



POAAL

Post Office Agents Association Limited
A.C.N. 006 382 314

**Submission
to the
Australian Competition & Consumer Commission
by the
Post Office Agents Association Limited**

**Principles for the disclosure of
record keeping rule information
provided by Australia Post**

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Background

1. The Post Office Agents Association Limited (POAAL) is the independent and experienced industry based organisation which protects, preserves and promotes the business interests of its members. It represents the small business owners of over 3,000 licensed post offices (LPOs) operated under arrangements with Australia Post. This network comprises 80% of the Australia Post network with over half of these post offices operating in regional, rural and remote communities.
2. Further details of the POAAL organisation can be found at www.poaal.com.au.
3. Licensees receive a “commission” from Australia Post for the sale of goods and services marketed by that organisation. This includes reserved and non reserved services and products. Licensees may also choose to operate other business in-conjunction with the post office, provided that they comply with the terms of their LPO Agreement. This occurs in situations where the revenue from the Australia Post’s business needs to be supplemented with other services to create a sustainable operation in that location.
4. The Licence from Australia Post represents a marketing benefit for Licensees, generating foot traffic and brand recognition for the Licensed Post Office. Licensees and their association, POAAL, have a vested interested in the economic health of Australia Post but also in ensuring that it operates without compromising the interests of Licensees and the community.

General Comments

5. Before dealing with the specific questions posed, POAAL would like to re-emphasise that it supports the regime established by the Commission. POAAL believes that the Record Keeping Rules do much to establish a comprehensive and transparent examination of the operations of Australia Post particularly in relation to assuring the community on issues of potential cross subsidisation. The treatment of segment reporting and the disciplines imposed with respect to cost allocations for operations and capital are most appropriate. The proposals by the Commission as set out in its paper "Issues Raised in Discussion" released in March 2005 are supported by POAAL.
6. As noted in POAAL's submission of May 2004, by auditing AP's commercial activities in such detail, highly sensitive and commercial-in-confidence information could be given to AP's competitors, regardless of proof of cross-subsidisation or not. If the record keeping rules result in damaging Australia Post for no good reason, then the financial investment of thousands of post office Licensees across Australia would also be put in jeopardy. POAAL also has concerns that as a by-product of this auditing that LPO commercial-in-confidence information could be available to LPOs' direct competitors.
7. It is in this context that POAAL offers the following responses to the questions posed by the ACCC.

Q.1. What benefits will the publication of RAF data provide?

8. POAAL believes that it is important that the community, especially those businesses competing with Australia Post, has confidence that the reserved services entrusted to it are not misused to the detriment of the community and national commerce. This would place both Australia Post's competitors and Licensees at a disadvantage.
9. Licensees in particular would be disadvantaged where:-
 - a. commissions paid for the sale of reserved services are reduced so that profits from the monopoly can be applied to support competitive services; and
 - b. those Licensees that operate an "in-conjunction" business face an unfair competitive threat from Australia Post's non reserved products while trying to maintain a reasonable relationship for the supply of reserved services.
10. Transparency in the profitability of Australia Post's retail operations will substantially assist in assuring the community and Licensees that there is not a misuse of the privileges provided with the reserved services across all the industries in which Australia Post operates. The balance between this objective and a reasonable retention of commercial-in-confidence arrangements with suppliers and distributors which is available to the broader commercial market is obviously challenging.

Q.2. What level of detail (and what particular data) should be disclosed?

11. The main elements for disclosure in the Commission's Report should include the following:
 - a. The methodology or any changes to the treatment of overheads and the cost of capital for both reserved and non-reserved services to establish their profitability. This would help ensure that these major cost pools are not held by the reserved services alone to inflate profits for commercial products.
 - b. The accounts should reveal, in the section proposed by the Commission on segment reporting, the gross contribution to profits from reserved and non-reserved services.
12. One area where the ACCC should be vigilant is any attempt by Australia Post to package its reserved and non-reserved services together. This might include, say, free postage with a non reserved service product, eg greeting card with free postage. If this were adopted as a marketing strategy in a material way, the ability to determine any cross subsidy between reserved and non-reserved services could be compromised.

Q.3. What type (or types) of data provided under the RAF is confidential?

13. Like most commercial undertakings Australia Post should be able to create relationships with its suppliers and distributors in a manner that respects the commercial terms that exist between them.
14. There is an additional responsibility on Australia Post to ensure it is not misusing its position with respect to reserved services.
15. While details of specific commercial arrangements might be available to the ACCC undertaking its supervisory role, great care should be taken not reveal the details of these arrangements in any public reporting. The exception would be where the ACCC believes that Australia Post is not acting in accordance with these principles. The release of details should only occur after giving Australia Post an opportunity to respond, in accord with the usual practice.
16. The aspects of the operation that should remain confidential could include:-
 - a. profit margins on non-reserved services especially where it may reveal the cost price offered by suppliers;
 - b. any ancillary relationships with suppliers and/or distributors such as contribution to promotion, point of sale advertising, return of product terms, sale of remaining stock, and the treatment of unsold stock.

Q.4 In what ways can the disclosure of particular types of RAF data be detrimental to Australia Post?

17. Clearly it would be unreasonable in the majority of circumstances to reveal the nature of the commercial arrangements that exist between Australia Post and its suppliers. Such relationships have the protection of confidentiality in the broader mercantile community and for sound reasons. In the majority of situations this should remain a feature of the relationships held by Australia Post.
18. Each party to such arrangements makes its own judgement regarding the value of the relationship and its appropriate commercial terms. These judgements include an array of issues such as vendor's distribution network, the existence of disciplined management and systems, customer foot traffic and various promotion contributions and arrangements.
19. As a result, the terms and nature of many arrangements between supplier and vendor might differ. All of these arrangements combine to reflect the value each of the parties receives. For example, a vendor might take a lower margin on the product in favour of a commitment by the supplier towards promotion costs. Alternatively, the supplier or vendor may be prepared to make a loss on one item in a particular class of products as a promotional measure to achieve a

profit overall. Revealing, for example the profit margin alone of an individual item or even a class of products may:-

- a. be misleading;
- b. incorrectly contribute to the deliberations on the issue of cross-subsidy;
and
- c. jeopardise supplier relationships with their other vendors.

20. An example of this type of sensitivity was the entry of Australia Post into the greeting card market. One national supplier refused to supply to Australia Post and its Licensees under pressure from its main distributors, the Newsagents. Another supplier that did enter into business with Australia Post was subsequently refused access by Newsagents to their distribution network.

Q.5 When will it be in the public interest to release confidential information?

21. If the ACCC considers after due consideration that Australia Post is misusing its right to provide reserved services and Australia Post refuses to undertake remedial action then the ACCC should report this publicly. However, the principles of misuse should be revealed rather than the specific companies or arrangements other than in circumstances where there have been breaches of the law and such arrangements need to be assessed by a Court.