

THE FUTURE OF AUSTRALIA POST

A DISCUSSION PAPER BY PER CAPITA
FOR THE COMMUNICATIONS, ELECTRICAL AND
PLUMBING UNION OF AUSTRALIA



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Introduction

Australia Post is one of the nation's most trusted and valued public institutions.

A national postal service has existed since Federation in 1901, when the Post-Master General's Department was established. The PGD operated for three-quarters of a century, keeping Australians connected throughout our country and across the world until its replacement in 1975 by the Australian Postal Commission.

In its current form, Australia Post has operated a world-class postal service, spanning our vast landmass, since the establishment of the Australian Postal Corporation as a Government Business Enterprise in 1989. Australia Post has maintained a reliable, secure and trusted public service to the Australian people for almost 120 years, maintaining the essential lines of communication through two world wars and the Great Depression. It survived, and has thrived, since the advent of digital communications in the early 2000s, while many other public postal services around the world surrendered to the forces of privatisation and the shift to online communications.

In the last 35 years, only once has Australia Post recorded a financial loss: in the 2014-2015 financial year, as its reserved letters service was hit by a severe decline when the adoption of email reached a critical mass. Yet in the face of this great digital disruption, Australia Post adapted its business model quickly, with minimal loss of service or jobs, and returned to profitability on the back of a strategic investment in its parcel delivery and courier services.

Today, Australia Post operates three core business areas: letters and associated services; parcels and logistics; and retail merchandise and agency services.

It is a cost-positive Government Business Enterprise, funding its operations entirely through revenue, and returning a dividend to the Federal Government in every year other than 2014-2015 since its incorporation more than three decades ago.

The Corporation has, throughout that time, adhered to the community service obligations set out in the Australian Postal Corporation Act 1989, delivering mail to Australians five days per week, wherever they live.

Australia Post delivers to more than 10 million Australian addresses, across almost 8,000 postal routes that are serviced by more than 10,000 "posties". It operates almost 7,000 retail outlets nation-wide, serving more than one million customers per day, and provides such essential services as bill payments and financial transactions, passport applications, identity verification and secure parcel delivery and collection.

According to the 2019 Annual Report, Australia Post delivered 40 million parcels in December 2018, generated revenue of A\$6.99 billion, with before tax profits of A\$41.1 million, created over A\$250million in business efficiency savings, and delivered to 214 countries in its international network.

It maintains over 4,342 post offices, including 2,529 in rural and remote areas of the country, 15,037 street posting boxes and employs over 80,000 Australian workers.

As with all postal services, Australia Post's revenues have been under pressure since the advent and wide adoption of digital communications. While offset by the rise in parcel delivery through online shopping, and effective innovations to its products and services over the last decade, Australia Post is still faced by significant operational pressures. Government should consider expanding, rather than contracting, the services provided by Australia Post, both in the interests of its customers and to strengthen the revenue base and viability of the enterprise.

One way to do this would be through consideration of establishing a public bank in Australia by providing Australia Post with an Authorised Deposit-taking Institution (ADI) licence. The establishment of a postal banking service in Australia would, by operating within the existing infrastructure footprint of Australia Post outlets nation-wide, provide banking services to Australians who are currently underserved by the existing banking sector, including in regional and rural communities. Moreover, it could ensure the continuation of postal services in these communities, and underpin the ongoing viability of Australia Post's services across Australia. This idea will be explored in detail in an upcoming Per Capita report.

Australia Post is a treasured national institution, essential to Australia's prosperity and security. Its future must be safeguarded and strengthened in the interests of all Australians.



Figure 1: Australia Post Network of post offices

Public perceptions of Australia Post services

In July 2020, the CEPU commissioned Essential Media to survey public views on the service provided by the Australia Post, the frequency of service use and on public vs private ownership. The results are summarised in the following section, and later in this report in the section that canvasses issues surrounding the possible privatisation of Australia Post.

Frequency of use

41% of Australians visit a post office at least monthly, with 45% of the sample using a mail box at least once a month.

