Postal Service Modernisation

Team Global Express Submission

27th of April 2023

TEAM GLOBAL EXPRESS

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1. Directory of Stakeholders

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2. An Executive Summary

Team Global Express sincerely appreciates the opportunity to make a submission to the Government in relation to the strategic review of the modernisation of Postal Services in Australia.

Team Global Express deeply respects the role that Australia Post plays in communities across our nation, particularly in Regional and Rural Australia, by Community Post Offices and Posties, who play a significantly broader role than just supporting Letter deliveries. We also agree with many of the assertions the Government makes in its Discussion Paper, regarding the importance of ensuring Community Post Offices remain viable, supporting the development of ecommerce and economic growth in Australia and developing a strategy for Australia Post that enables it to remain sustainable for the future.

Team Global Express believes that enabling open access to the Letters Last Mile Infrastructure, particularly in Rural and Regional Australia, to any parcel provider at a fair and transparent price, would deliver significant economic and social benefits to all stakeholders, creating a stronger Australia and a more sustainable Australia Post.

Economic analysis by Lateral Economics on the positives of opening access to Community Post Offices and Letter Last Mile Infrastructure in Rural and Regional Australia, evidences that there would be over a $1.5bn net benefit in adopting this strategy over ten years.

The social and financial benefits are compelling, opening access would provide a critical revenue stream towards the costs of delivering letters and protecting existing community services, it would enable important investment, stronger competition and the provision of new services in Regional Australia, delivering improved parcel delivery standards at better pricing for small businesses and households. It would support a significant growth in ecommerce across the country without requiring the Government to risk important funds and not least it would play a major role in reducing carbon emissions, whilst improving productivity.

Consumer research by Freshwater Strategy further evidences the importance of providing open access, particularly to Community Post Offices, which are owned by Mums and Dads across the country. 71% of respondents agreed that making their Post Office a central hub to receive parcels from multiple companies will ensure the Post Office can continue to serve my local community and 72% of all respondents stated they would mind if their local post office closed. In Rural and Regional the importance of the Community Post Office was even greater, with 100% of respondents believing they are important and 66% stating they would prefer a delivery to a local post office if it could be delivered at a slightly lower cost as opposed to delivering to their home.

Many Community Post Offices have sought approval to work with other Domestic Parcel Providers, to generate important new revenue streams and not be left marginalised by alternative drop off networks to them. Domestic parcel providers, including Team Global Express, have requested access from Australia Post to Community Post Offices at a fair and transparent price. To date Australia Post's management have not agreed to this, stating it is their competitive advantage in parcel deliveries, to utilise the Last Mile Letter monopoly Infrastructure. This is despite Australia Post themselves utilising alternative networks in direct competition to Community Post Offices and recognising that their sustainability is threatened.

By creating a barrier for any Domestic Parcel Providers to efficiently serve consumers in the last mile, Australia Post has effectively created a monopoly in parcel deliveries to consumers, securing circa a 70-80% market share. This is having a devastating impact on the development of parcel services in regional Australia, where customers and small businesses are disadvantaged by slower delivery times and higher prices, compared to their metro competitors. Locking out domestic providers in Rural and Regional Australia has stifled investment and appears to have caused a lag in the development of ecommerce there.

Team Global Express recognises that Australia Post does have significant financial challenges and that, without change, the sustainability of their business is threatened.

However, the financial results of Australia Post suggests that their prime issue is not the cost of supporting their community service obligations or delivering letters. Letter revenues fell less than 1% between FY2021/22, the reported letter losses were just $14m greater than two years earlier and the cost of providing their Community Service Obligation was only 4% of their revenues. The letter losses reported by Australia Post, also appear to indicate no benefit of the utilisation of the letter network from subsidising their parcel deliveries with Posties. A modest assessment of the benefits derived by the letter network, if proportioned commercially, would indicate the Letter Infrastructure is not loss making.

Analysing Australia Post's results further suggests that their profitability issues appear to be in the provision of Parcels and Services, the costs of which appear to have exploded over the last two years, with costs to external contractors alone growing by $1.4bn or 41%, outpacing their growth in Parcel and Services revenues, this is despite utilising the letter network to subsidise a significant proportion of their parcel delivery costs. The facts are that Australia Post has grown Parcel and Services revenue by $1.7bn in the last two years but have failed to deliver any additional profits by doing so, instead Profits have shrunk.

Team Global Express strongly encourages the Government to carefully assess what is driving the financial performance of Australia Post, before any decisions are made to reduce community obligations and damage the important letter infrastructure.

Postal reforms in many other countries provide good examples for how the Community Service Obligations can be reserved and not cut, whilst building profitability. Swiss Post for the past 6 years has been voted the highest performing Post Office in the World, by the Universal Postal Union (UPU). They have protected their community letter services, proudly offering faster letter deliveries and a higher density of Post Offices per capita, than any other European Postal Operator. They enable open access to their networks to other parcel providers and utilise the benefits from other services to support the financial sustainability of their network.

The benefits of opening access to the Letter Last Mile Infrastructure are considerable for all stakeholders, but particularly for those in Rural and Regional Australia. The pathway for the Government to enable open access to the Letter Last Mile Infrastructure is not cumbersome and simply requires the Minister to direct the Australia Post Board to negotiate an access agreement with any competitor, in the best public interest.

3. Understanding the Australia Post Issue and Important Considerations

Building a strategy to protect and grow the long-term sustainability of Australia Post.

Team Global Express welcomes this important review by the Australian Government and particularly the opportunity for all Australians to be able to comment and provide suggestions.

Team Global Express is responding to this consultation process with the intent to **support the future success of Australia Post, which we believe could play a greater role in building economic growth, particularly in rural and regional Australia.**

Team Global Express agrees with many of the assertions in the Government's Discussion Paper, particularly in the importance of the services Australia Post provides. We especially support the role of the Postie network and Community Licensed Post Offices, which represent 95%+ of Australia Post's Community Service Obligations for Post Offices in Regional and Rural Australia and are critical infrastructure supporting these areas.

Team Global Express also agrees with the Government that Australia Post needs a strategic review, change must be secured with modernisation to ensure the long-term sustainability of the organisation. To inform this strategic review it is important to understand the drivers of the recent deterioration in Australia Post's financial performance, reflect upon the contributions of the Letter infrastructure to the broader business and review the competitive dynamics in the unregulated parcels business, to ensure an effective strategy can be developed.

Understanding Australia Post's Performance

The recent financial results of Australia Post highlight the magnitude of the challenges. In the **second half of FY2022, the organisation made its greatest operating loss* (with the exception of 2015**), at the same time Australia Post failed to meet letter delivery standards. A significant amount of coverage around this review suggests Australia Post's prime issue is due to a slow-down in letters and the opening commentary in the briefing document provided for this Government Review, suggests the outlook for letters is very bleak. Whilst we agree Australia Post has operating challenges, and letters will decline in the future, **Australia Post's recent results suggest letters is not their prime issue**. It is important to seek clarity on what is driving the growth in losses, how big is the impact of Letter losses really is when all the benefits of utilising the letter network for parcels and other services are considered, in order to build an effective strategy to address Australia Post's challenges and to ensure critical parts of our nation's infrastructure are not destroyed.

The attached Charts (3.1 and 3.2) include information provided by Australia Post, either in its submission for a price increase to the Australian Competition and Consumer Commission (ACCC) in October 2022, or in the FY 2022 Annual Report; all these sources are publicly available.

Charts 3.1 and 3.2 questions the extent to which Australia Post's economic challenges are caused by Letters or **by their Parcels and Services business**, given the relatively small proportion of Community Service Obligation (CSO) costs, are compared to Group revenue (less than 4%) and the level of combined post and parcel operations and shared costs.

Undoubtedly in the past decade the decline in Letter volumes has accelerated by digital adoption and the impact of COVID-19. The Letters business, however, remains extremely

*2015 Australia Post report a significant loss due to a substantial increase in write down, impairment and restructuring costs important to many Australians, especially small businesses, generating almost $1.8bn of revenue in 2022. All should be done to nurture and defend this business, as opposed to dilute it. The fact, 97% of letters sent today are from businesses and not consumers, is a trend that has been the same for many years, if not decades.

Letter revenues fell less than 1% between (FY21/FY22) and there are compelling factors which suggest that even if they fall this year, **future falls in Letter revenues may not be as high** given a number of State and Federal Elections, a planned referendum, coupled with a further 10c or 9% increase in the basic stamp price being agreed from January 2023. The UPU (Universal Postal Union) included in their UPU 2022 Postal Development Report, evidence that "Global Post volume declines are easing" and structural declines in domestic letter volumes are slowing down for the first time in a decade. The UPU reported that in "2021 the largest letter-post markets in the world were close to a turning point and could soon benefit from an easing of their volume declines". The UPU analysis and the upcoming political voting activities, both question the Australia Post forecast that letters volumes are likely to decline by a further 50% in the next five years as suggested in the Discussion Paper.

Chart 3.1 evidences that in 2022 letter revenues did not fall materially, the losses in 2022 were just 6% greater than those in 2020. Since January 2020, Australia Post has secured two Stamp Price increases, totalling 20c. And 10c of this benefit is not yet reflected at all in these results. Furthermore, in FY2020 the cost of the CSO was reported as $393m, in FY2022 this is reported as $348.5m. In 2022, the CSO represented less than 4% of Group Revenue, as opposed to over 5% in 2020. This suggests, especially in light of a further Basic Postal Rate (BPR) increases, that the burden of the CSO is reducing as a proportion of Australia Post's business, as opposed to increasing and threatening the sustainability of this important network.

Reflecting on the contribution of Letters infrastructure to the broader business

The Letters and Parcels businesses share operating costs. In January 2020, when a 10c BPR increase was secured, taking the Basic Stamp Price to $1.10c, Australia Post committed to continue to subsidise the cost of the "Letter" network by increasing the number of parcels delivered by Posties as opposed to passing the work from increasing parcel volumes to outside contractors, and committed to investing in three-wheel vehicles enabling Posties to safely carry up to six times more parcels, than on their motorbikes. The intent of this was to protect the role of the Posties and other community services. Australia Post further invested in over 2,000 additional vans to enable some Posties to carry up to fifty times the volume they had previously. These investments were made to support further subsidisation of the Letter infrastructure and to support the growing parcel demand.

If a Postie carries a parcel as opposed to passing it onto an external contractor there is a cost saving. However, although Parcels have grown significantly in volume over this period, no subsidisation benefits of Posties carrying more Parcels, or growing other services, are apparent as being recorded against the cost of the letter infrastructure. Considering the high growth in parcels, these subsidisation benefits could be significant. Parcel and Services Revenues have grown by 31% over 2 years or by $1.7bn to a total $7.2bn and the Government Discussion Paper highlights over 500m parcels were delivered in FY2022. If 50% of the parcels were delivered by Posties, as was reported in FY2020, the subsidisation benefit to the Letter network costs, could significantly outweigh the losses reported in letters. For example, a very modest assumption of $2 per parcel, would add over $500m in contribution to the letter infrastructure.

The subsidisation impact must be clarified to understand the real contribution of the Letter network, as opposed to comparing the cost of running the Letter network and the revenues generated from just letters. This is also important to reduce the risk of damaging other important revenue streams, for example Post Office Boxes; reducing letter standards impacts the appeal of this service, they are predominantly used by small businesses, and is one of

Australia Post's most profitable products and an important parallel income stream for Community Licensed Post Offices. Understanding where contribution is being generated is critical for developing the correct strategy and ensuring the Nations assets are protected and not destroyed.

It is also important to understand the subsidisation impact to ensure the correct focus is given to Australia Post operating their Parcel and Services business efficiently. As highlighted in this section earlier, both the excessive increase in third party entity costs, i.e., Supplier costs and the high level of subsidisation benefits the Australia Post Parcel business is securing from utilising the letter infrastructure in Regional and Rural Australia, appear to both be masking what is the real profit or losses generated from their Parcel and Services business.

Chart 3.1 also illustrates that although Australia Post added $700m million in Parcel and Services revenues in FY2022 several of their costs outpaced this revenue and grew faster. The main driver of the cost increase is "Suppliers Costs", a significant proportion of these are payments to external contractors for delivering parcels. Over the 2 years, these costs have grown by $1.4bn, or 40%, yet Parcel and Services revenue growth is 31%. If the Suppliers Costs had grown in line with parcel and services revenues over the 2-year period, this would have added almost $350m in increased profits in FY2022 the business would have grown profits not halved them.

Irrespective of what is causing the significant increase in Supplier Costs, it does not appear this is caused by letters.

Chart 3.2 is a breakdown of Australia Post's half year results between FY2020 and FY2022 highlights that in H2 FY2022 alone, the reported Australia Post Group losses were greater than the reported growth in letter losses for the full year. This supports the assessment that it is not letter losses that are primarily threatening the future of Australia Post.

In February 2023 Australia Post reported that "Group Revenues at $4.69 billion, down 2.4 per cent from 1H22, is largely driven by an ongoing decline in letter volumes". This statement could be misunderstood to suggest letter volumes are causing the financial stress in the organisation, which appears unlikely. In the same release, Australia Post states "Parcels and Services revenue during the half was $3.80 billion", a 1.6 per cent decrease from the first half last year" equating to a $60m fall. **Even a modest fall in Parcel and services revenues, in this period, suggests a greater fall in volumes**. Almost all delivery companies worldwide have experienced fuel price increases over the comparison periods, and these cost increases are typically directly passed on to customers as Fuel Surcharges, giving no benefit to margins, but they inflate revenue growth compared to volume growth. Understanding the impact of Fuel Surcharges and volume changes in the period, and again understanding how costs and benefits are apportioned, is critical to ensure the correct strategy is adopted.

Given the major role Letter infrastructure plays in supporting Parcels and other Services, such as Bank@Post, PO Boxes, and Identity services, it is critical to distinguish between the economic loss from the decline in letter revenues and the total contribution from the letter infrastructure in this review. Starting with the premise that Letters are significantly undermining the economic viability of Australia Post, could prompt a conclusion, just as the BCG review did in 2020, that Letter standards should be cut, and prices increased further. The 2020 BCG recommendations to protect the sustainability of Australia Post included reducing the frequency of Letters deliveries, to extending delivery times and closing Post Offices; if they had been implemented, they would have had a devastating impact on Communities across Australia through COVID.

Team Global Express also strongly supports the Discussion Paper's suggestion of the growing need for Australia Post to support the deliveries of Parcels across the country.

Team Global Express believes that the best way to do that is for the Letter Last Mile Infrastructure of Australia Post to be opened to enable other Parcel providers to access it. This would have many significant benefits, including further subsidizing the Letter infrastructure and protecting letter services; enabling Australians to have access to more parcel services - offering more competitive prices, speed of deliveries and a broader choice in options of sizes of parcels which could be sent; increased investment in technology; reduction in carbon emissions, waste, and congestion. As has been proven with the opening of several other monopolies; the incumbent, in this case Australia Post, would improve in profitability and address its losses in other areas.

There are over 170 other countries in the world offering Postal Services; all of these are facing similar structural changes to Australia Post. As highlighted on page 14 of the Government's Discussion Paper, other countries have already adopted Postal reforms, and much can be learnt from them. Of the 5 countries selected to be highlighted on page 15 of the Discussion Document, only 2 of these are in the top 10 in excellence as ranked by the United Postal Union (UPU) in their report released in 2022.

The top 5 Postal Organisations in excellence as ranked by the UPU, are:

1. Switzerland
2. Germany
3. Austria
4. Japan
5. France

The top 5 countries identified by the UPU, enable other Domestic Parcel Providers to utilise their Letter Last Mile Infrastructure. By doing so they protect their community service obligations and delivery standards rather than reduce them, they support the viability of their Community Post Offices from unnecessary competition, they provide important extra income to subsidise the costs further of their letter infrastructure and importantly they maintain very high consumer support.

4 of these 5 Postal Organisations today offer a broader range of Financial/Banking services than Australia Post does. They use the profits from these services to help subsidise the costs of their letter infrastructure, particularly Community Post Offices. The one Postal Organisation which does not, Germany - Deutsche Post, did many years ago and the profits from this helped support their investment in building an international express parcel business, which today is a prime contributor to profits.

Switzerland – Swiss Post, voted 6 years in a row, the highest-ranking Postal Organisation in Excellence in the world by the UPU, recently announced its own strategic review. The Postal Organisation remains very profitable. The review is covered in their 2022 Annual Report and highlights:

- Swiss Post delivers letters more punctually and more regularly than any other Post Office in Europe.
- It has the highest concentration of Post Offices per 100,000 citizens in Europe.
- Their strategic review is doing everything it can to protect these community service obligations and not reduce them.
- They receive no payment from the Government towards their Community Service Obligations, instead they self-fund the costs.
- They are not allowed to cross subsidise the cost of delivering competitive services, i.e., Parcels or Financial Services, with the benefits from their monopoly infrastructure, which would give them an unfair advantage, in order to ensure their services, remain truly competitive to the open market.

Reviewing the competitive dynamics in Parcels

The Government's Discussion Paper highlights that Australia Post has over 70% share in the B2C Parcel market which limits the availability of substitute products and creates barriers for competitors to enter the marketplace. It is important to understand the competitive dynamics, reasons for Australia Post's high level of market power and the implications.

By utilising the letter infrastructure for their parcel deliveries, Australia Post has the ability to deliver parcels in the Last Mile at a lower cost than any other domestic provider, as a significant proportion of the parcel delivery costs are subsidised by the Letter infrastructure. In contrast, other Domestic Parcel Providers have to pay the full cost of the delivery and build out a second Last Mile Network to remote places. The low customer densities in rural and regional Australia make it economically unattractive for a third-party provider to replicate Australia Post's Last Mile Infrastructure, as doing so, would produce poor returns, as well as undermine the economic performance of the Community Post Offices, which are already financially challenged. This creates a significant barrier to entry, and it is likely will not change if other Domestic Parcel Providers continue to be denied the same ability to access the Letter Last Mile Infrastructure as Australia Post's own parcel business, particularly in rural and regional Australia.

Australia Post have not enabled other Domestic Parcel Providers to have access to the Letter Last Mile Infrastructure, arguing it is their competitive advantage in the Parcel market. This could be considered in conflict to competitive neutrality laws. Australia Post's approach to allowing access, is for an alternative provider to pass their deliveries to them at point of origination, i.e., at the very first stage of delivery. The consequence of this for any alternative Domestic Provider, is that their service could only ever be as good and likely slower and more expensive than Australia Post's, as they would be required to add at least an extra leg in their delivery journey. This approach creates duplication of assets, is grossly inefficient, generates wasteful carbon and does not encourage investment.

Australia Post do not have an extensive linehaul capability, unlike some other Domestic Parcel Providers, and consequently Australia Post regularly passes their volumes to other providers of their choice, such as Qantas for the middle mile, and they then pick up again in the last mile. The implications of this are that a Domestic Parcel Provider passing parcels to Australia Post just to be able to access Last Mile Infrastructure, such as Post Offices for drop off, would in effect duplicate their own network, which consequently makes the Australia Post proposition untenable. In effect Australia Post's actions, by not allowing Last Mile access, create a significant and unfair barrier to entry.

Australia Post does provide access to their network to Parcel Delivery organisations that are owned by foreign postal entities, in agreement with their UPU membership. Some of the world's largest international competitive parcel companies are owned by foreign Post Offices. For example, DHL, who is a large parcel competitor in Australia, are owned by Deutsch Post. DHL have invested heavily in cross border parcel capability and in major cities for their own deliveries but have less regional infrastructure. However, as they are owned by an International Post organisation, they are able to benefit from and secure access to Australia Post's regional network at commercial rates, privately negotiated. Team Global Express deeply respects DHL, this arrangement though further disadvantages other Domestic Parcel Carriers and does very little to encourage investment in Regional Australia or provide improved services there.

As the Discussion Paper highlights, the Australian Parcel market is highly competitive, but this applies to metro areas and not to Regional and Rural Australia. If one operator is able to control important national infrastructure in Regional Australia for their own advantage, the level of fair competition there is minimal.

While it may be possible for an alternative Parcel Delivery provider like Team Global Express to invest in a rival community network in some regional locations, this is likely to only apply to high traffic routes to justify the investment. This is the current reality in this market, with the competing network (Hubbed) focussed on metro areas and high traffic regional locations.

As an example, without access to the post office network, an out of home (OOH) delivery by a third-party provider to Charters Towers in Queensland will need to be dropped off at Ayr, which is 164km away and some two-hours' drive. A customer would have to embark on a four-hour roundtrip to collect their parcel. If third party providers were enabled to use the post office located within Charters Towers for their parcels, the customer's journey could be reduced to less than ten minutes.

> ***"The limited availability of alternatives for the fast and reliable delivery of parcels between regional and remote areas means that for many businesses operating outside of metropolitan cities, Australia Post's delivery infrastructure is essential".***
>
> – Deloitte Access Economics 2020

The consequence of this market dynamic is that the market is not competitive and the provision of affordable and reliable parcel services to regional, rural, and remote Australians are being compromised. Australia Post's exclusive access to monopoly infrastructure (postal delivery services) for parcel delivery services, has led to Australia Post being seen as the only viable provider, as noted by Deloitte Access Economics in 2020:

This low level of competition has significant negative risks for regional and rural Australians, including:

- reducing service levels and choice for regional and rural customers and businesses for parcel delivery services;
- undermining the sustainability of Community Licensed Post Offices and Community Postal Agents;
- increasing carbon emissions of parcel delivery services as a whole;
- reducing the efficiency and productivity of the Australia Post business and
- not enabling customers in rural and regional Australia to have choice or create resilience for their business, as they are solely dependent on one provider.

In recent years the devastating impact of natural disasters and COVID 19 has evidenced for many businesses the important need to create resilience in their supply chains and not become overly dependent on just one provider to move their supplies across the nation. The lack of choice in parcel delivery services in regional and rural Australia due to Australia Post's market concentration is a significant risk to small businesses located there. For example, in April 2021, Australia Post decided unilaterally that it would no longer carry perishable goods through its network. The decision sent shock waves through small businesses in regional and rural Australia, who solely depend on Australia Post due to the lack of choice. A truffle farmer from Victoria noted that more than half her business came from online sales and the ban would devastate her business. For a NSW cheesemaker, who had decided to take his business online due to the disruptions caused by COVID19, the ban would have ended the viability of his business. The ban was overturned due to public and political pressure, including by the Australian Small Business and Family Ombudsmen. If there were alternative parcel delivery companies in these communities, the risk of such a damaging unilateral decision would be wholly mitigated.

Summary:

The Discussion Paper seeks feedback on reducing Community Service Obligations including letter deliveries, but specifically does not address the opportunities that Open Access could bring, nor does it reflect the significant differences of services in metro areas to those in Rural and Regional communities. The Discussion Paper highlights the very important role Licensees, owned and funded by Mums and Dads, provide to Australia Post; specifically securing 95%+ of Australia Post's Community Service Obligation to provide 2,500 Post Offices in Rural and Regional Australia. The Paper, however, gives no clarity on the viability of the Licensed Community Post Offices nor what these Licensees believe is important to remain viable.

Team Global Express believes that Australia Post Letter resources provide critical infrastructure across Australia, and this underpins the viability of the network supporting other essential services such as Parcels or Bank@Post, the latter which over 55% of communities across Australia depend on, for access to basic financial services.

Australia Post's recent financial results suggest **letter volumes are not the prime issue** threatening Australia Post's viability, and that the true contribution of the Letter network is underrepresented in the results presented, as there is no apparent acknowledgement of the other services, such as delivering Parcels, this network supports.

However, Team Global Express does recognise Australia Post has a profitability issue, but a prime issue appears to be with providing parcels. This is reflected in the significant cost increase in external providers supporting their parcel network, and although they are leveraging the letter infrastructure to subsidise the costs to deliver parcels, they appear to have added less profit to Australia Post's total business from 2020 to 2022, despite Parcel and Services revenues growing by $1.7bn.

The actions of Australia Post have created barriers for any other Domestic Parcel Provider to invest in and improve services in Regional and Rural Australia. These communities have poorer services at higher prices, which is not only threatening the viability of Community Post Offices, who are predominantly based there, but also holding back the economic development of this important region in Australia.

This review must clarify what are the real issues facing the business, what is the true contribution from Letters and the losses or profits from their Parcel and Services business, to ensure the correct strategy is adopted to protect and sustain this important national asset.

The UPU has done extensive modelling and analysis on what an 'excellent' Post Office looks like, ranking Swiss Post the best in the world. There are many learnings that can be taken from the Swiss Post strategy.

Team Global Express believes the Government must do all it can to protect the community services offered by Australia Post today, just as Swiss Post has done, and seek other important revenue streams, such as opening the access of the Community Post Offices or the Posties in the Last Mile, to enable the letter network assets to be protected, subsidised further and competitive services, such as Parcels and other deliveries to significantly improve for all Australians and particularly those in Rural and Regional Australia.

Chart 3.1 An historic 3-year summary of Australia Post's results.

	2022	2021	YOY 22/21	2020	YOY 22/20	Comment
Group Revenue	$8.97bn	$8.3bn	8%+	$7.45bn	20%+	Strong Top Line Growth.
Product and Services Revenue	$7.2bn	$6.5bn	11%	$5.5bn	31%+	Parcel and Services growth is almost $1.7bn in 2 years.
Letters Revenues	$1.8bn	$1.8bn	Flat	$2bn	(10%)	Letter Revenues are Flat (fell by less than 1%) 2022 to 2021. Price increase came in Jan 2020.
Letter Losses	$255m	$200m	(27.5%)	$241m	(4.5%)	FY20 Letter losses marginally greater than 2020. With Posties, carrying more parcels over the period, subsidization benefits appear missing.
Employee Costs	$3.4bn	$3.31bn	3%	$3.3bn	3%	Employee costs held to 3% increase in line with EBA increases.
Supplier Costs	$4.9bn	$4.2bn	17%	$3.5bn	40%	This cost predominantly includes subcontractors for delivering parcels. This is a major increase and suggests creeping inefficiencies in their Parcel and Services business.
PBT	$55.3m	$100.7m	(45%)	$53.6m	3%+	Profits fell in the year 45%. They were in line with 2020. With Letter losses comparable between 2022 and 2020. Suggests there is an increasing loss in Parcels and Services, evidenced in Supplier costs. The $1.7bn of additional Parcel and Services Revenue over two years has made no profit impact.
On Time Delivery	93.5%	95.1%		97.1%		2022 Target not met. Standard is 94%.

Chart 3.2 Australia Post's Half year revenue Performance

	H1	H2	Full Year	Comment
2022 Group Revenue Parcels and Services Revenue Letter Revenues PBT	 $4.8bn $3.8bn $0.94bn $200m	 $4.2bn $3.3bn $0.84bn ($145M)	 $8.97bn $7.2bn $1.78bn $55m	Parcel Growth slowed in H2, even though Fuel Surcharges increased from January 2022. Letters Revenue (fell by less than 1%) for full Year. PBT and Revenue included a $52m gain in disposals and positive bond rate movements. $44m greater than previous year. Normalising for this, PBT was just $3m for full year. In F2022. **Reported H2 Profits is the biggest fall since 2015.** This is does not appear to be primarily caused by Letters. It appears to be caused by a slowdown in Parcels and Services and a huge cost increase. H2 Parcels and Services grew 7%, including fuel surcharge increases. This suggests Parcel volumes could have fallen in H2. Considering the positive $44m benefit of the asset disposal in H2, the underlying fall in profits was close to $200m in H2.
2021 Group Revenue Parcel and Services Revenue Letter Revenue PBT	 $4.3bn $3.4bn $166m	 $3.9bn $3.1bn ($65m)	 $8.2bn $6.5bn $1.79bn $101m	Full year Letter Price Benefit and ADM.
2020 Group Revenue Parcel and Services Revenue Letter Revenue PBT	 $3.7bn $2.7bn $1.1bn $83m	 $3.7bn $2.8bn $0.9bn ($29m)	 $7.5bn $5.5bn $2bn $54m	Jan 2020 10c Letter Price increase implemented. Business benefited from Letter ADM for the Year This year included all the additional costs of delivering through COVID, which could have ended in the F2022 year.

4. The Opportunity to Open Access

Building a strategy to protect and grow the long-term sustainability of Australia Post.

Team Global Express strongly supports the Government's Discussion Paper in recognising:

1. The growing need to improve service delivery for Parcels across the nation, to underpin economic growth and social equality in accessing products and services.
2. The need for investment in Parcel Delivery Services, particularly in Rural and Regional Australia to improve service deliveries.
3. The need to ensure Community Licensed Post Offices remain viable as they provide critical infrastructure to the nation.
4. The remaining importance of Letters, but for the infrastructure that supports its deliveries to be modernised.
5. The need for Australia Post to develop a strategy that meets the needs of our country, our people, our businesses, whilst remaining sustainable.

Team Global Express's solution to enable the above, is to seek open access arrangements to Australia Post's Last Mile delivery infrastructure on fair, reasonable, transparent, and non-discriminatory terms.

Research completed by Lateral Economics on the 'Economic Benefits of Opening Access to Community Post Offices in Regional Australia', evidences the significant economic and social benefits this can provide for all stakeholders. The research, which forms the body of this submission, estimates a net benefit of $1.5bn over the next ten years from open access arrangements with Australia Post Last Mile delivery infrastructure, supporting households, Community Post Offices, small businesses, other logistic parcel providers, Australia Post, Government and particularly communities in Rural and Regional Australia.

Table 4.1 Summary of net benefits (NPV) from open access arrangements as defined by Lateral Economics April 2023

Sector	NPV $M	Share of benefits (%)
Households	461	29.9%
Businesses (excl. post offices and integrated logistics businesses)	137	8.9%
Post Offices	177	11.5%
Australia Post	38	2.4%
Integrated logistics businesses	404	26.2%
Other community (i.e., tax, GHG reduction)	325	21.1%
Total	**1,542**	**100.0%**

The proposal is that all Parcel Providers should be allowed access to Community Local Post Offices for the benefit of providing convenient drop off parcel points, in future be able to sell alternative Parcel solutions and for Posties to be able to deliver other Parcel Providers parcels, collecting those parcels from their local delivery centre.

This access is critical in Regional and Rural Australia, where there is a lack of competitive services, a strong need to invest to improve parcel delivery standards, find alternative sources of income for Community Post Offices and provide solutions for small businesses who find competing against metro businesses very challenging, when they are so disadvantaged by cost and speed of deliveries.

WHAT IS LAST MILE DELIVERY INFRASTRUCTURE IN REGIONAL AND RURAL AUSTRALIA?

Team Global Express defines Last Mile Delivery Infrastructure, as any infrastructure where post or parcels are disaggregated and sorted ready for pick-up or delivery to the home, PO Box, or parcel locker. This includes physical infrastructure including:

- Distribution centres where posties pick up letters and parcels for delivery to the home.
- The postal delivery service (vans, electric bikes etc.).
- Community Postal Agents and Community Licenced Post Offices; and
- The parcel locker network.

It also includes digital infrastructure, including IT systems for tracking parcels, and notifying customers on delivery and pick-up.

Australia Post categorises it services based on CBD, metro, rural and remote locations, and Team Global Express suggests that these categories should be used to determine the boundaries of regional and rural Last Mile Infrastructure.

Team Global Express readily acknowledges that the parcel locker network is not necessarily monopoly infrastructure, however, there is significant public benefit (and revenue potential for Australia Post) in granting open access to this network infrastructure.

Even though the research by Lateral Economics highlights significant financial benefits for Opening Access to Last Mile Infrastructure, the real benefits for our country are much greater.

The Government proposes that modernisation of the postal services adhere to the following principles:

- Australia Post remaining in full public ownership, providing a universal and equitable service that meets the needs of Australian people and business;
- Australia Post remains financially sustainable, and invests in networks, services and people to support improved national productivity and supply chain resilience;
- Postal Services that support Australia's digital economy, particularly as a critical enabler of the growing eCommerce market;
- Providing appropriate coverage of the Post Office Network, particularly in regional and rural areas and supporting the Community Licensed Post Offices in their financial sustainability and;
- Reducing Australia Post's operating cost in delivering regulated letter services, freeing up delivery and processing resources to support parcels delivery to respond to increasing demand and consumer expectations.

Opening access of the Letter Last Mile Infrastructure, particularly in Regional and Rural Australia provides a very low cost, least risk, highly attractive solution to the requirements identified above.

Australia Post remaining in full public ownership, providing a universal and equitable service that meets the needs of Australian people and business.

Today the service Australia Post provides significantly disadvantages communities in Regional and Rural Australia. Both their letter and parcel service delivery times are considerably slower than in metro areas and despite controlling an effective monopoly in both services, they have not improved this, but instead they have effectively blocked any other parcel provider from being able to offer a viable improved service to these customers, which is holding back the progress of these communities.

Regional and rural customers and businesses are highly reliant on Australia Post for parcel service deliveries. The absence of competition does not sufficiently incentivise Australia Post to improve services or introduce innovations for regional and rural customers.

