



CONFERENCE OF ASIA PACIFIC EXPRESS CARRIERS

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# **Postal Services Modernisation Discussion Paper**

Submission by CAPEC

3 May 2023

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## 1 Introduction

This submission is made by the Conference of Asia Pacific Express Carriers (Australia) Limited (**CAPEC**), an industry association representing the interests of DHL, FedEx and UPS (together, **CAPEC Members**). Each CAPEC Member provides integrated express delivery services for documents, parcels and other items both domestically and internationally.

CAPEC welcomes the Department of Infrastructure, Transport, Regional Development, Communications and the Arts' (the **Department**) consultation process to modernise postal services in Australia, and transform the Australian Postal Corporation (**Australia Post**) into a more productive and efficient enterprise. CAPEC recognises that Australia Post provides a range of essential and valuable services to communities across Australia. However, the rise of eCommerce and digitisation of the economy has meant that Australia Post is increasingly operating in competitive markets where it enjoys unfair competitive advantages derived from its legacy position as Australia's designated postal operator.

CAPEC Members face significant competition in the delivery of parcels, in particular for eCommerce parcels and goods bought via online shopping platforms and delivered by Australia Post (including Australia Post's subsidiary, StarTrack Express Pty Limited). CAPEC Members embrace an open market in which its Members compete fairly with Australia Post. However, that competition must take place on a level playing field and be driven by strategic investment, innovation, high quality service and competitive pricing in the commercial parcel delivery market.

CAPEC submits that the following issues should be considered by the Department in its review into the modernisation of Australia Post:

- **Unsustainability of Australia Post's costs of meeting existing Community Service Obligations (CSOs)**

As identified in the Department's Discussion Paper, Australia Post's existing CSOs are no longer financially sustainable, and the cost of providing these services are expected to rise. CAPEC submits that reforms to the Australian Postal Corporation (Performance Standards) Regulations 2019 (**Performance Standards**), letter pricing arrangements and other operating costs could help to reduce the financial burden placed on Australia Post.

- **Opportunities to make Australia Post's financial arrangements more commercially rational**

In light of the unsustainable nature of this CSO, CAPEC also submits that the Department should focus on what CAPEC believes to be Australia Post's current uncommercial approach to parcel pricing. In CAPEC's experience, Australia Post often prices competitive parcel services well below levels able to be matched by commercial parcel operators, which CAPEC believes is driven by Australia Post's favourable regulatory position (see section 3). CAPEC considers that Australia Post's current approach is not appropriate or sustainable and should be examined by the Department in light of the significant losses that Australia Post incurs with respect to its CSOs. The Department could also consider changes to function and role of the ACCC's pricing regulation of Australia Post's reserved services to allow for greater cost recovery, as well as encouraging the Australia Government to pursue exemptions to existing Universal Postal Union (**UPU**) pricing regulations.

These matters are discussed further at section 4. CAPEC submits that these issues should be considered by the Department in its inquiry into the modernisation of Australia Post, and to ensure that it competes fairly in the commercial parcel delivery market. This will stimulate greater productivity and competition across the Australian economy, and in turn deliver efficiencies to consumers and businesses.

CAPEC further notes that on 24 February 2022, it submitted a complaint to the Australian Government Competitive Neutrality Complaints Office (**AGCNCO**)<sup>1</sup> in relation to Australia Post's compliance with Australia's competitive neutrality policy. This complaint is currently being investigated by the AGCNCO. The complaint highlights CAPEC's ongoing concerns regarding the regulation of parcel imports and exports, as well as other regulatory issues. CAPEC encourages the Department to broadly consider Australia Post's regulatory environment in its proposals for modernisation (for example, assessing how relevant customs legislation and authorities interact with Australia Post, and whether wider policy reform is needed to Australia's customs framework to ensure that Australia Post is able to operate effectively). Wholesale consideration of such regulatory environments will help avoid any unintended consequences and promote a more sustainable and efficient Australia Post.

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## 2 Relevant parties

### 3.1 CAPEC

CAPEC was established in 2000 as a non-profit organisation representing the interests of the world's leading air express delivery service companies and was incorporated in 2002. Through its Executive Committee, CAPEC works with government and regulatory authorities in Australia and New Zealand to further the interests of its members and the broader express carrier service industry.

CAPEC's members are DHL, FedEx and UPS.