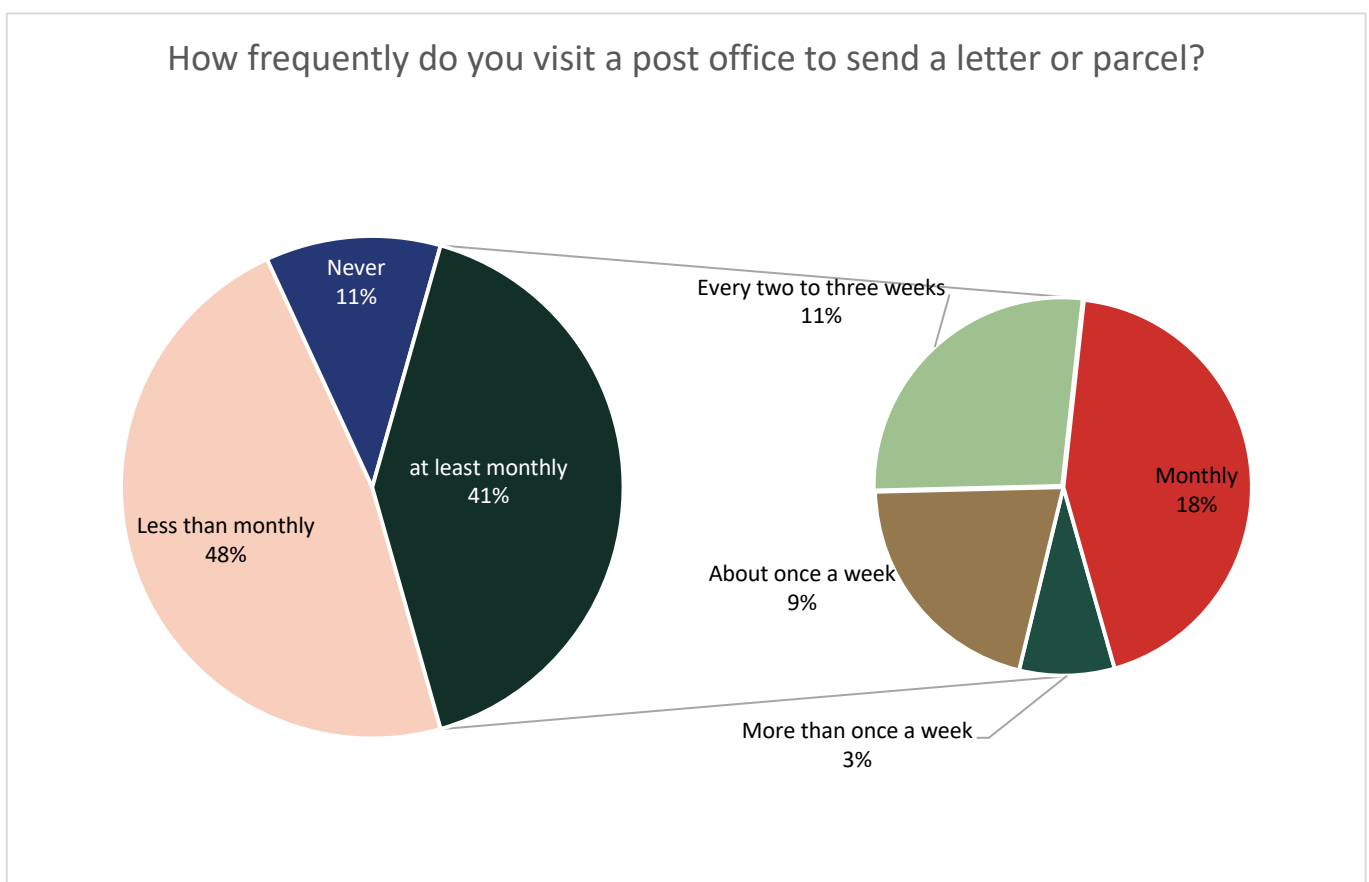


Figure 2

Quality of service

Over three quarters of respondents saw the quality of service as being either good or very good, with just 6.7% regarding the service as being poor or quite poor.

