivery of parcel goods from suppliers and manufacturers. This trend is considered to continue to increase even more so over the coming years and yet there has been no meaningful investigation or inquiry into Australia Post's consistent high price increases for parcel deliveries. Their unchecked methods of pricing and parcel packaging heavily influence the pricing of private transport firms conducting parcel deliveries with the result that consumers, are paying far more than they probably should to receive purchased products dispatched by parcel freight systems.

There needs to be detailed and robust competitive oversight with Government owned Corporations and our submission explains why and how Australia Post are price leading up the whole market for parcel and larger load freight in Australia.

One of the fastest growing costs for ALL businesses in Australia, especially small – medium business is freight. This includes freight costs from supplier to the wholesaler / retailer and from the retailer to the consumer, where for example goods are shipped to the consumer.

The key benchmark for setting freight rates in Australia, is a **100% Australian Government owned entity** – Australia Post.

Our submission is that the actions of Australia Post in recent years has detrimentally impacted the businesses and consumers it provides services for, and in particular small / medium business. Australia Post is not assisting Australian businesses to be competitive; in fact their consistently high levels of price increases (also a major factor and influence in price determination of the private sector competitors that is the couriers and freight handlers) are forcing business to become uncompetitive and potentially leading to more direct international purchases.

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Suite 154, 4/16 Beenleigh Redland Bay Road, LOGANHOLME QLD 4129 ☎ 1300 364 160 📠 1300 364 145 ✉ secretary@sclaa.com.au 🌐 www.sclaa.com.au

VICTORIA & TASMANIA
vic@sclaa.com.au

SOUTH AUSTRALIA
sa@sclaa.com.au

WESTERN AUSTRALIA
wa@sclaa.com.au

NEW SOUTH WALES
nsw@sclaa.com.au

ACT & SOUTHERN NSW
act@sclaa.com.au

QUEENSLAND
qld@sclaa.com.au

NORTHERN TERRITORY
nt@sclaa.com.au

The Competition Policy Review Panel should look very closely Australia Post which has increased the prices of Parcel Post satchels (500g and 3kg) by **over 60%** since 2009. They have also increased the prices of over the counter parcels and Express Post satchels, by a similar amount.

Parcels / Cartons and satchels are the way Australian companies send goods to other companies and to consumers. In certain circumstances they are forced to use Australia Post (where a private company cannot or do not service the area) or even if they contract to a private company numerous areas with Australia are only serviced by a limited number of carriers (including Australia Post) hence the private company needs to sub-contract to Australia Post in order for the parcel to be delivered. Excepting where a business has a concentrated market area, the majority of companies utilise a national parcel freight service system

To support our claims regarding Australia Posts history of price increases, we have been monitoring this and have retained a copy of the Australia Post price increase media releases since 2009. We are happy to provide these should you require it. Please note that Australia Post only retains the last price increase accessible on their website, so to monitor, as we did, each increase required extraction at the time of the increase.

For many years Australia Post had provided a competitive service which was less expensive than Courier Companies, and also provided a wider geographic coverage. Since 2011/ 2012, following the heavy Australia Post price increases and while, in certain geographical areas, Courier Companies are now less expensive than Australia Post, the overall costs of parcel freight remains far too high given the volumes transported.

As you are aware, the Australian Bureau of Statistics CPI increase, given the Australian and Global economy in the past 4 years (2009 – 2013) has been approximately 11.07% since 2009. Given the levels of Australia Posts price increase, **Australia Post has increased prices more than five times the CPI.**

Australia Post in their media releases and other commentary over the past 4 years has blamed the following for the price increases:

1. More delivery locations across Australia (i.e.: new suburbs etc)
2. The increase in Diesel prices
3. The declining letter volume, resulting in need to make up revenue elsewhere
4. Online Tracking ability on parcels and satchels, (i.e. new improved service)

Delivery Locations

While there may be more suburbs in new urban areas, we do not believe this is a major factor. The majority of growth in these newer suburbs is serviced well by current infrastructure and do not pose any significant imposition on transport access for smaller parcel delivery trucks. These days, with sophisticated routing systems, efficient scheduling and delivery planning and with the volumes being delivered these newer outer suburban areas are no more costly to service than other metropolitan areas. Country areas have not expanded geographically and most major regional centres have experienced growth and certainly the volume of parcels delivered to these areas has particularly grown given that consumers in these areas now enjoy the ability to purchase on-line and receive direct deliveries.

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nt@sclaa.com.au

Fuel

While our main submission area is Australia Post's competitiveness it is important to bring to attention a general freight practice that has been going on since fuel levies have been in place.

Diesel pump prices in 2009 and 2014 are very similar in cents per litre. <http://www.aip.com.au> The cost of fuel is recognised as a major transport cost factor and almost all companies have introduced a fuel levy to subsidise their line haul (long distance) transport costs. These levies are included in all invoiced transport costs and every time a fuel price increase is made the fuel levy increases proportionately and while all companies do adjust their fuel levy according to price fluctuations, (albeit not always within true time periods) hence fuel levy adjustments are made during a year and generally several times a year.