#### **DHL**

DHL Express (Australia) Pty Ltd (**DHL**) is the Australian arm of the international courier, parcel and express mail services company operating in around 220 countries and territories.<sup>2</sup> DHL's services operate across four primary business units: DHL Express, DHL eCommerce, DHL Global Forwarding and DHL Supply Chain. DHL eCommerce provides standard domestic and international parcel pick-up, delivery and return solutions for business customers as well as e-commerce logistics and facilitation services. DHL Express provides express parcel and package services, along with shipping and tracking services.

#### **FedEx**

FedEx Express Australia Pty Ltd (**FedEx**) is the Australian subsidiary of the international express shipping and transport company, Federal Express Corporation (**FedEx Express**), operating in around 220 countries and territories. It provides customers with a range of transportation, e-commerce and business services.<sup>3</sup>

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<sup>1</sup> Further information about the AGCNCO's competitive neutrality investigation into Australia Post can be found here: <https://www.pc.gov.au/competitive-neutrality>

<sup>2</sup> DHL is a division of German post and logistics company Deutsche Post DHL.

<sup>3</sup> FedEx, *About FedEx*: <http://www.fedex.com/in/about/>

Further, the global TNT Express business was acquired by FedEx Corporation in May 2016 and now operates under the FedEx Express' business unit.

### **United Parcel Services (UPS)**

UPS Pty Ltd (**UPS**) operates in more than 220 countries and territories<sup>4</sup> and provides delivery, specialised transportation, logistics, capital and e-commerce solutions.

Each CAPEC member provides international courier pick-up and delivery services, which involves the collection of packages from vendors' premises outside of Australia and the delivery of the packages directly to the premises of Australian customers.

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## **3 Australia Post's competitive advantages in the parcel delivery market**

Over the past 10-15 years there has been a significant change in postal markets as volumes of letters have fallen, while volumes of parcels have grown significantly in line with growth in eCommerce. As noted in the Department's Discussion Paper, "*Australia Post delivered more than half a billion domestic parcels in the 2021-22 financial year, with parcel volumes in 2022, 69 per cent higher than they were before the COVID-19 pandemic*". With the decline of its reserved services, it is clear that Australia Post will increasingly seek to rely on its parcel delivery services. Australia Post has now firmly moved into parcel delivery, and competes directly with commercial parcel delivery operators including CAPEC Members. This has been accepted by the Department, who has noted that, "*almost 80 per cent of Australia Post's revenue is now derived from openly competitive domestic markets*".

CAPEC believes that Australia Post's regulatory exemptions and differential treatment which is derived from its status as a GBE means that it does not compete on an even playing field in the parcel delivery market with CAPEC Members or other parcel delivery businesses. Most importantly, as identified in its complaint to the AGCNCO, CAPEC is concerned that Australia Post is not required to comply with equivalent reporting requirements that apply to CAPEC members for the import or export of parcel deliveries. Depending on the value and weight of certain parcels, Australia Post is able to access a less onerous reporting regime.

Another issue is Australia Post's use of its postal letters network (being the infrastructure that Australia Post uses, such as post offices, post boxes etc) that was historically used solely for the delivery of letters. This network is now deployed by Australia Post for parcel delivery, which as noted above, forms the vast majority of Australia Post's revenue. Again, this is a legacy advantage that commercial operators are unable to compete with.

For the reasons outlined in its submission to the AGCNCO, CAPEC considers that Australia Post does not comply with the competitive neutrality principles that are articulated under the Commonwealth's *Competitive Neutrality Policy Statement*.<sup>5</sup> The concerns CAPEC has raised are live issues which are currently affecting CAPEC member's ability to compete fairly with Australia Post. CAPEC submits that the matters it has identified in its complaint to the AGCNCO should also be considered by the Department in the context of any proposals to modernise Australia Post.

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<sup>4</sup> UPS, *UPS Facts – Worldwide*: <https://www.ups.com/content/au/en/about/facts/worldwide.html>

<sup>5</sup> Commonwealth Competitive Neutrality Policy Statement, June 1996: <https://treasury.gov.au/sites/default/files/2019-03/cnps.pdf>

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## 4 Proposals to modernise Australia Post's operations

### 4.1 Unsustainability of Australia Posts' costs

#### (a) Changes to Australia Post's regulatory framework

CAPEC appreciates that the CSO costs imposed on Australia Post are primarily derived from its obligations to meet the Performance Standards, which relate to the speed, frequency and accuracy of delivery for reserved services, amongst other requirements. We understand that Australia Post estimates the cost to comply with these CSOs obligations was approximately \$348.3 million in 2021-22. The fact that Australia Post has not been able to sufficiently raise prices to recover the cost of its reserved services (and its likely inability to do so in the future),<sup>6</sup> is indicative of the difficulties faced by Australia Post to continue to meet its CSOs.

