

# POSTAL SERVICES

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## INTRODUCTION

Australia Post, as the provider of a national postal network and the main carrier of letter mail, is the key instrument of achieving the Government's objectives in regard to postal services. It provides in very large part, but by no means solely or exclusively, communications services which are customarily referred to as postal.

A very large organisation, handling nearly 14 million articles of mail every working day, Australia Post provides one of the best, if not the best, postal services in the world (ref. Figure 1). There are weaknesses, of course, but we have achieved what is probably a pre-eminent position among world postal services under the present regulatory framework, established by the Vernon Commission of 1975.

Until 1975, Australia Post was part of the Postmaster General's Department. The postal service was performing badly; it was incurring large losses (subsidised by telephone users), and business customers were deserting it to use couriers or document exchanges or any alternative they could find.

Under the present regulatory regime, the service has more than covered its costs and made increasing profits — to more than \$50 million in 1986–87. In the last two years it has won back many of the business customers lost prior to 1975, and delivery performance is better than ever before (ref. Figure 2).

But the basic postage rate — that is, the charge made for an ordinary letter within Australia — has fallen in real terms (ref. Figure 3). That rate would be a primary casualty of any significant deregulation of the service. While not necessarily a disaster, this possibility does have social implications that need to be thought through clearly. It would bring to an end an era when access to the postal service provides a commonality for all Australians, whether they live in Sydney or in a rural area on the west coast. It would certainly be electorally unpopular, and the end result would very likely be the opposite of that intended by the deregulators: a return to the pre-1975 days when the postal service survived by means of a subsidy. Our experience is that a subsidised postal service is an inefficient postal service.

Since the subsidy removal in 1975, there has been a sustained and painstaking increase in labour productivity. That productivity increase, in an industry which is still highly labour-intensive, has allowed postage price increases to remain below the CPI increases.

One weakness is in the area of administrative overheads, which are being reduced currently. At the same time, those commercial weaknesses which result from our cultural heritage as a Government department, are being tackled on a number of fronts.

## THE REGULATORY FRAMEWORK

The regulatory framework derives from the Postal Services Act and Regulations, and to a smaller extent from legislation or administrative decisions which apply to statutory authorities of the Commonwealth.

Under the Act, which established Australia Post, the Postal Commission is required to fulfil a number of major obligations:

- To operate postal services for the transmission of postal articles within Australia and overseas.
- To operate courier, electronic mail, agency and money order services.
- To meet the social and business needs of Australians for postal services and as far as practicable provide postal services throughout Australia. It is also required to have regard to the special needs for postal services of Australians who reside or carry on business outside the cities.
- To, as far as practicable, obtain revenue to meet all current expenditure (excluding provisions) and to fund at least half of capital expenditure.
- To operate as efficiently as possible to keep prices as low as possible, consistent with meeting the above financial objective.

The Regulations under the Act also impose obligations on Australia Post in relation to the security and proper handling of the mail.

## THE LETTER MONOPOLY

The monopoly provisions of the Act — the ones which most people focus on when they talk about 'deregulation' — prohibit the carriage or conveyance for reward of ordinary letters weighing less than 500 grams by anyone other than the Postal Commission — with certain exceptions. Even for ordinary letters, there is significant indirect competition, in the form of telephone, telegram/telex, facsimile, electronic mail networks, and advertising media. Types of mail not covered by the monopoly include the following:

- Letters relating to the affairs of a person (or business) and conveyed by that person's employees.
- Letters conveyed between the sender's address and the nearest post office and vice versa.
- Letters carried by couriers, air line express services, etc. whose charges would be more than 10 times the relevant postal charges.
- Letters sent directly by facsimile or by electronic mail.
- Parcels and packets.
- 'Unaddressed' articles placed in letter boxes (private operators deliver 1.8 billion such articles a year, Australia Post 150 million).
- Registered publications.

The letter monopoly has been in force in virtually all countries for a very long time. Although defined in slightly different terms in each country, it is relevant to recall that countries like the United States, Britain, Sweden and even New Zealand currently operate their postal services in association with a letter monopoly. New Zealand is the only known country in which a decision has been made to review the letter monopoly in the foreseeable future. Clearly, the existence of a postal monopoly has been and continues to be supported despite periodic suggestions for its removal; its continuation has been periodically reaffirmed.