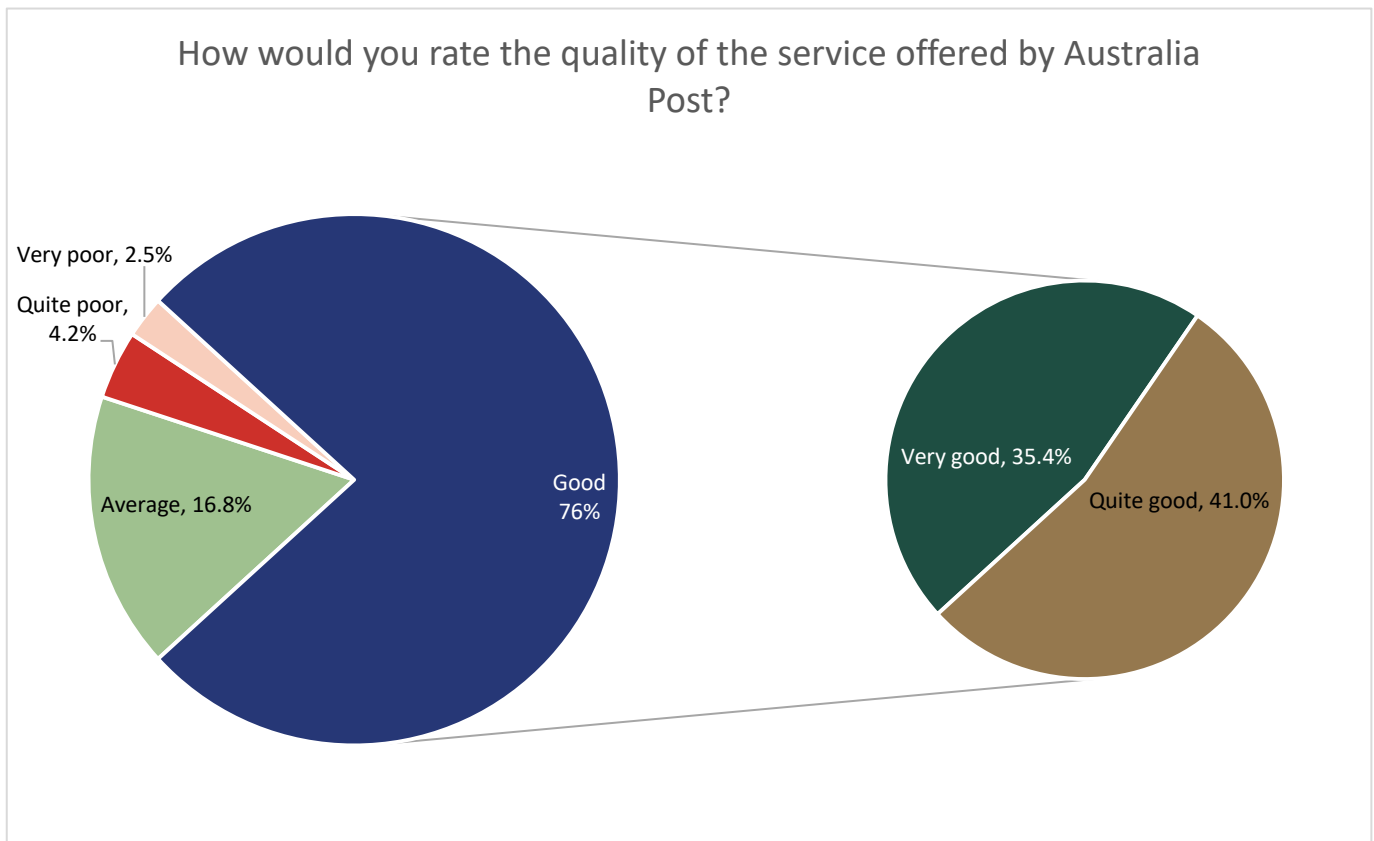


Figure 3

Change of service

The largest single preference regarding whether the frequency of letter deliveries should change was to remain the same (32%), with three times a week (30%) and twice a week (25%) as second and third preference.

Taken as a whole, preferences for remaining the same or reducing to three times a week accounted for over three fifths of the respondents. Those questioned felt far more strongly that post offices should remain open at least 5 days a week as is shown in the figure below.

59% of respondents preferred that service quality be increased rather than delivery frequency decreased, with only 14% disagreeing with that view.

Retail Post offices should remain open at least 5 days a week, as is currently the case

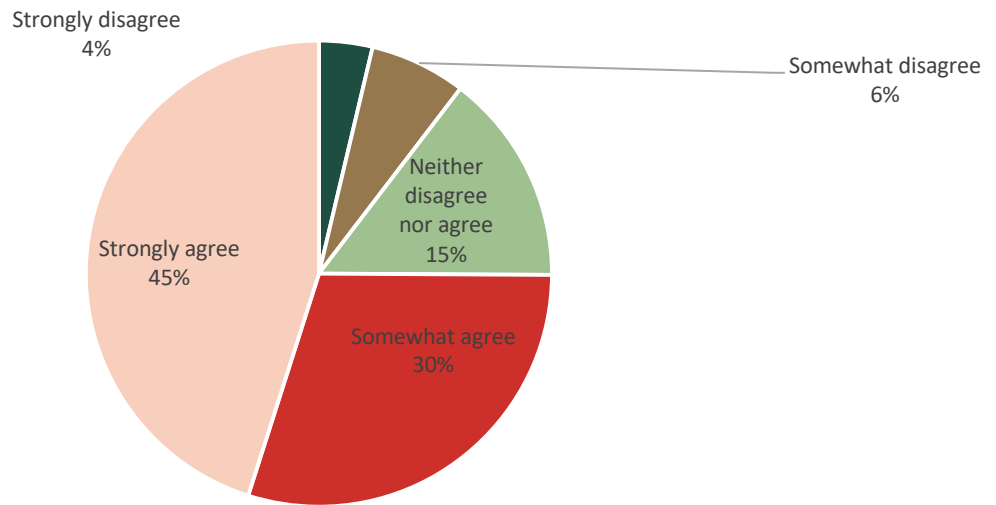


Figure 4

Australia Post should be looking to improve its service, not decrease the frequency