For example, the National Farmers' Federation (NFF) noted in their submission to the 2020 Senate Inquiry into the future of Australia Post's service delivery that:

> ***"The NFF has been made aware of concerns about recent price changes for contract parcel deliveries (and the eParcel service) that will see significant price increases for regional areas, and rate reductions for urban areas. These rate changes are underpinned by a 'capital city', 'metro' and 'remote' area classification, with the highest rates paid for remote destinations. The rationale for this approach is acknowledged, but the NFF has concerns about the large discrepancy in 'metro' vs 'remote' parcel rates, and with the allocation of postcodes to the 'remote' classification. For example, major regional centres like Toowoomba, Shepparton, Yass, Armidale, Port Augusta, and Bunbury are classified as 'remote' and attract the highest rates. This classification would appear difficult to defend, given the size of these regional cities – and their proximity to capital cities."***

The Australian Small Business and Family Enterprise Ombudsman submission to the 2020 Australia Post Senate Inquiry notes that:

> ***"The cost of letter delivery is regulated by the Act, however, the same does not apply to parcel delivery. This has resulted in seemingly arbitrary pricing structures, with a lack of competition in rural and remote areas often driving prices higher … Small business owners in rural and remote areas who rely on Australia Post for delivery of their products to clients are also at a significant disadvantage."***

Also, perversely, international agreements with the Universal Postal Union (UPU), provide price caps for charges for handling international parcels. This means that parcel deliveries from international businesses are essentially subsidised by Australia Post, placing regional businesses at a further disadvantage even compared to those businesses located overseas.

There is not only a disparity in pricing between regional, remote, and urban areas, but also service levels[i]. While customers sending parcel between capital cities are provided next day delivery, customers sending parcels between a capital city to an interstate rural location can expect to wait around five days, while parcels sent interstate between rural locations can expect wait times in excess of six days.

The regional-urban disparity for standard parcel deliveries is even greater, with an interstate parcel delivery between capital cities typically taking three days, while a parcel delivery between interstate rural locations can take up to 10 business days, or longer. Essentially, regional, and rural customers are paying more for a lower quality service.

Poor service reliability also compromises the ability of regional and rural residents from accessing essential services. One example is the delivery of medicines to customers who may not be proximate to health services or a compounding pharmacy. The long delivery wait times and unreliability of the Australia Post service in rural areas, negates the ability of rural customers from utilising parcel services for the delivery of their medicines due to the inability to keep these medicines at the required ambient temperatures.

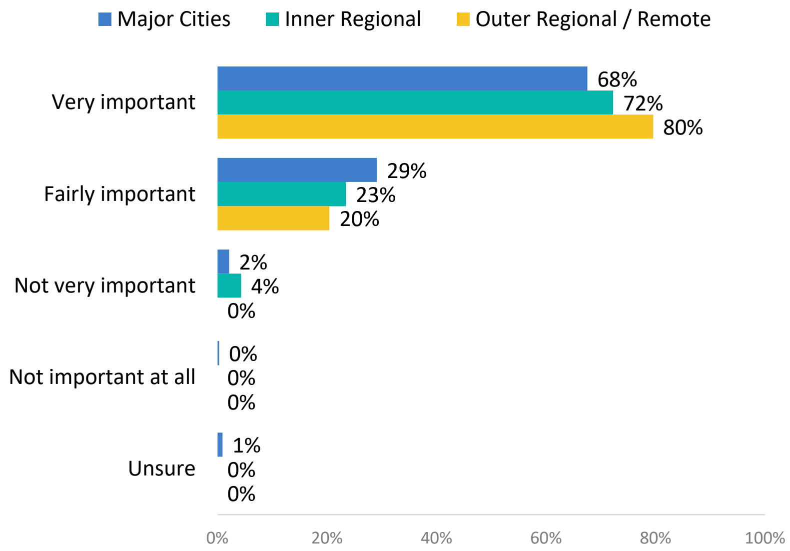
Both the Lateral Economics research and Postal Services Consumer research conducted by Freshwater Strategy, the latter is enclosed in Appendix A, evident further the appeal of this.

100% of regional and remote respondents considered their local Community Post Office important and were more likely to use their Community Post Office for collections. Enabling more providers to deliver to these Post Offices would support these customers secure the important products they need, particularly quickly such as medicines.

80% of regional and remote respondents put a very high importance on local post offices.

FRESHWATER STRATEGY

IMPORTANCE OF HAVING A LOCAL POST OFFICE, BY GEOLOCATION

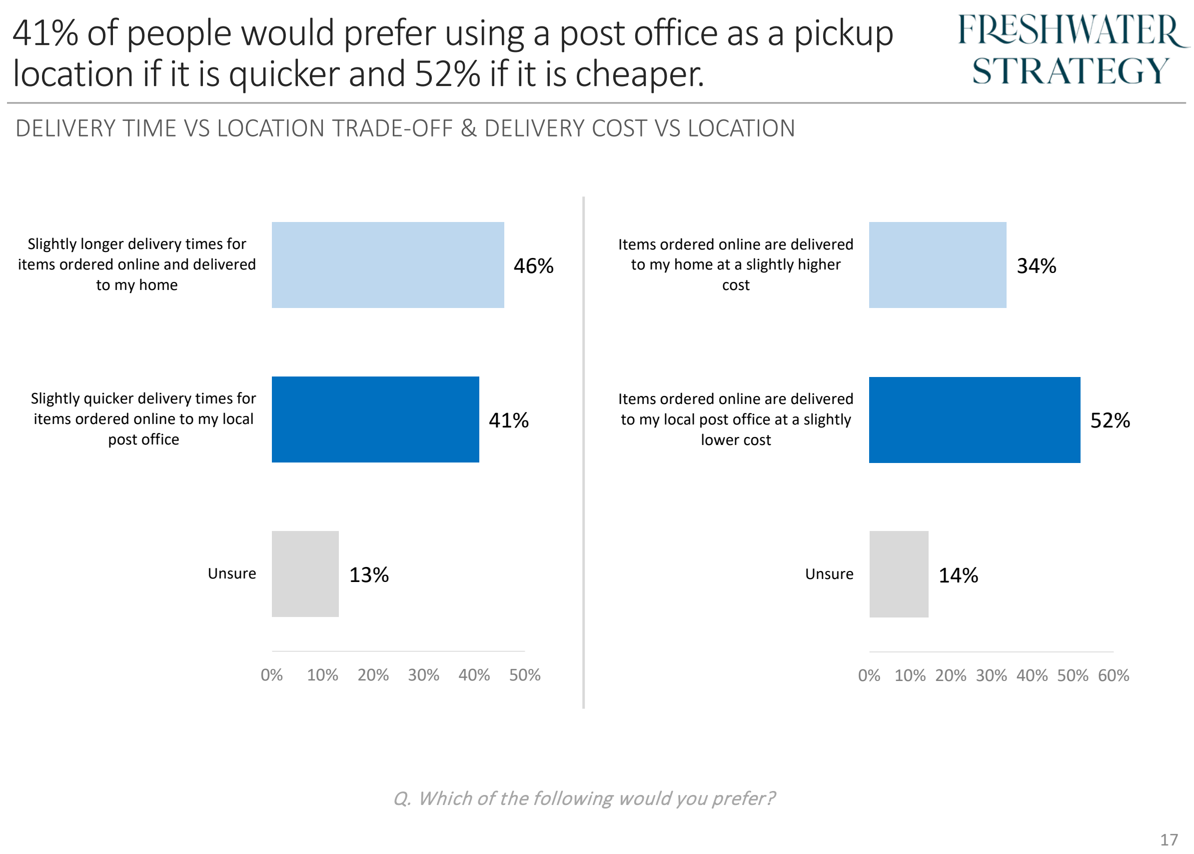


Q. How important, if at all, is it for your community to have a local post office?

80% of outer regional & remote respondents say it is 'very important' for their community to have a local post office, compared to 72% for inner regional, and 68% for major cities.

6

Research also evidenced that 41% of people would prefer using a post office as a pickup if it is quicker and 52% if it is cheaper**.** This is a considerable proportion of the population and indicates the strong probability that ecommerce in Rural and Regional Australia would grow even faster, if they had access to competitive services being delivered to their local Community Post Offices, especially if was at a lower cost.



The disparity in the service quality and price for parcel delivery services between regional and urban areas is not only bad for the regional customers and businesses, but for regional economic development. While significant resources have been spent on regional eCommerce campaigns including *#BuyFromThe Bush* and *#SpendWithThem* campaigns, the NSW Government's *#BuyRegional* initiative, and Visa's *#WhereYouShopMatters,* the urban-regional price and service quality disparities undermine these efforts. Noting the significant year-on-year growth in e-commerce nationally, the higher costs placed on regional users acts as a barrier for the growth of e-commerce outside of Australia's urban areas.

By enabling access to the Letter Last Mile Infrastructure, particularly in Rural and Regional Australia, other Australian Domestic Parcel Providers, would have the ability to invest in and provide cost-effective solutions, create resilience for these customers and significantly improve parcel delivery times and options, which would build economic growth in these regions.

Other Domestic Parcel Providers have considerable linehaul capabilities, including Team Global Express. If they were able to access Letter Last Mile Infrastructure at a fair cost, they would be able to carry a standard parcel across the nation to rural communities, within 2 days as opposed to 6 or more offered today by Australia Post. This efficient proposition would facilitate lower cost solutions for deliveries in Rural and Regional Australia, especially if they were delivered direct to a Community Post Office.

The additional revenues opening access would bring, would make a strong contribution to supporting the sustainability of the letter infrastructure and enable the Government to maintain their service obligations, protect the important jobs of the Posties and Post Offices, without the need to cut them.

The need to support Regional and Rural Australia with better Parcel deliveries has never been more critical. Recent research provided by Australia Post evidences that Regional and Rural customers are outpacing growth in national ecommerce. Australia Post shared they saw their ecommerce growth nationally fall, but growth in outer regional Australia grew 6.4% and 5.7% in remote Australia. Despite this strong demand, business customers and receiving consumers, are significantly disadvantaged by only having the effective ability to deliver and receive with Australia Post.

Opening access in the Letter Last Mile Infrastructure would mitigate these disadvantages.

The cost to the Government for enabling a better competitive outcome for Regional and Rural Australians is Zero, yet the benefits to our nation are significant.

Australia Post remains financially sustainable, and invests in networks, services, and people to support improved national productivity and supply chain resilience;

Opening access to the Letter Last Mile Infrastructure would enable another important revenue stream towards subsidising the cost of the Letter Network, enabling the Government to minimise any risk that the true contribution of the Letter network would be a drain on Australia Post. The benefit of this to Australia Post alone is estimated at $38m and the total economic benefit to society at over $1.5bn over 10 years (See Lateral Economics: Economic Benefits of Opening Access to Community Post Offices in Regional Australia, in section 4 of this submission)

The proposition would require almost no capital outlay from the Government or taxpayer, it would create significant resilience in supply chains, it would validate the business case for alternative providers to invest and providing choice for all Australians and would significantly improve productivity.

Australia Post's unwillingness to provide open access to Last Mile Infrastructure is also leading to them foregoing revenues that could be earnt through third-party access, particularly when leveraging underutilised assets.

As an example, the rival metro-based parcels network Hubbed, charge two-dollars to third-party providers for the lodgement of parcels typically in community stores like a pharmacy and newsagency. By refusing third party access, Australia Post is foregoing revenue for itself and its Community Post Offices. There is also the potential for cost savings for Australia Post, noting that Australia Post pays a minimum commission of $50k per annum to many licensees for parcel handling. Providing additional revenues to post offices through third party parcels means Australia Post can mitigate the need for such payments.

Australia Post customers have raised concerns around Australia Post's inability to realise cost efficiencies, and instead are faced with higher prices for postal and parcel delivery services. The Real Media Collective (TRMC), the industry association representing distributors of catalogues, direct mail, print and paper across all physical marketing channels (a heavy user of postal and parcel services), notes that:

"TRMC has consistently sought from Australia Post and government support to review all areas of operation across the postal service to remove costs, rather than simply increase pricing and transition the cost pressure from Australia Post to an industry operating on an average margin structure of < 3%."

Noting that regional and rural communities are being under-represented in the e-Commerce boom, we believe that the expansion of third-party services will not be a zero-sum game, and the market for parcel services will grow as a result of open access arrangements. This is consistent with the findings of the Lateral Economics report which found overall growth of parcel deliveries with open access arrangements over the base case. This is consistent with the results of other monopoly infrastructure being opened.

Continuing to allow Australia Post management to block other domestic parcel carriers from accessing Last Mile Infrastructure also creates waste, is poor for the environment and risks increased pollution with congestion, in addition to stifling economic growth.

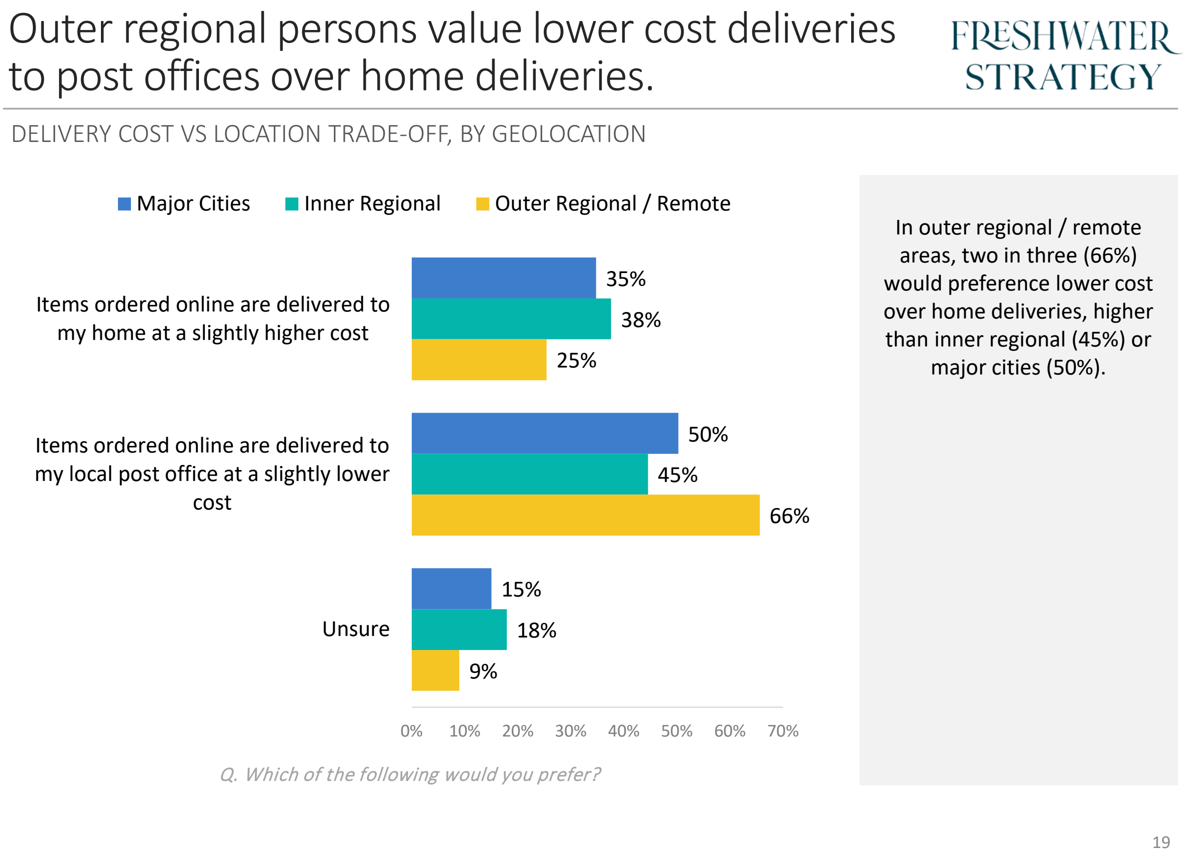
30% of carbon emissions relating to deliveries are generated in the last mile, encouraging multiple vehicles from different parcel providers, to go down the same road and not share their transport, not only risks all these organisations being unprofitable, but as Last-mile deliveries are the most energy-intensive stage of a delivery footprint, they duplicate carbon emissions and increase waste. With more people shopping online, the demand for last-mile deliveries is expected to grow by 78% globally by 2030. If last-mile freight is not addressed, urban emissions could increase by at least 30% in the top 10 cities globally over the decade, according to the World Economic Forum.

Experts have estimated that the cost of the Last Mile accounts for 41% of supply chain delivery costs (Marek, 2020). In Rural and Regional Australia these Last Mile costs are much greater relatively and could account for between one half and three quarters of total supply chain delivery costs.

Effective ways to reduce the impact of last-mile deliveries include establishing convenient pick-up points near customers, such as Post Offices, so that orders can be dropped off in one stop, instead of driving to each customer individually. In addition, sharing Last Mile delivery transport. These will save emissions, reduce costs, and boost customer Net Promoter Score (NPS).

As technology develops and costs come down, more customers will be able to leverage the benefits of parcel lockers. The OOH parcel pick-up network can significantly reduce costs for deliveries, particularly in avoiding failed deliveries. Again, enabling other parcel providers to access Community Post Offices, reduces waste, enables a more efficient use of the important network and consequently reducing costs.

The trade off in delivering to a Post Office at a marginally lower cost as opposed to delivering to a home at a marginally higher cost is welcomed by consumers. With two thirds of respondents in the Freshwater research in outer regional and remote Australia stating they would prefer it.



The recent energy crisis has reminded businesses and governments all over the world of the importance of improving energy efficiency. Creating multiple parallel Last Mile delivery networks, would exasperate waste and every effort should be made by the Government to put in sensible steps to prevent this.

Opening up access to the Letter Last Mile Infrastructure to alternative domestic parcel carriers presents a strong solution for the Government to reduce the risk of this waste, increase productivity and preserve important energy supplies. If the Letter Last Mile Infrastructure is not opened, the Government risks its carbon emission targets not being achieved and stifling further development in energy efficient Last Mile solutions.

Postal Services that support Australia's digital economy, particularly as a critical enabler of the growing eCommerce market;

One of the largest impediments to growth in ecommerce in Australia is the lack of competitive ecommerce service providers. Australia Posts' dominance in controlling the Letter Last Mile Infrastructure has enabled them to create an effective monopoly in the domestic parcel market, securing them over 80% market share in B2C deliveries.

This dominance has created a barrier to effective competition, which in turn has stifled investment and resulted in poor delivery standards and pricing, particularly in rural and regional Australia. It has also meant that for many businesses, particularly small and medium sized businesses across the country, that they have no choice but to use Australia Post to support their ecommerce trade, which clearly impedes their ability to compete. These smaller businesses who are forced to use Australia Post, struggle to compete against larger customers, like Amazon, who have a dedicated national network, utilising 3rd party linehaul providers for long distance and the emergence of dedicated courier networks in local communities. The lack of strong competition in choice of parcel providers significantly restricts their ability to perform.

The dominance of Australia Post in this market has drawn concerns from others.

Regional and rural customers and businesses are highly reliant on Australia Post for parcel service deliveries. The absence of competition allows Australia Post to charge prices above what a competitive market would dictate and does not sufficiently incentivise Australia Post to improve services or introduce innovations for regional and rural customers.

For example, the National Farmers' Federation (NFF) noted in their submission to the 2020 Senate Inquiry into the future of Australia Post's service delivery that:

> ***"The NFF has been made aware of concerns about recent price changes for contract parcel deliveries (and the eParcel service) that will see significant price increases for regional areas, and rate reductions for urban areas. These rate changes are underpinned by a 'capital city', 'metro' and 'remote' area classification, with the highest rates paid for remote destinations. The rationale for this approach is acknowledged, but the NFF has concerns about the large discrepancy in 'metro' vs 'remote' parcel rates, and with the allocation of postcodes to the 'remote' classification. For example, major regional centres like Toowoomba, Shepparton, Yass, Armidale, Port Augusta and Bunbury are classified as 'remote' and attract the highest rates. This classification would appear difficult to defend, given the size of these regional cities – and their proximity to capital cities."***

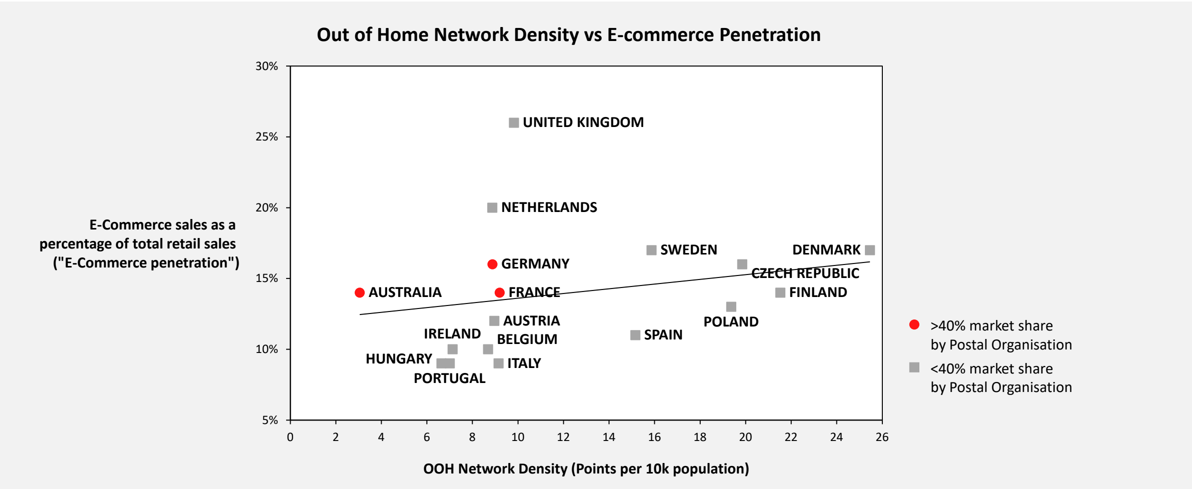
The Australian Small Business and Family Enterprise Ombudsman submission to the 2020 Australia Post Senate Inquiry notes that:

> ***"The cost of letter delivery is regulated by the Act, however, the same does not apply to parcel delivery. This has resulted in seemingly arbitrary pricing structures, with a lack of competition in rural and remote areas often driving prices higher … Small business owners in rural and remote areas who rely on Australia Post for delivery of their products to clients are also at a significant disadvantage."***

United Nations Conference on Trade and Development (UNCTAD) in 2021 ranked Switzerland as the top country in the world in their readiness to engage in online ecommerce. The demand and need for development of ecommerce is high, the penetration of ecommerce compared to many of our global peers is much lower, e.g., in the UK ecommerce represents 32.5% of the retail market, in Australia it is between 16-17%. The Australian ecommerce market was expected to grow by 10%, and with rising lease and rental costs, and the opening of international borders again, an increasing number of Australian retailers are interested in expanding their ecommerce presence. However, in recent times, Australia Post has stated their parcel volumes are down and the ecommerce in the Australian market has shrunk.

Competitive mature out of home (OOH) networks, including Parcel Lockers, play an important role in supporting ecommerce penetration and growth. In Australia this market is dominated by just two players Hubbed and Australia Post. However, in Regional and Rural Australia, there is extremely limited penetration of alternative out of home collection points other than Australia Post's Community Post Office. There is a strong correlation between the penetration of open OOH alternatives with the penetration of ecommerce. The lack of open access to Community Post Offices, as an OOH alternative for competitive parcel providers, appears to be limiting the development of ecommerce in Rural and Regional Australia.

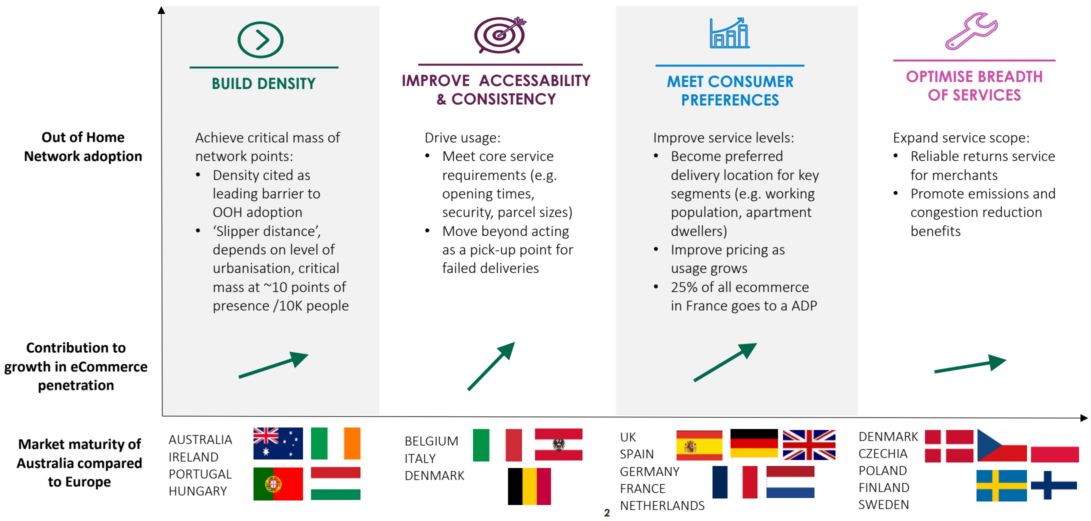
Competitive, mature Out of Home (OOH) Networks play a role in supporting e-commerce penetration



Source: Analysis drawing on data from CBRE, Australia's E-Commerce Trend and Trajectory, September 2022, page 14, available at: https://cbre.vo.llnwd.net/grgservices/secure/Australia%20Ecommerce%20Trend%20and%20Trajectory%202022.pdf?e=1673914035&h=8825528f1666c942f5f2ff39a3528c3c; Last Mile Experts in partnership with DPD Group, Out of home delivery in Europe 2022, September 2022, pg 59-72, available at: https://lastmileexperts.com/reports-case-studies/

In Australia Out of Home (OOH) Networks are less well developed compared to most European countries

Stages of Out of Home (OOH) Network Maturity



In most European countries OOH Networks are open to competing carriers and becoming a preferred delivery option

Country	Number of unique Out of Home Points	Number of Out of Home points per 10,000 population	Estimated share of outlets competitively accessible (open)	Overview of Main Networks, shopper preference as usual delivery location
AUSTRALIA	8,000	3.1	30% - 40%	2 large networks: Australia Post (60%) closed, Hubbed (20%) open to other carriers
AUSTRIA	6,240	7.0	60% - 70%	Austrian Post (25%) open to other carriers (DHL and Evri)
BELGIUM	10,110	8.7	50% - 60%	BPost (26%) open to other carriers (DHL); 30% of shoppers indicate Parcel Shops as preferred delivery location
CROATIA	3,400	8.4	50% - 60%	Croatia Post (35%) open to other carriers (DHL)
CZECH REPUBLIC	20,840	19.9	50% - 60%	2 large networks: Czech Post (25%) closed, Evri/Zasielkovna (30%) open to other carriers
DENMARK	14,940	25.5	70% - 80%	PostNord (25%) open to other carriers (DHL, Bring)
FINLAND	11,920	21.5	40% - 50%	Posti (28%) open to other carriers (Evri, DHL); > 90% of B2C volume directed to Out of Home Networks
FRANCE	59,360	9.2	40% - 50%	2 large networks: LaPoste (41%) closed, Evri/InPost partnership (20%) open to other carriers; 50% of shoppers indicate Parcel Shop as a preferred delivery location
GERMANY	74,050	8.9	10% - 20%	2 large networks: Deutsche Post (DHL) (51%) closed, Evri (22%) closed
IRELAND	3,570	7.1	40% - 50%	Irish Post (25%) open to other carriers (DHL)
ITALY	54,070	9.1	60% - 70%	Posta Italiane (22%) open to other carriers (InPost)
NETHERLANDS	15,560	8.9	50% - 60%	2 large networks with 55% of points: PostNL (30%) closed, DHL (25%) open to other carriers; 21% of shoppers indicate Parcel Shop as a preferred delivery location
POLAND	74,050	19.4	90% - 100%	Polish Post (15%) open to other carriers; 46% of shoppers indicate parcel lockers as a preferred delivery location
PORTUGAL	7,200	7.0	0% - 10%	Portugal Post (35%) closed
SPAIN	72,107	15.2	40% - 50%	2 large networks: Spanish Post (19%) closed, CitiBox (35%) open
UNITED KINGDOM	66,200	9.8	70% - 80%	4 main networks, all open: Royal Mail (20%), Post Office (15%), Collect+ (15%), AMZ/Post Office (20%)
SWEDEN	16,690	15.9	60% - 70%	2 main networks: PostNord (25%) open to other carriers (DPD), DPD (15%) open

Sources: Last Mile Experts in partnership with DPD Group, Out of home delivery in Europe 2022, September 2022, pg 59-72, available at: https://lastmileexperts.com/reports-case-studies/. Share of outlets that are competitively accessible based on analysis of operator data commentary by Last Mile Experts – operators that operate in partnership to provide Out of Home solutions are deemed to operate "accessible" networks notwithstanding the possibility of exclusive arrangements; Last Mile Experts in partnership with InPost, Green Last Mile Europe Report Report 2022, April 2022; Last Mile Experts in partnership with InPost, pg 28 Out of Home delivery in Europe 2021, September 2021.

It is critical that the Government supports the effective development of ecommerce in Australia and enables more fair and constructive competition. Enabling the opening of the Letter Last Mile Infrastructure would support many Domestic Parcel Providers being able to invest and develop their ecommerce offerings, which would be of considerable benefit to businesses in Australia who increasingly rely on it, particularly in Rural and Regional Australia.

Providing appropriate coverage of the Post Office Network, particularly in regional and rural areas, and supporting LPO and CPA financial sustainability

Australia Post dominance in Last Mile delivery Infrastructure is also putting Community Post Offices at risk. Team Global Express shares the Government's Discussion Document's concern around the financial sustainability of the Community Post Offices, including the Community Postal Agents. Lateral Economics in their research estimated that opening up access to Community Post Offices to other parcel providers, with fair and transparent pricing, would generate significant benefits to them. This would make a very significant contribution to their income and would help ensure their economic security.

The majority of the ~4,300 Post Office points across Australia, are not owned by Australia Post; they are small businesses, owned by mums and dads, operating as suppliers and service delivery providers for Australia Post.

Australia Post's dominance in Last Mile delivery gives it significant power over Community Post Offices, where as a buyer, Australia Post can dictate terms and prices to these businesses, including what products and services can and cannot be offered through the Community Post Office network. Australia Post's commercial interests do not necessarily align with the commercial interest of these Community Post Offices and can jeopardise the financial viability of them. These Community Post Offices are responsible for their own debt, for paying for their stock, paying the leases on their premises, their energy bills, and the wages of their employees. They receive no payment from the Government or Australia Post for representing them, instead they earn their income from commissions on services they provide. Only if a Community Licensed Post Office fails to achieve $50k in commissions in one year, do their payments get topped up to this level. This is marginally more than a minimum wage in the country and gives very little flexibility for them to pay their outgoings to run their businesses. If these businesses fail because they become impacted by an arbitrary decision by Australia Post Management, they are not entitled to compensation.

An example of this imbalance of power is Australia Post forcing exclusive dealing provisions onto Community Post Offices, with respect to the handling of parcels, forbidding arrangements with third party parcel delivery service providers unless Australia Post management consents to those arrangements.

With respect to these contractual provisions, the Australian Small Business and Family Enterprise Ombudsman states that:

"Licensed Post Offices (LPO) and Community Postal Agents (CPA) are typically small or family businesses and tend to be community hubs for mail delivery and other essential services, such as identity services, and financial transactions and payments. For many rural and remote residents, their local LPO or CPA is a community lifeline; it is often the main or sole provider of such and employment opportunities. It is therefore crucial that licensees and agents receive fair treatment from Australia Post through fair contract terms that offer sustainable business practices, adequate rights and protections and reasonable pathways for dispute resolution."

The revenue and utilisation third-party parcels can provide would contribute significantly to the financial viability of Community Post Offices. The increased customer throughput through their retail premises would increase the sales of associated products and services. Yet, for the most part, Australia Post restricts arrangements between third-party Domestic Parcel Providers and Community Post Offices, to reduce the competitive environment in the regional and rural market for parcel deliveries.

The fact that Australia Post uses alternative suppliers outside of the Community Post Office network for local delivery collections, such as Hubbed, who are often in direct competition to Community Post Offices, demonstrates the power imbalance between Australia Post and the Community Post Offices.

Restricting access to Community Post offices and forcing other logistics providers to invest in duplicate infrastructure, is likely to cannibalise the businesses of the local Community Post Offices. This will further exacerbate the already challenging situation these hardworking small business owners face and put their businesses at risk. There is simply not enough customer density in most regional and rural areas to justify the existence of two or more Last Mile networks. The net effect of any attempt at duplicating Last Mile Infrastructure will be increased overall costs for customers, with little to no service provision benefits in the long run.

The Community Post Offices play numerous critical roles in many regional communities, including banking and financial services, provide identity verification services, paying bills, and government services such as passport applications. Undermining the sustainability of these Community Post Offices would be devastating to these communities.