However, there are also the periodic general freight price increases made by transport companies (and these calculations do include the cost of fuel). They are negotiated (or in Australia Post's case just advised) and become fixed for a period (generally one year, but sometimes less). These increases should have no effect on the fuel levy calculations which are supposed to be independent. In simple terms a pricing methodology adopted by almost all freight companies is as follows.

The existing price as determined and a fuel levy is added on after as a percentage of that final price.

The levy may be adjusted up or down according the formula used to determine the levy cost during any period. Therefore any invoiced freight may have a total cost variable only when the fuel levy is adjusted.

A new base freight price is determined (to cover cost increases incurred by the transport company) and a price increase is made – thereby setting a new base level for the fuel levy percentage to be calculated.

Hence if a new price increase of say 10% is determined and the levy stays the same (that is there has been no fuel cost fluctuation) then the levy, by default of the calculation method, actually also increases by the same percentage.

Example

Old price = \$100 per tonne

Fuel levy at 14% = \$14.00 per tonne

Therefore total cost per tonne to consumer = \$114.00 per tonne

New price \$110.00 per tonne (10% increase)

Levy at 14% (levy retained as no change to fuel costs)

New levy cost = \$15.96

Therefore new total cost to consumer = \$125.96 per tonne

Given that the fuel levy is supposed to be independent in its calculations, the actual fuel levy – to maintain its correct relationship to the original price (before the price increase) should have been reduced from 14% of the total freight cost to 12.72% to achieve the same dollar value of the levy as required in the new pricing.

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act@sclaa.com.au

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nt@sclaa.com.au

The correct new cost to the consumer – until a new levy calculation is required – should have been \$124.00 per tonne (\$110 for the new freight plus \$14 for the levy retained at its outcome until a new calculation is required to adjust for fuel cost fluctuations). This practice has the effect of inflating transport costs above what they should be and as all increases are compound over time the overall freight costs have been allowed to be increased far more than they should.

Parcel Tracking

Originally introduced into Australia by a private transport company, and as a service designed to attract new customers, tracking has fast become a standard service offering for almost all parcel and most other freight transporters.

At its basic level, the system requires a unique barcoded record (generally numeric) to allow recording of the parcel's movement throughout its journey. At certain transport stage points, the bar code is read using a barcode reader and the point's location is made available on request to interested and approved parties.

Most private companies offer this service as part of their standard service offer and the associated costs are included as part of their offered basic transport fee. It has been in use by most transport companies for more than 10 years.

The tracking ability is new to Australia Post and they offer it as a service and in certain circumstances, at an additional cost and effort to achieve it upon request of the service from them.

What impact has this had on Australian Businesses and Consumers?

Australia Post are losing parcel business from bulk parcel consignors to Courier Companies, who can offer lower prices and offer a better service (albeit this is generally only to major cities, some major regional and rural areas, and not every remote rural location). However, the general public as well as smaller parcel consignors are still mostly forced to utilise Australia Post's services and Australia Post has not been competitive to this market.

In an interview with the ABC in 2011 the then External affairs General Manager Alex Twomey, Australia Post made the following statements (Extract from Kokadu report -2011)

..."We can't say it's surprising, but the number itself is far *greater* than we thought it would be. 70% of parcels going through Australia Post are generated from online shopping. We've seen a 10.9 per cent increase in parcel volumes through Australia Post last year," claimed Twomey, talking to the ABC, "a huge growth especially when we are considering the depressed nature of the economy and that's the global economy too, and the impact on the retail industry."

"..We are also seeing now for Australia Post over 70 per cent of our parcels are now generated by online shopping, which is amazing to think of because five years ago that just would not have been the case."

""...The local retail spend is down, and the amount of people coming into Post Offices across the country is also down, with more and more customers opting to communicate through other channels..."

"...While our internet is our letters business worst enemy, it is our parcels business best friend. It just keeps driving up our volume."

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sa@sclaa.com.au

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ACT & SOUTHERN NSW
act@sclaa.com.au

QUEENSLAND
qld@sclaa.com.au

NORTHERN TERRITORY
nt@sclaa.com.au

Australia Post has recently advised that they are reducing their letter delivery services to combat the costs. However, as we stated above, they have increased their parcel costs significantly even while admitting they are enjoying this huge increase to their parcel volumes.

The impact has been worse actually. With such a rapid increase in Australia Post parcels and satchels pricing, **Australia Post is price leading up the market** and allowing the Courier Companies to push their prices up more than they maybe would have or need to.

This also has overall competitive issues for Australian versus overseas businesses. We believe a 100% Australian Government owned entity, like Australia Post, should not be doing this and creating a situation where private company competitors can increase their prices and follow Australia Post. We believe there needs to be better laws governing how freight companies including Australia Post determine and manage their pricing methodologies and we believe a competitive oversight is required of Australia Post and other 100% owned Government entities. We believe there should have been a call for public comments by Australia Post prior to these non-negotiated price increases, particularly as they have resulted in increases more than five times the CPI.

Australia Post may have been surprised that some competitors have not increased prices as fast as they have, and they did not undertake the usual price increases in April 2014 and October 2014, as they usually do.