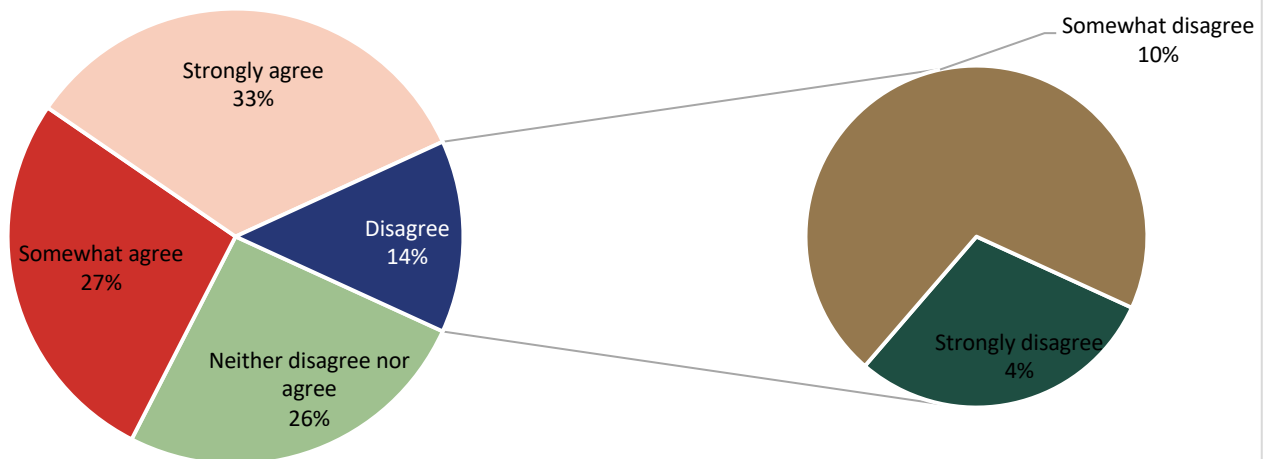


Figure 5

Overall, the survey results reveal a high level of satisfaction with Australia Post's services among customers across Australia. It is a highly valued public institution that is relied upon by Australian households and businesses every day.

The challenges facing Australia Post as a result of COVID-19

The massive disruption to our way of life caused by the COVID-19 pandemic has caused significant disruption to Australia Post's services and operations.

As reported in the *The Australian* on 31 May 2020, the hit to key Australia Post services, including domestic letters, international mail and retail services such as passport applications, was swift and brutal.¹

Despite a surge in business in parcel deliveries due to increased online shopping, a 30 per cent reduction in the letters business, and halving of retail services, in the first fortnight of the economic shut-down dramatically reduced revenue and forced Australia Post to cut costs.

One consequence of this was a decision by management to seek regulatory changes to relieve the organisation of some of its regulated performance standards. This was met with agreement from the Corporation's shareholder ministers in the Federal Government.

Regulatory changes

On 15 May, the Australian Postal Corporation (Performance Standards) Amendment (2020 Measures No. 1) Regulations 2020 were made by Governor General The Hon. David Hurley AC DSC, on the advice of Federal Minister for Communications, Cyber Safety and the Arts, The Hon. Paul Fletcher.

This regulatory instrument amends the *Australian Postal (Performance Standards) Regulation 2019*, and was drafted in consultation with Australia Post, with the following purpose:
...to provide urgent and temporary change to performance standards for the delivery of letters to enable Australia Post to effectively manage any COVID-19 impacts on its operations, including by optimising the use of its workforce. The Amendment Regulations will also give Australia Post an exemption from its retail outlet requirements, should temporary closures be necessary due to workforce impacts COVID-19².

Australia Post had sought changes to two of its four regulated standards, due to the impact of the COVID-19 pandemic on its operations and financial position. These are:

- Letter delivery frequency – Australia Post is usually required to service 98% of all postal delivery points daily, excluding any Saturday, Sunday and public holiday, and 99.7% of all postal delivery points at least two days per week.
- Retail outlets – Australia Post is required to maintain at least 4,000 retail outlets:
 - at least 50% of retail outlets, and not less than 2,500 are required to be located in rural or remote areas;
 - in metropolitan areas, retail outlets are required to be located such that at least 90% of residences are located within 2.5 kilometres of an outlet; and

¹ <https://www.theaustralian.com.au/business/companies/australia-post-forced-to-slash-costs-as-coronavirus-hits-revenue/news-story/e3421301cf036c663816d30442813913>

² Authorised Version Explanatory Statement registered 15/05/2020 to F2020L00579

- in non-metropolitan areas, retail outlets are required to be located such that at least 85% of residences are located within 7.5 kilometres of an outlet.

The Amendment Regulations, which took effect on 16 May, relaxed the letter delivery requirements for metropolitan areas, so that letters may now be delivered every second day, rather than five days a week.

They also provide some discretion to Australia Post in adhering to the standard for retail outlets, but requiring that retail outlets are kept open during COVID-19 only *to the extent that is reasonably practicable*.

In practice, this amendment gives Australia Post the discretion to temporarily close outlets should this be necessary due to the impact of COVID-19, either on workforce availability, or on the physical safety of the premises (EG: outlets may be temporarily closed for cleaning in the instance of known exposure to, or potential infection with, COVID-19).

It also allowed Australia Post to reallocate resources from under-performing parts of the business to the booming parcels delivery service.

The Regulation is in effect until 30 June 2021.

While this is a temporary reprieve from its performance standards, a reduction in the frequency of letter delivery is something that the Corporation has been pursuing for some time, as the domestic and international letters business has collapsed dramatically over the last 15 years due to the advent of email and other forms of digital communication.