In Australia, the postal monopoly has been reviewed twice in recent years: the Vernon Commission (which led to the establishment of the separate Postal and Telecommunications Commissions) in 1974, and the Bradley Inquiry into the Functions, Duties and Monopoly Position of Australia Post in 1982. On both occasions, after consideration of a wide range of issues, the desirability of retaining the monopoly was reaffirmed by the inquiry and confirmed by Governments of different political persuasions.

The reason for the monopoly is simple: a universal postal service demands the maintenance of a universal network. Any significant reduction in base load results in only a marginal reduction in overhead costs, but a very large reduction in revenue. As a true network operation, we have to maintain the nodal points in our operation in spite of fluctuations in volume.

There are a number of indirect substitutes for Australia Post's letter service which are growing in importance, for example telephone, facsimile, telex, electronic funds transfers. Nearly half our revenue, even at present, comes from services not covered by the monopoly provisions of the Act. To that extent, we are already operating in a deregulated environment.

## POLICY GUIDELINES

The Guidelines for Commonwealth statutory authorities and Government business enterprises (GBEs), originally released as a Green Paper, have been the subject of public debate and were finally settled in 1987. The Government has stated that, through the operation of the Guidelines, it intends to promote greater efficiency and accountability of GBEs.



The series of measures implementing the Guidelines for a GBE is known in the trade as a 'reform package'. The Minister for Transport and Communications has indicated that the Government will, in its third term of office, place emphasis on micro-economic reform. A reform package for Australia Post, among others, is expected to be considered in this context.

The Guidelines required GBEs to put forward strategic corporate plans for service, pricing and investment. These are to provide the basis for a financial target agreed with the Minister, as would other supporting performance indicators (e.g. productivity, quality of service). GBEs would work towards, and be accountable for, achievement of that target.

The Government places great emphasis on the setting and achievement of the financial target, which is regarded as the single most important factor in the achievement of higher levels of efficiency. It is to be set with reference to a commercial rate of return, and to the cost of community service obligations and of residual central controls which adversely affect financial performance.

The shape of the reform package is yet to come, but I believe the outcome will be positive. Based on the Guidelines, the measures to be incorporated in legislation would establish a basis for explicitly setting enterprise objectives, understood and agreed with Government and expressed in quantifiable ways. In addition, the difficult questions of the community service obligations and administrative controls, both of which obviously affect financial performance, can now be addressed in an explicit financial framework. The charter of the enterprise will be updated and the legislation amended — again a much needed clarification.

I am optimistic that, managed in a rational and sensitive way, the relationship between GBEs and the Government under the new Guidelines will lead to better performance all round. Government returns on investments can now be targeted in advance, and quality services can be more confidently planned for the nation as a whole.

#### SOCIAL AND ECONOMIC IMPACT OF REGULATION

There are two core questions. First, is the pattern of regulation of postal services beneficial to the community? Second, would greater competition and commercialization yield greater benefits?

In terms of benefits and costs, I believe that the present pattern of regulation serves the community well. The key benefits are:

- The guarantee that a secure reliable nationwide postal service is operated on a regular scheduled basis linking all parts of the nation.
- That the charge for the basic letter within Australia is uniform and relatively low, being based on the most efficient scale of production; and that access to the postal network is universal, simple and economical.
- That economies of scale are achieved for the benefit of the community, and that market power is not abused.
- That subsidies are provided to certain social groups (e.g. residents of remote areas and users of registered publications) at relatively low cost in a way which does not take away the incentive to improve efficiency.
- That high standards of privacy and security for the mail are maintained.

Other benefits attributable to the size and geographic spread of Australia Post include:

- Contribution to the national transport and communication infrastructure through mail contracts to and from sparse and remote locations.
- Provision of employment opportunities in remote locations.

Economic theory suggests that some inefficiencies might arise from the existence of restrictions on entry in the letter market (productive inefficiency) and the levying of a uniform charge for letters from anywhere to anywhere (allocative inefficiency).