CAPEC agrees with the Department's view that "*amending letter delivery Performance Standards to reflect current and future usage, and changing letter pricing to reflect the actual cost to Australia Post of providing letter services, can support Australia Post's financial sustainability...*". CAPEC supports regulatory and legislative changes to Australia Post's Performance Standards that will promote more efficient service delivery that reflects changing consumer needs. This could include, as identified by the Department, adopting similar arrangements in foreign jurisdictions (such as Italy's Poste Italiane or New Zealand's NZ Post) to change mail delivery frequency. Such regulatory and legislative changes are one means by which Australia Post is able to reduce the cost of complying with its CSO obligations.

#### (b) Cost allocation methodology

Further, CAPEC submits that the methodology for assessing Australia Post's CSO costs should also be modernised. CAPEC understands that the \$348.3 million associated with complying with its CSOs is calculated according to a fully distributed cost (**FDC**) methodology. The FDC distributes all attributable costs incurred among all of Australia Post's products and services, including key CSO activities: letters services, retail network and carriage of international mail. Australia Post's 2022 Annual Report<sup>7</sup> states that "*in accordance with AASB 8 Operating Segments, segment information is not required as Australia Post's equity and debt instruments are not traded in a public market, nor does the Australia Post file the consolidated financial report with a securities commission or other regulatory organisation.*"

Because of the lack of transparency related to Australia Post's segment reporting in the financial accounts presented in its annual report, it is not possible to clearly identify how internal prices are costed between Australia Post's reserved services and its commercial parcel delivery services. CAPEC submits that transparent accounting of these pricing arrangements will help to more accurately define how Australia Post's CSOs costs are established.

#### (c) Streamlining Australia Post's regulatory and security compliance

CAPEC also encourages Australia Post to adopt innovative reporting processes, such as advanced electronic data (**EAD**), that improve reporting by requiring sender details to be electronically reported with goods. Electronic reporting is an efficient way to collect and monitor

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<sup>6</sup> ACCC, 'Decision on Australia Post's 2022 price notification', December 2022: <https://www.accc.gov.au/system/files/ACCC%20decision%20on%20Australia%20Post%20price%20notification%20-%20December%202022.pdf>

<sup>7</sup> Australia Post, 2022 Annual Report, p 108: [https://auspost.com.au/content/dam/auspost\\_corp/media/documents/2022-australia-post-annual-report.pdf](https://auspost.com.au/content/dam/auspost_corp/media/documents/2022-australia-post-annual-report.pdf)

data that is required for customs clearances. In addition, EAD reporting helps set a higher security threshold for imported goods as the sender details are known; CAPEC notes that accessing data is a critical issue for regulatory agencies such as the Australia Border Force. This type of data reporting is increasingly being mandated globally, including in the US and EU. Introducing legislation that can appropriately enforced and monitor EAD requirements is one way of ensuring that the public policy objectives of a more efficient reporting regime and security benefits of EAD can be realised.

#### **(d) Other efficiency proposals**

CAPEC also notes that other strategies such as reducing labour costs, process optimisation and automation, and improving labour productivity and resourcing can also lead to a more sustainable Australia Post. CAPEC submits that the recommendations contained in the Auditor-General's "Australia Post's Efficiency in Delivering Reserved Letter Services" report<sup>8</sup> regarding efficiency improvements should be adopted.

### **4.2 Changes to Australia Post's financial arrangements**

#### **(a) Australia Post's parcel and letter pricing**

As outlined in section 3, CAPEC members compete regularly with Australia Post in the supply of parcel delivery services. As a result of this competition, CAPEC members have a good understanding of Australia Post's approach to competition and pricing. Based on this experience, CAPEC believes that Australia Post often prices competitive parcel services well below levels able to be matched by commercial parcel operators. CAPEC believes that Australia Post's ability to price at such low levels is driven by Australia Post's favourable regulatory position.