As we have seen, despite significant disruption to its business model as a result of the digitisation of communications services, Australia Post has been able to stabilise its revenue through restructuring over the past decade, and adapting quickly to changes in technology and demand.

The economic shock caused by the COVID-19 pandemic is unprecedented in Australian history, and Australia Post, like all businesses, faces real short- to medium-term challenges in meeting its community service obligations and maintaining profitability.

Yet, after more than a century of continuous, reliable and trusted service to the Australian people, spanning two world wars, the Great Depression of the 1930s, and the massive disruption of digital communications, Australia Post has proven time and again its value to our nation, and its ability to adapt and survive.

It is critical that the immediate economic crisis is not exploited to dilute the quality and reliability of postal services upon which Australians have relied for almost 120 years.

The Australia Post workforce

Australia Post workers provide an essential service, and have been among those deemed essential workers during the crisis. Australia Post has engaged in significant reallocation of staff, and the recruitment of additional casual and short-term employees, to meet the increased demand from the significant increase in parcel delivery services during the pandemic.

Australia Post's workforce of 80,000 includes over 32,000 direct employees – including more than 10,000 posties. During the economic shut down and social isolation imposed in response to COVID-19, these essential workers provided a lifeline to Australians, delivering essential goods and providing critical services to keep us connected at a time of unprecedented disruption.

Posties ensured that the extraordinary number of parcels that flooded the delivery network, as people moved to online shopping, made it to homes and businesses across the country. Workers from other areas of the business were redeployed to distribution centres to manage the massive increase in logistics and handling. Staff in retail outlets, considered an essential business, fronted up to work, uncomplainingly, as many other Australians stayed safely at home.

Australia Post employees are what have become known as “essential workers” during the pandemic. They provide services that are essential to the effective functioning of our economy and to support Australians to maintain their connections with friends and family here and overseas.

They play a critical role in the supply chains of tens of thousands of small and medium businesses across the country, providing a trusted and reliable distribution network for commodities that are traded between businesses, and for the growing number of goods customers purchase online. The services provided by Australia Post workers are especially valuable in regional and rural Australia, allowing people to participate fully in the economy regardless of their location, or the remoteness of their home or business.

In recent years, as with all publicly provided services, the workforce of Australia Post has come under increasing pressure from the casualization of their employment, with a rise in the use of fixed term contracts and the replacement of secure, permanent roles with casual positions. At the same time, management has sought to hold down salaries, in line with wage restraint imposed on public sector workers in most government agencies.

Cutting the jobs and conditions of essential workers who provide universal public services is a false economy. The reduction in the quality and quantity of services that inevitably results from shrinking the workforce or reducing the resources they need to perform their duties will be felt by customers, including those small business customers for whom the services provided by Australia Post are a critical element of their operations.

At a time when Australian businesses and households are more reliant than ever on the high quality, universal services provided by Australia Post, maintaining and investing in the workforce will be critical as we seek to rebuild our economy and return business activity after the shut-down imposed in response to COVID-19.

International comparisons

When considering the impact of the COVID-19 economic shock on Australia Post, it is illustrative to provide a comparison to the performance of international postal services during the crisis. It is also useful to look at the outcome of the privatisation of such services over recent years, to assess if the selling off of essential public infrastructure has resulted in increased efficiencies or improvements in service.

What follows is a brief overview of the performance of comparable postal services internationally, and an analysis of the impact of COVID-19 on those services.

United Kingdom: The Royal Mail

The Royal Mail was privatised in three stages from 2013 to 2015. Only the Royal Mail (the delivery and sorting infrastructure of the business (was privatised while the Post Office (branches, retail activities, and local services) remains in public ownership. 10% of shares were allocated through a free offer to Royal Mail employees while the remaining 90% are held by private and institutional investors.

During COVID-19, the Royal Mail issued a note to shareholders and investors warning of “significant uncertainty” due to the impact of the pandemic on the UK post and international parcel markets. It advised that it expects its UK post business to be “materially loss making” for the 2020-21 financial year and has cancelled its final dividend for the year.

The company also warned that its *Journey 2024* business transformation plan, already delayed due to tensions with workers and threatened industrial action, would likely be delayed further. It suspended its financial guidance for 2020-21 and beyond.

Operationally, the Royal Mail announced a temporary reduction in its universal service obligation from six days a week to five, removing the Saturday letter delivery.

The Communication Workers Union (CWU) opposed this change and has argued that it is part of a long-term strategy to introduce a permanent reduction and save money on staff costs as part of the Royal Mail's *Journey 2024* pledge to become a sustainable and profitable private business by 2024.

During the pandemic, there have also been accusations that the Royal Mail has prioritised profit over employee safety, with postal workers reporting that they have been forced to work without personal protective equipment or adequate hand washing facilities.