At an Online Retail conference in Sydney in November 2013, and a Director from Kogan Pty Ltd presented. He can ship a small package (Rubik Cube) from their warehouse in Shenzhen China (including packing, labour, air shipping and delivery) to **any residential address** in Australia for \$A1.40, whereas it costs him \$A7.50 for sending the same item (including packing and postage, but excluding labour) across the street or across the country inside Australia.

We realise international postal agreements will be a factor, but you can understand the quantum of the problem facing Australian businesses and consumers with the uncompetitive landscape Australia Post is providing and contributing to.

Australia Post introduced new services in late 2011 called *Click & Send* in partnership with Ebay.

<http://auspost.com.au/parcels-mail/click-and-send.html>

These 500g and 3kg satchels were released into the market at competitive prices, but soon after in 2012 Australia Post increased the price of the 500g product by a whopping \$1 (around 15%) and by a lesser yet substantial amount in the first half of 2013. The Australia Post increases were so aggressive and uncompetitive, that in October 2013, following complaints, they decreased the price by 20c to \$6.95. In April 2014, they increased the price again by 20c and in May 2014 by another dollar to \$8.20. This product is targeted at small retail business and are purchased **online** (customer or business prints consignment details and pays with credit card or Paypal).

This *Click & Send* product has tracking, but ONLY if you take it to an Australia Post outlet, queue up and have it scanned. This process could involve a queue at the Post Office for anything up to 25 minutes, depending if you are unlucky enough to get a bill payment or passport application in front of you.

The business can lodge the Click & Send satchel into a red Australia Post mailbox, but they don't get lodgement proof or lodgement tracking. They can also pay an extra service fee and Australia Post will collect from their premises.

So let's look at how uncompetitive Australia Post has become and how this will be hurting Australian businesses and consumers.

Please see attached spreadsheet (Attachment A) We have embedded this as well for ease of access:



Australia Post v
Couriers October 201

We have compared the pricing of Satchels and also cartons (22 kilo limit at Australia Post, and 25kg limit with couriers).

Couriers are up to 22.5% cheaper in the 500 gram market with a better 1 kilo product

Couriers are up to 52.24% cheaper in the 1kilo market

Couriers are up to 25.7% cheaper in the 3 kilo market

Couriers are up to 30.8% cheaper in the 5 kilo market

Couriers are up to 47% cheaper in the 22 kilo market with a better 25 kilo product and with tracking

Couriers also provide FREE insurance up to \$1500. Australia Post provides no insurance, unless an additional fee is paid and the insurance is limited. The process to claim on Australia Post insurance is protracted and takes many weeks if not months.

As you can see couriers, where it is feasible to do so, offer a better service, are significantly cheaper than Australia Post. The price delta is simply too great, and the couriers offer a better service in that they collect from the consumer / business premises, whereas with Australia Post you have to line up and lodge at a Post Office or red street post box (and lose lodgement tracking)

This competitiveness is not always available to smaller volume consignors and Australia Post may offer better contracted rates with high volume business customers, as do the Couriers, but the volumes that are being moved are not providing the economies of scale that should be apparent hence the lower volume users are not seeing any benefits of these volume increases.

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Australia Post have also led the weight breaks that almost all parcel carriers employ. Pre-paid satchels and other pre-determined volume/weight boxes are currently limited. Satchels and boxes have limited weight and cubic capacities and there are numerous instances where a person is forced to use a Satchel or box that is well above their needs hence they pay a cost not truly commensurate with the actual package being sent – pre-paid satchels are an example. You can purchase a 500gram a 3 Kg or a 5 Kg pre-paid satchel from Australia Post. These have set dimensions so if your parcel weighs 2 Kgs but is too large to fit into 3 Kg satchel then you have to either buy a 5 KG satchel or purchase a suitable box and these are also limited in their available sizes and the boxes available from Australia post are more expensive than similar boxes offered elsewhere. While a consumer can organise the lower cost materials, too often a consumer travels to a Post Office and makes the decision there and then on what method to send the parcel resulting in a purchase far more expensive than necessary. Australia Post does not offer any advice other than what Australia Post has to offer and as their offer is very limited it will almost always disadvantage the consumer.

Whichever way you look at it, we believe Australia Post has been irresponsible with their close to 60% increases in parcel and satchel rates since 2009. Worse, they are making Australia uncompetitive, contributing to excessive inflation and impacting on the disposable income of consumers and the profits of businesses. Their pricing actions are also leading up the prices of their private sector competitors. We would argue that they are also forcing small businesses who sell products of a lower shipping value, out of business.

The Supply Chain and Logistics Association of Australia (SCLAA) would welcome any comments from the panel and would be happy to answer any questions or provide more information.

As an independent body, we would be happy to become involved as supply chain experts and be included in any reviews or provide support to the panel and/or any subsequent review or analysis committees.

Thank you for the opportunity to submit to the Competition Policy Review Panel.

Yours Sincerely



Mark Skipper
National Chairperson
SCLAA

Yours Sincerely,



John Eleftheriou
National Director
SCLAA

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