CASE STUDY: THE SOCIAL AND COMMUNITY IMPACT OF POST OFFICE CLOSURES

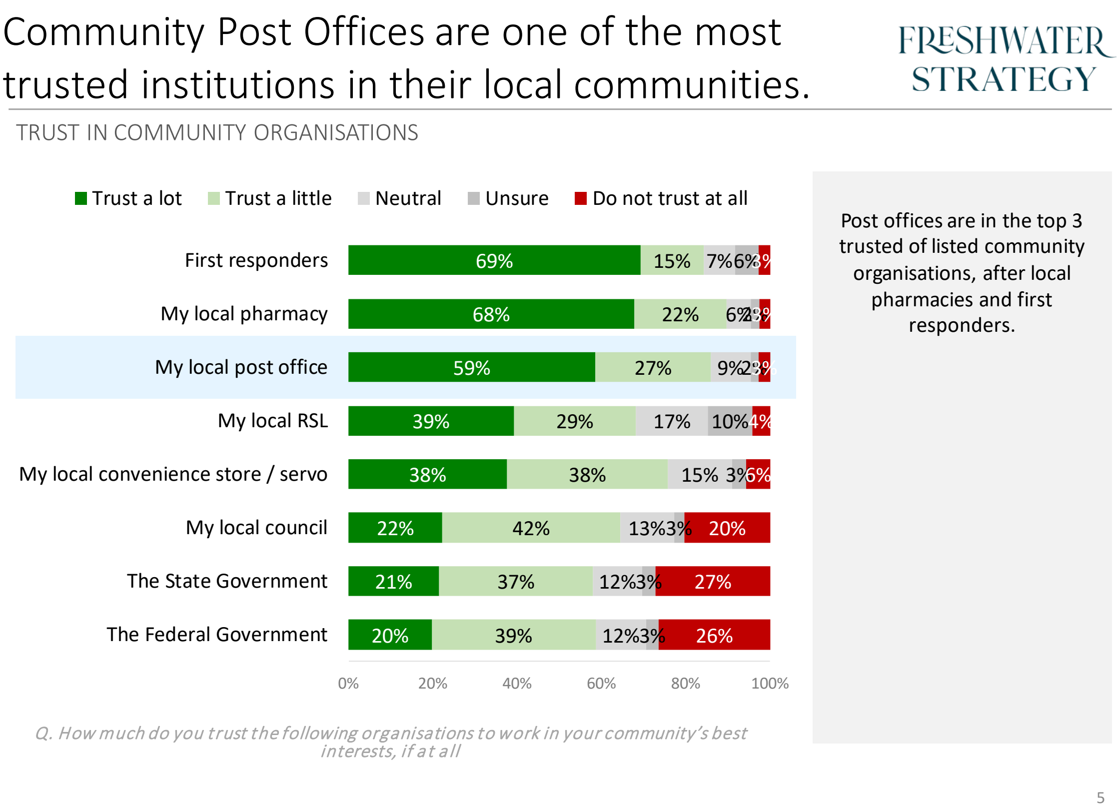
In November 2013, the Montville Post Office shut down, and post office services were relocated to the next closest retail store in Mapleton. Upon the announcement of the post office closure, residents in the town held protests in the street, and lobbied the Montville Chamber of Commerce for its return. Residents commented that "just because Montville is a small community, does not mean the basic requirements aren't critical to those of us who live here" (Williams, 2013).

The importance of the local post office is highlighted through comments from local Member for Fisher, Mal Brough, who noted in Parliament that the closure had significantly inconvenienced local small businesses and elderly members of the community (Clare, 2013). The closure of the post office had a significant negative impact on the ability for residents to do banking transactions in person, post letters and receive delivery of mail and parcels, and local businesses nearby noticed a reduction in foot traffic. However, after two months of the post office being closed, the owners of the local IGA were able to gain the licensing rights to the post office and re-instate post office services in Montville.

Extracted from Deloitte 2018.

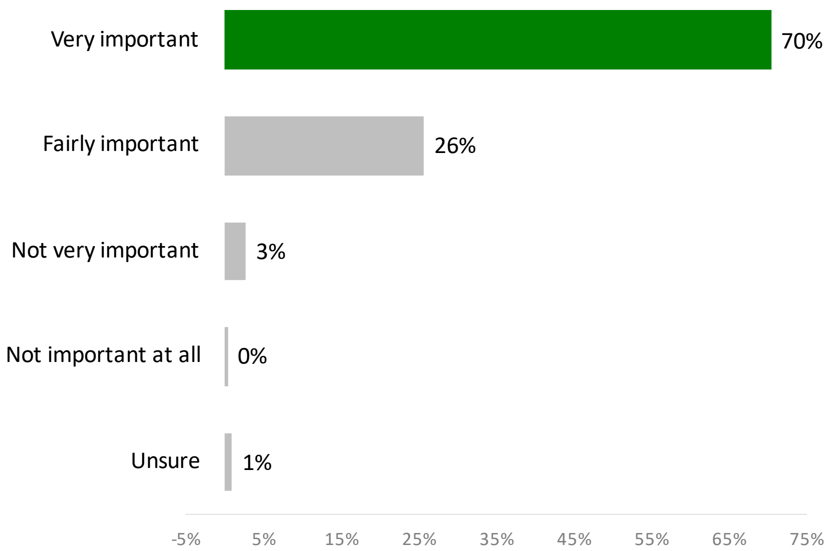
According to the Market Research evidenced by Freshwater Strategy, Community Post Offices are one of the most trusted institutions in their local communities.

Trust in community organisations

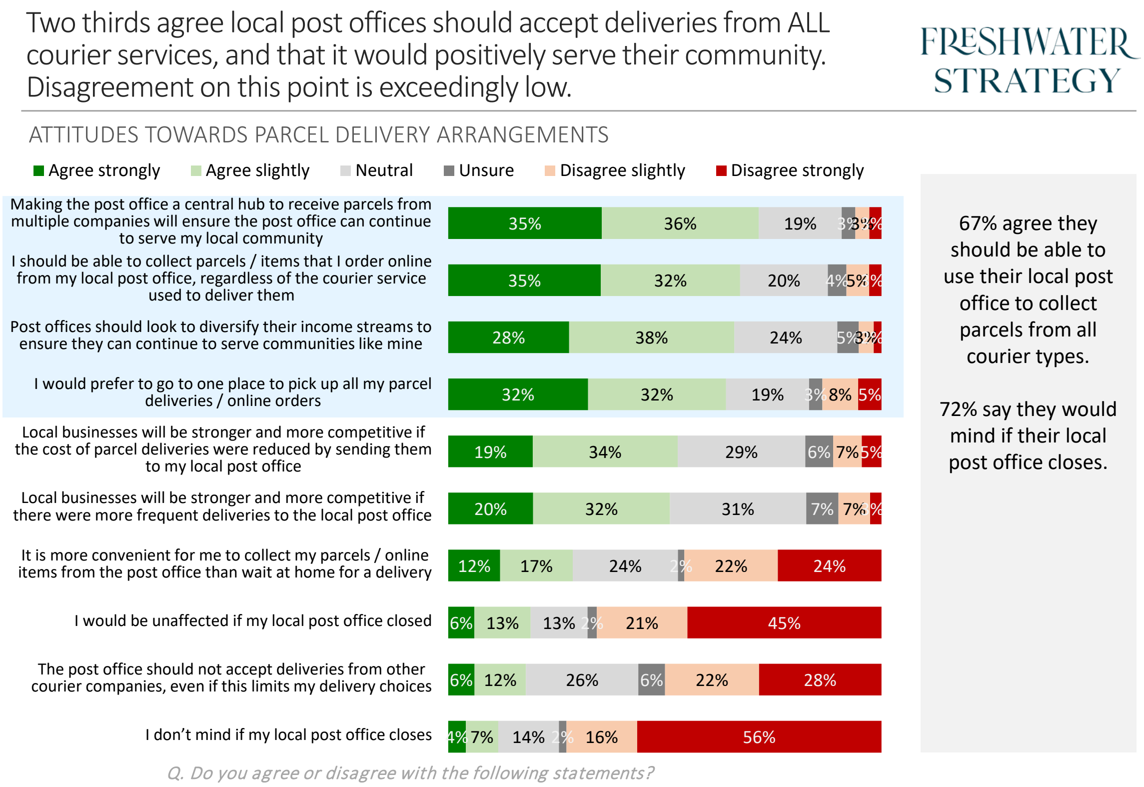


The market research further found that it was very important for most communities, particularly in regional and rural Australia, to have a local post office. 96% of all respondents said their Community Post Office was either very or fairly important and this increased to 100% in Rural and Regional Australia. 72% of respondents said they would mind if their post office closed.

Importance of having a local post office.

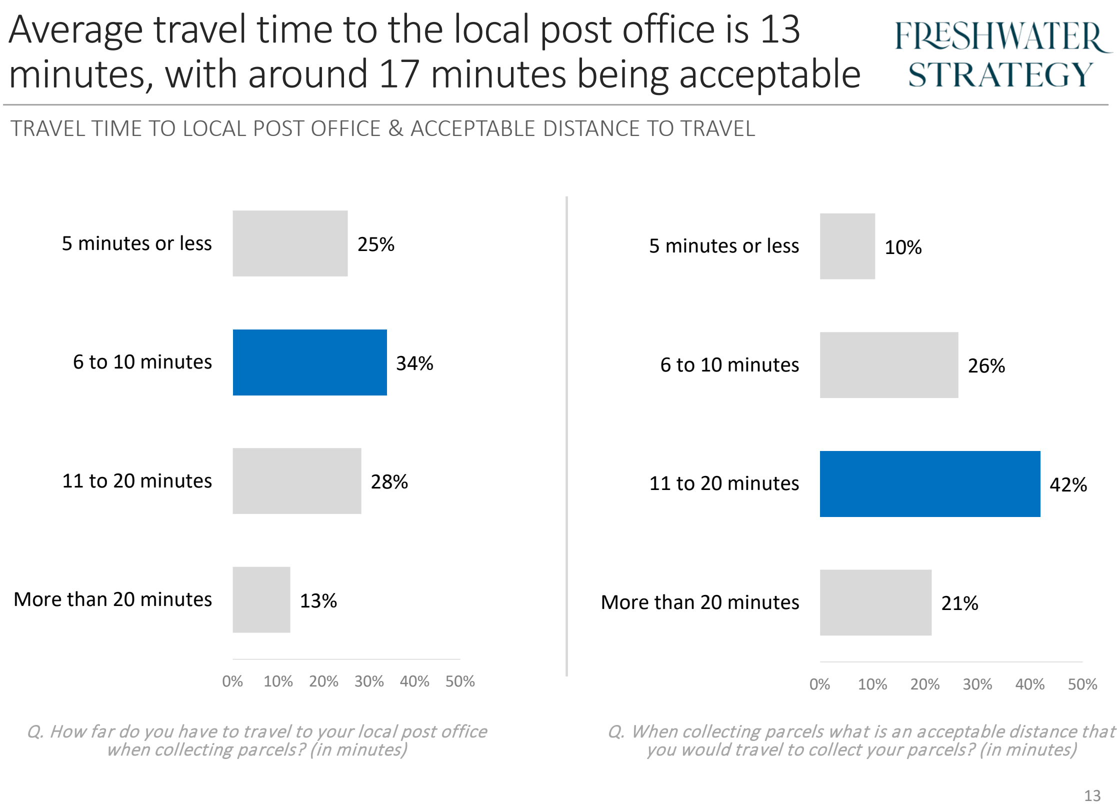


Even more important is that 71% of respondents to the Freshwater Strategy research agreed that their local Community Post Offices should accept deliveries from all courier services and that it would positively serve their community. Disagreement on this point is exceedingly low.



The importance of post office access was also underscored with consumers citing that the average acceptable travel time to pick up a parcel was 17 minutes, and nine in ten of those surveyed suggested that their local community post office was within the acceptable distance.

Acceptable distance to travel to collect parcels.



From the Business customers perspective, fast, efficient, and reliable supply chains are critical for ongoing success of many small businesses. This is confirmed by numerous case examples across regional and rural Australia, where business owners can point to the direct economic and business benefits that reliable and efficient Last Mile service delivery have including Community Post Offices.

The strong agreement that Community Post Offices should become Parcel hubs for all carriers is not only supported by Communities across Australia, it is also supported by the Community Post Offices themselves.

Third party access to Community Post Offices has the support of the LPO Group, a membership body representing the interests of Licenced Post Office owners, as well as the local communities.

"The community as a whole is struggling to understand why all their parcels don't come to us [i.e., the post office]. We're seen as the heart of the community. There is an expectation that's where I go for anything important. The proposal [i.e., open access arrangements] is vital for our viability in the future, short of the government stumping up "open the door" payments like they do for pharmacies.

Customers will benefit because their parcels will be kept securely with appropriate protocols. That's not the case if a parcel is delivered to a newsagent." – NSW licensee

In summary, enabling open access to Community Post Offices to other domestic service providers, would generate significant benefits for all stakeholders. It is estimated it would have over a $1.5bn net benefit over ten years. It would provide an important income stream and protect the viability of Community Post Offices, it would strengthen communities particularly in Rural and Regional Australia, it is what consumers and businesses want and it would make a significant contribution in supporting the Government achieve their productivity and environmental objectives.

Reducing Australia Post's operating cost in delivering regulated letter services, freeing up delivery and processing resources to support parcels delivery to respond to increasing demand and consumer expectations.

As evidenced many times in this submission, opening access to the Letter Last Mile Infrastructure will provide significant economic benefits to all stakeholders, totalling an estimated more than $1.5bn net benefit over 10 years.

This strategy would provide important further revenues to help subsidise the cost of the letter infrastructure and protect important community services and assets. The recent financial distress at Australia Post does not appear to be caused by either delivering letters or their Community Service Obligations, which were lower last year than 2 years ago and represent less than 4% of their total business now.

Team Global Express recommends the Government and Australia Post understand and address their current profitability challenge in delivering parcels and services. In the past two years, they have added $1.7bn in additional parcel and services revenues, but no extra profits, instead excluding provisions, their Profits have fallen and in the second half of last year they had the largest underlying fall since 2015. Australia Post has significant market dominance in B2C and they are able to subsidise parcel deliveries by using the letter infrastructure, but they do not appear to be allocating any benefits to the letter infrastructure.

The letter infrastructure underpins critical infrastructure in Australia, including access to banking and financial services, particularly in Rural and Regional Australia, where 100% of respondents to the Freshwater Strategy research stated that their Community Post Office was important.

Team Global Express also strongly recommends the Government takes learnings from the highest rating Post Offices in the World, including Switzerland, when considering their strategy development.

Switzerland has worked hard to remain profitable, build and extend its Last Mile offerings and protecting its community services, whilst opening access to their Letter Last Mile Infrastructure to other domestic parcel delivery providers.

Australia Post's recent financial results do not suggest that letters are their prime issue, although it is recognised, they have a significant issue. The results and research suggests, they have an issue delivering efficiently and effectively parcels, especially in Rural and Regional Australia. Cutting letter services and infrastructure to redirect investment into Parcels, without clearly understanding what has caused their recent financial distress, risks threatening their profitability further, whilst harming both Community Post Offices and the communities they serve and doing very little to improve competitive service offerings to stimulate ecommerce and economic growth.

5. A pathway to secure Open Access

There are a wide range of reform options for addressing the competitive imbalance in post and parcel services and capturing the benefits for regional and rural communities and the logistics industry, which Postal Organisations around the world are considering.
Team Global Express' proposed solution is to focus on open access arrangements to Australia Post's Last Mile delivery Infrastructure on fair, reasonable and non-discriminatory terms.

This is a common practice in many overseas jurisdictions. For examples, all of the top 5 Postal Organisations in excellence as ranked by the UPU – Switzerland, Germany, Austria, Japan, France – provide third-party access to Last Mile Infrastructure, which has contributed to improvement in the quality and pricing of postal and parcel delivery services through greater competition.

There is nothing in the Australia Post Act that precludes Australia Post from offering parcel drop-off, storage, pick-up and delivery services by LPOs or CPAs. However, without any guiding principles, Australia Post may grant or deny access on a discriminatory basis. This would not be a good outcome for regional and rural customers and businesses who rely on parcel deliveries.

Team Global Express therefore proposed the easiest approach, which is for the responsible Minister to direct Australia Post, under powers provided in section 49, to negotiate an access arrangement to these services and the ACCC, for example, could ensure that the services are being provided on a fair basis.

Previous attempts at introducing competition in the Australian market.

The notion of needing to open up postal infrastructure to competition is not new in Australia. The National Competition Council (NCC) identified Australia Post's reginal network as a natural monopoly in 1998 and recommended a range of reforms, including that the Government regulate to ensure access on reasonable terms to Australia Post's CSO-funded services and post office boxes. These recommendations were however not enacted.

The NCC's access regime proposal was not confined to rural and regional areas. The Bill contemplated that Australia Post's bulk mail and post office boxes would be automatically "declared" by the Minister with the consequence that there was a right to negotiate commercial terms between the access seeker and Australia Post and then the ability to refer any dispute on those terms to the Australian Competition and Consumer Commission (ACCC) for determination if access terms could not be agreed.

This Bill provides a clear framework which could be adopted for the reform now proposed. In the current climate, the automatic declaration could be limited to rural and regional areas, avoiding arguments and counter-narratives that the Australia Post network in urban areas are operating in a competitive environment, negating the need for open access arrangements.

Alternative approaches

Three potential reform options are considered in the Lateral Economics Report:

1. Third-party access can be provided via a regulated access arrangement, as has been done in other network industries and businesses via the Declaration processes set out in Part IIIA of the Competition and Consumer Act (2010). This would, however, require the

repeal or amendment of section 32D of the Australia Post Act, that provides Australia Post with exemptions from Part IIIA of the Competition and Consumer Act (2010).

2. Alternatively, the responsible Minister could direct the Australia Post Board, under powers provided in section 49 of the Australia Post Act, to direct the provision third-party access to its Last Mile services, as outlined above.

3. Or finally, noting that Australia Post is a Government Business Enterprise (GBE), the Federal Government could place a priority on Australia Post to ensure the manner in which it operates in various markets does not lessen competition or distort market and competitive forces. This could be achieved by introducing a competition priority within the Act that would sit alongside Australia Post's obligation to act in a commercial manner (section 26), and its community service obligations (section 27). This would ensure that Australia Post provides third party access to its Last Mile services on commercially viable terms.

Dispelling the arguments against the provision of third-party access.

There are common arguments against the provision of open access arrangements including:

- Community service obligations necessitate the exclusive utilisation of monopoly infrastructure to fund the CSO.
- Open Access contravenes Australia Post's obligations to act commercially.
- Open Access disincentivises further investments in regional and rural infrastructure.

Team Global Express is of the view that these challenges are either overstated, or misdirected and can be overcome.

Challenge 1 – Community service obligations does not justify the use of monopoly infrastructure to lessen competition in non-reserved markets: Australia Post has a community service obligation under section 27 of the Australia Post Act to 'supply a letter service' and its associated regulated monopoly has been provided for the purpose of delivering this reserved service. While Team Global Express supports Australia Post leveraging its postal infrastructure to gain additional revenue and leverage its parcel business to support its CSO, the CSO obligation should not be used to lessen competition and economic welfare for regional and rural customers in other competitive markets, such as those for parcel deliveries.

Challenge 2 – Legislative obligations to act commercially does not bar third party access: Team Global Express is not seeking free or subsidised access to Australia Post's Last Mile Infrastructure, as such providing access is consistent with commercial obligations under the Act.

Team Global Express' submission has demonstrated that third-party access will provide additional revenues to Australia Post, to licenced post offices, reduce Australia Post costs by mitigating the need for minimum commission payment to licensees, and that access will grow the parcels market in regional and rural Australia (i.e., not a zero-sum game).

Challenge 3 – Third party access does not disincentivise investment in the regional and rural network for postal delivery service: Similarly, access would be based on a commercial return, which should create addition financial resources for investing in the regional and rural network and infrastructure.

An open access regime for Last Mile services will not extinguish the incentives to invest in regional and rural networks. Such arguments have been made when other monopoly infrastructure have been opened up to third party access. Any open access arrangement provides the infrastructure owner with healthy risk-adjusted returns above and beyond their reasonable costs.

Team Global Express looks forward to working with this review, the Federal Government and Australia Post to implement an open access model that will ensure superior postal and parcel delivery services for regional and rural Australians, improved financial viability of the CPA/LPO networks, and create a more efficient and commercially viable Australia Post business model.

We also see merit in establishing a collaborative investment framework that would promote co-investment to improve and expand the regional and rural network. We would welcome the opportunity to work with the Government and other industry representatives to determine what this framework could look like. These reforms would be in the absolute interests of regional and rural communities and businesses.

Economic Benefits of Opening Access to Community Post Offices and the Letter Last Mile Infrastructure in Regional Australia

A Lateral Economics report prepared for
Team Global Express

27 April 2023

LateralEconomics

CAPABLE, INNOVATIVE, RIGOROUS

Executive Summary

Background

Stretching back at least to Federation, Australians have always understood the postal service to be nation defining infrastructure. It is part of the national compact that anyone within Australia should have reasonable access to that infrastructure, if necessary at the cost of some cross-subsidy from city dwellers who are more easily serviced. However, as our economy has become more complex, perversities have crept into the way we deliver on this mission. Today, the traditional way we have financed the community service obligation to the bush is having a perverse effect.

The Australian parcel delivery market is growing strongly, supported by a profound structural shift to online shopping. Today, households and businesses expect their parcels to be delivered regularly, efficiently and cheaply in the same way that consumers of yesteryear expected a high quality letter delivery service. And yet not only are the current policy settings preventing the bush from getting better parcel delivery, they are actively undermining it. This report highlights the mismatch between a regulatory framework focused on the past and the potential economic future of the bush. This future will be, as it always has been, determined by the thousands of regional businesses — large and small — being able to receive their inputs into production (from machinery parts to printer ink), and deliver their products and services more efficiently using fast, reliable and inexpensive eCommerce platforms and transport logistics services.

In 2023, the $6 billion Australian parcel delivery industry, which employs 30,000 Australians, sits at the intersection of digital platform services and transportation logistics technology, competition policy, public versus private ownership, community service obligations, and the many demographic, economic, environmental and social issues related to Australia's metro-regional divide. Notwithstanding this complexity, there is broad community support for the policy objectives of:

(i) promoting competition and economic development in regional Australia; and, more specifically,

(ii) of providing an equivalent level of service for parcel delivery in the bush (compared to the city).

Team Global Express (TGE) has asked Lateral Economics to undertake a study of the economic costs and benefits of opening access to Australia Post's 'last-mile' network of 3,600 licensed and community post offices and related infrastructure spread across Australia. The questions considered in this report relate to whether an improvement in parcel delivery services in the bush is possible and, if so, what are the potential economic and social impacts on

Australia's regional, rural and remote communities and, finally, what legislative, regulatory, commercial or other pathways are available to achieve these benefits.

The problem

Domestic competitors to Australia Post's dominant position in the Australian parcel delivery market have unsuccessfully sought access to AusPost's 'last-mile' infrastructure network in regional Australia. That network incorporates the Out of Home (OOH) parcel locker networks that are generally located at the premises of Licensed Post Offices and Community Postal Agents, as well as the distribution centres, postal delivery vehicles and supporting digital infrastructure. Taken together, this last-mile network infrastructure has not been successfully replicated by a competitor outside of metropolitan Australia.

Australia Post is averse to allowing businesses it sees as potential competitors access to its last-mile network. It has, effectively, rebuffed domestic competitors' good faith attempts to negotiate access on commercial terms. The ultimate victims of this failure to "get to yes" are the households and businesses of the bush. Each household will gain a small amount from a cheaper, more responsive parcel service in the bush. This is also the case for businesses. But, as our economic modelling shows, there is a twist. For a few of the hundreds of thousands of regional small businesses, the small benefit they gain from incremental policy change will tip them from losses to viability. As the quality of 'last mile' logistics improves, it will tip around 1,000 of them from 'struggling' to 'surviving'. And around 11 of them will end up with $10 million in turnover and above. They will become local champions producing specialty offerings from rural and remote Australia that will enter distant markets in Australia and worldwide.

Estimated impacts of open access

LE has modelled the potential economic costs and benefits of open access to AusPost's last-mile network infrastructure in regional, rural and remote Australia. In particular, we have constructed a scenario where competitors are able to negotiate access to AusPost's out-of-home (OOH) parcel pick-up network located at the around 2,500 (of 3,600) licensed and community post offices across regional, rural and remote Australia. Summing gross costs and benefits, **we estimate significant net benefits of open access** relative to a counterfactual case based on the current 'no access' market structure.

We found that moving from the base case of 'no access' to the 'open access' case produced substantial net benefits for the Australian community, shared among consumers, the network of licensed and community post offices in regional, rural and remote Australia, and the parcel delivery industry (i.e. competitors to the AusPost parcel business) and Australia Post (the corporation). **The total net benefit of the policy change over the 10-year study period is estimated to be $1.5 billion in net present value terms**.

- Households benefit because greater competitive pressure leads to lower parcel delivery prices.
- Businesses using parcel delivery services benefit from more efficient, reliable and responsive pick-up and delivery services.
- The logistics industry benefits because its better leads to an expansion in market demand that outweighs any loss in industry revenue from lower prices or loss of market share.
- Post offices benefit because the increase in market demand increases their parcel storage revenues.
- Australia Post (the corporation) benefits because, despite the increased competitive pressure, it gains from: (i) the access arrangements generating more license fee revenue, and (ii) the expansion in total market demand increasing its total revenues.

Table E-1 Estimated economic benefits of 'open access', classified by sector

Sector	NPV $M	Share of benefits (%)
Households	461	29.9%
Businesses (excl. post offices & integrated logistics businesses)	137	8.9%
Post Offices	177	11.5%
Australia Post	38	2.4%
Integrated logistics businesses	404	26.2%
Other community (i.e. tax, GHG reduction)	325	21.1%
Total	**1,542**	**100.0%**

Source: LE analysis.

Finally, our economic modelling suggests that the expansion of parcel delivery services can be expected to create around 2,000 full time jobs across Australia over the next decade, with over 1,000 of those jobs created in the bush. Job creation is vital for regional economic development and to underpin the social wellbeing of Australia's regional communities, especially during a time of economic transition away from the traditional industries that have supported many regions for more than a century.

1. Introduction

1.1 The study

Team Global Express (TGE) has asked Lateral Economics to undertake a study of the economic benefits of opening access to licensed community post offices in regional Australia.

1.2 Background and scope of work

Domestic competitors to Australia Post's dominant position in the Australian parcel delivery market have requested access to the AusPost's 'last-mile' network in regional Australia.

TGE has defined 'last-mile' delivery infrastructure as any infrastructure where post or parcels are disaggregated and sorted ready for pick-up or delivery to the home, PO Box or parcel locker. This includes the following physical infrastructure:

- Distribution centres where postal workers (i.e. posties) pick up letters and parcels for delivery to the home;
- The postal delivery service (vans, electric bikes etc.);
- Community Postal Agents and community Licenced Post Offices;
- The parcel locker network; and
- Digital infrastructure, including IT systems for tracking parcels, and notifying customers on delivery and pick-up.

Australia Post is averse to allowing businesses it sees as potential competitors access to its network. It has, effectively, rebuffed and rejected competitor's good faith attempts to negotiate a commercial arrangement to use AusPost's regional network of Licensed Post Offices (LPOs) and Community Postal Agents (CPAs) for the drop off and pick up of parcels. TGE has also been unsuccessful in seeking to negotiate with AusPost to have posties deliver parcels to the premises (i.e. the 'last mile') on their behalf.

It's worth noting the AusPost is a publicly owned corporation with a legislated monopoly in the delivery of letters and issuance of postage stamps. This monopoly has required AusPost to build a network of delivery points across Australia, even in regions with very low population density. It is arguable that this network exhibits natural monopoly characteristics.

Team Global Express contends that better outcomes for Australians, particularly those living and working in regional Australia, would come from allowing open access to AusPost's extensive regional community post office network.

A good case can be made for this, both in terms of the direct economic benefits to regional Australia and also on competition policy grounds.

Box 1: Nicholas Gruen's 1997 call for Extended Access to GBEs

"In the national access arrangements, before compulsory access arrangements are invoked, we require a range of tests to be met including:

· that the asset is of national significance,

· that providing access will increase competition and

· that access will not be contrary to the public interest.

Of course this is second best. We would like to see less monopolistic and restrictive behaviour than we do even where these tests cannot be passed. But the judgement is made, I think rightly, that we impose competition policy only where we are confident its benefits (in reducing the economic costs of monopoly) outweigh its costs (attenuating freedom of contract and increasing business uncertainty).

But why should we be so reticent in requiring business enterprises, which are fully publicly owned, to act in a way which is not monopolistic or restrictive? What I have in mind is that a rider be imposed on the overriding objective we give to managers of wholly publicly owned GBEs. They would be charged with the task of maximising returns on funds subject to the additional condition that they not engage in monopolistic pricing or restrictive behaviour.

Put another way, wherever a GBE faces a conflict between commercial objectives (its own self-interest) and being competitive (including providing competitors and potential competitors with access to its facilities [which are more consistent with the *public* interest]) competitive rather than commercial objectives should dominate. … I will call this 'extended access' to distinguish it from the existing access arrangements which apply by virtue of the National Competition Policy."

Source: Gruen, N. 1997. "Competitive neutrality and access to government business enterprises: Can one have too much of a good thing?", A paper delivered at the 26th Annual Conference of Economists, University of Tasmania, Hobart

Under this proposal, where infrastructure assets were fully government owned, it would be presumed that they should be required to grant access to anyone seeking access to them at cost reflective prices. And in 1998, the National Competition Council (NCC), in its review of the Australian Postal Corporation Act, recommended a suite of pro-competitive reforms including the removal of the Part IIIA of the (then) TPA which relates to the declaration of monopoly infrastructure, and reversing the onus of proof for monopolistic behaviour where a postal service provider has a substantial degree of power in a postal services market (e.g. in regional Australia).

It is expected that the economic benefits of open access would include:

- reductions in delivery costs, which would directly benefit households and businesses using parcel delivery services;

- expansion of e-commerce opportunities in regional Australia (as a result of lower costs and greater responsiveness to market needs, particularly for faster and more frequent delivery);
- additional revenue for regional community post offices, improving their financial viability;
- reductions in greenhouse gas emissions (GHG) due to more efficient delivery of parcels (i.e. avoiding duplication of delivery effort), especially in the "last mile" where an estimated 30 percent of total GHG emissions related to delivery occur; and
- a strengthening of rural communities via the more efficient and productive use of transportation infrastructure.

1.3. What we did

Based on publicly available information and discussions with industry, we compared a scenario where parcel delivery competitors were able to negotiate access to AusPost's LPO/CPA and 'last mile' network on commercial terms and compared that to the current situation of no competitor access. We used a cost benefit analysis (CBA) framework, which is a widely-used, highly credible and transparent approach to valuing the net benefits or costs of a policy proposal in 2023 Australian dollars at a given time relative to a Base Case scenario. As part of the CBA, we also estimated the potential economic benefits of the policy change on regional communities. Finally, we drew a number of conclusions and provided a recommended pathway forward to increase competition in the parcel delivery services market in regional Australia.

1.4. Structure of the report

Following this Introduction, the report is structured as follows:

- Chapter 2 provides an overview of the Australian parcel market and considers the challenges and opportunities facing the market in the decade ahead;
- Chapter 3 provides an overview of the legislative framework governing AusPost's operations, the restrictions on competition that framework imposes, and a recommended pathway to achieve open access;
- Chapter 4 presents the results of the cost benefit analysis (CBA);
- Chapter 5 summarises the findings and conclusions of the report; and
- Appendix A provides a table summary of the key parameter assumptions applied in the economic analysis

2. Australian parcel market

2.1. Background

2.1.1. Size and scope of parcel delivery in Australia

The Australian parcel market is growing strongly this decade, driven by a profound structural shift to online shopping that has been made possible by the rapid innovation and growth in digital technology.

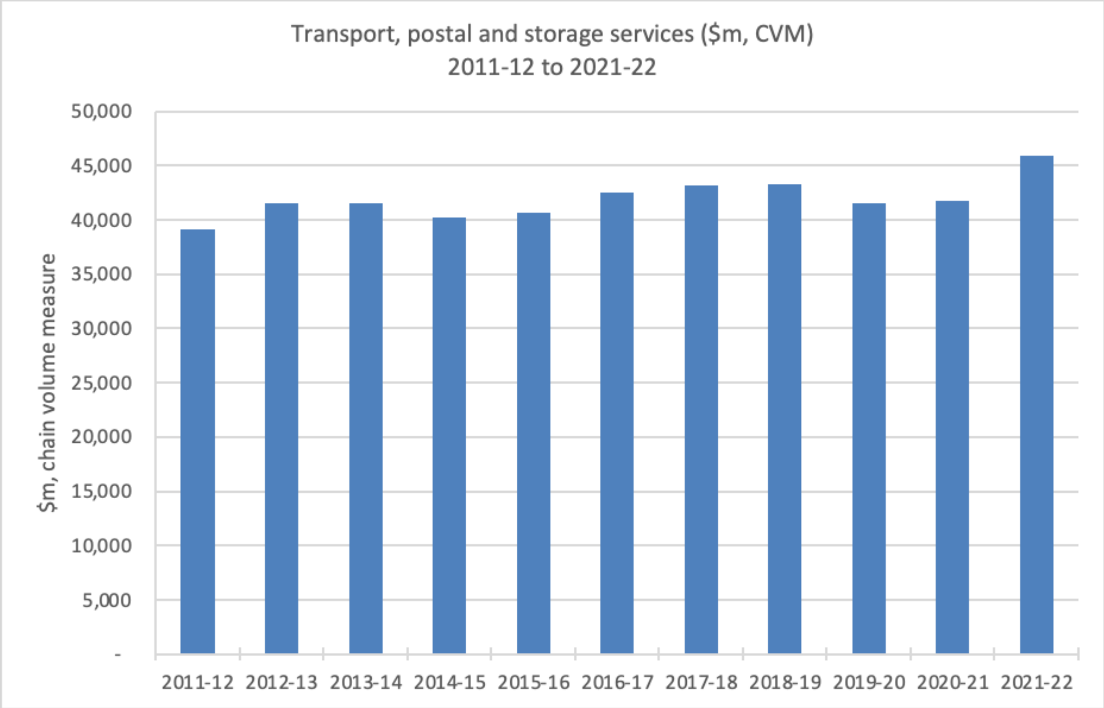
Australia's domestic parcel market generates more than $6 billion in annual revenue, $2 billion of which is value-added, and employs more than 30,000 workers.[1] Australia Post dominates the parcel delivery market with an estimated 70 per cent of the business-to-consumer (B2C) parcel market. Australia Post delivered more than half a billion domestic parcels in the 2021-22 financial year, with parcel volumes in 2022 almost 70 percent higher than they were before the Covid-19 pandemic (Australian Government, 2023).