At least three Royal Mail postal workers have died from COVID-19. Several walkouts and unofficial industrial actions have taken place at depots and post offices around the country over safety concerns, lack of proper protective measures, including inadequate cleaning of workplaces after a worker has tested positive for COVID-19, a shortage of basic items like gloves, masks, and hand sanitiser, and the failure to notify workers that they had come into contact with a colleague who had tested positive.

United States: United States Postal Service (USPS)

The United States Postal Services (USPS) is, like Australia Post, publicly owned but not publicly funded, receiving no federal funding since 1982. It is self-funding, primarily through the revenue from postal product sales.

The USPS's financial struggles have been exacerbated by the COVID-19 pandemic, but they predate it by more than a decade. Conservative forces have long argued for the privatisation of the Postal Service, and in 2006, under the administration of President George W. Bush, the Postal Accountability and Enhancement Act placed extraordinary obligations on the USPS, requiring it to pre-fund health benefits for its retired workforce through annual payments of \$5.5 billion per annum for 10 years.

These obligations, combined with the Great Recession and the simultaneous rise of the internet, put the USPS into debt. At the end of the last financial year the USPS was holding \$11 billion in debt; this figure had increased to \$14.4 billion by 1 April this year.

It should be noted, however, that the USPS struggles financially only because of the extraordinary regulations placed upon it in 2006: excluding its debt payments, the USPS has finished each year with a revenue surplus for most of the last decade.

As a result of COVID-19, the volume of mail the USPS delivers has dropped by one third compared to the same time last year. The USPS is projected to lose \$22 billion over the next 18 months, and may be unable to meet its debt obligations as early as September 2020.

So far 54 USPS workers have died from COVID-19. The administration of President Donald Trump has intentionally excluded the USPS from all federal bailout money and has instead asserted that the USPS would need to quadruple its package rates before it would approve a loan to the agency.

Many commentators believe that Trump's decision to continually block bailout funds to the USPS are linked to his personal animosity with Amazon CEO Jeff Bezos, whose company relies on the USPS to operate and who also owns the Washington Post, which Trump believes to be critical of his presidency.

The economic benefits of a strong Australia Post

Due to its unique position in the Australian market, the overall value of Australia Post is not reflected in standard accounting measures. What follows is an assessment of recent research and trends within the sector to provide an understanding of the value of the Corporation's services to the Australian economy.

Australia Post currently employs over 27,000 permanent staff and has a network of 4,356 post offices around the country. Revenues stand at just under \$7 billion for the 2018-19 year, an increase of over \$2billion in 10 years.

Deloitte Access Economics has placed the direct economic contribution of Australia Post in FY2017 at \$3.216billion. Given the two subsequent years of profitability, large capital investments in the parcel component of the business and investment in new technologies and services, it is likely that this valuation has increased: at least in line with inflation, and probably by significantly more. A conservative, inflation only estimation would place the current value of Australia Post at over \$3.33 billion.

Table 1 below provides a summary of the Corporation's economic and employment performance between 2008-2019. Over this period, profits have declined, but have somewhat since the loss-making 2014-2015 financial year. Similarly, the return on operating assets has declined significantly. Alongside large capital investments this indicates a relatively stable position.

The average dividend returned to the Federal Government over this period is just over \$145 million per year, with an average of \$47.7 in the past four years.

While profitability has been in decline, as with every national postal service since the advent of digital communications, the fact that Australia Post has recorded only one year of loss in the past three decades disproves the frequent predictions of the terminal decline of the Corporation.

Beyond its shareholder dividend to the Government, Australia Post returned over \$5.6billion in taxes and charges to the Australian Taxation Office between 2008 and 2019.

Broadening out our definition of economic value, it is important to note that, according to the ABS, the labour share of value added in Australia Post is very high, at roughly 87%, compared to the average labour share of value added at 45% (ABS 2017a). This demonstrates that the majority of value created by the Corporation goes into the pockets of Australians as wages, increasing the multiplier effect of consumption within the local goods and services economy.