It is important to remember that competition does not always eliminate all inefficiencies. In Australia Post's situation, there are processes which operate to contain any potential productive inefficiencies; these include:

- Competition in the letter monopoly area from substitutes, and direct competition in other markets which provide half of Australia Post's revenue.
- The absence of any Government subsidy, which means that Australia Post cannot rely on the public purse to fund inefficient operations.
- Surrogate pressures applied in the monopoly area through ministerial scrutiny and approval of charges, public scrutiny of charges by the Prices Surveillance Authority, parliamentary inquiries and committees, and the Freedom of Information and administrative law processes.

Australia Post's record since 1975, both in terms of performance and of applications for price increases to the Government or the Prices Surveillance Authority, speaks for itself. None of these applications has been deferred or delayed.

The relative efficiency of the present service can be gauged to some extent by making international price comparisons (see Figure 4). Despite servicing such a large, sparsely populated country, we have one of the cheaper postal rates of the OECD countries. And we achieve that rate while providing service at standards that are at least equal to those existing elsewhere.

The allocative inefficiencies are small. There is, of course, a significant cross-subsidy factor, but few cross subsidies are excessive. The larger subsidies to rural and remote areas are clearly justified on social grounds.

#### BURDENS AND BENEFITS OF REGULATION

There is naturally a great deal of interest in the question of who wins and who loses from regulation. Economists look at possible efficiency improvements. Politicians are closely concerned with potential votes. And political scientists deal in questions of power in relation to social groups.

At Australia Post, the issue of winners and losers has not been intrinsically of great interest. Our major preoccupation has been to provide as good a service as possible as required by charter. But now, with the focus being placed by public policy, on community service obligations, we are naturally led to look more closely at costs in the area of the letter monopoly. Answers to the winners and losers question are difficult and complex. I would caution against embracing frequently repeated generalisations such as that the burdens are carried by the cities and the benefits enjoyed by the country. Further research and reflection are much needed. Meanwhile, I would raise the following factors:

- The cross subsidies do not all neatly go in the direction of the country. The mail moves within the mail network which is there to service the whole nation — not just the country. And not all country mail is high cost.
- In the absence of the uniform price for standard articles and the letter monopoly, economies of scale in the postal service would be lost, and these losses would have to be paid for by Australians, the majority of whom live in the cities.
- The enforcement of a different pricing structure would cost more to operate and police than at present. Postal customers in general would have to bear that cost.
- Costs and inconvenience would have to be borne by all Australians if the uniform rate was removed, resulting in uncertainty and greater complexity.
- The majority of Australia Post's revenue originates in the business and Government sectors (nearly 80 per cent of the total). Senders in those sectors service the cities and the country; theoretically they both 'win' and 'lose' from the operation of the uniform pricing policy, and they may pass on the burdens



and the benefits of regulation to their customers, although to what extent it is not clear. In practical terms, given that postal costs generally account for a very small proportion of total business costs, and that the demand for postal services generally is not very responsive to changes in price, it would seem that the burden of regulation, if it could be identified, would tend to be spread over all users. Certainly this is the case with postal services purchased by Government.

- The process of funding uniform pricing policy by cross subsidy is less costly than raising taxes and paying small amounts to many people in remote areas. To this extent, the burden on the nation as a whole is lighter. Moreover, even if regulation on balance imposes a small burden on senders and recipients of mail in the cities, it is likely that such a burden will have a similar incidence to a tax on income to raise an equivalent level of assistance to people outside cities.

## CONCLUSION

Present regulation has served the community well. It has ensured that quality postal services are available to all at reasonable prices. With the reform measures foreshadowed by the Government, I see the prospect of a good system being made even better. I would summarise my views in this way:

- The debate about monopoly or competition has often concentrated on the less important issues. There has tended to be confusion between ends and means. In my view the more important issue is the provision for society of a predictable, reliable and affordable postal network of communications linking the whole of our sparsely settled continent. It would be wrong to view postal regulation primarily as a means of providing subsidies to particular groups.
- A viable, accountable Australia Post assisted by a letter monopoly, and subject as at present to comprehensive economic, administrative and political checks and balances, can continue to provide the postal services the community needs. I do not believe that abolition of the letter monopoly could simultaneously enhance the quality, range and cost to the majority of Australians of the basic letter service.
- Applied wisely, the reforms foreshadowed in the Policy Guidelines offer real scope for further sustained efficiency improvements, enhanced returns on investment, and probably far better targeting for Government social policies.
- Performance has improved considerably within the scope of Government ownership. This indicates that it is not necessary to privatise the postal service to achieve improvements. From a community service viewpoint, privatisation might well result in poorer service.