The Australian parcel market comprises courier pick-up, distribution and storage, and last mile delivery. In the national accounts, the parcel market is a subset of the larger ANZSIC industry *Transport, Postal and Storage Services (TPSS)*, which accounted for 2.1 percent of GDP in 2021-22 (or $46 billion in annual value-added terms).[2] The broader industry grew by 17.1% in the decade since 2011-12 (or by 1.6% per year) compared to real GDP growth of 25.7% (2.3% per year), (Chart 2-1).

[1] LE estimates for 2021-22 based on various sources including ABS 5204.0, industry annual reports, and IbisWorld (October 2022). Value-added comprises the returns to capital (gross profits) and the returns to labour (gross wages paid).

[2] *Transport, Postal and Storage Services* is a subset of the larger *Transport, Postal and Warehousing industry*, which has accounted for between 4.5%-5.0% of GDP since 1975. See Australian System of National Accounts (ABS 5204.0 Table 5 Gross Value Added (GVA) by Industry). Accessed here: https://www.abs.gov.au/statistics/economy/national-accounts/australian-system-national-accounts/latest-release#data-downloads

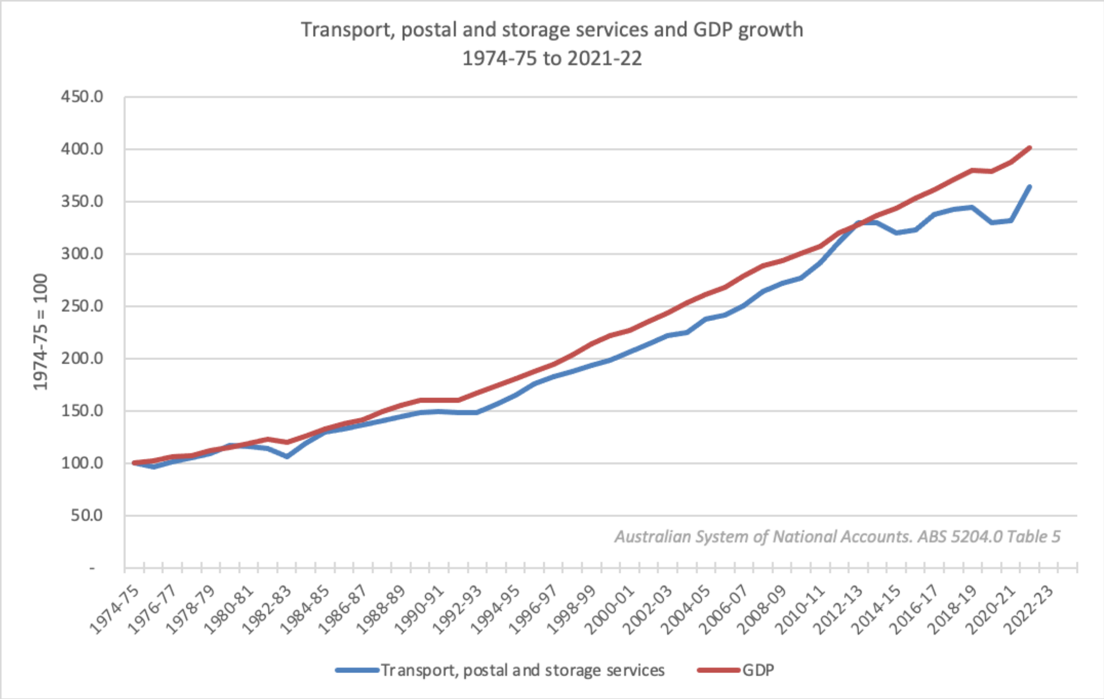
Chart 2-1 transport, postal and storage services growth, 2011-12 to 2021-22



Source: LE analysis based on ABS 5204.0 Table 5.

Taking a longer view from 1974-75, the industry experienced strong growth (relative to GDP growth) from the end of the recession in the early 1990s to the end of the mining boom in 2011-12. This period of strong growth was supported by the ICT-led productivity growth surge in the 1990s (allowing for better freight optimisation and management) and the mining investment boom in the 2000s (that generated increased real incomes and demand). Industry growth was relatively flat in the mid to late 2010s before the Covid-induced surge in demand from 2020-21. This was facilitated by the significant innovation and expansion in digital platform services (in the 2010s) that facilitated the extraordinary growth in eCommerce applications (e.g. online shopping and merchant payment services), (Chart 2-2).

Chart 2-2 Transport, postal and storage services growth relative to Australian GDP growth, 1974-75 to 2021-22.



Source: LE analysis based on ABS 5204.0 Table 5.

2.1.2. Growing significance of Out of Home (OOH) pick-up

The 'last-mile' of parcel delivery, that is the network leg from the last distribution centre to the final destination (e.g. home or business), generally accounts for a significant proportion of the total resources cost of delivery. This is because there are large productive efficiency gains from bundling parcels to the same destination. However, in areas of low population density, the scope to realise these potential efficiency gains is much lower, leading to higher average costs of delivery. Experts have estimated that the cost of the last mile accounts for approximately 41 percent of supply-chain delivery costs (Marek, 2020).[3] In regional and rural Australia, these last-mile costs are much greater relatively and could account for between one-half and three-quarters of total supply chain delivery costs.[4]

An alternative to last-mile delivery is OOH pick-up at the local parcel centre (e.g. post office) that works in the same way that a parcel drop off works. Businesses or households would pick-up their parcels at a time convenient to them, for instance as part of a regular commute into the town centre to buy groceries, pay bills, or do their banking.[5] These OOH parcel pick-up lockers

[3] See here: https://postandparcel.info/119602/features/e-commerce-features/australia-to-see-a-significant-increase-in-out-of-home-deliveries/

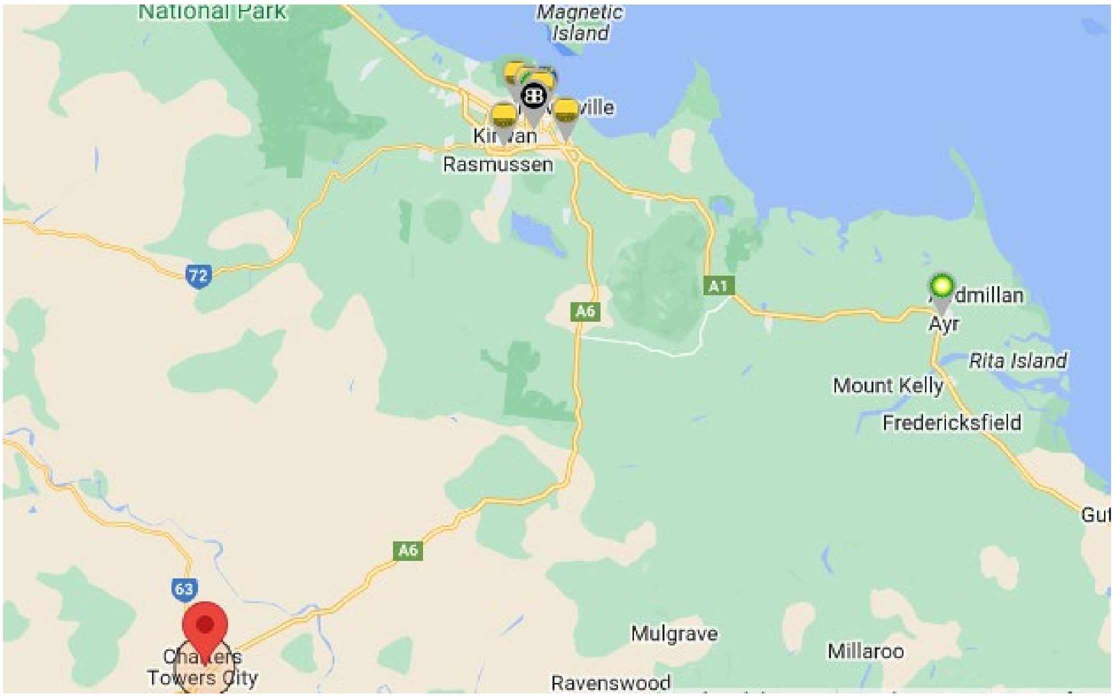
[4] LE estimate based on industry analysis and consultation.

[5] A significant proportion of older Australians prefer to pay their bills at a post office rather than online or via a mobile phone application. For a discussion of trends in payment methods, see here: https://www.rba.gov.au/publications/bulletin/2020/mar/pdf/consumer-payment-behaviour-in-australia.pdf

may be staffed, especially during normal business hours, but may also be accessible after hours. In the future, technological developments could further improve the OOH pick-up services in terms of safe around the clock access, live tech support (via a mobile phone App for example), and secure and verified pick-up.

There are competitors that have attempted to duplicate the AusPost parcel pick-up network, at least partially. For example, Hubbed is an Australian parcel collection point network of more than 3,000 retail locations that is utilised by Australia's major parcel delivery carriers.[6] However, Hubbed is not located in Australia's smallest towns or regions, while community post offices often are. For instance, this is the case in Charters Towers, south-west of Townsville in North Queensland. Consider the lack of Hubbed locations in Charters Towers compared with eight locations in Townsville and one location in Ayr, at the BP (Exhibit 2-1). This demonstrates the challenging nature of parcel delivery in the remote and very remote parts of the country.

Exhibit 2-1 Hubbed locations in Charters Towers versus Townsville and Ayr



Source: https://hubbed.com/locations/

The OOH parcel pick-up model can also significantly reduce the costs of a 'failed delivery', where, for example, a signature and/or identity verification is required for collection. Some pick-up points can utilise modern identification technology (e.g. passcodes or two-factor identification) to ensure a safe and secure transfer of parcels without the need for human-to-human interaction.[7] The important point is that advances in digital technology are likely to further enable a seamless experience for consumers collecting their parcel from OOH lockers.

[6] https://hubbed.com/

[7] See, for example, www.hubbed.com

These are real costs experienced in the Australian community. A 2022 consumer survey (sponsored by Hubbed) found that 73 percent of respondents agreed that "Parcels took longer to be delivered than stated when the order was placed" and that 27 percent agreed that the "Parcel was taken back to the depot because no one was home" and 28 percent agreed that "It was inconvenient for me to collect my parcel from a post office".[8]

Returns continue to be a significant part of online shopping and only one-third of shoppers regard their experience with returns "easy" or "very easy". Returns are common practice in Australia. Almost three quarters (71%) of shoppers say they have returned an item they have bought online. When making a return, 61% say they would prefer to drop off their parcel to a pick-up drop-off (PUDO) point rather than wait for a courier (22%) or drop off in store (17%).

2.1.3. OOH parcel pick-up will grow in line with overall parcel growth

AusPost's network has enjoyed nominal revenue growth of at least 5 percent annually in its parcel business over the past five years. The parcel business now contributes almost two-thirds of AusPost's total revenues. It is not surprising then that Australia Post is leading the market in rolling out a national network of parcel lockers, with 640 parcel locker locations and more than 51,000 lockers currently available (as at early 2023). The volume of items collected from a parcel locker grew by 50 percent between 2018-19 and 2021-22. Australia Post is continuing to invest heavily in lockers and aims to provide a '24/7' service, which would greatly increase consumer convenience in terms of choosing the best time to collect their parcels. (Australian Government, 2023).

LE expects that the growth in OOH parcel pick-up will continue (at 10–12% per year over the next decade) and outpace the expected strong growth in the volume of parcels sent (at 7-9% over the next decade). In other words, there will be relatively strong market growth with a transition in market share from last-mile delivery to OOH pick-up. LE also expects that there will be pressure put on AusPost's leading position in metro areas from the entry of Amazon and continued vigorous price competition, which is likely to impact AusPost's margins and overall profitability. This will, in turn, put pressure on AusPost to fully recover its costs of last-mile delivery in regional and remote areas of Australia (to the extent that it is under-charging), rather than continue to charge a uniform national price of delivery.[9] If AusPost were forced to fully recover costs in the bush, then prices would need to rise on certain costly routes. This would increase the attractiveness of transferring as much of its last-mile delivery service in those high cost areas to OOH pick-up instead.

[8] See here for the full survey report: https://hubbed.com/wp-content/uploads/2022/11/The-Growing-Importance-of-Delivery-Choice-in-the-eCommerce-Industry.pdf

[9] From Australia Post's perspective, it may derive commercial benefit from providing affordable services to non-metro areas and that, by offering an attractive nationwide price to high-volume senders and merchants, it can win and maintain a greater share of the national B2C parcels market.

2.2 The opportunity

2.2.1. eCommerce has grown rapidly, supported by digital platforms and parcel delivery

The Australian economy continues to be transformed by rapid growth in eCommerce, which has accelerated in recent years. The size of Australia's digital economy has been estimated by the ABS to be 6.1 percent of GDP in 2020-21, and other estimates put that share at up to 10 percent of GDP.[10]

The significant investment, innovation and growth in the scale of digital platform services over the past two decades has allowed consumers and businesses to increasingly find and purchase goods and services online and a vast majority of those goods can be delivered efficiently to the home, office or local parcel pickup centre. This greater convenience has been underpinned by equally significant investment, innovation and growth in Australia's transport and logistics industry. In this regard productivity growth is particularly important given Australia's relatively low population density and high delivery costs outside major capital cities.[11]

Australia's transport and logistics supply chains have been evolving to meet the greater demands of households and businesses, who now expect same day or next day delivery for many common household and business products, rather than the traditional periods of 7-15 days (or more) typical of previous decades. Finally, another important innovation has been the 'no touch' parcel drop-off that is now common for takeaway and grocery delivery, where a photograph of the parcel at the business or residence replaces the need for a signature in many cases and, hence, potentially lowers the cost of 'failed deliveries' significantly.

2.2.2. COVID-19 has accelerated those trends

The social distancing restrictions related to COVID-19 increased the demand for online shopping (e.g. home delivered groceries) on the one hand, but reduced the timely supply of goods on the other, as domestic and global supply chains were severely impacted. Since the beginning of 2022, these COVID-related impacts, which are still being felt, have been further exacerbated by shortages arising from the Ukraine war.

Chart 2-3 illustrates the growth in parcel storage and delivery services over the past decade. It shows the extraordinary 'double-humped' growth surges during the major Australian lock-down

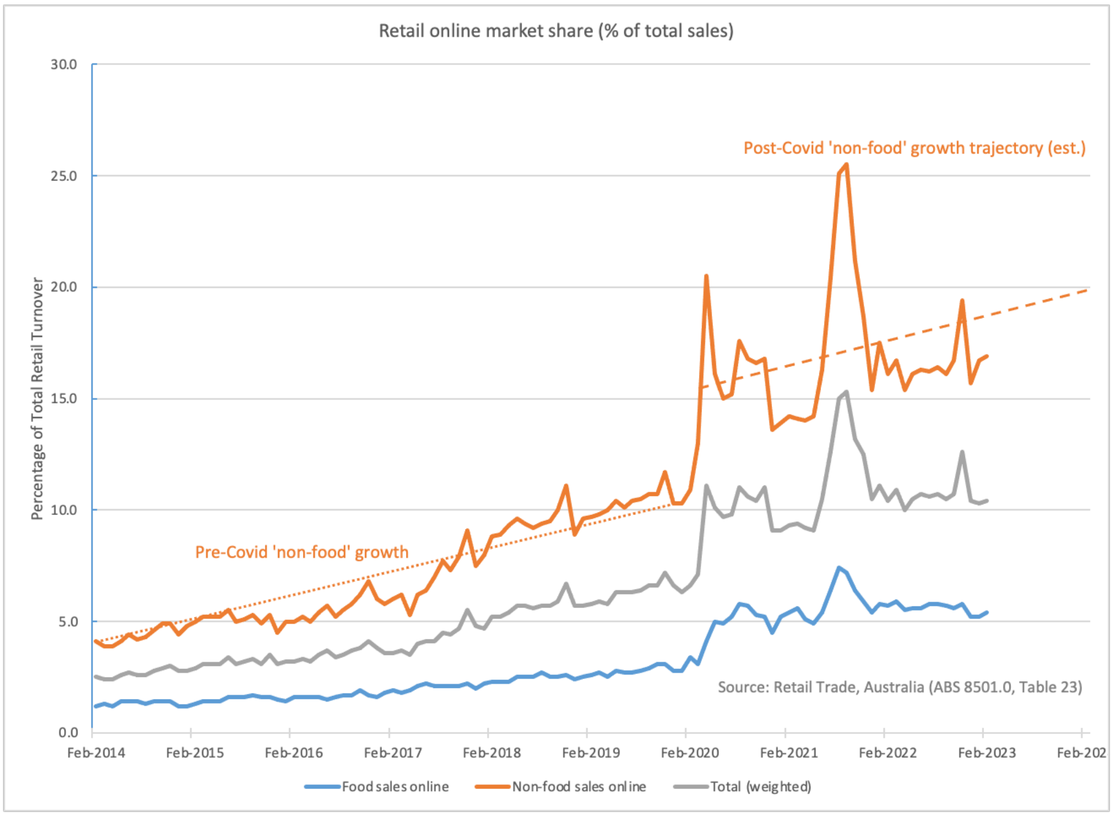
[10] See Digital Activity in the Australian economy (ABS 2022), accessed here: https://www.abs.gov.au/articles/digital-activity-australian-economy-2020-21 and, for example, Digital Future Initiative (Google Australia, 2022), accessed here: https://blog.google/intl/en-au/company-news/outreach-initiatives/digital-future-initiative/

[11] An example of a recent innovation in Australia's transport and logistics industry is the National Freight Data hub. See here: https://datahub.freightaustralia.gov.au/

periods in Victoria (in 2020) and NSW (in 2021).[12] Over the past decade, the share of non-food sales online has increased from less than 5 percent of total retail turnover in 2014 to more than 15 percent in 2023 (ABS, 2023).[13]

There is both macroeconomic and industry-level evidence that the Covid-related demand shock has caused a permanent (or structural) increase in the extent of online shopping and, relatedly, the size of the parcel delivery services industry. Chart 2-3 (below) indicates that Covid has induced a structural lift in the 'Non-food sales online' share of total retail turnover of about 5 percentage points. The five-year average annual growth rate for courier pick-up and delivery services has been estimated to be 8.4 percent.[14] According to a recent consumer survey undertaken by Australia Post, by 2033 it is expected that 1 in 3 retail dollars will be spent online (Australia Post, 2023).[15] Overall, the evidence suggests that the growth rate in online shopping is likely to average between 8-10 percent per annum over the rest of this decade before ultimately returning to match the growth rate in population and incomes.[16]

Chart 2-3 Growth in retail online market share, Food and Non-Food (2014 to 2023)



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[12] See here for a detailed timeline of the COVID period in Australia: https://www.aph.gov.au/About_Parliament/Parliamentary_departments/Parliamentary_Library/pubs/rp/rp2021/Chronologies/COVID-19StateTerritoryGovernmentAnnouncements

[13] Retail Trade Australia, ABS 8501.0 Table 23 (February 2023).

[14] Postal Services in Australia (IBISWorld Industry Report I5101, August 2022).

[15] https://auspost.com.au/content/dam/auspost_corp/media/documents/ecommerce-industry-report-2023.pdf

[16] LE estimate based on various industry sources, including AusPost annual reports, discussions with industry, and IBISWorld (2022).

Source: LE analysis and estimates based on ABS 8510.0, Table 23.

2.3. Market dynamics in Australian parcel delivery

2.3.1. Australia Post plays a central role

Australia Post is the dominant player in the $6 billion parcel delivery services industry in Australia with an estimated 80 percent market share.[17] This market share has been protected by the legislated requirement for Australia Post to meet its letter delivery obligations, which require an extensive regional postal delivery network. The AusPost brand connects the largest retail network in Australia – from Christmas Island to Lord Howe Island and Kangaroo Island to Thursday Island, and this represents a significant incumbent advantage to meet the growing demand for parcel delivery, especially to the home.

Australia Post delivers more than 1.3 million parcels per day to a network of more than 12 million delivery points (e.g. businesses and residences) around Australia. In addition to its more than 4,300 post offices, Australia Post's physical assets include more than 15,000 street post boxes, several thousand motorbikes and delivery vans, more than 2,000 trucks and half a dozen airline freighters.[18]

That said, AusPost's metro network now faces increased competitive pressure from existing players and new entrants like Amazon. To the extent that this more vigorous competition reduces margins, Australia Post will have less scope to offer a uniform national parcel delivery price to its high-volume business clients. If Australia Post is forced to review and increase its non-metro rates (i.e. aim for full cost recovery plus a margin on its regional and rural routes), then the OOH pick-up option becomes significantly more attractive. This would at least partially explain Australia Post's significant recent investments in OOH pick-up network infrastructure.

2.3.2 Especially in the bush

Three-quarters of the 4,300 post offices that provide vital services to the Australian community are operated as small businesses acting as licensees (LPOs) and agents (CPAs). Approximately 60 percent of AusPost's retail outlets are located in rural, regional and remote areas of Australia, which is a significantly greater footprint than for other Australian industries (Australian Government, 2023). Of these, 900 post offices in regional, rural and remote Australia (more than one-third of all regional post offices) support 'in-conjunction with' businesses (Deloitte, 2020). Almost 40 percent of total parcel collections occur in regional and remote communities, representing almost 36 million parcels in 2018-19 (Deloitte, 2020). And regional and remote business owners visit their local post office once per week on average (Deloitte, 2020).

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[17] Ibid.

[18] LE estimates based on Australia Post annual reports and industry discussions.

Their ubiquitous presence and trusted status allows post offices to play an important economic and social role in regional communities. Collectively, they are a vital national institution. Deloitte (2020) found that 92 percent of regional and remote residents believe Australia Post is important for equity of access to core services. In addition to traditional services, post offices facilitate access to essential services in regional communities and provide support to the most vulnerable Australians. Services include:

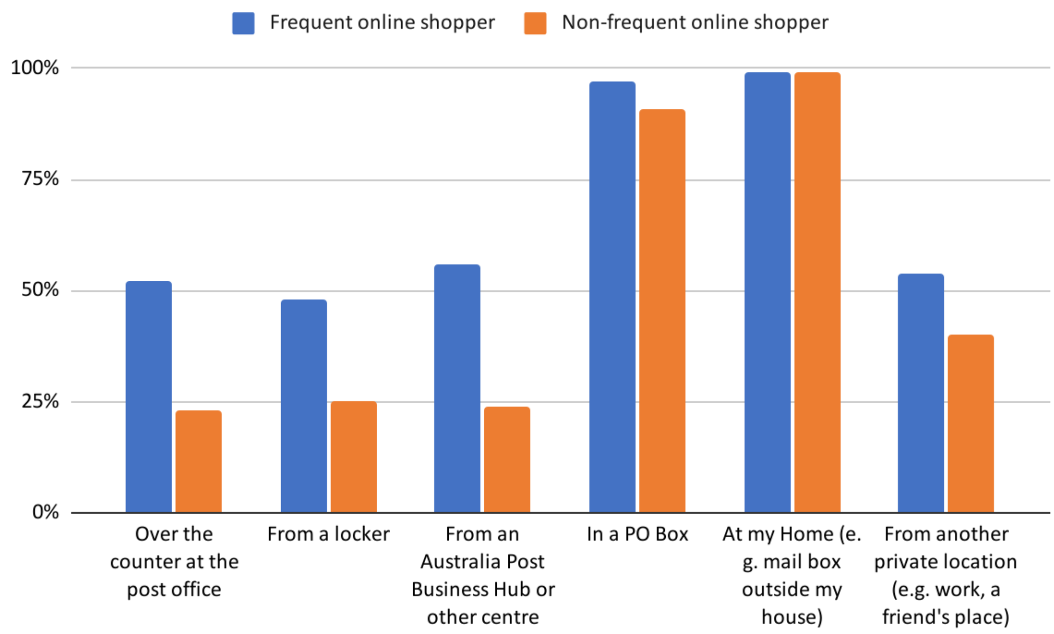
- Parcel storage, pick-up and delivery
- Paying bills (e.g. utilities, rates)
- Passport applications and processing
- Document certification services (e.g. Wills)
- Non-postal merchandise
- Identity verifications (1.6 million verifications completed in 2018-19)[19]

Deloitte (2020) found that half of regional Australians are frequent online shoppers who are "significantly more likely to check and/or collect parcels and mail from post office counters, parcel lockers and Australia Post hubs" (Deloitte 2020, p.33).

The chart below (from the Deloitte report) shows the frequency of checking and/or collecting parcels by type of collection method. For example, 52 percent of frequent online shoppers will check and/or collect parcels and mail from their local post office at least once per fortnight. This frequency underpins the viability of regional and rural post offices.

[19] Deloitte (2018, 2020, 2022).

Figure 2-1 Frequency of checking and/or collecting parcels and mail from different sources



Source: Deloitte Access Economics (2020).

2.3.3. AusPost's regional dominance is supported by a network of licensees and agents

Meeting its CSO obligation to deliver letters to every address in Australia requires the high fixed costs of maintaining an extensive geographic network, even in areas of low and very low population density. To minimise these high fixed costs, AusPost engages LPOs and CPAs to provide the coordination and delivery services in regional and rural Australia. By engaging agents who already run small businesses, such as a general store, pharmacy or newsagent, fixed costs can be significantly reduced.

These businesses are legally and commercially linked to AusPost via agreements that specify various obligations and benefits.

For LPOs, the agreements state that:

- As a licensee, you'll be granted a licence to use our systems, manuals, trademarks and image in operation of the LPO.
- There is no term for the licence, which can be assigned or transferred at any time subject to our approval.
- You can manage the outlet on a day-to-day basis or appoint a manager. You're also responsible for recruiting, training and managing your staff.
- Trading hours are typically 9am to 5pm Monday to Friday and 9am to 12 pm Saturday. LPOs often open for extended trading depending on local circumstances.

- As a licensee, you're responsible for the premises. This includes fit-out (subject to our approval); maintenance; and operating costs. You may also need to pay a point-of-sale technology fee.
- You'll earn an income from fees and commissions for the work you perform. You'll also receive a discount when purchasing Australia Post products.[20]

For CPAs, the agreements provide for, and require:

- ongoing training, support and materials;
- a representation allowance;
- 10 percent discount on the sale of postage stamps (if an approved weighing instrument is in place);
- payment for each counter delivery point, based on up to 35 percent of the Rural Frequency Delivery Guide (this is made monthly in arrears and is reviewed annually);
- discounts on the purchase of pre-paid postage products for sale; and
- public liability insurance paid through an overall policy.[21]

Both LPOs and CPAs are responsible for securing their own debt and meeting their payment obligations. Further, we are informed that financial support from Australia Post is available only if the postal business earns less than $50,000 in commissions (i.e. revenues from AusPost related goods and services). Despite these financial limits on corporate support, these small businesses are restricted from working with any other business that Australia Post does not approve of, specifically other domestic parcel providers (see discussion at section 3.2.2.).

These legally binding agreements create AusPost's regional network, which would be difficult to duplicate at the same cost in regional and, especially, remote Australia because of a combination of very limited infrastructure options — hence the colocation of CPAs with other businesses, and the high fixed costs of a geographically dispersed home delivery network.

2.3.4 Australia's low population density impacts competition in the bush

It has long been recognised that Australia's low population density outside of our capital cities is a limiting factor on productivity and economic growth.[22] For example, the large distances between towns in regional and remote Australia increase the capital costs of the vital road, rail, electricity, gas and water network infrastructure that service these regions. And the per capita operating costs of providing goods and services to Australia's remote and very remote communities is much higher, on average, than in the United States or Europe for example (Dolman, 2007).

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[20] https://auspost.com.au/about-us/operating-as-a-post-office/licensed-post-office-lpo-information

[21] https://auspost.com.au/about-us/operating-as-a-post-office/community-postal-agents-cpas

[22] See, for example, Blainey (1966) and Dolman (2007).

Australia's tyranny of distance means that for many businesses operating in regional and remote Australia, Australia Post's delivery infrastructure is essential to facilitate commerce.

Without the AusPost network, many small and medium sized businesses would fail. Competitors to AusPost have been unable to build cost effective parcel storage and last mile networks in many parts of regional and remote Australia that would allow customers to either pick up their parcels at a convenient central location or enjoy home delivery, rather than having to travel long distances to a competing courier depot in order to retrieve their parcels.

So while the recent rapid growth in eCommerce has partially opened the door to more competition – since an expansion of demand would, all things being equal, provide business to higher cost suppliers, this competition is most intense in Australia's capital cities where TGE, DHL, Fedex, Amazon and others compete vigorously with AusPost.

But despite its market dominance in regional Australia, the AusPost business model is under threat from technological innovation and changing consumer tastes that has put its letter business under long-run pressure.[23] For example, the demand for in-store products and services has declined by almost 40 percent since 2013-14 as a result of declining foot traffic (Australian Government, 2023). As the Australian Government's Modernisation Discussion Paper observed:

"The postal services industry was once the main mode of communication in Australia, but technological changes disrupted the industry long ago, with letter volumes declining 66 percent since they peaked in 2007-08. The use of letters services will continue to decline, driven by customer migration to increasingly accessible, affordable and sophisticated digital alternatives — the average Australian household receives only 2.4 addressed letters each week, down from 8.5 each week in 2008, and this is expected to almost halve in the next five years." (Australian Government, 2023).

2.3.5 Industry productivity

Based on the publicly available evidence, LE estimated the long-run postal services labour productivity growth rate in Australia at 2 percent per year.[24] This estimate is based on long-run labour productivity growth in the *Transport, Postal and Warehousing* industry, which (on an hours worked basis) has averaged 2 percent per year since 1989-90.[25] Industry productivity

[23] There is some evidence that the long-run trend decline in demand for letter delivery in Australia (at around 7% per year) is slowing and may ultimately reach its lowest annual volume well above zero. In other words, even with technology changes and the related changes in consumer preferences, letters may not completely disappear from the postal landscape. This slowing is also evident in overseas countries. See, for example, UPU (2022).

[24] Estimating productivity growth in postal services in Australia is outside the scope of this report. Therefore, a proxy measure has been used, based on ABS productivity data for the broader industry classification — *Transport, Postal and Warehousing* (ANZSIC industry 'I'). Labour productivity in the whole market sector has averaged 1.97% per year since 1995-96 (ABS 5260.0.55.002, Table 21).

[25] Estimates of Industry Multifactor Productivity, ABS 5260.0.55.002 Table 6 (13 December 2022 release).

slowed since the end of the mining boom in 2011-12, but has picked up recently following the Covid-19 period (2020 and 2021).[26]

Based on our estimate of long-run productivity growth, we estimated a small dynamic efficiency gain of 0.2% per year or 2.0% in total over the 10-year study period. This additional increase in the productivity growth rate is reasonable given that 0.2% represents only a one-tenth increase in the average annual industry growth rate. This gain accrues to the whole parcel delivery industry in Australia because the increased efforts by firms to manage costs and improve quality, to an extent, induce a dynamic competition spillover benefit across the industry.

2.4 Consumer survey

TGE engaged Freshwater Strategy to undertake a survey of consumer attitudes towards the Australian postal services market.[27] LE has utilised the survey results to inform the assumptions made in the economic modelling about the relative frequency of parcel delivery in the three identified demographic regions — Major Cities, Inner Regional, and Outer Regional/Remote.

The survey showed that communities in outer regional and remote parts of Australia order goods online less frequently than their city or inner regional cousins. For example, while 62 percent of city residents buy online at least once per month, only 36 percent of outer regional and remote residents buy online at least once per month (i.e. outer regional and remote residents buy online less often than metro residents). Conversely, 29 percent of city residents and 31 percent of inner regional residents shopped online ‘every few months or less’, whereas a significantly greater proportion of outer regional and remote residents (at 56%) shopped online every few months or less (i.e. significantly more outer regional and remote residents shop rarely online relative to metro residents).

Table 2-1 How often, if at all, do you order items/goods online (excl. food delivery)

Frequency	Major Cities	Inner Regional	Outer Regional / Remote
Most days	4%	3%	0%
About every week	23%	28%	17%
About every month	35%	32%	19%
Every few months or less	29%	31%	56%
I never order items online	8%	1%	8%
Unsure	1%	4%	0%

Source: Freshwater Strategy (2023).

[26] Ibid. Labour productivity in the *Transport, Postal and Warehousing* industry increased by 6 percent in 2021-22 compared to the Covid-affected year 2020-21.

[27] A full description of the survey design and results can be found in TGE’s submission to the Postal Services Modernisation Inquiry.