CAPEC considers that Australia Post's current approach to pricing in these competitive markets is not appropriate or sustainable and should be examined by the Department in light of the significant losses that Australia Post incurs with respect to its CSOs.

CAPEC urges the Department to consider directing Australia Post to operate its commercial parcel business in a more rational way and price its services in a more commercial manner. By charging more appropriate commercial rates for these services, Australia Post would be better positioned to offset the cost of meeting its CSOs.

CAPEC further submits that the function and role of the ACCC's pricing regulation of Australia Post's reserved services could be amended to permit greater cost recovery. Under current arrangements, Australia Post must notify the ACCC of any proposed price increases for its "notified" reserved services under the *Competition and Consumer Act 2010* (Cth). The ACCC then assesses the pricing proposal and makes a decision to object, not object or to not object to an increase at a lower rate. As part of its CSOs, Australia Post must provide services that are "reasonably accessible" under section 27(4) of the *Australian Postal Corporation Act 1989* (Cth) (**APC Act**), which implicitly means that Australia Post is restricted in how much it can seek to raise the prices of its reserved services through the ACCC price notification process. Again, reforms to the APC Act can help lift the restrictions on Australia Post's ability to raise revenue whilst still meeting its CSOs. As mentioned by the Department, Australia Post maintains comparatively low prices for its notified reserve services, and there is scope for these prices to be lifted.

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<sup>8</sup> The Auditor-General ANAO Report No.11 2017–18 Performance Audit, "Australia Post's Efficiency in Delivering Reserved Letter Services": [https://www.anao.gov.au/sites/default/files/ANAO\\_Report\\_2017-2018\\_Report\\_11a.pdf](https://www.anao.gov.au/sites/default/files/ANAO_Report_2017-2018_Report_11a.pdf)

## (b) UPU pricing arrangements

In addition to the potential reforms to Australia Post's domestic letter prices, CAPEC also understands that Australia Post is able to undertake a process of applying to increase the prices it can charge for domestic and international parcel delivery services provided to other postal operators under the UPU regulations. Although the UPU frameworks sets out the general principles for charging fixed rates for parcels (and letters)<sup>9</sup> to other postal operators based on certain formulas.

Article 33 of the UPC sets out that where parcels are exchanged between two Designated Operators (DO) in different countries, the country receiving the package is entitled to an 'inward land rates' calculated by combining the base rate per parcel and base rate per kilogram laid down in the RC.<sup>10</sup> The "base rate" can be increased either on the basis of inflation,<sup>11</sup> or otherwise a DO can request a review by the Postal Operations Council and/or International Bureau.<sup>12</sup> A DO is also eligible to increase their base rate by up to 40% on the basis of delivery of certain service features such as home delivery, tracking delivery standards and the use of IBIS to manage inquiries.<sup>13</sup>

CAPEC also notes the exemption of the United States of America from UPU mandated rates, which highlights that it is possible for member countries to seek amendments to the UPU regulations that permit a more cost reflective parcel delivery service.

Noting the above, CAPEC submits that the Australian Government should seek to pursue changes to Australia Post's pricing regime for its international and domestic parcel deliveries under the UPU framework that would allow Australia Post to generate revenue on a commercial basis.

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## 5 Conclusion

CAPEC encourages the Department to modernise the regulatory and policy framework for postal services in Australia to ensure that Australia Post is fit for purposes, and the costs associated with Australia Post's CSOs are minimised while meeting the needs of community expectations. In addition to such wholesale reform, CAPEC also urges the Department to consider whether changes can be made to Australia Post's financial arrangements to place it on a more sustainable commercial footing.

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<sup>9</sup> See under Section 3, Article 15.5 and Section 5, Articles 27 and 33 of the Universal Postal Convention (UPC): <https://www.upu.int/UPU/media/upu/files/aboutUpu/acts/03-actsConventionAndFinalProtocol/conventionAndFinalProtocolAdoptedAtAbidjanEn.pdf>

<sup>10</sup> Article 33 UPC.

<sup>11</sup> Article 33-202.1 Regulations to the Convention (RC): <https://www.upu.int/UPU/media/upu/files/aboutUpu/acts/03-actsConventionAndFinalProtocol/conventionAndFinalProtocolAdoptedAtAbidjanEn.pdf>

<sup>12</sup> Article 33-202.5 RC

<sup>13</sup> Article 33-201.4 RC