# Australia Post National Dimension

## NATIONAL

### Total Articles through the Mail Network

- Daily	13.75m
- Yearly -Letters	2926m
- Parcels/Packets	512.5m

Post Offices 1392

Post Office Agencies 3145

Divisional Management 47

Delivery Points 6.4m

Staff- Full Time 35543

- Part Time 2967

- Seasonal 9

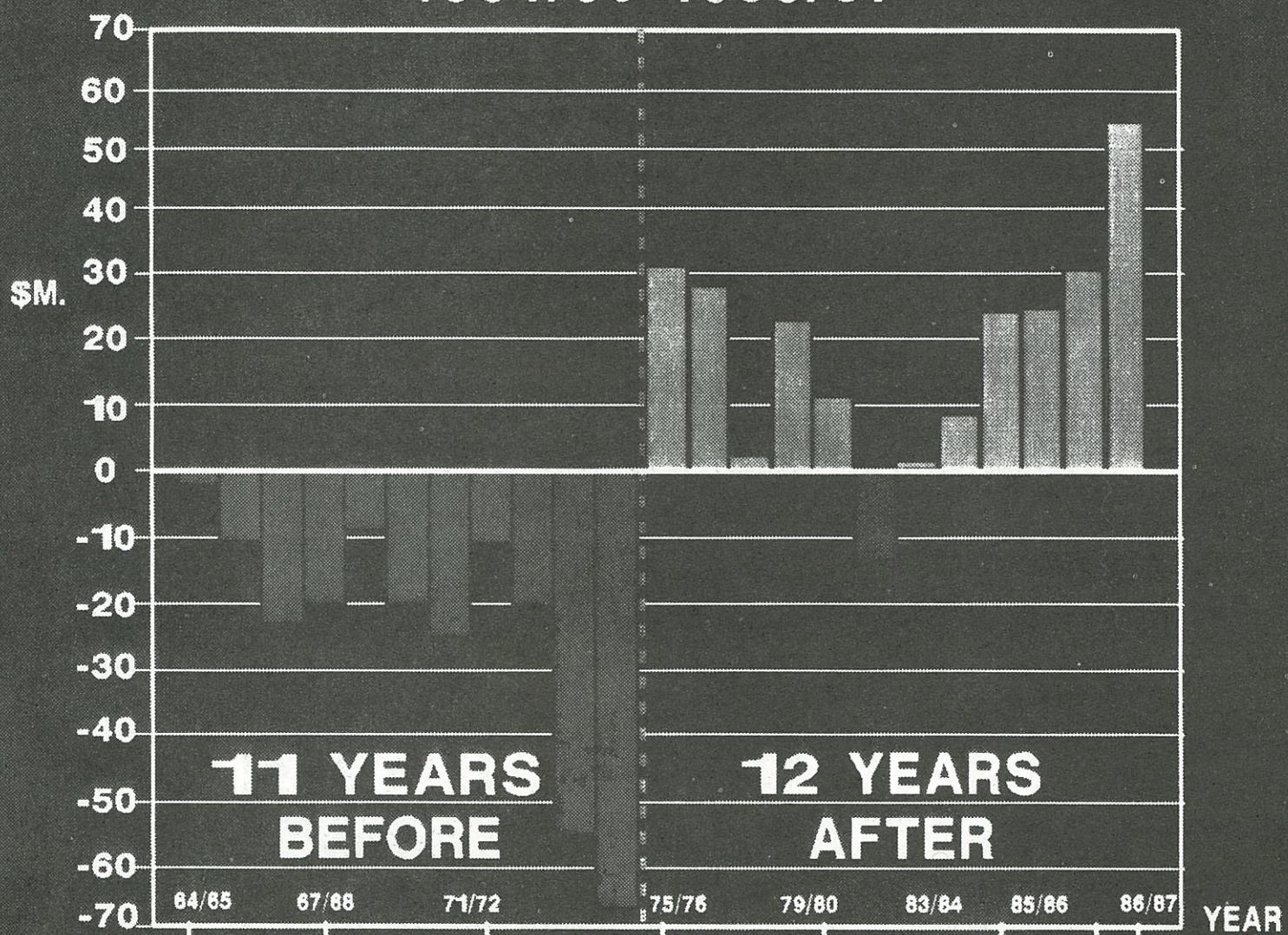
Mail Contractors 3729

AS AT JUNE 1987





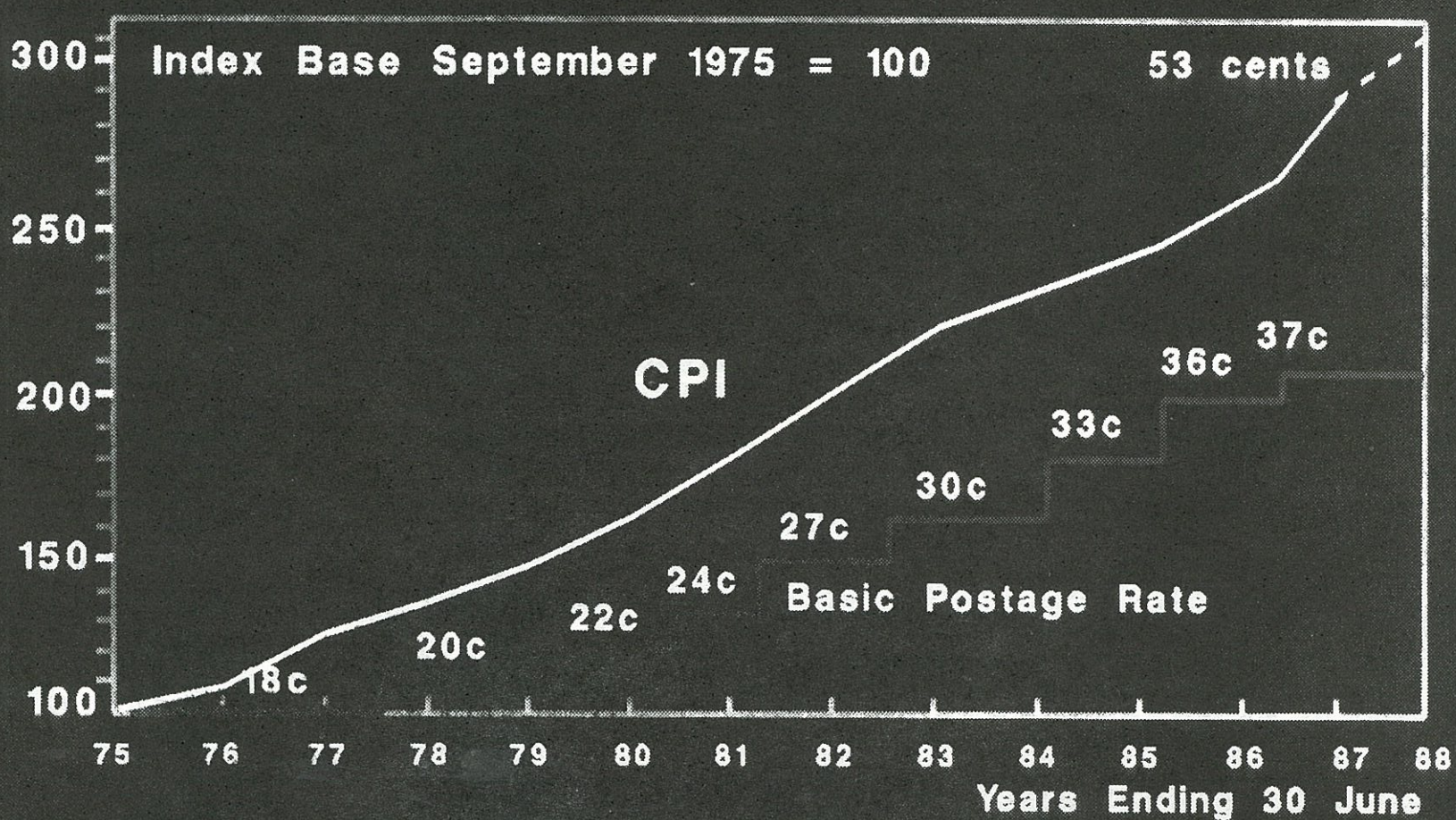
### OPERATING PROFIT 1964/65-1986/87



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### Movement in the Basic Postage Rate Relative to CPI since 1975

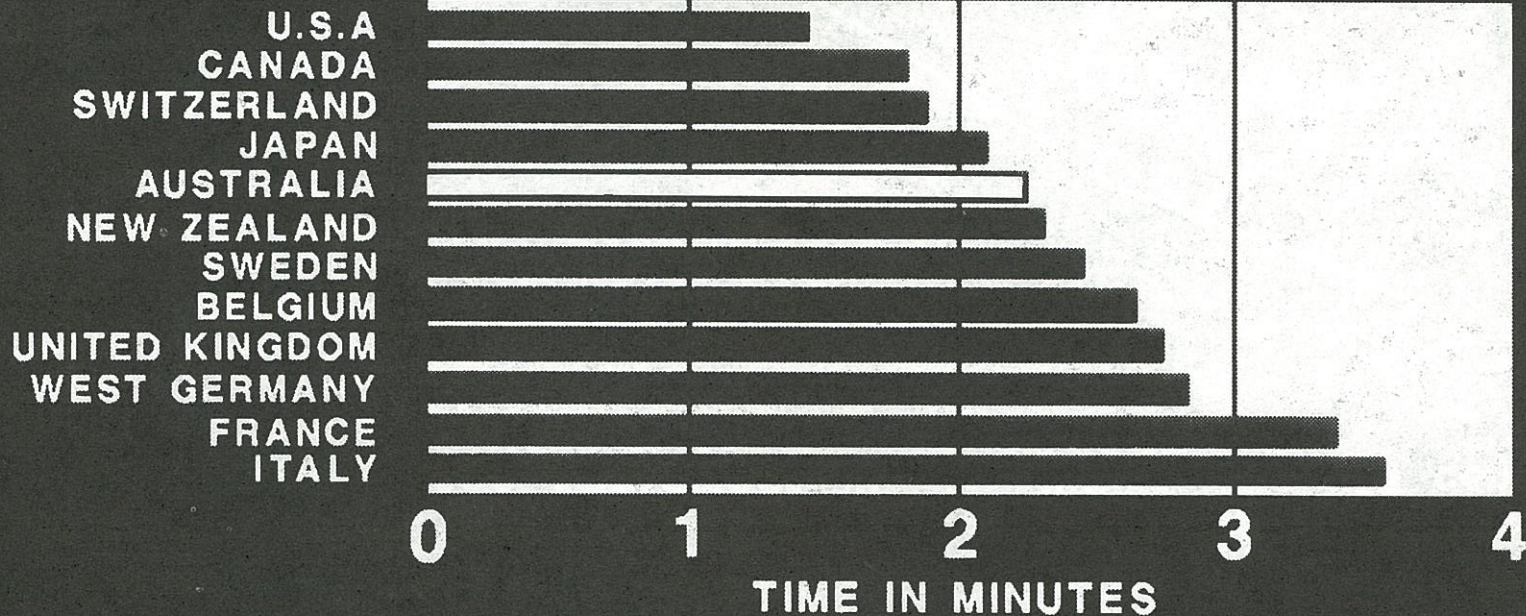


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# INTERNATIONAL COMPARISONS, POSTAL USERS' BUYING POWER \*



\* THE TIME TAKEN BY AN EMPLOYEE IN THE MANUFACTURING  
SECTOR TO EARN THE COST OF BASIC POSTAGE

(Wage Rates at Dec. Quarter 1986 levels and Postage Rates as at June 1988).