3. Competition policy issues

This section sets out the main competition policy considerations relevant to the economic analysis and modelling undertaken.[28] In 2023, the Australian parcel delivery industry sits at the intersection of digital platform services and transportation technology, competition policy, public versus private ownership, community service obligations, and the many demographic, economic and social issues related to the metro-regional divide.

As the Chairperson of the ACCC recently observed in a response to a question about the whether the ACCC is looking at any of the competition issues at Australia Post:

"And the questions relate to the combination of both a monopoly business alongside a community service obligation … in terms of the delivery of standard mail, parcel delivery service that is competitively constrained … and particularly significant in rural, regional and remote areas. So we do see quite a complex intersection between policy questions, government ownership questions and service, particularly in remote and regional communities. We are considering whether there are competition questions here, but we recognise it sits in a broader government review policy context." (Gina Cass-Gotleib, 12 April 2023).[29]

Notwithstanding this complexity, there is broad support across the Australian community for the policy objectives of:

(i) promoting competition in regional Australia; and, more specifically,

(ii) of providing an equivalent level of service for parcel delivery in the bush (compared to the city).

The questions addressed in this section relate to whether an improvement in the current price and service quality mix offered in regional Australia is possible and, if so, which legislative instrument, policy, or aspect of the market needs adjusting to effect such an improvement for the benefit of Australia's regional communities.

3.1. Australia Post's governing legislation

3.1.1. Background

Australia Post's operating and governance model has evolved from the Postmaster-general's (PMG) department that existed from Federation until 1975 when two statutory authorities were spun out of the department — the Australian Postal Commission and Telecom Australia. These

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[28] The section is not intended to be a comprehensive or exhaustive analysis of the commercial, legislative, regulatory and competition policy aspects of the parcel delivery market in regional Australia. Rather, it is intended to highlight the key competition policy issues at issue in relation to AusPost's parcel locker network.

[29] Here is the clip to the ACCC Chairperson's NPC address on 12 April 2023: https://www.youtube.com/watch?v=7huAl0_GwKE Time code: 1:04:15

statutory authorities operated until 1989, when an essentially commercial model was introduced. However, that commercial model retained a full public ownership structure and specified a number of non-commercial (i.e. commercially loss-making) obligations known as Community Service Obligations (CSOs). Accordingly, the current operational and governance model is based on the Australian Postal Corporation Act 1989 (the Act) and subsequent amendments.[30] As a Government Business Enterprise (GBE), Australia Post is also subject to the Public Governance, Performance and Accountability Act 2013 (PGPA Act). Australia Post is also subject to the Competition and Consumer Act (2010), subject to explicit exemptions from that Act CCA written into its own Act (see section 3.1.3. below).

The 1989 operating and governance model has survived largely intact through the intense scrutiny of the landmark Hilmer Review (1993) and subsequent National Competition Policy in the late 1990s where the Act was subject to the NCP's legislative review program.[31]

3.1.2. Australia Post's Community Service Obligation

The Act guarantees an Australia-wide postal service, known as the universal service, by obligating Australia Post to provide a letter service to all Australian residents at a uniform price, regardless of where they live. The current stamp price is $1.20.[32] In some cases, the cost of delivering a letter is likely to be less than $1.20 - for example a letter sent to someone living in the same suburb in Brisbane. In other cases, the cost is much more - for instance sending a letter from Thursday Island in Queensland to Cradle Mountain in Tasmania.

To enable it to provide this universal service, Australia Post has been given an exclusive right to provide certain postal services, essentially being letters under 250g. Any other provider who wants to carry letters weighing less than 250g must charge at least $4.80 (i.e. four times the current postage stamp price of $1.20). In theory, this enables Australia Post to use the profits generated from the letter deliveries that cost less than $1.20 to cover the losses incurred where the letter deliveries cost more than $1.20.

However, the decline in the number of letters being sent has driven the letter business into an operating loss, which is set to exceed $300 million per year in 2023-24 even accounting for the new postage stamp price (ACCC 2022, p.41). The requirement that AusPost operates commercially and earns a return on the investment of the Australian taxpayer sits uneasily with the community service obligation (CSO) to provide a letter service at a single uniform rate of postage across Australia (set out in Section 27 of the Act). As a result, AusPost is required to fully fund its CSO obligations within its commercial operations.

[30] Telecom Australia was privatised in several stages and is now the privately owned *Telstra*.

[31] In 1998, the National Competition Council reviewed the Act under the Legislation Review Program's two-part test (see discussion at section 3.3.).

[32] In November 2022, Australia Post formally notified the ACCC of a proposed 10 cent postage stamp price change within Australia Post's reserved ordinary letter service, effective from 3 January 2023. The shareholding Minister, via the ACCC, did not object to Australia Post's request to increase the postage stamp price from $1.10 to $1.20 (ACCC 2022).

Section 27:

(1) Australia Post shall supply a letter service.

(2) The principal purpose of the letter service is, by physical means: (a) to carry, within Australia, letters that Australia Post has the exclusive right to carry; and (b) to carry letters between Australia and places outside Australia.

(3) Australia Post shall make the letter service available at a single uniform rate of postage for the carriage within Australia, by ordinary post, of letters that are standard postal articles.

(4) Australia Post shall ensure: (a) that, in view of the social importance of the letter service, the service is reasonably accessible to all people in Australia on an equitable basis, wherever they reside or carry on business; and (b) that the performance standards (including delivery times) for the letter service reasonably meet the social, industrial and commercial needs of the Australian community.

(5) In this section: Australia includes Norfolk Island, Christmas Island and Cocos (Keeling) Islands, but does not include any other external Territory to which this Act extends.[33]

3.1.3. Access exemption

The Act exempts AusPost from Part IIIA of the Competition and Consumer Act 2010 (CCA), which specifies conditions on which a competitor can gain access to an incumbent's monopoly infrastructure. Part IIIA was introduced as part of the post-Hilmer Review National Competition Policy reforms and was designed to promote economic efficiency by reducing the need to duplicate monopoly infrastructure where that could be shown to be economically inefficient.[34]

Section 32D

Part IIIA of the Competition and Consumer Act 2010 does not apply in relation to the supply of a service (including a bulk interconnection service and an incoming overseas mail service) by Australia Post.[35]

AusPost is also subject to Ministerial disallowance in relation postage charges under Section 33, based on advice provided by the ACCC. The AusPost Board is required to give the Minister written notice of the proposed price determination and the Minister can give the Board written notice of disapproval within 30 days, although the Minister cannot directly set the postage stamp price.

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[33] Australian Postal Corporation Act (1989). Accessed here: https://www.legislation.gov.au/Details/C2012C00142 Emphasis (underlines) added by LE.

[34] The access declaration criteria are set out in ss 44CA(1) and 44H(4) of the CCA (2010) and discussed in NCC (2017, p.8).

[35] Ibid.

3.1.4. Ministerial Direction power

AusPost is subject to a broad Ministerial Direction power under Section 49 of the Act.

> **Section 49**
>
> (1) Subject to subsection (2), the Minister may, after consultation with the Board, give to the Board such written directions in relation to the performance of Australia Post's functions as appear to the Minister to be necessary in the public interest.
>
> (2) The Minister shall not give a direction under subsection (1) in relation to:
>
> > (a) rates of postage; or
> >
> > (b) amounts to be charged for work done, or services, goods or information supplied, by Australia Post.
>
> (3) Where the Minister gives a direction under subsection (1), the Minister shall cause a copy of the direction to be laid before each House of the Parliament within 15 sitting days of that House after giving the direction.

3.2. Why is open access to AusPost's regional network desirable?

3.2.1. Effective last-mile parcel delivery competition has not reached the bush

The structure and dynamics of the parcel delivery market in regional Australia has clearly not been conducive to effective competition, especially in relation to last-mile delivery options in rural and remote Australia. Australia Post, via its AusPost network, is the dominant player in parcel delivery services outside of Australia's major cities.

Australia Post charges a uniform national price to high-volume business clients and, similarly, a uniform national price to consumers for parcels less than 5kg delivered "anywhere in Australia".[36] This suggests that it is very likely that, *considered in isolation* at least some (if not many) of AusPost's regional, rural and remote routes would be unprofitable. Indeed, it may be that most B2C parcel delivery routes outside of Australia's capital cities and main regional towns barely recover costs. This would further suggest that Australia Post offsets these losses on the more profitable metro routes such that, overall, the parcel delivery business is profitable.

The AusPost last-mile network in rural and remote Australia arguably exhibits natural monopoly characteristics (as the NCC found in 1998), since no commercial firm has been able to successfully replicate the AusPost parcel delivery network at scale outside of the capital cities and major regional towns. Indeed, a growing competitor to the AusPost network is Hubbed, which manages 3,000 parcel locker centres across Australia. Hubbed brands itself as a technology company, and the technology it employs is designed to bypass the costly last-mile

[36] For parcels under 5kg, AusPost offers uniform pricing by weight category (e.g. up to 500g, 500g to 1kg etc). For parcels over 5kg sent by non-businesses (i.e. households), Australia Post charges a rate based on weight and distance. https://auspost.com.au/sending/send-within-australia

delivery leg of a parcel journey by bringing customers to the nearest viable demographic hub to collect their parcel.[37]

3.2.2. Australia Post resists granting access to domestic rivals

Australia Post has resisted requests from competitors to negotiate access to its regional, rural and remote last-mile network. Australia Post's behaviour to deter entry into the parcel market in the bush is likely to be at least partially driven by the requirement upon it to provide the loss making reserved letter services while still achieving a return over the whole of its operations on the capital invested in it by the Australian Government.

Australia Post argues that it is not in its commercial interest to allow access to its growing locker storage network or its last-mile 'postie' delivery infrastructure to rivals. But the relevant consideration for a publicly owned corporation is not solely its own commercial interest, but rather the public interest, especially when a core objective of Australia Post is the non-commercial provision of an Australia-wide letter service. This is one of the motivating reasons behind Section 49 of the Act specifying that the Minister can direct Australia Post to undertake tasks that the Minister deems to be in the public interest.

3.2.2.1. Exclusive dealing

While not a focus of this report, it is worth noting that, other than the Part IIIA exemption set out in the Act, Australia Post is subject to the anticompetitive provisions of the Competition and Consumer Act (2010). In particular, Section 47(3) of the Act defines a corporation to have engaged in exclusive dealing if the corporation refuses:

(a) to supply goods or services to a person;

(b) to supply goods or services to a person at a particular price; or

(c) to give or allow a discount, allowance, rebate or credit in relation to the supply or proposed supply of goods or services to a person (CCA 2010).

Section 47 may be problematic for Australia Post if it has entered into an agreement with its LPOs and CPAs whose purpose, effect or likely effect is to substantially lessen competition. The competition which is being lessened would be:

(1) in the market in which agencies supply their mail and parcel handling services, and

(2) the market for the delivery of parcels to regional and remote areas.

Applying this provision of the CCA would not require any demonstration that the supply of parcel lockers (or other last-mile network infrastructure) is a natural monopoly. Rather, all that is required is that competition in the market in which those lockers are supplied is adversely affected, or is likely to be adversely affected to a material degree. The fact that Australia Post's agreements with its LPOs and CPAs (see section 2.3.2.) arguably reduce competition in the

[37] https://hubbed.com/

upstream market (i.e. the market for the supply of parcel delivery services) may be taken to indicate that the agreements have the purpose of substantially lessening competition, as well as the effect and/or likely effect of doing so.

3.2.3. Benefits of greater competition in parcel delivery

Competition drives greater effort by all firms (whether incumbent or new entry) to innovate, reduce costs, improve the quality of their products and services, including their responsiveness to emerging market demands, and keep prices as low as possible by sharpening incentives to "avoid sloth and slack" (Vickers 1995, p.1). In contrast, a lack of competition can lead to an absence of innovation, and too little focus on controlling costs and quality. While this might be ideal for the monopolist, it is not ideal for society.

The Productivity Commission (2005), in its review of the impacts of Australia's National Competition Policy (NCP) reforms, noted that:

NCP is based on an explicit recognition that competitive markets will generally serve the interests of consumers and the wider community, by providing strong incentives for suppliers to operate efficiently and be price competitive and innovative. A key principle of NCP is that arrangements that detract from competition should be retained only if they can be shown to be in the public interest. (Productivity Commission 2005, p.XIV).

3.2.3.1. Static competition versus dynamic competition

Economic theory defines two different types of competition that lead to two different types of efficiency gains.

Static competition refers to a situation in which firms in a market compete based on their current set of resources, capabilities, and strategies, without taking into account the potential for future changes in the market or the behaviour of competitors. In static competition, firms aim to maximize their short-term profits or market share by setting prices, advertising, and other competitive strategies that are based on the existing market conditions and the current state of their own business.

Dynamic competition is related to competition between firms over time, taking into account factors such as incentives, innovation, product selection, investment, and strategic behaviour. Firms engaging in dynamic competition continually adjust their strategies and investments to adapt to changing market conditions and the behaviour of competitors over time. In dynamic competition, firms aim to maximise their long-term profitability by anticipating and responding to changes in the market, technological advancements, consumer preferences, and the actions of competitors. Firms engage in dynamic competition by investing in research and development, introducing new products and services, forming strategic alliances, and continuously improving their operational efficiency.

Vickers (1995), in his classic paper on competition, contends that dynamic competition is at the heart of realising improvements in economic efficiency and welfare. One of the most significant aspects of dynamic competition is in how it promotes innovation. Firms engaged in dynamic competition are more likely to invest in research and development, as they seek to create new products or improve existing ones to gain an advantage over their competitors. This innovation can result in better products and services for consumers, as well as more efficient production methods and lower costs.

In this way, dynamic competition can promote overall market efficiency and consumer welfare. When firms compete dynamically, they are more likely to operate at the efficient frontier (or productivity frontier), which is the maximum output that can be produced with a given set of inputs. This efficiency can result in lower prices for consumers, as firms seek to reduce costs and maximise profits.

In addition, dynamic competition can also promote consumer choice. As firms innovate and introduce new products, consumers have more options to choose from, which can lead to a wider range of products and services available in the market. This increased choice can result in better quality products and services, as firms strive to differentiate themselves from their competitors.

Vickers concludes his paper, arguing that:

"Competition is the main regulator, and the task for public policy is to see that it is not undermined." (Vickers 1995, p.18).

3.3. We've been here before

In 1993, the Australian Government released the landmark Review of National Competition Policy (Hilmer Review). Subsequent Australian governments have implemented almost all of Hilmer's recommendations, which arguably underpinned strong productivity growth through the late 1990s and early 2000s reform period.[38] The Hilmer Review recommended a sweeping review of existing legislation for restrictions on competition, applying the following principle:

There should be no regulatory restrictions on competition unless clearly demonstrated to be in the public interest. Governments which choose to restrict consumers' ability to choose among rival suppliers and alternative terms and conditions should demonstrate why this is necessary in the public interest. (Hilmer Review 1993, p.206).

In 1998, the National Competition Council reviewed the Act under Hilmer's proposed Legislation Review Program of the National Competition Policy. The NCC applied the 'two-part test', which was the guiding principle of the Program, set out in the Competition Principles Agreement (1995) as follows:

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[38] The Productivity Commission for example has attributed the strong productivity growth in the late 1990s and early 2000s to the microeconomic reforms undertaken as a result of the Hilmer recommendations. See Productivity Commission (2005), accessed here: https://www.pc.gov.au/inquiries/completed/national-competition-policy/report/ncp.pdf

The main guiding principle of NCP reviews is that legislation should not restrict competition unless it can be demonstrated that:

1. *the benefits of the restriction to the community as a whole outweigh the costs; and*
2. *the objectives of the legislation can only be achieved by restricting competition. (Competition Principles Agreement 1995, Clause 5(1)).*

The NCC identified AusPost's regional network as a natural monopoly and made a number of recommendations to increase competition in postal services. These recommendations were made well before the rise in digital platform services that have enabled the growth in eCommerce and, hence, the demand for B2C goods (i.e. parcel) delivery.

The NCC (1998) recommended:

- the retention of the letter delivery USO because the CSO costs incurred are fully justified by the social benefits, and there is no effective alternative means of providing the social benefits;
- that the uniform rate of postage apply to individuals and households posting standard size letters. Australia Post should be allowed to offer discounts to business customers, but no business should be charged more than the uniform rate for posting a standard size letter. The Government should review the possibility of introducing a maximum affordable charge for household letter services in 2005;
- funding of the CSO by direct budgetary payments and, if budgetary funding is not adopted, the Council "believes that the industry levy is the best alternative method for funding CSOs"; and
- that the Government negotiates CSO funding in advance for five year periods.

The NCC also recommended that:

- business mail should be opened to competition. The minimum competitors can charge for those letters which remain in the monopoly (household mail) should be two times the standard letter rate; and
- inward international mail be opened to competition. (NCC 1998, p.17).

The NCC found that "Australia Post has demonstrated its ability to flourish in competitive markets" and that: "Already two thirds of its profit is generated from services open to full competition". In relation to the potential impacts on industry, the NCC found that: "Both deregulation and the access arrangements recommended by this report will eliminate the current competition bottleneck in postal services. Further, the contesting of components of the service chain by new service providers will be an important source of competition in the industry." (NCC 1998, p.14-15).

In relation to consumer impacts, the NCC found:

"The use of postal services for the marketing and delivery of, and payment for, consumer products is growing rapidly. Competition in business letter services will provide a significant fillip to this activity, by increasing the range and quality of services, reducing prices and increasing the responsiveness of business to the needs of customers." (NCC 1998, p.15).

Legislation to enable the NCC's recommendations was subsequently developed. In particular, there was a proposed amendment to the Trade Practices Act (1974) to insert a new Part XID — a postal services access regime (Schedule 4). The objective Part XID was to promote the long-term interests of users of postal services and to ensure that these services are supplied as efficiently and economically as possible. Part XID was designed to assist competitors to gain access to services supplied by a strong market incumbent.

The proposed new regime provides for the declaration of postal services by the ACCC, if commercial negotiations between Australia Post and the access seeker fail. Such a declaration may, but need not, follow a public inquiry. If the ACCC makes a declaration, the declaration specifies a postal service provided by a particular provider. In particular, within 6 months of the commencement of Schedule 4, the Minister for Communications, Information Technology and the Arts must make a determination that bulk mail services and post-office boxes are declared services. (Australian Senate, 2000).[39]

Despite these findings and recommendations, and the support of the relevant Senate Standing Committee to accept passage of the Bill, the legislative amendments that were introduced in 2000 never made it through the Australian Parliament. The Government withdrew the Bill in March 2001 in the face of Senate opposition over concerns that increased competition would make postal services in the bush worse rather than better.

3.4. The arguments against access are misdirected

3.4.1. There's case for access regardless of whether and in what direction cross-subsidisation occurs within the network

There is an argument that Australia Post requires its market dominance and overall profitability in parcels to cross subsidise its loss-making letter delivery services. There is also an argument that Australia Post is propping up its parcel business with transfers from its letter business. Whether, and to what extent, there is cross-subsidisation between Australia Post's letter and parcel business, and the extent and direction of that cross-subsidisation has been a matter of vigorous debate.

In its 1998 review, the NCC recommended against the structural separation of AusPost's letter and parcel business because of the economies of scope that are able to be realised in an

39 https://www.aph.gov.au/parliamentary_business/committees/senate/environment_and_communications/completed_inquiries/1999-02/postal/report/c01

integrated business. The NCC did recommend strict accounting separation of the businesses, such that the cost of the letter delivery CSO was explicitly recognised in the Australia Post accounts.

While, on the one hand, the ACCC has determined that Australia Post's separated accounts meet its regulatory requirements, this is not to say that Australia Post does not benefit from last-mile cost synergies, as the NCC has noted. LE estimates that around one-half of all AusPost parcels are delivered on letter delivery runs clearly illustrating the availability of cost synergies.[40] There are additional synergies in upstream activities including the co-location of mail and parcel sorting operations, and integrated small parcel sorting with mail.

Regardless of which direction any cross-subsidisation might travel, as the NCC recommended in 1998 (and the Hilmer Review prior to that), the best-practice accounting policy would be to recognise any cross-subsidy to fund a CSO on the operating statement of the general government sector accounts. In this way, the cross-subsidy issue would not impact on the entirely separate regulatory question of whether access to AusPost's last-mile network should be provided to domestic parcel delivery competitors.

The policy of recognising the costs of a CSO is widely accepted and considered to be best-practice as it maintains competitive neutrality between businesses and also recognises social costs on the government's operating statement.

The issue of private sector competitors being put at a disadvantage from any cross-subsidisation within GBEs was recognised in the early days of NCP reform. For example, in 1996 the Federal Treasury Department recommended:

"Competitive neutrality does not require governments to remove community service obligations (CSOs) from their government businesses. Where CSOs exist, competitive neutrality and other competition policy reforms may limit the ability for these CSOs to be financed through cross subsidies within the business. <u>Transparent, non-discriminatory funding of CSOs through budget funding or specific charges is thereby encouraged</u>." (Australian Government, 1996).[41]

3.5 Competitors will simply cannibalise the existing market

There is an argument that allowing domestic competitors access would cannibalise AusPost revenues and weaken the network to the point where post offices might come under increased financial pressure. This argument is based on a static (as opposed to dynamic) view of the market and, as a result, doesn't consider the dynamic implications of vigorous competition on the contestable leg of the parcel delivery market (i.e. from the merchant to the parcel locker hub).

[40] Estimate based on Australia Post submissions to the ACCC and annual reports.

[41] https://treasury.gov.au/sites/default/files/2019-03/cnps.pdf . Emphasis (underline) added by LE.

With more vigorous competition and an expansion in demand, affected post offices would be unequivocally better off because they would handle a greater parcel volume. Australia Post (the corporation) would receive license fees from competitor businesses for the use of their IP, IT infrastructure and branding, therefore increasing the corporation's revenues in the non-contestable part of the market. The payment per parcel would be split between the post offices and Australia Post.

In other words, by providing access to an essentially 'non-contestable' service, competition will be enabled in the contestable delivery legs of the market. In this way, even if prices do not fall in the non-contestable leg (i.e. the last-mile services in rural and remote Australia), overall prices could still fall (or responsiveness could rise) because of the efficiencies gained via new competitors entering the contestable leg of the parcel delivery market (i.e. there will be a dynamic efficiency benefit via reduced costs and prices).[42] Reduced prices would expand the market, which would benefit not only competitors but also Australia Post, the post office network and, ultimately, consumers.

3.5.1 Potential impacts on Australia Post (the corporation)

We expect that there will be an adjustment in market shares in the contestable parts of the market, with Australia Post likely to lose some market share if competitors are relatively more efficient.[43] However, this loss would be offset *to some extent* and could be outweighed by the gain in access license fees in the non-contestable part of the market due to the expansion in total market demand. We have modelled a number of scenarios whereby Australia Post loses some of its 80 percent share in the contestable parts of the market.

In a commercial negotiation, Australia Post and a competitor may agree to an access price above $2 per parcel. In theory, the negotiation 'window' — the range of prices which both could agree to — is between the access provider's incremental cost of providing access and the access seeker's avoided cost of duplicating the infrastructure. To the extent that a higher access price is negotiated, Australia Post's revenue would be higher on both the non-contestable (via the access charge revenues) and the contestable (via a lower than otherwise loss of market share) parts of the market. It would be expected that Australia Post will act rationally in a commercial negotiation to ensure that it is no worse off, even if it is instructed by the Minister to negotiate access with competitors.

[42] If AusPost acted as a monopolist in rural and remote Australia and charged its competitor the full avoided costs of (the competitor) accessing the service, parcel delvery prices could still be lower if the competitor is a lower cost producer (or provides a better quality service for the same cost/price) on the contestable leg of the market.

[43] In a market supply (or cost) curve framework, if a competitor can supply a service at a lower cost, it will sit 'lower down' on the market supply curve than the incumbent.

3.6. Reform considerations for a modern digital economy

3.6.1. The letter delivery CSO should be transparent and funded by the Australian taxpayer

The issue of the CSO is preventing a proper consideration of the competition issues in regional Australia.

Since the 1980s, the modern Australian economy has been built on competitive markets driving innovation, productivity, greater choice and, ultimately, higher living standards. The National Competition Policy reforms in the 1990s sought to put GBEs and private firms on an equal footing.

As part of those reforms, GBEs were reconfigured to operate commercially and any social obligations, and the cost of those obligations, would be transparently identified. In order to accurately estimate the true cost of the reserved letter service CSO, the NCC recommended that AusPost apply accounting separation to reserve and non-reserve services.

The ACCC has stated that it would be concerned if there was evidence that Australia Post had been using, or in the future would be likely to use, its reserved services (over which it has a monopoly) to subsidise non-reserved services (for which it faces competition) (ACCC, 2022). The ACCC has accepted that Australia Post's cost allocation model has safeguards in place to avoid over-costing declining products and under-costing growing products.[44]

Currently, AusPost claims that it loses around $300 million per year in its letter business and, if true, this would naturally put pressure on other parts of the business to be profitable *even without any explicit or implicit cross-subsidisation*. This, in turn, would affect the capacity of Australia Post's management to think beyond the purely commercial necessity to somehow cover off the letter business loss as best it can.

There is an alternative approach. If the cost of the CSO was transferred to the General Government sector operating statement then the Australian Government could consider the issue of competition in the regional parcel market free of any complicating factors. The Australian Government, therefore, should think about the issues separately, as follows:

(i) where should the cost of the CSO sit?; and

(ii) would increased competition in the bush improve the welfare of regional communities?

In our view, introducing more competition into parcel delivery will be a spur to growth and provide a range of economic and social benefits for regional Australia (see Section 4).

[44] See here for an outline of how the ACCC conducts postal services price notification and monitoring: https://www.accc.gov.au/by-industry/postal-services/postal-services-price-notification-and-monitoring#:~:text=Australia%20Post%20must%20notify%20the%20ACCC%20and%20Minister&text=After%20being%20notified%2C%20we%20assess,to%20the%20proposed%20price%20increase.

3.6.2 AusPost should open negotiations with competitors

The ‘last mile’ delivery leg in regional Australia is, essentially, non-contestable. That is, the fixed costs required for a competitor to establish an efficient and profitable B2C delivery network in regional Australia are clearly prohibitive. And to the extent that the entry of Amazon and others into metro markets puts pressure on AusPost profitability, it becomes harder for AusPost to offer a uniform national price for high-volume business clients. Hence, at some point, Australia Post might have to consider increasing its standard rates for parcel delivery in the bush, and this would increase the cost difference (the wedge) between the lower cost OOH parcel pick-up option and the higher cost home delivery option.

As privately-owned commercial businesses, competitors such as TGE and other domestic parcel businesses face two options.

The first option is for competitors to locate the lockers elsewhere, effectively duplicating the network, which would involve high fixed upfront costs. To the extent that this cannibalises business from LPOs/CPAs, the ultimate result would likely be to weaken the LPOs/CPAs and, potentially, weaken regional communities through an over-capitalisation of the parcel delivery network. The additional capital costs would make it much less likely that competitors could effectively compete with AusPost in the smaller regional and rural towns.

The second option is for the competitor to negotiate with Australia Post for access to the parcel drop-off, storage, and pick-up/delivery services offered by LPOs and CPAs in regional and rural Australia (i.e. a colocation model). Given Australia Post’s current stance, for this to happen under the current legislation, the Minister would need to direct the Australia Post Board to negotiate with competitor/s. This would strengthen the LPOs/CPAs (and local communities) via more parcel revenue, but perhaps weaken Australia Post’s corporate revenues depending on the license fee (or similar fee) that Australia Post charges its licensees and the impact on its market share in the contestable part of the market. Assuming that competitors are more efficient on the contestable leg of the delivery, then there's an efficiency benefit because the competitor is able to provide the service at a lower cost than AusPost even if the competitor is forced to pay their full avoided costs of gaining access to the non-contestable delivery legs (i.e. storage and last-mile delivery). Consumers would benefit from lower prices and, potentially, better service through greater competition, and the benefits of having a ‘one-stop-shop’ to pick up their parcels.

In terms of the access charge, so long as the access owner does not charge the access seeker more than the access seeker’s avoided costs (of duplicating the network) and so long as the charge is greater than the access owner’s own incremental costs, then between those two boundaries a price can be negotiated where all parties gain.

3.6.3. The consumer welfare and regional development benefits are potentially significant

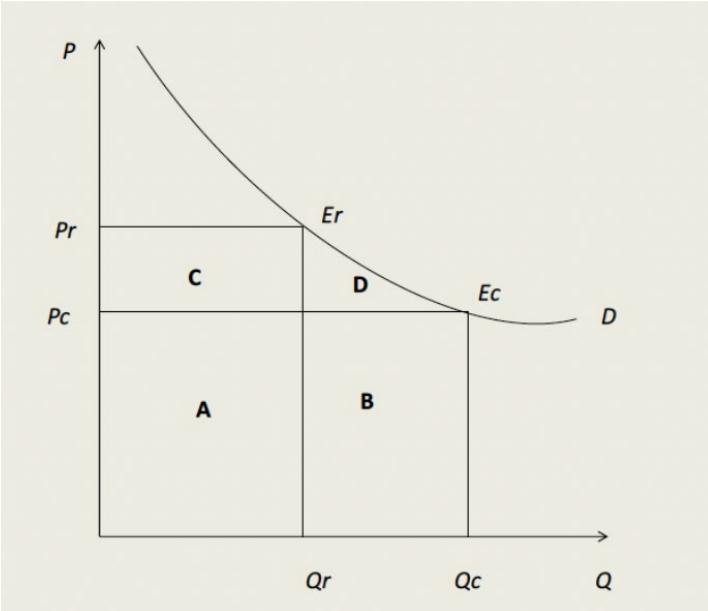
The choice between option 1 and 2 depends very much on the size of the regional community in question. The smaller the town and the (geographically) wider its reach (i.e. the longer the spokes in a hub and spoke model configuration), the more option 2 makes sense. Last-mile parcel storage and delivery networks can be efficiently duplicated in Australia's largest cities because of relatively low capital costs on the one hand and the greater population size and density on the other. This dual set of conditions is not found in Australia's smallest towns. Therefore, the smaller the town (and the more dispersed the community that utilises that town), the less likely it will be that a competitor can duplicate a parcel pick-up service.

Removing restrictions on competition creates a welfare benefit via a reduction in price and an expansion of demand. This is a well known result in economics and can be illustrated with the aid of a supply-demand diagram. In the figure below, the industry faces a downward sloping demand curve, indicating that demand for parcel delivery services is higher at lower prices.[45] The current equilibrium market price (Er) represents the restricted market, where Australia Post refuses to negotiate access to its last-mile network infrastructure with its competitors. The new equilibrium price (Ec) represents the competitive market price for parcel delivery if competitors gain access to the AusPost network in Australia's towns where duplication would be uneconomic (i.e. in rural and remote communities). The market expands by the area designated in the diagram as 'B' because the quantity demanded goes from Qr to Qc, such that the market after the change in policy is the area (A + B). The welfare gain in terms of the consumer surplus (being the region under the demand curve and between the old and new market price), is the area (C + D).[46]

[45] For simplicity, the supply curve, which would slope upwards from left to right, has not been shown.

[46] The consumer surplus is represented by the area between the demand curve and the market price, and represents all of the consumer gains from consumers paying a price less than what they were willing to pay for the good or service.

Diagram 3-1 Measuring the welfare gain from removing access restrictions to AusPost infrastructure



Source: Based on OECD 2021, Box A.

3.7. Reform Options

LE considered the most viable economic reform options available in order to achieve the economic gains estimated from open access, which are discussed and reported in Section 4.

3.7.1. There are three potential reform options

Option 1 Remove or review the Part IIIA exemption

Section 32D of the Act exempts Australia Post from being subject to Part IIIA of the CCA 2010. This prevents competitors applying to the NCC to declare a part of AusPost's infrastructure network as a natural monopoly under the four-part criteria set out by the NCC (NCC, 2017).[47]

The removal of Section 32D would signal to the market that the Australian Government supported private sector access requests (via the Part IIIA process) to the AusPost last-mile network infrastructure.

Alternatively, the Australian Government could ask the Productivity Commission to review Section 32D and recommend whether the exemption should be kept or removed.

[47] The Declaration Criteria are set out in (NCC 2017, Box 2 on p.17).

Option 2 The Minister directs AusPost to negotiate terms with competitors

Section 49 of the Act provides the Minister with a broad power to direct the Australia Post Board, which could be used to direct the Board (to in turn direct the CEO) to negotiate an access agreement to its regional and rural last-mile network infrastructure with any competitor.

This option would be the simplest to enact and wouldn't require new legislation. The Productivity Commission could review the impacts on regional Australia after 2-3 years and recommend whether the Ministerial Direction should be kept, rescinded or altered.

Option 3 Insert a pro-competitive clause in the APC Act

Inserting a pro-competitive clause into the APC Act would require AusPost to open up its network to 'all comers' in terms of providing access to its infrastructure that would be otherwise non-economic to replicate.

This option would require new legislation and, by its nature, it's uncertain whether the legislation would pass the Australian Parliament.

3.7.2. Preferred option

Option 2 is the preferred option because it would be the least problematic of the three considered in terms of enacting. Clearly, the two shareholding Ministers (i.e. the Minister for Communications, Cyber Safety and the Arts and the Minister for Finance), the Prime Minister and wider Cabinet would need to be supportive of the change, but there wouldn't be a need to pass new legislation through the Australian. If regional communities felt that they would be better off, and metro areas at least no worse off, then Australians would be broadly supportive of the change.