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	2007- 2008	2008-2009	2009- 2010	2010- 2011	2011- 2012	2012- 2013	2013- 2014	2014- 2015	2015- 2016	2016- 2017	2017- 2018	2018- 2019	total	aver age
Aus Post dividends (\$m)	446.2	222. 4	79.1	173.2	213.7	192.7	78.8	–	20.0	50.1	78.5	42.2	1,59 6.9	145. 2
Revenue (\$m)	4,936. 9	4,97 4.5	4,856.2	4,986. 5	5,126. 2	5,893. 2	6,383. 3	6,373. 8	6,562. 2	6,807. 2	6,877. 0	6,989. 8	70,7 66.8	5,89 7.2
Profit/(loss) before tax (\$m)	592.2	380. 9	103.0	332.3	366.7	177.4	103.0	-352.1	41.0	126.1	125.7	41.1	2,03 7.3	169. 8
Profit after tax (\$m)	432.2	260. 5	89.5	241.2	281.2	177.4	116.2	-221.7	36.4	95.4	134.2	40.6	1,68 3.1	140. 3
Loss from mail services (\$M)					-186.9	-280.3	-303.7	-407.1	-114.4				- 1,29 2.4	- 258. 5
Profit/ (loss) from reserved services (\$m)				-66.5	-114.4	-198.0	-242.6	-283.4						
Community service obligations (\$m)	108.5	113. 8	147.7	144.7	165.3		205.8	211.6	183.6	389.9	403.5		2,07 4.4	207. 4
Return on average operating assets (%)	19.4	12.2	3.8	10.9	11.9	6.2	3.4	-8.2	1.8	4.0	3.3	1.6		5.9
Capital expenditure (\$m)	25.10	270. 10	258.40	225.60	227.00	386.80	523.10	342.00	298.10	295.60	310.20	423.90	3,58 5.90	298. 83
Total taxes and government charges (\$M)	548.10	499. 50	448.50	436.20	369.30	447.30	494.20	433.90	399.30	469.50	540.20	529.40	5,61 5.40	467. 95
Permanent Full-time employees (excludes casuals)	25042	251 07	24172	23,323	23,184	23,526	27,315	27,371	26,939	27,132	26,589	27,005		25,5 59
Permanent Part-time employees (excludes casuals)	9936	101 96	10086	9,865	9,398	8,938	8,613	8,395	7,990	7,838	6,949	6,772		8,74 8

Table 1

Broader economic impact

The economic value created beyond direct trade and employment was estimated in 2018 as almost 1:1. That is, for every \$1 directly generated in value, Australia Post activities generate another \$0.86 in other businesses. While manufacturing jobs provide by far the highest level of secondary employment and value, the multiplier produced by Australia Post is significantly higher than that of most service industries, and is roughly equivalent to that of the construction sector.

Within this contribution by Australia Post overall, the Post Office Network (Australia Post's retail stores) supports even more employment in relative terms, with every full-time equivalent (FTE) job in the Post Office Network creating almost two FTE jobs in other sectors.

Overall, the secondary economic activity produced by Australia Post is equal to \$2.759 billion, and equivalent to 24,832 jobs.

The growing value of the parcel business

A vital component in assessing the overall value of Australia Post is its capacity to change within a rapidly evolving letters and parcels landscape.

Letter volumes fell 9 per cent last year alone. Conversely, revenue from online shopping in Australia is expected to grow by 35% from FY18 to FY21 (IBISWorld, 2017). The e-commerce market expanded by 19.2% in 2017, and will be further boosted by the COVID-19 crisis, which has seen massive increases in online shopping and home delivery of goods.

As we have seen, Australia Post has adapted nimbly to the increasingly parcel dominated market.

While international parcel business suffered last year due to the fall in the value of the Australian Dollar; the introduction of the GST on imported low-value goods; and an increase in the price of untracked packets in China, the domestic parcel business is increasing significantly. As a result, while the Corporation's revenues increased by 1.6% in 2018/19 to \$6.99 billion, revenue in the parcels and services business was up 7.7 per cent to \$4.8 billion, driven by strong performance in the domestic parcels business. This was on top of a 10% increase the previous year.

The capacity to absorb seasonal parcel trends indicates a relatively strong position. The Corporation delivered more than 40 million parcels in December 2018, up 11.7 per cent on the previous year, with three million parcels being delivered on 17 December and 2.7 million parcels delivered on Christmas Eve.

The demands of peak period and, in particular, our peak day on 17 December, saw two previously separate workforces from Australia Post and StarTrack (represented by two different unions) working together to deliver the record three million parcels on that day. Investment in parcel facilities since 2017/18, such as the Redbank Parcels Facility in Brisbane, will develop the capacity of the Corporation to expand into the growing parcel space.

Exploratory ventures such as e-commerce fulfilment with Fulfilio – a product of its incubator program – will potentially expand this capacity further. Fulfilio currently has warehouses in four capital cities. Australia

Post holds a 10% stake in Aramex. As part of the deal the two companies created the Aramex Global Solutions international parcels joint venture. Australia Post is responsible for delivery of Australia-bound parcels under the joint venture.

The postal infrastructure operated by Australia Post gives it a unique position to benefit from the rise of e-commerce in regional and rural Australia. With the overall value of regional e-commerce estimated at \$10.6 billion in 2019, the 900 regional, rural and remote post offices and associated delivery infrastructure provide a huge advantage over the Corporation's competitors.

Critically, in order for both Australia Post and the many small and medium businesses it supports across regional and rural Australia, a Universal Parcel Obligation (UPO) should be legislated in the Australia Postal Corporation Act 1989. This would ensure that businesses in regional and remote areas are able to compete on a level playing field with businesses located in metropolitan areas. A UPO is the logical extension of the existing Preserved Letter Service, which underpinned the universal, fixed price national mail service that supported Australian business and the development of strong regional economies in the 20th century.

The value of Australia Post as a Government Business Enterprise

The fact that all of Australia Post's profits and taxes remain within Australia, combined with the contribution of the wage share of profits to relatively high local spending, significantly increases the economic value of the Corporation.