The preferred option directly addresses the issue and encourages a commercial outcome. This would avoid a costly legal debate about whether or not, and to what extent, parts of the AusPost regional and rural network exhibit natural monopoly characteristics. Further, in our view, the four-part declaration criteria used by the NCC represents a very high hurdle for access seekers to meet.

4. Economic benefits of open access

4.1. Overview

LE has modelled the potential economic benefits of open access to AusPost's last-mile network infrastructure in regional, rural and remote Australia. In particular, we construct a scenario where competitors are able to negotiate access to AusPost's out-of-home (OOH) parcel pick-up network that are located at the around 2,500 licensed and community post offices located across regional, rural and remote Australia. The expected net benefits of open access relative to a counterfactual case based on the current 'no access' market structure, are estimated to be significant because:

- the expected cost and price of OOH parcel pick-up relative to home delivery, *even accounting for the additional time and fuel cost of OOH pick-up in a proportion of cases*, is expected to fall — especially in rural and remote Australia where the cost of last-mile home delivery is high[48]; and
- the increased competition from access generates dynamic efficiency gains relative to the 'no access' case such that all industry players in all three regions (metro, inner regional, rural/remote) have an incentive to lower costs and improve product and service quality. This process drives a productivity improvement above the industry's long-run average productivity growth rate (see discussion at section 3.3.).

4.1.1. A cost benefit analysis (CBA) approach was used

LE has used a CBA approach to undertake the economic analysis. A CBA is an analytical tool used to account for the benefits and costs of particular proposals or decisions on a common basis in terms of monetary value and time, such that the comparison can be easily understood. The CBA framework is widely used as a tool to assist government or business make decisions on alternative options, especially in situations where the costs and/or benefits of a proposed change are not captured solely by the project proponent, but are broader in scope.

As an analytical tool, a CBA can consider a wide range of costs and benefits, including financial, economic, social, cultural, environmental and strategic. A well-designed CBA places each of these types of impacts on a common basis; that is, in a common currency (e.g. Australian dollars) at a given time (i.e. as at 2023), so that they can be meaningfully compared and understood. This is achieved by using a net present value (NPV) discounting approach to take into account the timing of each of the impacts (i.e. costs and benefits) so that the value of future streams of costs and benefits are 'converted' into value today in order to be compared.

[48] Information on the relative cost of last-mile delivery in the three regions identified has been sourced from publicly available material as well as industry consultations.

4.1.2. What we did

LE has estimated the net economic benefits of allowing domestic parcel delivery competitors access to the AusPost last-mile network in regional, rural and remote Australia.

TGE has defined the AusPost last-mile delivery infrastructure to be any infrastructure where post or parcels are disaggregated and sorted ready for pick-up or delivery to the home, PO Box or parcel locker. This includes the following physical infrastructure:

- Distribution centres where posties pick up letters and parcels for delivery to the home;
- The postal delivery service (vans, electric bikes etc.);
- Community Postal Agents and community Licenced Post Offices;
- The parcel locker network; and
- Digital infrastructure, including IT systems for tracking parcels, and notifying customers on delivery and pick-up.

Based on publicly available information, including annual reports, industry reports and consumer surveys, and discussions with industry, we compared the following two scenarios.

Base Case

The base case (business-as-usual) projects future growth in the Australian parcel delivery industry based on the current market structure, industry dynamics and legislative and governance model. The Australian parcel delivery market is expected to double in size over the 2020s as a result of the structural transition from in-store purchasing to greater online purchasing where, by the early 2030s it is expected that 1 in 3 retail dollars will be spent online (Australia Post, 2023).

Policy Case

The policy case (in which there is a policy change) projects future growth in the parcel delivery industry based on an 'open access' model where it is assumed that Australia Post negotiates with domestic competitors for access to its last-mile network infrastructure in regional and rural Australia (see section 4.2.2 for definition). The demand for parcel delivery services increases in the policy case as a result of open access driving increased competition. There is:

- a productive efficiency gain (i.e. lower costs leading to a lower price per parcel delivered for a given level of service quality) from moving away from home delivery and towards greater OOH parcel pick-up; and
- a dynamic efficiency gain caused by increased competition on the contestable leg of the market, which forces all firms to compete harder, manage costs and improve service quality.

Regional economic impacts

We also modelled the potential economic benefits of the open access policy change on regional, rural and remote communities. As a result of the increased supply and reliability of parcel delivery services in the bush, we estimated a potential effect on the viability of new start-up eCommerce businesses in regional, rural and remote Australia. These new businesses earn revenue, make profits, pay suppliers, pay wages and taxes, and over time become a vital part of their regional communities. The higher population and greater economic opportunity supports social cohesion, especially for regional communities battling economic, social and environmental threats.

4.1.3. Identifying the efficiency gains

A number of potential economic efficiency gains to consumers and the parcel industry were estimated. These gains are calculated as the difference between the Base Case and Policy Case scenarios. In other words, the CBA considers two different 'futures' with the differences between them measured.

4.1.3.1 Households

Households (i.e. retail consumers) are expected to gain from a reduction in parcel delivery prices as a result of a productive efficiency gain from: (i) access to the OOH parcel pick-up network for all consumers regardless of the delivery company they choose, and (ii) the increased dynamic competition along the contestable leg of the market. In the absence of good evidence to the contrary we assume that households share 50 percent of the total gains (known as the 'consumer surplus') while the parcel delivery industry shares the other 50 percent of the total efficiency gains (known as the 'producer surplus').[49]

Specifically, it is assumed that, in the Policy Case, the cost savings per parcel from switching to the OOH parcel pick-up option are:

- $1 per parcel in Capital City/Metro areas;
- $2 per parcel in Inner Regional areas; and
- $5 per parcel in Outer Regional, Remote and Very Remote areas.

As noted, it is assumed that these cost savings are shared equally between producers and consumers such that prices fall by half these amounts (see Appendix A).

The reduction in parcel delivery prices is somewhat offset by an additional time and fuel cost of driving to an OOH parcel pick-up hub *in some (but not all) cases*. In many cases, this gross cost would be, in fact, negative — for example, in the situation where a consumer would have otherwise been required to drive an even greater distance to a competitor's distribution centre.

[49] Technically, an elasticity of -1 would result in the efficiency gains being shared equally between consumers and producers.

These costs have been modelled such that only the net benefits of OOH parcel pick-up are measured (see assumptions in Appendix A).

4.1.3.2. Businesses

Similarly to households, businesses in the bush are expected to benefit from a reduction in parcel delivery prices as a result of a productive efficiency gain from: (i) access to the OOH parcel pick-up network for all customers regardless of the delivery company they choose, and (ii) the increased dynamic competition along the contestable leg of the market. In the absence of good evidence to the contrary we assume that businesses share 50 percent of the total gains (in economic jargon, the 'consumer surplus') while the parcel delivery industry shares the other 50 percent of the total efficiency gains (the 'producer surplus').The cost savings per parcel are assumed to be exactly the same for businesses, as they are for households (see 4.1.3.1. above).[50]

For a few of the hundreds of thousands of regional small businesses, the small benefit they gain from incremental policy change will make the difference between there being 'also rans' and becoming local 'stars'. As the quality of 'last mile' logistics improves, LE estimates that it will tip a number of businesses from 'struggling' to 'thriving' as local champions producing specialty offerings from rural and remote Australia that will enter distant markets in Australia and worldwide.

4.1.3.3. Post offices

Australia's network of regional and rural post offices benefit from the additional revenue generated by an expansion in demand (caused by the reduction in delivery price on the contestable leg of the route). The additional related costs such as for handling parcels, loss of top-up payments from Australia Post for otherwise financially vulnerable post offices and the additional taxes paid are netted out of the estimated gross benefits.

4.1.3.4. Australian Postal Corporation

Australia Post (the corporation) benefits from the increase in access (or licensing) fees paid by the post offices for use of Australia Post's various IP, IT systems, and branding. TGE has indicated that in the Policy Case, LE should assume a $2 per parcel locker access fee and that the post offices would pass on a fee of 7 percent of their revenue (or 14 cents of the $2 per parcel locker charge) to Australia Post as a licensing fee.

Australia Post (the corporation) also benefits from the efficiency gains brought on by the dynamic competition in the contestable leg of the parcel market. This effect is akin to 'a rising tide lifting all boats'. Offsetting this effect, Australia Post can be expected to lose some market share on the contestable leg of the parcel delivery market from newly enabled competitors who can provide delivery services on the contestable leg at lower cost than Australia Post.

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[50] It may be that larger business customers could extract discounts from parcel delivery companies based on higher volumes.

4.1.3.5. Industry competitors

Competitors enjoy an increase in parcel delivery services market share in the bush because some competitors are able to operate more efficiently than Australia Post. Further, the whole industry benefits from rising total demand, which increases industry revenues. The additional costs of handling parcels and taxes paid are netted out to calculate a net benefit.

4.1.3.6. Additional benefits to the Australian community

Finally, the Australian community gains an additional benefit from the additional economic activity in the bush (i.e. improved post office financial viability leads to more resilient regions overall), as well as a reduction in GHG emissions from altering the hub-spoke model, and the additional taxes paid to the Australian Government (which are used to fund essential services), (Table 4-1).

Table 4-1 Impacts of open access relative to the Base Case, by group

Group	Positive in CBA	Negative in CBA
Households	• Reduction in postage costs • Consumer surplus from additional parcels • Welfare benefit from regional Post Offices remaining open	• Additional time cost of pickup from OOH
Businesses	• Reduction in postage costs • Reduction in business risk (e.g. waiting on business inputs) • Increased business activity	• Given that businesses are generally centrally located, we assumed no additional time cost for OOH pick-up (on average)[51]
Post offices	• Revenue from use of community post offices as OOH locations ($1.86 paid by AusPost)	• Additional costs of handling parcels • Reduction in top up payments from AusPost • Additional tax paid
AusPost	• Additional revenue from open access market expansion effect ($2 per parcel) • Avoided top up payments to post offices which do not achieve their revenue targets (i.e. $50k per annum in commission from AusPost)	• Payment to post offices for handling parcels ($1.86) • Loss of Producer surplus from loss of market share • Additional tax paid
Parcel industry competitors	• Additional revenue from increased demand for their services	• Additional costs (e.g. Fees to use post offices) • Additional tax paid
Community	• Additional tax revenue • Value of net greenhouse gas reductions	

Source: LE conceptual framework for analysis.

4.2. Data and assumptions

The following section outlines, at a high level, the data used and assumptions made in the economic modelling.

4.2.1. General market and parcel growth assumptions

A number of general economic assumptions were made to properly align the modelling framework to the structure of the Australian economy and parcel delivery market. These assumptions are based on commonly used sources and parameter values — such as for the social discount rate, population distribution and growth rate, company tax rate, and effective carbon price.

The key parameters in terms of the trajectory of parcel delivery growth are set out in Table 4-2 (below). We assume a starting value for B2C parcel deliveries (in 2024) of 500 million parcels delivered per year, which is based on Australia Post (2023) and Deloitte (2022). This figure is split between 'capital city/metro', 'inner regional' and 'outer regional & remote', based on current (2023) population and parcel demand shares.[52] The estimates for parcel demand shares are based on industry consultations and recent survey data.[53]

In the Base Case, we assume a growth rate in the parcel delivery market of 7 percent per year, which is based on a number of sources predicting a doubling of the parcel delivery market over the decade.[54] Accordingly, parcel deliveries grow from 500 million in 2023 to 984 million in 2033.

In terms of OOH parcel-pick-up growth, which is a subset of the total parcel deliveries, we assume that the share of parcels going to OOH increases to 25 percent by 2033 from 12 percent today, corresponding to a growth rate of 15 percent per year in the factual case.[55] This assumption was based on assuming Australia will have some catch up to OOH rates in leading countries in the base case. Postal industry consultants Last Mile Experts report that OOH deliveries account for 50 percent of deliveries in many European countries, including Nordic countries, France, Czech Republic, Hungary, and Poland.[56] Based on this, 25 percent OOH delivery in the base case by 2033 could be considered a conservative assumption.

[52] The ABS Regional Population, 2021 estimates were used. According to ABS estimates, in 2021, 72 percent of Australians live in major cities (i.e. the capital cities), 18 percent in inner regional areas, and 10 percent in outer regional, remote, or very remote Australia.

[53] Freshwater Strategy (2023), supplied.

[54] With compounding, a 7% annual growth rate roughly doubles an initial value over a 10-year period.

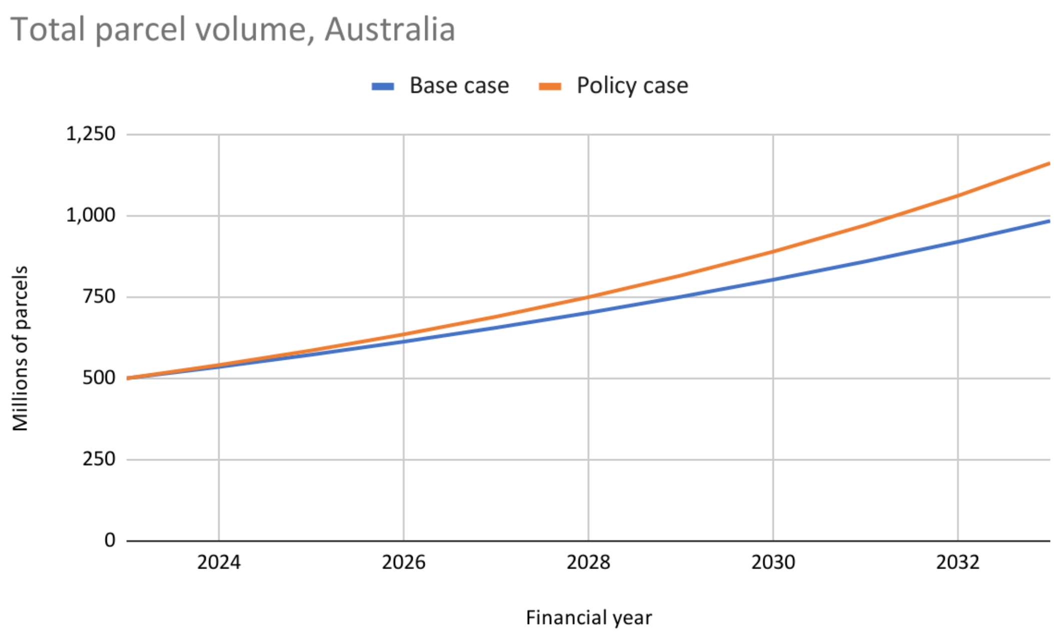
[55] The 500 million parcels and 12 percent OOH delivery rate estimates were provided by Team Global Express.

[56] Last Mile Experts (2022) Out of home delivery in Europe 2022: PUDO and automated parcel machines, p. 7.

In the counterfactual case the growth rate in the parcel delivery market is endogenous to the model. That is, it is calculated within the model based on a number of other assumptions, as follows:

- An efficiency gain of 0.2% per year over 10 years (i.e. 2% in total) is assumed as a result of the increased competition, which forces both Australia Post and its competitors to increase their efficiency (see discussion at section 3.2.3). This dynamic efficiency gain, the benefits of which are split between producers and consumers, results in (quality-adjusted) price falls, increasing demand for parcel delivery services over the 10-year period, especially in the bush.
- It is assumed that the higher growth rate in parcel volumes is largely driven by the take-up in the OOH parcel pick-up option, especially in the bush. This switch to OOH pick-up is driven by competitors having open access to an effectively non-contestable part of the market in the bush.
- As a result of these assumptions, the annual parcel delivery growth rates in the policy case are:
    - 8.1% per year in Capital City / Metro;
    - 8.6% per year in Inner Regional; and
    - 15.6% per year in Outer Regional, Remote and Very Remote; resulting in
    - 8.8% per year overall growth. (Charts 4-1 and 4-2).

Chart 4-1 Total growth in parcel volumes, Base Case v Policy Case

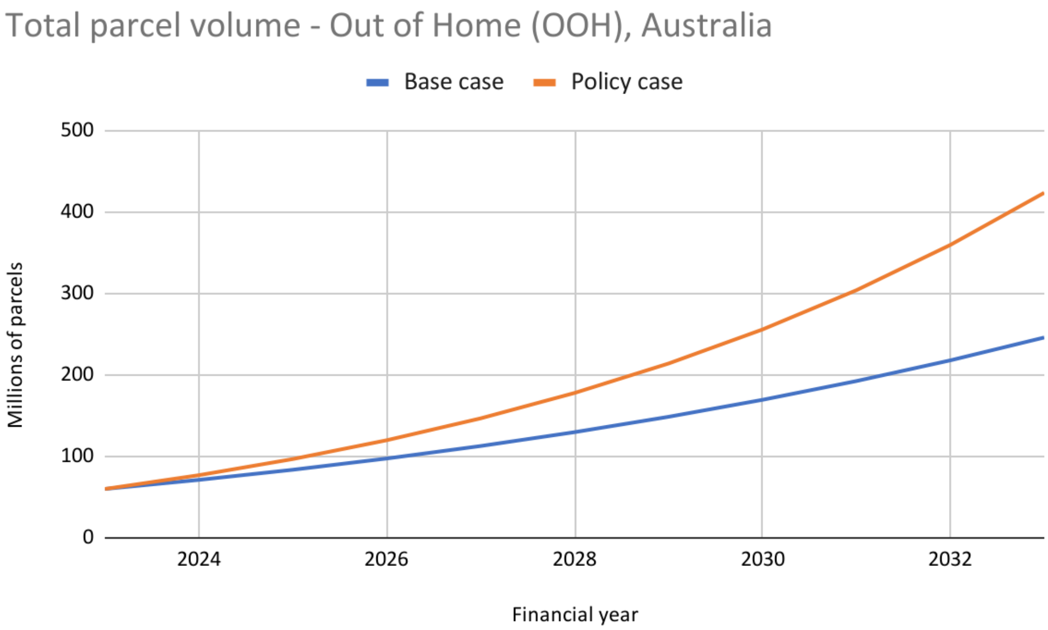


Source: LE economic analysis and modelling.

Chart 4-2 (below) illustrates the expansion in market demand of OOH parcel pick-up. In the Base Case, total OOH demand starts at 60 million and grows to 246 million in 2033, or by 15.2 percent per year across all three regions. In the policy case, the growth rate for OOH pick-up is higher in all three regions, as follows:

- 19.3% per year in Capital City/Metro;
- 21.0% per year in Inner Regional;
- 37.0% per year in Outer Regional, Remote and Very Remote; and
- 21.6% per year in total across all three regions.

Chart 4-2 Total growth in OOH parcel volumes, Base Case v Policy Case



Source: LE analysis and modelling.

4.2.1.1. Price of parcel storage

We assume a market rate for postal storage of $2 per parcel, which could be seen as a competitor's bid price per parcel for access to the Australia Post last-mile delivery network. We assume the incremental cost of handling parcels (excl. wages) is $1.25. This was assumed because it is lower than the fee Australia Post pays LPOs, around $1.86 per parcel according to Team Global Express, and is based on industry consultation which suggests post offices could earn a high profit per parcel on additional volume coming from other freight companies, because a significant share of the parcels would be for business customers who would typically receive multiple parcels. Much of the cost of handling parcels in post offices is related to dealing with individual community members.

Table 4-2 Key modelling assumptions and parameters

Assumptions - macro	Value
Discount rate (real)	7%
Company tax rate	30%
Assumptions - parcel delivery	**Value**
Total B2C parcel volume (M, 2023)	500
Share of above going to OOH - metro	12%
Share of parcels going OOH in Base Case (by 2033)	25%
Growth rate of parcel deliveries in Base Case (average annual)	7%
Australia Post market share of B2C (2023)	80%
Australia Post share of additional parcel volume (excl. from dynamic eff. gain)	0%
Dynamic efficiency p.a. (approx. 0.2% p.a. compounding)	$0.016
Consumer share of dynamic efficiency gains	50%
Market expansion due to dynamic efficiency (p.a. compounding)	0.1%
Australia Post loss of existing market share	10%
Assumptions - Post offices	**Value**
Fee for open access per parcel - paid to AusPost	$2
AusPost payment to post offices per parcel	$1.86
Incremental cost of community post offices handling parcels	$1.25
Post offices which no longer need minimum payment due to additional revenue from open access	100
Average top up to get to minimum payment of $50k p.a.	$10,000
Assumptions - last mile	**Value**
Proportion of OOH pickups that involve extra travel	50%
Average last mile delivery distance (km)	1
GHG emissions per km travelled (kg)	0.15
Social cost of GHG emissions ($/tonne of CO2-e)	50

Source: LE desktop analysis and industry consultations.

4.2.2. Defining Metro, Inner regional and Outer regional communities

A critical aspect of the modelling is defining the parts of Australia where competition in the parcel market is and is not effective. To help analyse the different market dynamics across Australia, we have defined three broad regions: major cities/metro, inner regional, and outer regional/remote.

These classifications are (roughly) based on the ABS Australian Statistical Geography Standard Remoteness Areas remoteness classification.[57] While the correspondence that we've applied isn't an exact match, the three regions defined essentially relate to:

(i) the capital cities (65% of Australia's population);

[57] See here: https://www.abs.gov.au/statistics/standards/australian-statistical-geography-standard-asgs-edition-3/jul2021-jun2026/remoteness-structure/remoteness-areas

(ii) major regional cities such as Townsville and Port Macquarie (24%); and

(iii) everywhere else (11%), which comprises Outer regional (9%), Remote Australia (1%) and Very remote Australia (1%).

According to the ABS, in 2018, 7.8 million people resided in Regional Australia and around 540,500 people resided in Remote and Very remote Australia.

Based on these ABS estimates, we have made a concordance to our three region classification framework, and estimated a total population of:

- 18.5 million residents (or 72% of Australia's total population) in the Capital City/Metro region;
- 4.6 million residents (or 18%) in the Inner Regional region; and
- 2.6 million residents (or 10%) of Outer Regional, Remote and Very Remote region.

In the base case, the distribution of parcel delivery volumes by region is based on these population shares. In the policy case, parcel demand growth is stronger in the Inner Regional and Outer Regional areas because of the expansion in capacity and increased competition in those areas where competitors do not currently have effective access to last-mile parcel delivery infrastructure. These assumed growth rates are based on an analysis of the Freshwater Strategy survey results that show (currently) less demand for parcel services in the bush (see section 2.4). With better access and more competition, we assume that per capita parcel demand in Outer Regional areas grows relatively more strongly and, therefore, over time approaches demand in Inner Regional and Metro areas.

Table 4-3 Parcel delivery growth by region, base case v policy case

Region	Base Case	Policy Case
Major city / capital city metro	7.0%	7.5%
Inner regional	7.0%	8.0%
Outer regional, remote and v remote	7.0%	15.0%

Source: LE analysis and modelling.

4.3. Headline results

We found that moving from the base case of 'no access' to the 'open access' case produced substantial net benefits for the Australian community, shared among consumers, Australia Post (the corporation), the network of licensed and community post offices, and the parcel delivery industry (i.e. competitors to the AusPost parcel business). **The total net benefit of the policy change over the 10-year study period is estimated to be $1.5 billion in net present value terms**.

- Households are estimated to share in one-third of the total benefits, **gaining $461 million** in net present value terms over the 10-year study period compared to the "no access" Base Case or 30 percent of the total benefits.
- **Businesses are estimated to gain $137 million** in net present value terms compared to the "no access" case or 9 percent of the total benefits.
- Post offices, that is the thousands of LPOs and CPAs spread across Australia, are **estimated to gain $177 million in net present value terms compared to the base case**, which amounts to almost 12 percent share of the total benefits.
- **Australia Post (the corporation) is also estimated to benefit from the change, by $38 million** or 2.4%percent of the total benefits.
- **The parcel delivery industry (i.e. AusPost's domestic competitors) are expected to benefit from open access by $404 million** over the study period, or 26 percent of the total benefits.
- Finally, there are a number of other modelled benefits that would accrue to the Australian community, including increased tax revenue, GHG reductions from the new hub and spoke type delivery model, and regional economic development benefits, **which amount to $325 million** or just over one-fifth of the total benefits. (Table 4-3).

Table 4-3 Distribution of total economic benefits, by sector ($m, % share)

Sector	NPV $M	Share of benefits (%)
Households	461	29.9%
Businesses (excl. post offices & integrated logistics businesses)	137	8.9%
Post Offices	177	11.5%
Australia Post	38	2.4%
Integrated logistics businesses	404	26.2%
Other community (i.e. tax, GHG reduction)	325	21.1%
Total	**1,542**	**100.0%**

Source: LE analysis.

4.4. Sectoral analysis

4.4.1 Household and business customer impacts

The benefits to households (i.e. retail customers) and businesses (i.e. business customers) accrue from the consumer surplus generated by two efficiency gains. First, there is a productive efficiency gain in the open access case relative to the base case from competitors gaining access to AusPost's last-mile parcel delivery infrastructure. This is, effectively, a technology change whereby OOH parcel lockers provide an equivalent level of service at a lower price. In other words, the reduction in price is, on average, sufficient to offset any additional costs some consumers might face in utilising the OOH system. Second, there is a dynamic efficiency gain in the open access case relative to the base case from the increased competition that will result on the contestable leg of the parcel delivery route because of access to the non-contestable leg (i.e. the parcel locker network). This increased competition forces all firms, including Australia Posts, to reduce costs and prices and increase product and service quality. This benefits all parcel delivery customers, whether household or business (Table 4-4, Table 4-5).

Table 4-4 Household impacts

Households - impacts over ten years	NPV $M
Consumer surplus from additional parcels	263
Consumer surplus from dynamic efficiency gains	198
Sub-total	*461*

Source: LE analysis and modelling.

Table 4-5 Business impacts (excl. post offices, Australia Post and other integrated logistics businesses)

Businesses - impacts over ten years	NPV $M
Producer surplus gains - avoided costs	56
Producer surplus gain - new eCommerce businesses	140
Tax paid	-59
Sub-total	*137*

Source: LE analysis and modelling.

4.4.2. Post Office impacts

Australia's post offices, especially those in outer regional and remote Australia gain from the increased parcel demand. Overall, locker fees expand significantly, and this is offset by the costs involved in handling the additional parcels, the reduction in top-up payments from Australia Post (in a relatively small number of cases), and the additional taxes paid.

Table 4-6 Post Office impacts

Community post offices - impacts over ten years	NPV $M
Fees from use of community post offices	790
Cost of servicing additional parcels	-531
Reduction in top up payments from AusPost	-7
Additional tax paid	-76
Sub-total	177

Source: LE analysis and modelling. Note that the figures do not necessarily sum to the subtotal because the distribution of costs and benefits over time may not be equivalent. In the CBA, costs, as negative cash flows, are represented as negative numbers.

4.4.3. Australia Post (corporation) impacts

Australia Post gains from the increased license fee revenue attached to the accelerated growth in the parcel delivery service (i.e. the $2 per parcel revenue) less the payments made back to post offices for handling the parcels (i.e. the $1.86 per parcel payment). This leaves a net gain of $60 million over 10 years in net present value terms. We also estimate that the net change in Australia's Post profit (i.e. its producer surplus) that arises from the combination of a loss of market share offset by an expansion of the overall market, results in a net loss of $13 million over ten years. Australia Post avoids paying a number of post offices top-up payments, gaining $7 million in avoided payments over 10 years in net present value terms. After taxes are paid, the net benefit to Australia Post is $38 million over 10 years in net present value terms.

Table 4-7 Australia Post impacts

Australia Post - impacts over ten years	NPV $M
Revenue from other parcels	850
Payment to community post offices for handling other parcels	-790
Net change in producer surplus	-13
Avoided payments to post offices without minimum revenue	7
Tax paid	-16
Sub-total	*38*

Source: LE analysis and modelling. Note that the figures do not necessarily sum to the subtotal because the distribution of costs and benefits over time may not be equivalent.

4.4.4. Industry (competitor) impacts

The industry benefits accrue from the additional producer surplus derived from the productive efficiency gain and the dynamic efficiency gain. The productive efficiency gain derives from the technology change away from home delivery to OOH pick-up (which has been enabled by eCommerce digital platforms that allow for 24/7 secure ID pick-up). The dynamic efficiency gain derives from the additional 0.2 per cent productivity improvement per year over 10 years that is split evenly between profits (producer surplus) and lower prices (consumer surplus).

Table 4-8 Industry impacts

Competitors - impacts over ten years	NPV $M
Net change in producer surplus	577
Additional tax paid	-173
Sub-total	*404*

Source: LE analysis and modelling. Note that the figures do not necessarily sum to the subtotal because the distribution of costs and benefits over time may not be equivalent.

4.4.5. Other Australian community impacts

Other community impacts include the additional company tax revenue accruing to the Australian Government (of $324 million over 10 years) and a small measured benefit of greenhouse gas reductions from the technology change to the OOH parcel pick-up model.

Table 4-9 Other Australian community impacts

Other community - impacts over ten years	NPV $M
Additional tax revenue	324
Value of greenhouse gas reductions	2
Sub-total	*325*

Source: LE analysis and modelling. Note that the figures do not necessarily sum to the subtotal because the distribution of costs and benefits over time may not be equivalent.

4.5 Employment impacts

Finally, our economic modelling suggests that the expansion of parcel delivery services can be expected to create around 2,000 full time jobs across Australia over the next decade, with over 1,000 of those jobs created in the bush.[58] Job creation is vital for regional economic development and to underpin the social wellbeing of Australia's regional communities, especially during a time of economic transition away from the traditional industries such as coal mining that have supported many regions for more than a century.[59]

4.6 Regional analysis

As a result of the improved access to parcel delivery services in the bush, the growth rate in parcel demand is relatively higher. This leads over time to an increase in Outer regional and remote's share of total parcel demand from 6 percent in 2024 to 11 percent in 2034. The Inner

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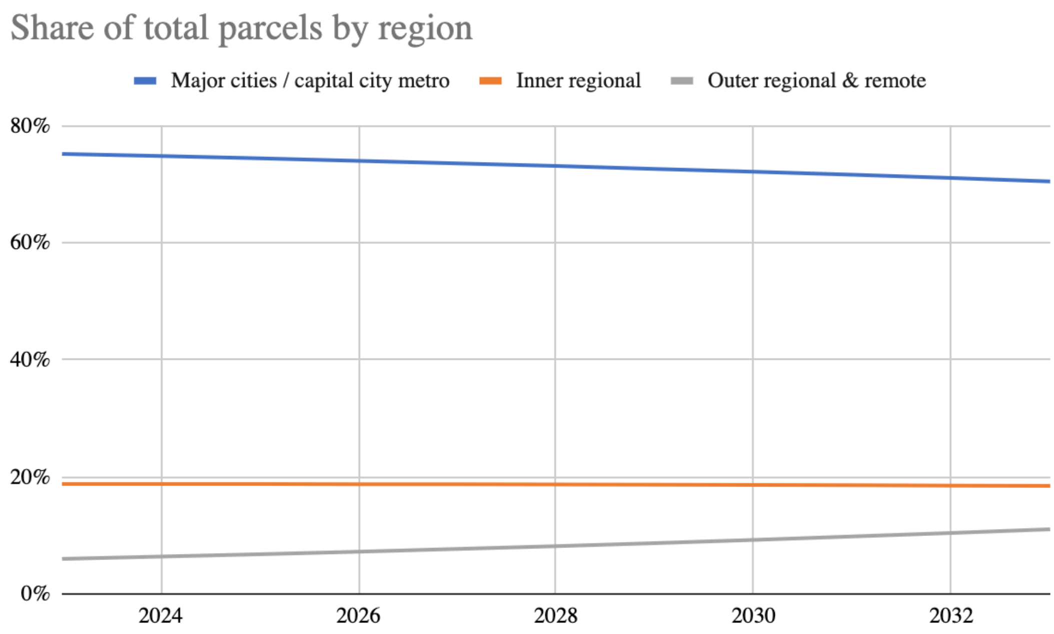
[58] The estimate of jobs created in regional Australia is based on the disproportionate share of additional parcels delivered in regional Australia as a result of the policy change. According to the LE modelling, 55% of additional parcels are delivered to inner regional, outer regional and remote Australia.

[59] This calculation is based on the potential jobs supported at community post offices (section 4.6 below) and in new eCommerce businesses (section 4.7 below). The eCommerce jobs calculation assumes average FTE earnings equivalent to ABS estimated average weekly earnings and an IBISWorld estimate of wages as a share of revenue in non-store retailing.

regional share declines slightly from 19 percent to 18 percent. And the Major cities/ capital metro region declines from 75 percent to 70 percent (Chart 4-3). This is not to suggest there will be significant changes in the population distribution (although there may be a small effect from better services in the bush), it is, rather, saying that per person parcel demand in Outer regional and remote Australia will be higher than in metro areas.

Chart 4-3 Share of total parcels by region, over the 10-year analysis period



Source: LE analysis and modelling.

The proposed access to post offices by other integrated logistics businesses could help support existing jobs at post offices, particularly in regional areas where many are struggling. By 2033, the proposed policy change will, on LE's estimates, provide a $107 million gross benefit to post offices. Assuming an annual salary of a postal worker including superannuation of around $80,000 per annum, and wages are around one-third of total post office costs, this additional revenue stream could support, at a minimum, $36 million of wages and 450 full-time equivalent (FTE) jobs and, at a maximum, up to $107 million of wages and 1,337 FTE jobs.

4.7. Economic analysis of new eCommerce business creation

LE has also investigated the potential for the creation of new businesses across Australia focussed on eCommerce. With easier and cheaper access to both pick-up and drop-off parcel delivery options, particularly in regional areas, the probability of new start-up businesses surviving and thriving will increase. Further, the Covid-19 period (2020-2021) had the effect of incentivising more sea/tree change in areas close to the capital cities most affected by lockdowns (i.e. Melbourne and Sydney) than otherwise. Some metro residents moved to regional areas, either temporarily or permanently, and many of those sea/tree changers had the capacity to work remotely from home (WFH). These Covid-related effects have stimulated increased business activity in some (particularly) inner regional areas (i.e. via an increased demand for a service), (Australian Government, 2020).[60]

[60] See, for example, here: https://population.gov.au/sites/population.gov.au/files/2021-09/the-impacts-of-covid-on-migration-between-cities-and-regions.pdf

LE modelled this possibility, using ABS data on the number of businesses engaged in non-store retailing at the end of 2021-22 by turnover range as the starting point of the analysis.[61] It is assumed that the policy change results in the creation of additional new businesses at a rate each year ranging from 0.1 percent to 2 percent ,with a midpoint of 1 percent. In the modelling, this provides variation in the numbers of new non-store retailing businesses each year.

The survival rate of businesses from year-to-year is assumed to be 80 percent, which is approximately the rate implied by the Australian business counts data published by the ABS. Together with assumptions regarding the midpoint of turnover ranges (Table 4-9) and the profit margin (assumed to be 5 percent of revenue consistent with IBISWorld estimates), this allows us to run a Policy Case simulation.

Table 4-9 Businesses engaged in non-store retailing (ANZSIC code: 4310), 30 June 2022 and assumed turnover midpoint for the Monte Carlo simulation

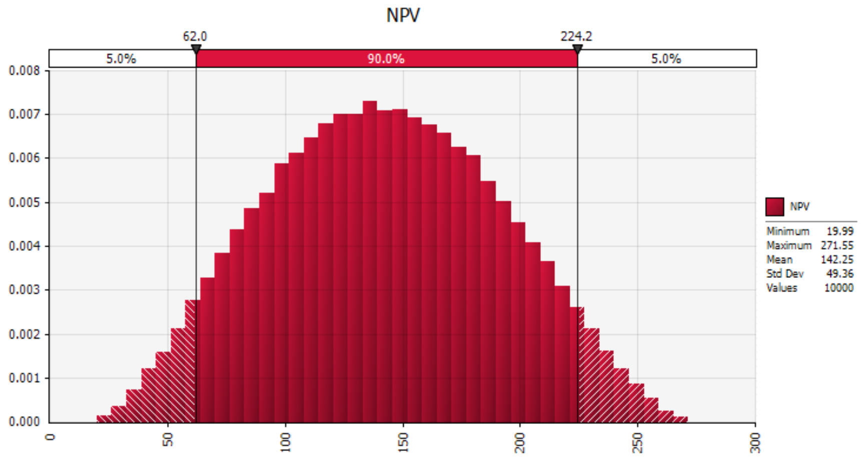
Turnover range	Mid-point (assumed)	No. of businesses
Zero to less than $50k	25,000	10,799
$50k to less than $200k	125,000	5,513
$200k to less than $2m	750,000	5,838
$2m to less than $5m	3,500,000	670
$5m to less than $10m	7,500,000	247
$10m or more	15,000,000	248
Total		23,315

Source: ABS Counts of Australian Businesses, including Entries and Exits.

LE's analysis suggests a mean gain in producers surplus (in NPV terms over 10 years) of around $142 million dollars, with a potential maximum gain of approximately $272 million. According to the modelling, there is a 90 percent probability of a total gain in producers surplus over the ten years (in NPV terms) lying between $62 million and $224 million (Chart 4-4).

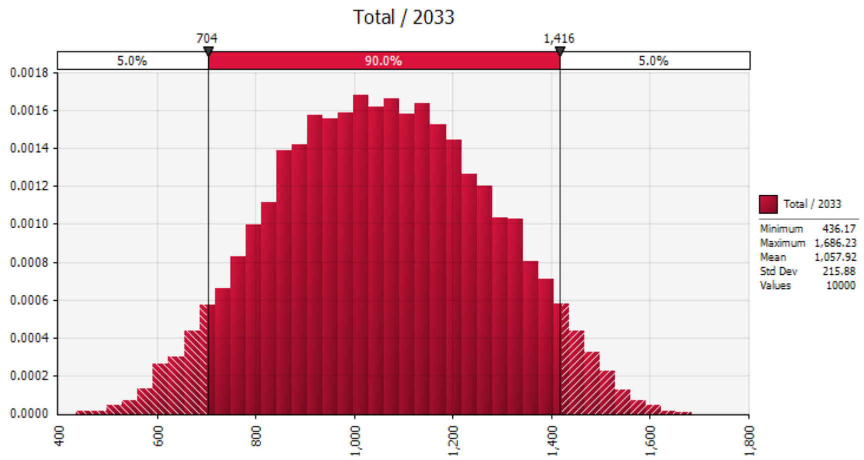
[61] We applied a Monte Carlo Simulation, a mathematical technique used to estimate the possible outcomes of an uncertain event. See here for a definition: https://www.ibm.com/au-en/topics/monte-carlo-simulation

Chart 4-4 Results of Monte Carlo analysis of NPV of additional producers surplus in non-store retailing over 10 years



Converting the gain in producers surplus into the number of new non-store retailing businesses created as a result of the policy change, LE estimates that there could be an additional 1,050 new, surviving eCommerce businesses by 2033 (range at 90% probability: min 704, max 1,416) (Chart 4-5).

Chart 4-5 Results of Monte Carlo analysis of additional businesses since 2023 in non-store retailing at the end of 2033



Finally, there is the prospect of a significant number of these new surviving businesses becoming great local successes. Our modelling indicates that the mean number of additional businesses in the $10 million or more turnover range is 11 (range at 90% probability: min 5, max 18).

4.8. Sensitivity analysis

LE has undertaken a sensitivity analysis to test the robustness of the results to plausible variations in key assumptions. Broadly speaking, the proposal delivers net benefits across a range of plausible variations (Table 4-10). That said, not all sectors are winners under all scenarios. If Australia Post loses enough market share in the Policy Case, it could suffer a net loss over the ten years, estimated to be an NPV of around $100 million if it has a reduction in market share of 20 percent.

Table 4-10 Sensitivity analysis

Item	NPV $M	Difference from central case $M	Percentage difference
Discount rate = 3%	2,020	484	31%
Discount rate = 10%	1,266	-270	-18%
Additional parcel growth 50% lower	1,190	-346	-23%
Dynamic efficiency gains 50% lower	993	-543	-35%
Consumer savings 50% lower	1,281	-256	-17%
Australia post 2x loss of market share*	1,536	0	0%
Incremental cost of additional parcel at post office = $1.75	1,324	-212	-14%

**In this particular scenario designed to understand the impact of Australia Post losing significant market share, Australia Post loses approx. $100 million over ten years in NPV terms, however, in the CBA this loss is offset by gains to competitors.*

5. Conclusion

5.1. The challenge

Since before Federation, Australia's regional, rural and remote communities have been almost continually beset by challenges — whether demographic, economic, social or environmental. In addition to the constant threat of devastating floods and bushfires, many regional and remote Australian communities have dealt with population decline, the cyclical nature of Australia's commodity exports and, relatedly, our terms of trade fluctuations, social instability driven by high youth unemployment, substance abuse and crime, and long run climate change impacts in some parts of Australia (such as the wheat belts in south-west WA and in western NSW). There have also been other pressing challenges in recent years that have particularly affected regional Australia, not the least of which has been the monumental challenge of transforming Australia's energy system from non-renewable to renewable generation, which impacts the mining, minerals processing, generation, transmission, distribution and energy storage systems.

Through all of these challenges Australia's regional, rural and remote post offices have stood the test of time. There have been significant changes to their operating and governance model in 1901, 1967, 1975 and 1989 designed to ensure Australia Post's organisational, technological, financial, economic and social viability and effectiveness.[62] These centres of commerce and community life in the bush are again under threat from a long-run decline in letter delivery and, relatedly in many cases, footfall traffic.

5.2. The opportunity

The strong growth in parcel delivery services driven by the eCommerce revolution offers some hope in the presence of this threat. By allowing open access to these trusted community hubs, consumers will be able to access lower cost products, businesses will be able to access essential inputs (like machinery parts and printer ink for example) more efficiently and more reliably, post offices will benefit from greater revenue and footfall traffic, and Australia Post (the corporation) will benefit from the fees it charges post offices to use its IP, its IT infrastructure, and branding, which will in turn support Australia Post's bottom line and offset the continued and rising losses in the reserved letter delivery business.

[62] Following federation in 1901, the colonial mail systems were merged into the Postmaster-General's Department (PMG). In 1967, 4-digit postcodes in Australia were introduced, in addition to the world's first mechanical processing centre. In 1975, PMG was split into two — the Australian Postal Commission and Telecom Australia. In 1989, the Postal Commission was corporatised as the Australian Postal Corporation and has since operated as a 100% publicly-owned Government Business Enterprise (GBE).

The men and women who run these post offices should be given the freedom to deal with all comers in terms of running their small businesses. Choice is at the centre of a vibrant market economy and postal agents should, by default, be able to negotiate providing access to their suite of last-mile services at commercial rates. As we have argued, so long as the rates charged are commercially determined, then Australia's regional consumers and, more generally, regional communities, will be better off. And the increased competition among parcel delivery services providers should provide further dynamic efficiency gains across the whole industry, benefitting efficient industry players at the expense of inefficient ones

5.3. Findings

We found that moving from the base case of 'no access' to the 'open access' case produced substantial net benefits for the Australian community, shared among consumers, Australia Post (the corporation), the network of licensed and community post offices, and the parcel delivery industry (i.e. competitors to the AusPost parcel business). **The total net benefit of the policy change over the 10-year study period is estimated to be $1.5 billion in net present value terms**.

- Households benefit because greater competitive pressure leads to lower parcel delivery prices.
- Businesses benefit from lower parcel delivery prices and greater parcel delivery certainty, which reduces business supply-chain risk.
- The logistics industry benefits because lower prices leads to an expansion in market demand that outweighs any loss in industry revenue from lower prices.
- Post offices benefit because the increase in market demand increases their parcel storage revenues.
- Australia Post (the corporation) benefits because, despite the increased competitive pressure, it gains from: (i) the access arrangements generating more license fee revenue, and (ii) the expansion in total market demand increasing its total revenues.

Importantly, the estimated benefits are shared across the groups that would be most impacted by the changes. Households share one-third of the total benefits, at $461 million over the 10-year modelling period. Post offices and parcel delivery competitors would benefit substantially (with 12 percent and 26 percent shares, respectively), while a further one-fifth of the total benefits accrue to the Australian community via increased taxation revenue, GHG reductions and regional economic development gains.

Table 5-1 Economic benefits of open access, by group

Sector	NPV $M	Share of benefits (%)
Households	461	29.9%
Businesses (excl. post offices & integrated logistics businesses)	137	8.9%
Post Offices	177	11.5%
Australia Post	38	2.4%
Integrated logistics businesses	404	26.2%
Other community (i.e. tax, GHG reduction)	325	21.1%
Total	**1,542**	**100.0%**

Source: LE analysis and modelling. A social discount rate of 7% was applied. Note: In terms of Other community benefits, additional tax revenue accounts for 85% of the total, followed by regional economic development benefits (14%), and the value of GHG emissions reductions (1%).

5.4. The path forward

We considered three different approaches to realising the open access scenario. In our view, on balance, *Option 2 — The Minister directs the Australia Post Board to negotiate commercial terms with competitors*, was the most straightforward approach and provided the best chance of a purely commercial (as opposed to regulated) outcome being realised.

Section 49 of the Act provides the Minister (being the two shareholding Ministers (i.e. the Minister for Communications, Cyber Safety and the Arts and the Minister for Finance)) with a broad power to direct the Australia Post Board. This power could be used to direct the Board (to in turn direct the CEO) to negotiate access terms to its regional infrastructure with any competitor. These terms could be negotiated between the two parties, voluntarily submitted to the ACCC for monitoring, or determined (and enforced) by the ACCC based on a referral from the Minister.

This option would be the simplest to enact and wouldn't require new legislation. The Productivity Commission could review the impacts of the open access regime on regional, rural and remote Australia after 2-3 years and recommend whether the Ministerial Direction should be kept.

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Appendix A Table of assumptions used in the economic modelling

All economic models are simplifications of reality. Moreover, they seek to depict an unknown future. And in cost benefit analysis, we try to predict two futures — a Base Case of how a market will develop given no major changes to technological trends, and the legislative, regulatory and policy parameters; and a Policy Case where a change to one or more parameters is envisaged. Managing these challenges requires setting out a number of simplifying assumptions within a general conceptual framework so that the economic analysis and modelling is internally coherent and credible.

The table below sets out the key assumptions used in the model. Assumptions about key parameters are made in order to make sense of a complex world. These assumptions reflect judgements based on available data sources and/or economic theory, which can be used as a guide to determine key parameter values.

Table A1 Parameter assumptions used in the economic modelling

Assumption	Value	Source / Explanation
Total B2C parcel volume (M, 2023)	500	Briefing from TGE and publicly available sources including Deloitte (2020) and Australia Post (2022).
Share of above going to OOH - metro	12%	Briefing from TGE and industry consultation.
Share of parcels going OOH in Base Case (by 2033)	25%	We assume Australia will, to some extent, catch up to the OOH pick-up rates evident in leading countries in the Base Case. Postal industry consultants Last Mile Experts (2022) report that OOH deliveries account for 50 percent of deliveries in many European countries, including Nordic countries, France, Czech Republic, Hungary, and Poland. Based on this, 25 percent OOH delivery in the base case by 2033 could be considered a conservative assumption.
Growth rate of parcel deliveries in Base Case (average annual)	7%	Various industry reports forecasting parcel deliveries will double over the next ten years.
Australia Post market share of B2C (2023)	80%	Briefing from TGE
Australia Post share of additional parcel volume (excl. from dynamic eff. gain)	0%	Assumed that the additional OOH parcels brought about by allowing access to post offices are shipped by Australia Post's competitors. Australia Post does however ship some additional parcels associated with

		the dynamic efficiency effect which results in productivity gains and lower prices and induces some additional demand.
Dynamic efficiency p.a. (approx. 0.2% p.a. compounding)	$0.016 (i.e. 1.6 cents)	As discussed in section 2.3.4, LE estimated the long-run postal services productivity growth rate in Australia at 2 percent per year. Hence, this additional productivity boost in the Policy Case is considered reasonable.
Consumer share of dynamic efficiency gains between consumers and producers	50%	It is difficult to determine, ex ante, the relative incidence of the dynamic efficiency gains between consumers and producers, which would be driven by the relative demand and supply elasticities (i.e. the slopes of the demand and supply curves). We have, therefore, assumed an even split between consumers and producers.
Market expansion due to dynamic efficiency (p.a. compounding)	0.1%	This is a calculated assumption based on the 0.2% dynamic efficiency gain described above. An elasticity of -1 (i.e. the slope of the demand curve is at 45 degrees) implies the area of the triangle is 50% of 0.2% (See the area D in Diagram 3-1 in the main report above).
Australia Post loss of existing market share	10%	LE does not believe we can reliably forecast this so we have exercised our best judgement. Much will depend on how AusPost responds to the increased competitive pressure.
Fee for open access per parcel - paid to AusPost	$2.00	This is assumed to be the current market price per parcel for OOH locker storage, as advised by TGE.
AusPost payment to post offices per parcel	$1.86	TGE has advised that, of the $2 per parcel payment to Australia Post, we assume that AP passes on $1.86 to post offices to cover costs and earn a return. AP keeps 14 cents (or 7%) as a license fee.
Incremental cost of community post offices handling parcels	$1.25	This will be less than the $1.86 paid by Australia Post for handling parcels which compensates post offices for looking after parcels. Handling parcels from AusPost competitors is expected to generate significant profits per item for post offices

		because of bulk deliveries to business customers. This assumption reflects discussions with industry participants.
Post offices which no longer need minimum payment due to additional revenue from open access	100	This assumption is based on industry consultation.
Average top up to get to minimum payment of $50k p.a.	$10,000	This assumption is based on industry consultation.
Margin earned on B2C parcels	$0.50	This assumption is based on industry consultation. In the absence of contrary indications, LE has assumed this margin is the same across geographical regions and freight companies, including Australia Post.
Average consumer saving on parcels going to OOH - metro	$0.50	LE judgment based on assessment of benefits of potentially closer location, savings on delivery charges, and the value of time.
Average consumer saving on parcels going to OOH - inner regional	$1.00	LE judgment as above and accounting for greater benefits in regional areas where delivery options are currently more constrained.
Average consumer saving on parcels going to OOH - outer regional and remote	$2.50	As above.

7. Appendix: Freshwater Strategy, Postal Services Research Report

FRESHWATER
STRATEGY

Postal Services

RESEARCH REPORT

APRIL 2023

www.freshwaterstrategy.com

Agenda

Postal Services | Research Report

- Methodology
- Executive summary
- Community attitudes to local post office
- Online ordering habits & feedback
- Access & expectations with parcel deliveries
- Trends in online ordering
- Trade-offs and statements

Methodology

Postal Services | Research Report

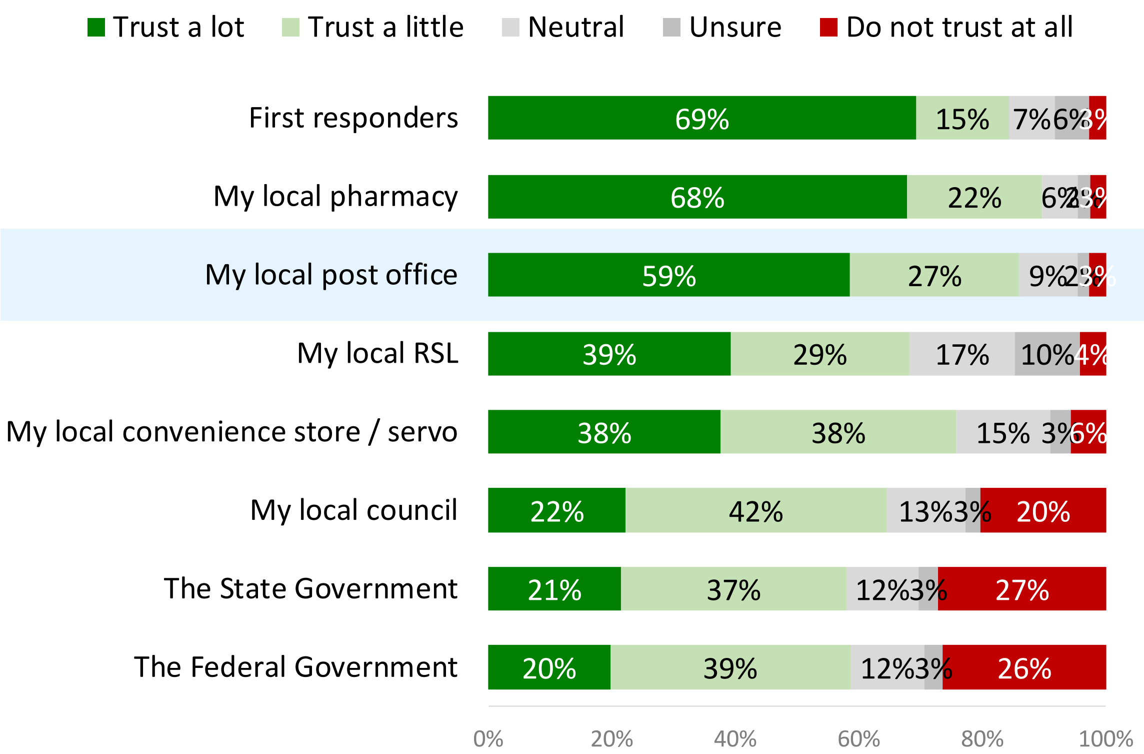
- The poll was conducted online
- Sample size of n=1,002 completed interviews with adults living in Australia
- Fieldwork was undertaken 8-11 April 2023
- Data are weighted to be representative of Australian adult residents, using targets for age, gender, education and location from the Australian Bureau of Statistics (ABS)
- Margin of error is approximately +/- 3.1% for topline results

Community attitudes to local post offices

Community Post Offices are one of the most trusted institutions in their local communities.

FRESHWATER STRATEGY

TRUST IN COMMUNITY ORGANISATIONS



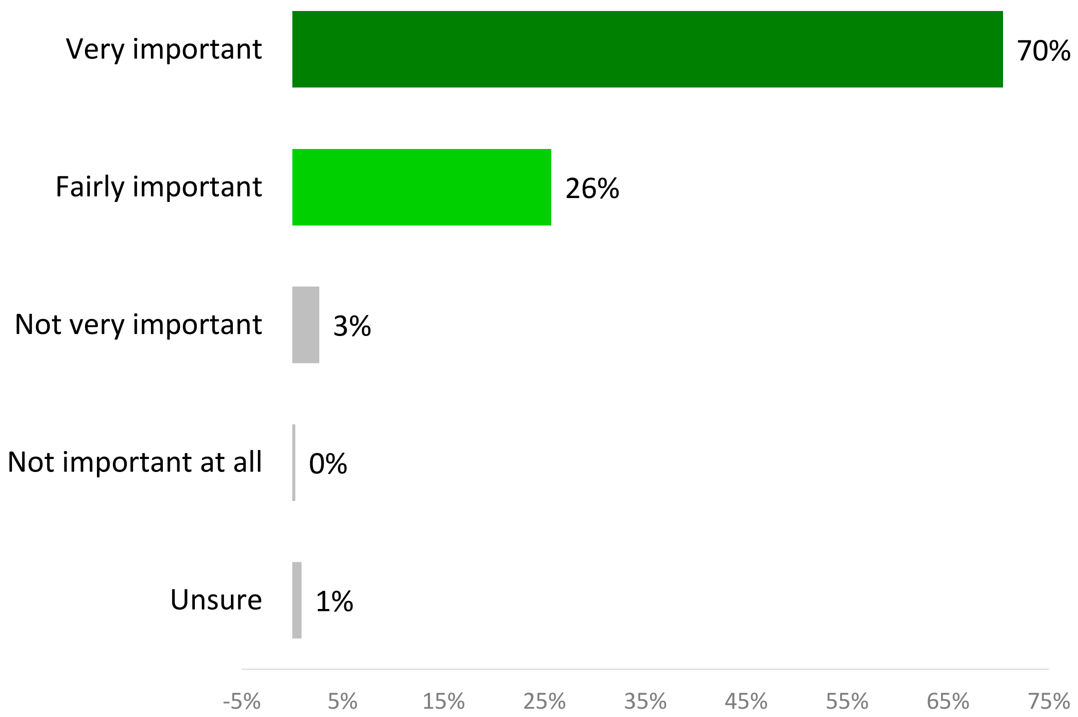
Q. How much do you trust the following organisations to work in your community's best interests, if at all

Post offices are in the top 3 trusted of listed community organisations, after local pharmacies and first responders.

96% of people think it is important for their community to have a local post office.

FRESHWATER STRATEGY

IMPORTANCE OF HAVING A LOCAL POST OFFICE



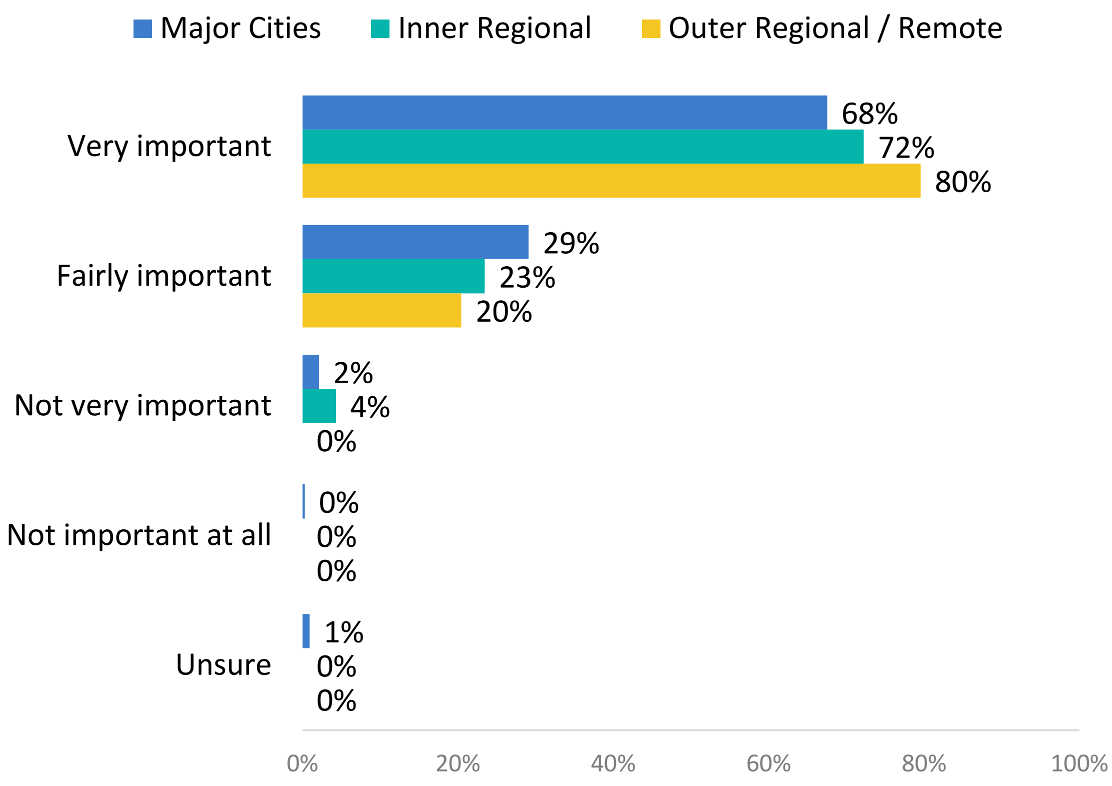
Q. How important, if at all, is it for your community to have a local post office?

96% of respondents think it is important for their community to have a local post office. 70% of which say it is very important, and a further 26% saying it is fairly important.

80% of regional and remote respondents put a very high importance on local post offices.

FRESHWATER STRATEGY

IMPORTANCE OF HAVING A LOCAL POST OFFICE, BY GEOLOCATION



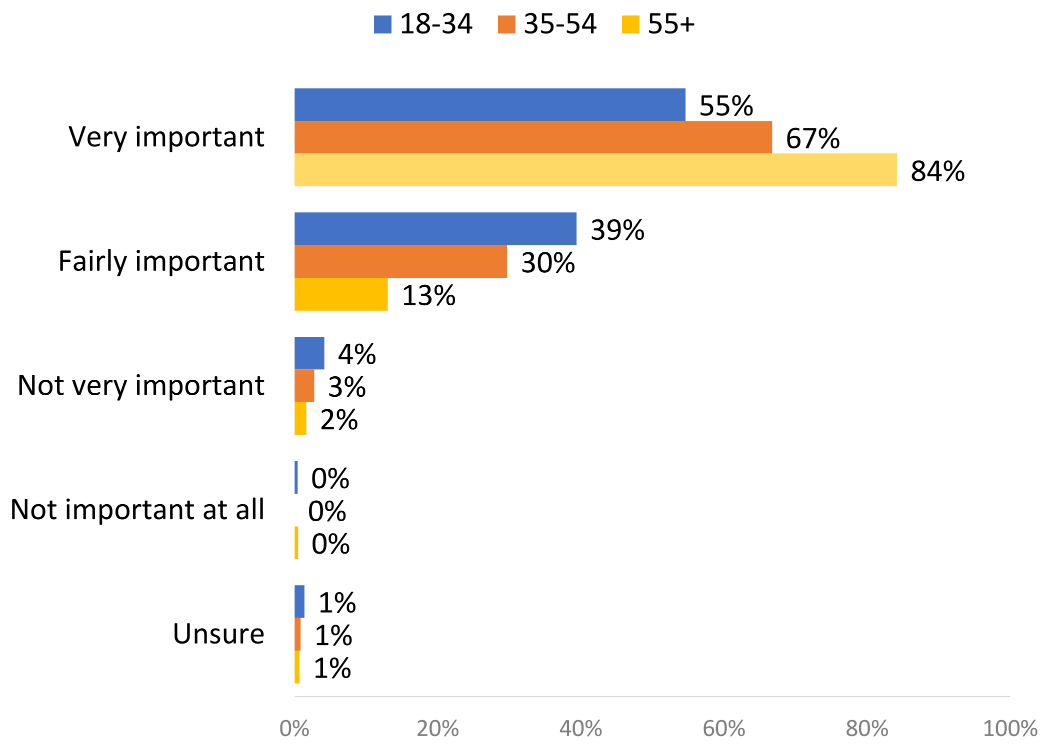
Q. How important, if at all, is it for your community to have a local post office?

80% of outer regional & remote respondents say it is 'very important' for their community to have a local post office, compared to 72% for inner regional, and 68% for major cities.

Younger persons place less importance on having a local post office.

FRESHWATER STRATEGY

IMPORTANCE OF HAVING A LOCAL POST OFFICE, BY AGE



Q. How important, if at all, is it for your community to have a local post office?

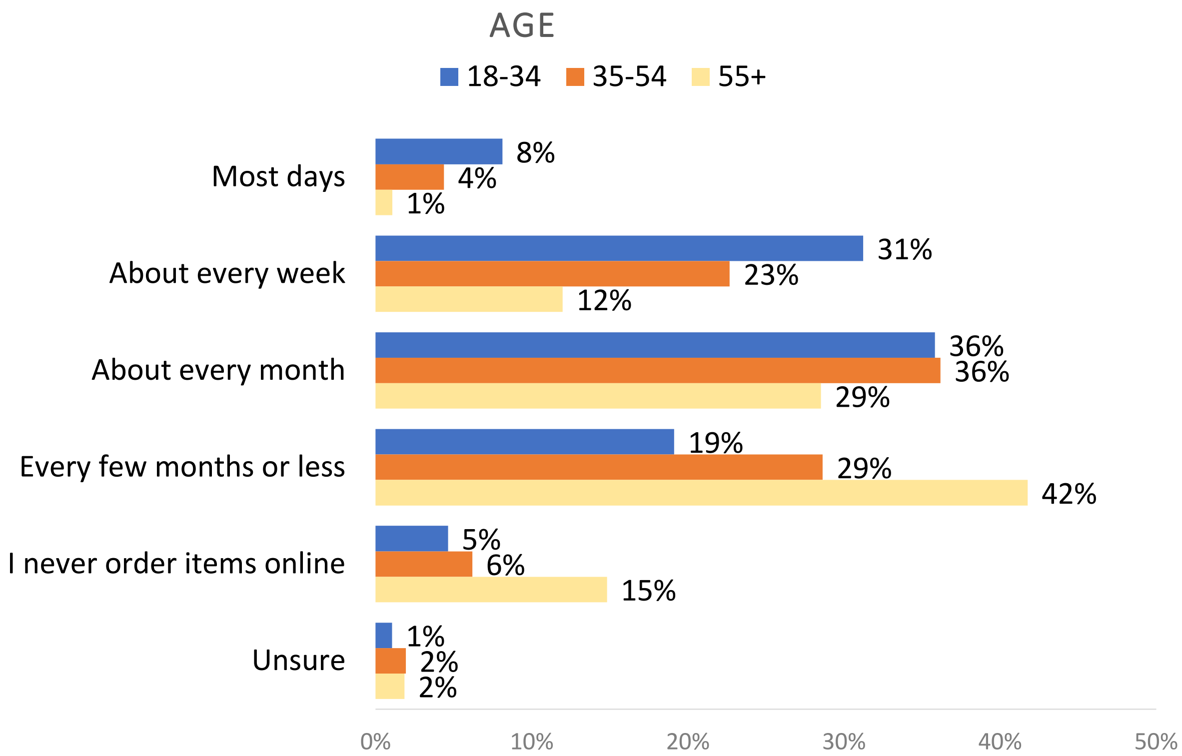
While younger respondents placed a lower degree of importance on their local post office, 97% of respondents aged 55+ saw it as important, 84% of which noted it is very important for their community to have a local post office, compared to only 55% of younger persons (aged 18-34).

Online ordering habits & feedback

Younger persons buy online more frequently, with the vast majority of all respondents buy multiple times a year

FRESHWATER STRATEGY

FREQUENCY OF ORDERING ONLINE BY AGE



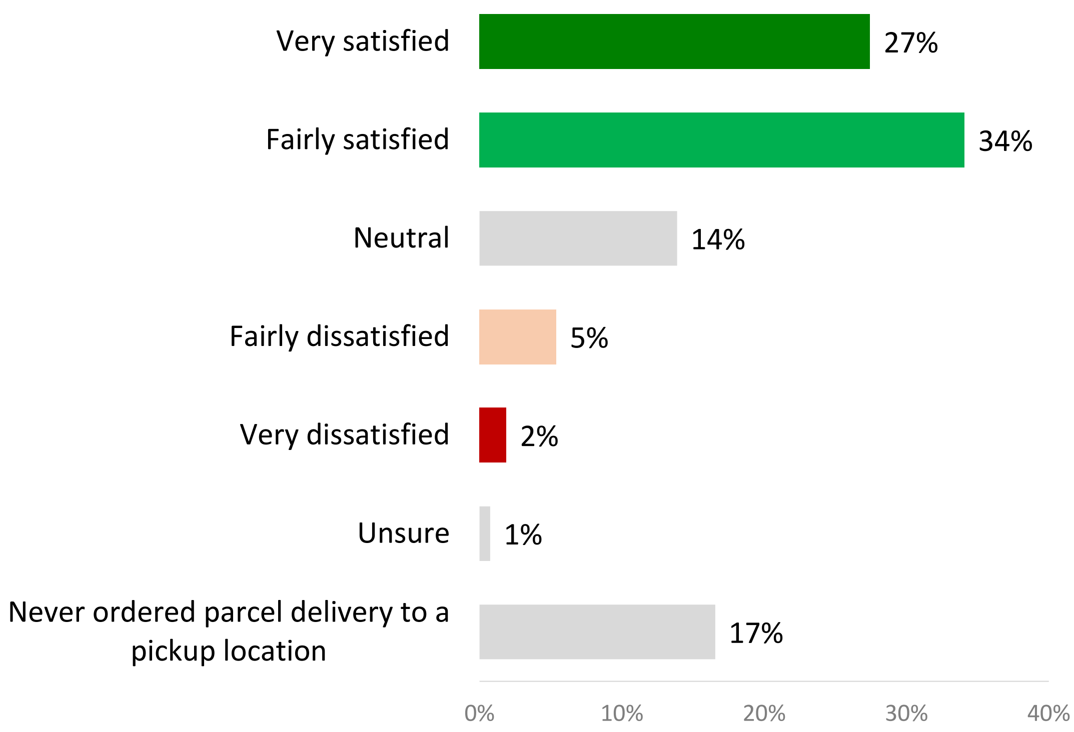
Younger respondents tended to have a higher frequency when it came to online purchases, and overall, 80% of respondents of all ages buy regularly over the course of the year.

Q. How often, if at all, do you order items / goods online (excluding food delivery)?

While 61% are satisfied with parcel pick-ups from alternative locations, 7% of people were not.

FRESHWATER STRATEGY

SATISFACTION WITH ACCESSIBILITY OF PARCEL PICK-UP FROM A DIFFERENT LOCATION



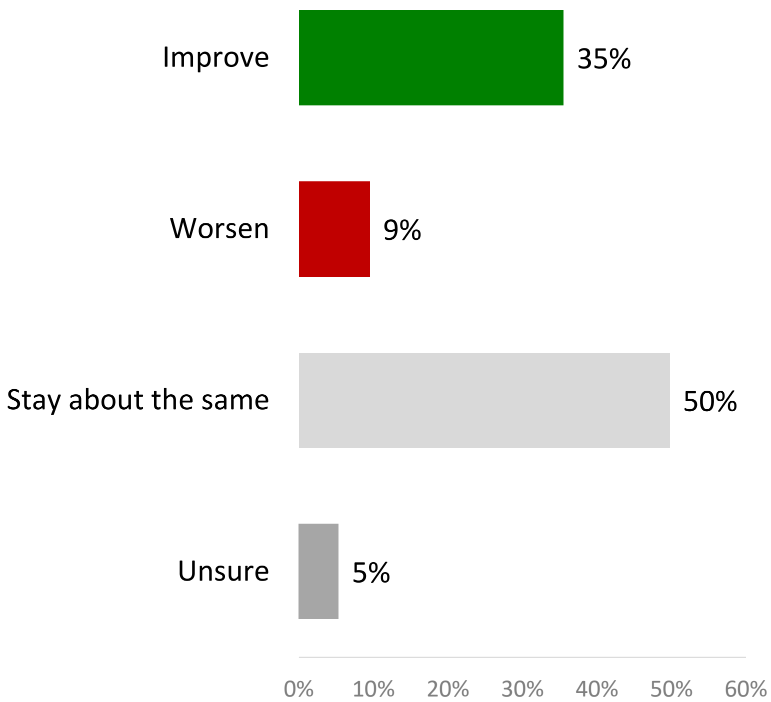
Q. Thinking about the last few occasions when you have picked up a parcel from a different location (i e , post office or store), how satisfied, or dissatisfied have you been with the opening hours or general accessibility?

61% are either very satisfied or fairly satisfied with the accessibility of parcel pick-ups from alternative location.

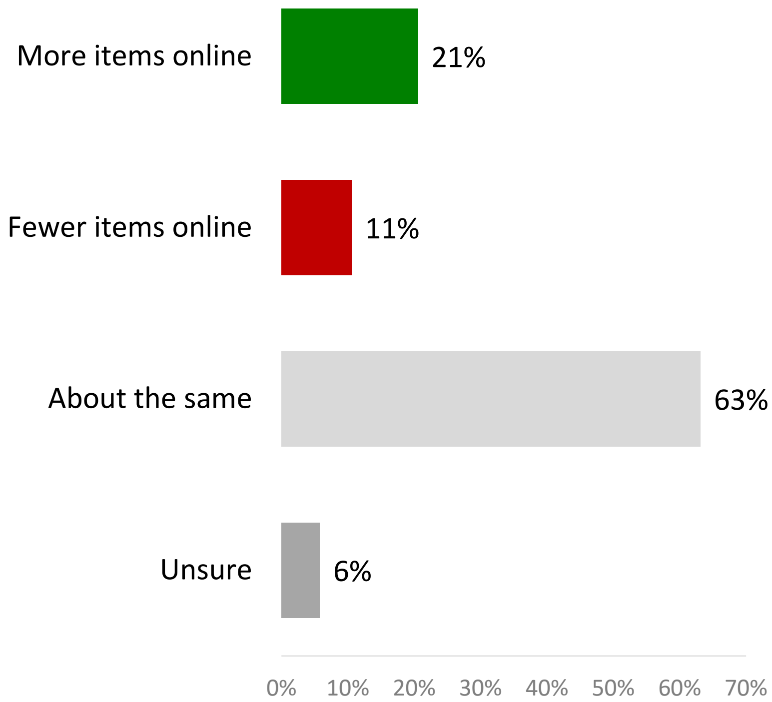
Access & expectations with parcel deliveries

More than one third say their experience would improve if delivery frequencies to local post offices increased, and more than 20% would buy more online

EXPERIENCE IF DELIVERY FREQUENCY TO LOCAL POST OFFICE INCREASED & ONLINE SHOPPING QUALITY



Q. If the frequency of parcel deliveries to your local post office increased, by around 20% (i e deliveries took place on an extra day a week), would that improve, worsen, or keep your experience the same? My experience with parcel delivery pick-up would…



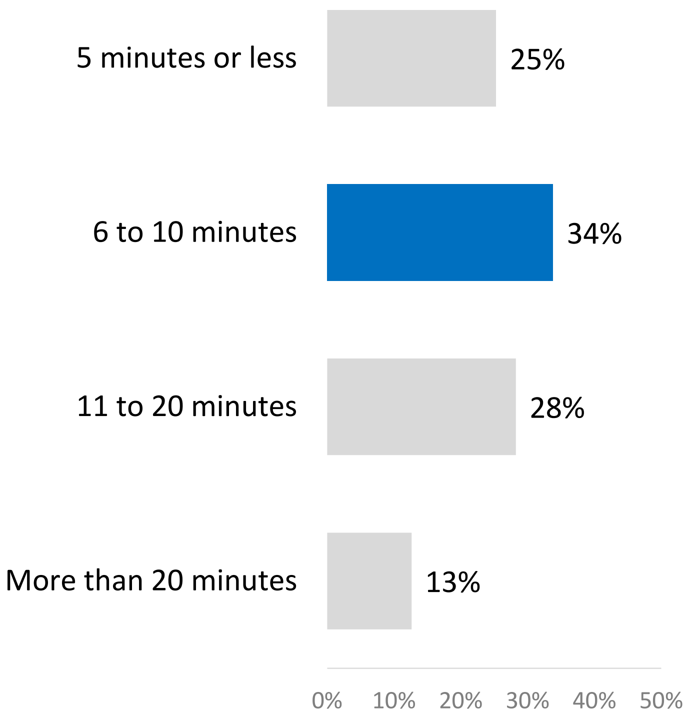
Q. If the frequency of parcel deliveries to your local post office increased, by around 20% (i e deliveries to post offices took place on an extra day a week), would you buy more items, fewer items, or about the same number of items online? I would buy…

12

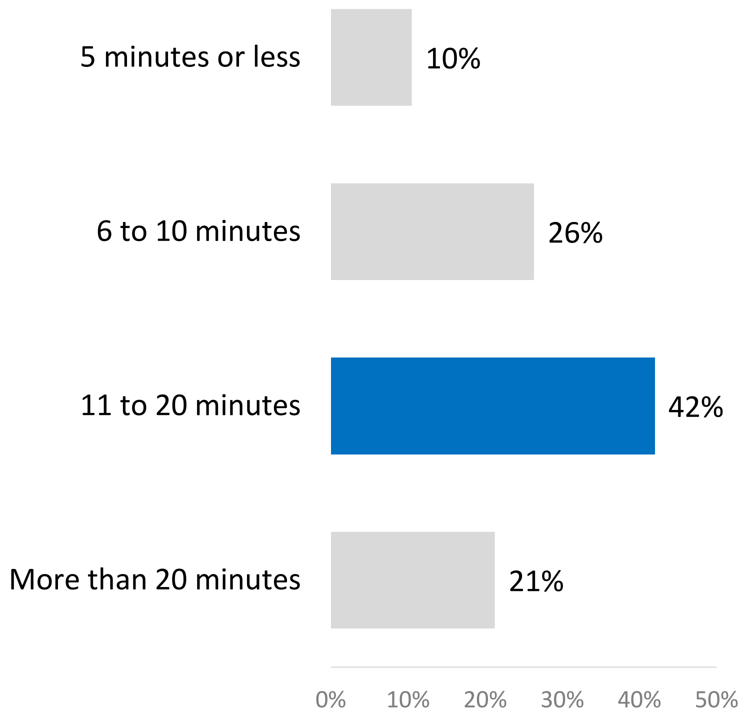
Average travel time to the local post office is 13 minutes, with around 17 minutes being acceptable

FRESHWATER STRATEGY

TRAVEL TIME TO LOCAL POST OFFICE & ACCEPTABLE DISTANCE TO TRAVEL



Q. How far do you have to travel to your local post office when collecting parcels? (in minutes)

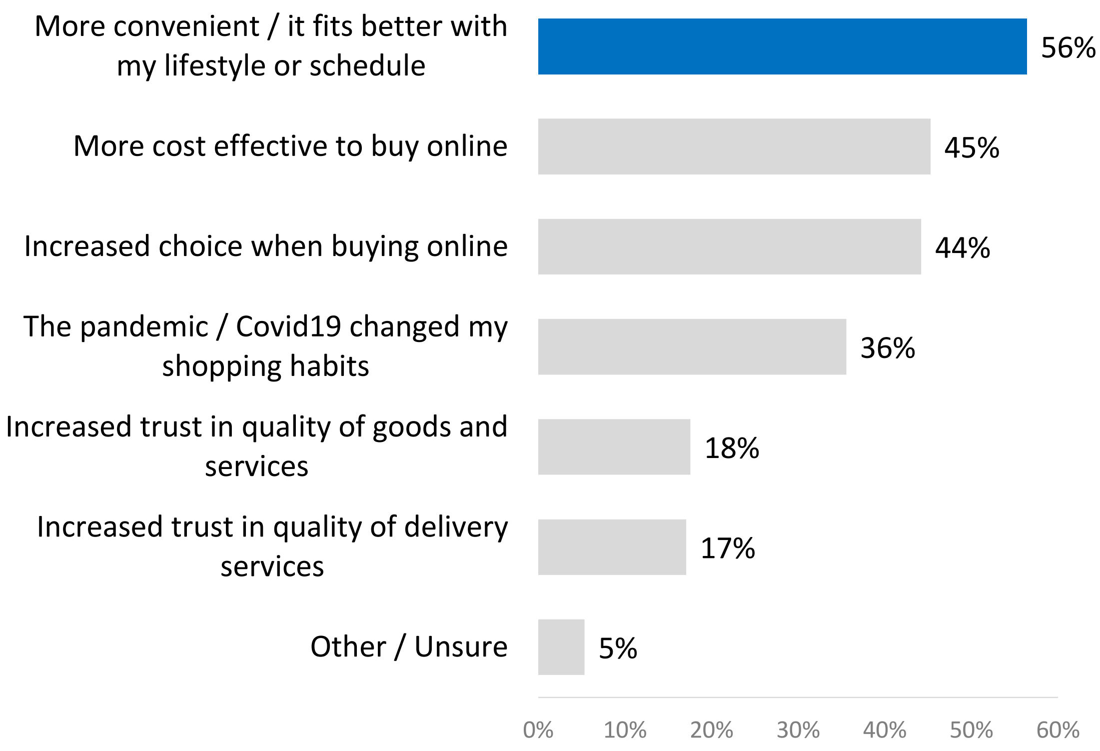


Q. When collecting parcels what is an acceptable distance that you would travel to collect your parcels? (in minutes)

Trends in online ordering

Convenience/lifestyle is the most common reason for ordering more online, followed by cost effectiveness, and increased choice.

REASONS FOR ORDERING MORE ONLINE



Q. What are the reasons you are ordering more items online?

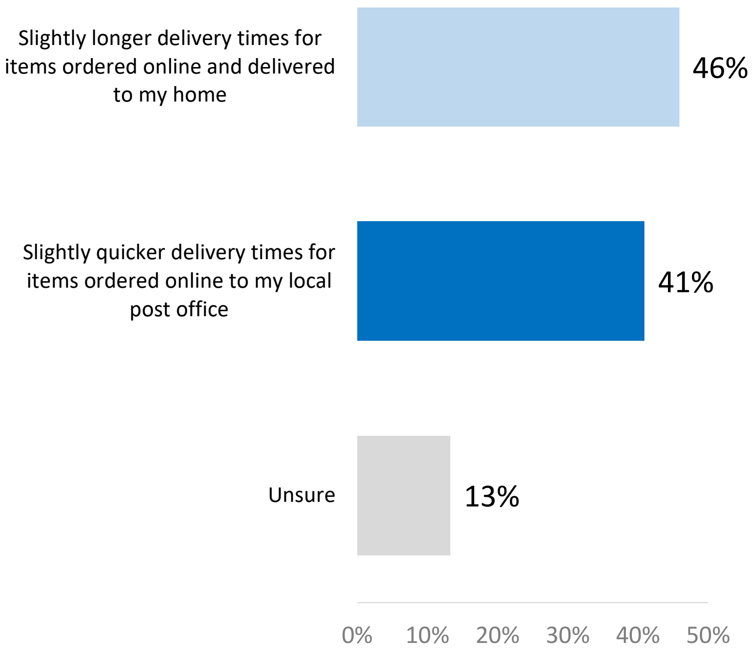
Convenience (56%) is the most common reason for ordering more items online, followed by lower cost (45%) and increased choice (44%).

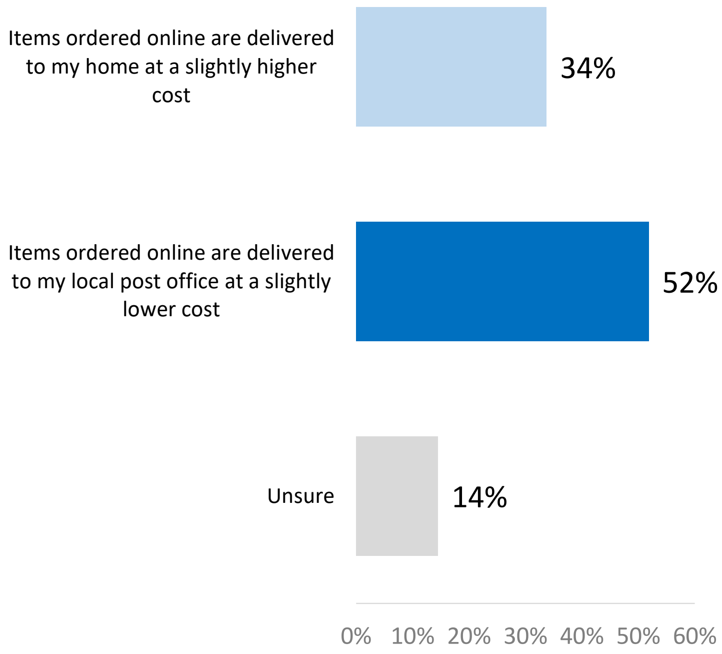
Trade-offs & statements

41% of people would prefer using a post office as a pickup location if it is quicker and 52% if it is cheaper.

FRESHWATER STRATEGY

DELIVERY TIME VS LOCATION TRADE-OFF & DELIVERY COST VS LOCATION



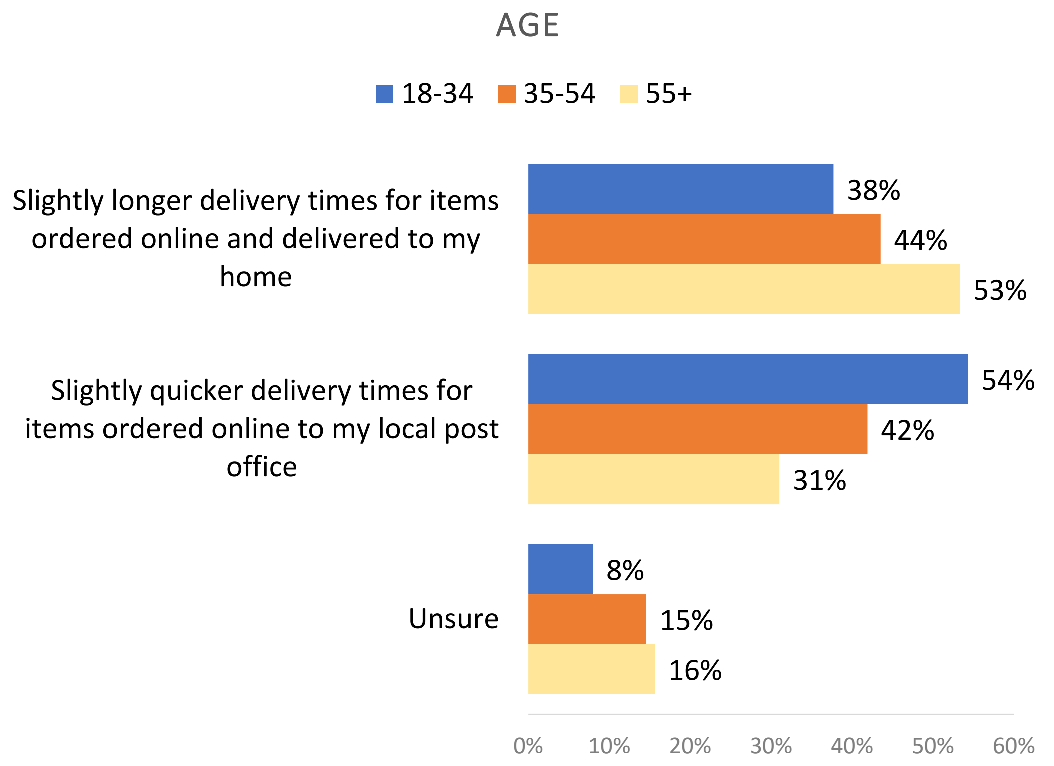


Q. Which of the following would you prefer?

Younger persons value faster deliveries to post offices.

FRESHWATER STRATEGY

DELIVERY TIME VS LOCATION TRADE-OFF BY AGE

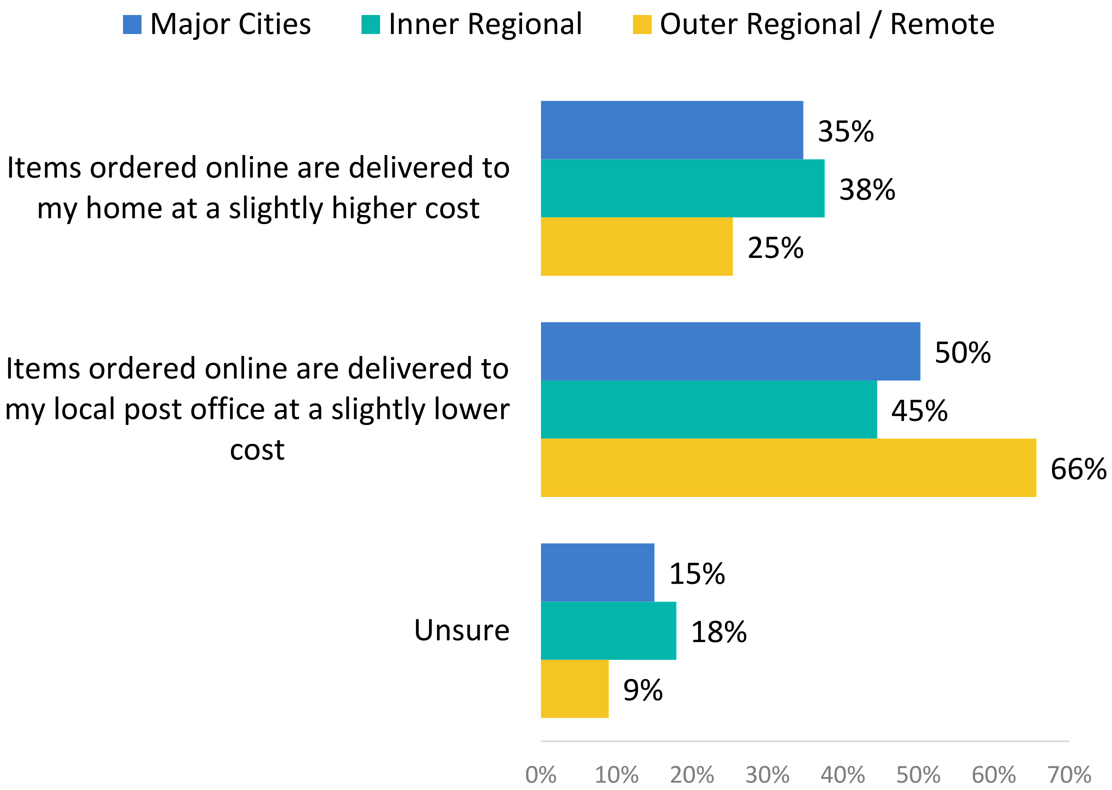


Q. Which of the following would you prefer?

Younger respondents tended to prioritize faster delivery (54% vs 38%) times, while older groups (53% vs 31%) prefer the traditional option of home delivery.

Outer regional persons value lower cost deliveries to post offices over home deliveries.

DELIVERY COST VS LOCATION TRADE-OFF, BY GEOLOCATION



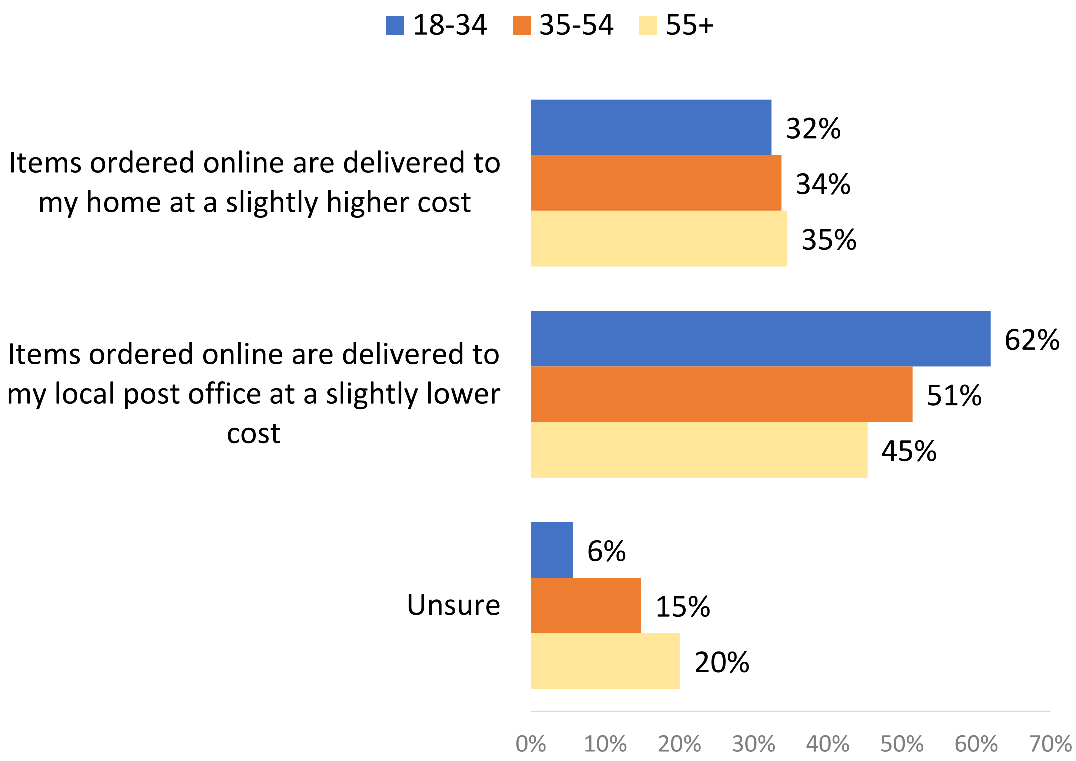
Q. Which of the following would you prefer?

In outer regional / remote areas, two in three (66%) would preference lower cost over home deliveries, higher than inner regional (45%) or major cities (50%).

Younger persons tend to value lower cost over home delivery.

FRESHWATER STRATEGY

DELIVERY COST VS LOCATION TRADE-OFF, BY AGE



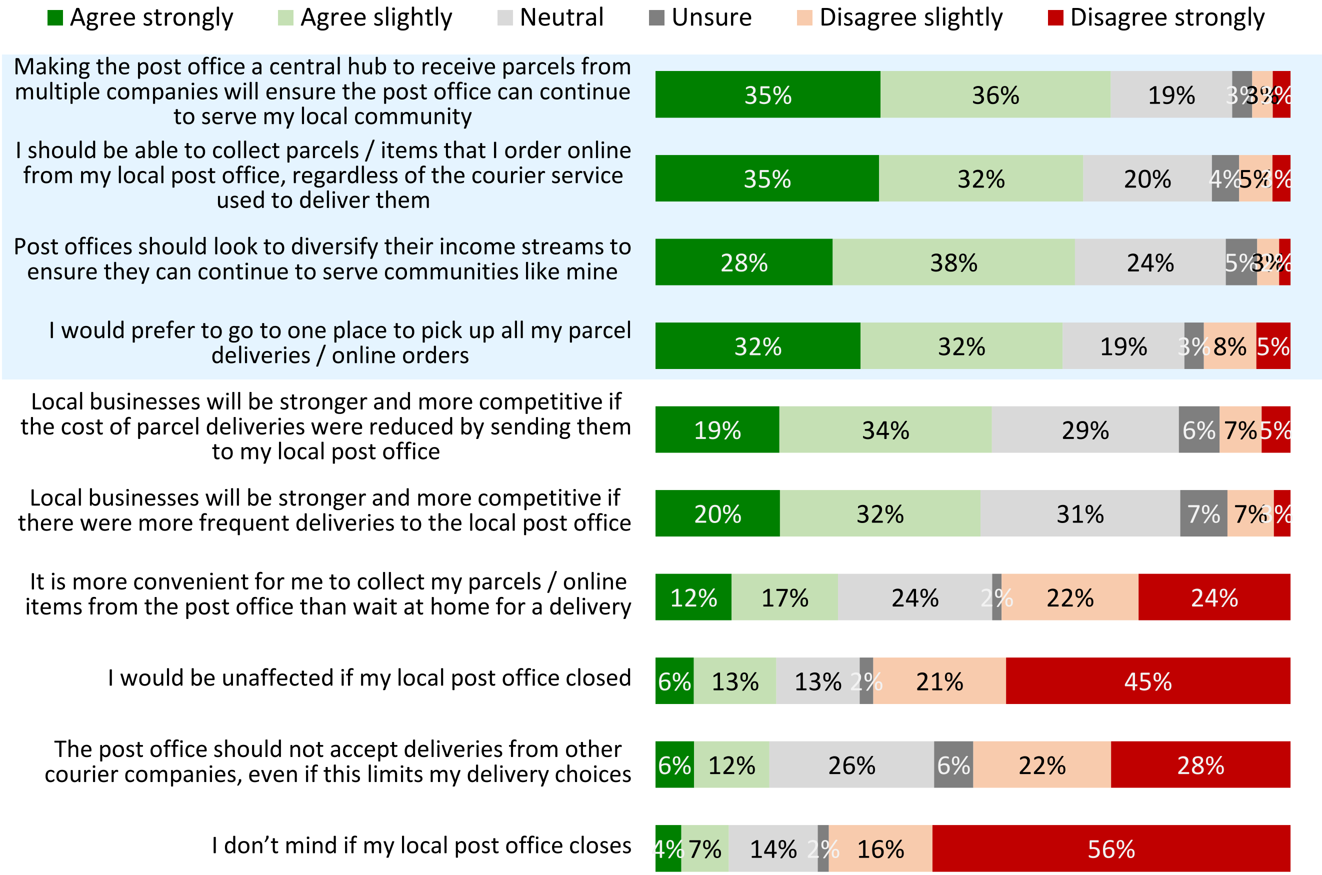
Q. Which of the following would you prefer?

62% of young persons aged 18-34 would prefer lower cost post office deliveries over home deliveries, compared to only 45% of those aged 55+.

Two thirds agree local post offices should accept deliveries from ALL courier services, and that it would positively serve their community. Disagreement on this point is exceedingly low.

FRESHWATER STRATEGY

ATTITUDES TOWARDS PARCEL DELIVERY ARRANGEMENTS



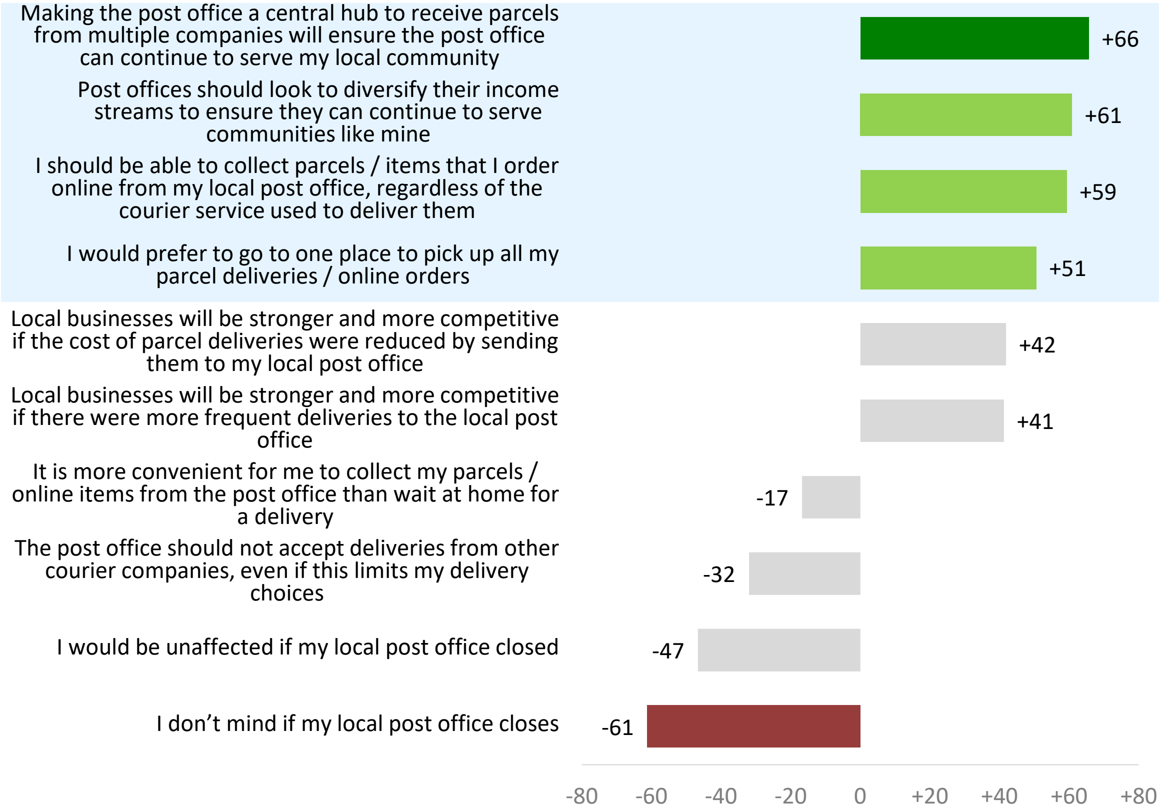
Q. Do you agree or disagree with the following statements?

67% agree they should be able to use their local post office to collect parcels from all courier types.

72% say they would mind if their local post office closes.

There is strong agreement for arguments for post offices to accept deliveries from other couriers.

NET AGREEMENT | ATTITUDES TOWARDS PARCEL DELIVERY ARRANGEMENTS



Q. Do you agree or disagree with the following statements (net agreement)

There is strong agreement, a 66-point lead, for making post offices central delivery hubs for multiple companies.

Similarly, there are 50+ point leads for post offices diversifying their income, accepting parcels from all couriers, and for 'one stop' parcel collection points.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