Further, given the high proportion of permanent workers within the Corporation's structure, and the wide geographical spread of employment, the impact of secure and stable incomes, and related consumption, is shared widely across Australia.

This is particularly important in regional and rural Australia, where Australia Post provides a linchpin to economic and social activity. A recent estimate by Deloitte Access Economics put Australia Post's economic footprint at A\$806million in regional and rural Australia, creating the equivalent of 10,802 jobs. Its services in regional areas are critical for business owners, who make an average of one visit a week to their post office.

Regional and rural post offices also facilitated 26.8 million banking and bill pay transactions, and 1.6 million identity verifications last year.

With the public as the only company shareholder we would suggest that attempts to change the ownership of Australia Post, through privatisation of all or part of the business, would be deeply unpopular and a dangerous political move. The final section of this report makes the case for an unequivocal commitment by the government to retaining Australia Post in public ownership.

Keeping Australia Post in public ownership

Given the significant, but warranted, debt the Federal Government has taken on to support the economy during the COVID-19 pandemic, there is a real risk that it will seek to engage in asset sales to pay down debt and return the economy to pre-crisis levels of growth. The sale of Australia Post's delivery services was a live consideration within the current Federal Cabinet even before the impact of the economic shut-down on the Corporations profitability.

What follows is an estimation of the likely sale price of Australia Post in the current market, beginning with a comparative analysis of the sale of the UK's Royal Mail.

Privatisation of the Royal Mail, United Kingdom

The sale of the UK's Royal Mail in 2014 provides a useful comparator for estimating a potential sale value of Australia Post.

Prior to the sale of Royal Mail Group the company had undergone significant restructuring in the face of the shift to digital communications. In 2007, Royal Mail started a long-term transformation program to improve efficiency. Total spending on improving the efficiency and profitability of the Royal Mail exceeded £2 billion over five years.

In 2012, the Royal Mail Group was separated from the Post Office business, with the latter remaining in public ownership. The government took over Royal Mail's historic pension liabilities, which were valued at a deficit of £8.6 billion. Wide ranging regulatory reforms, including the removal of most price controls, were legislated. Stamp prices were allowed to rise significantly, from 41pence and 32pence for first- and second-class stamps respectively in 2011, to 60pence and 50 pence in 2013.

The combination of these factors contributed to a turnaround in the company's cash flow. It generated £334 million cash in 2012-13, reversing negative cash flow of £493 million in 2008-09.

In the lead up to the sale, the Shareholder Executive part of the Department for Business, Innovation & Skills (the Department) placed significant reliance on financial advisers. It appointed an independent corporate finance adviser and delegated to it a wide range of tasks, including independent advice covering valuation, selecting, supervising, and overseeing the allocation of shares by the banking syndicate, and exploring other sale options. The Department also appointed a syndicate of banks to market and allocate shares to potential investors.

Growth in online shopping had made a positive impact on Royal Mail's parcel business. Between 2010-11 and 2012-13, parcel volumes in the UKPIL business increased from 973 million items to 1,064 million items (an annualised growth rate of 4.6 per cent) and respective revenues rose from £2,348 million to £2,933 million (an annualised growth rate of 11.8 per cent).

The euro revenues of Royal Mail's European parcel business, General Logistics Systems (GLS), also grew at an average rate of 3.1 per cent in each of the three years to 2012-13, to reach £1.5 billion. Parcels made up approximately half of Royal Mail's turnover by 2013, indicating that it was adapting to the new e-commerce environment.

Despite these significant investments, successful adaptation to the changing market and the government absorption of the pension deficit, the Department estimated that the value of retaining Royal Mail in public ownership was less than £1 billion (£1 per share). The calculation assumed that if the IPO did not proceed, Royal Mail's profits would decline relative to recent performance, based on factors such as historical underperformance and the Department's view of industrial relations issues under public ownership.

The Department placed rigid limitations on both the sale time and IPO range – from 260 to 330 pence per share. The sale began within this price range, despite their being indications that the market would pay much more: expressions of interest exceeded the available shares by a factor of seven.

		Actual sale data
5-Oct-13	60% shares sale at 330, the top end of 260-330 price range.	£1,980,000,000
11-Jun-15	15% at £5.00	£750,000,000
13-Oct-15	13% at £4.55	£591,500,000
	Total	£3,321,500,000

Table 2: Royal Mail share sales

On the first day of conditional trading, Royal Mail's shares closed at 455 pence (38 per cent higher than the sale price) and in the following five months have traded in the range of 455 pence to 615 pence. This led to critical assessments by business analysts, the Audit Office and several Parliamentary Committees, with Adrian Bailey, chairman of the Business, Innovation and Skills committee, saying:

It's not at all clear that the government's sale of Royal Mail has brought an adequate and appropriate return for taxpayers. The government cannot blithely dismiss as 'froth' our committee's concern that the low issue price of this prime public asset has cost the taxpayer around a billion pounds.

		Actual sale data	At market rate first day trading (455)	At average market price over first 5 months of trading (535)
5-Oct-13	60%	£1,980,000,000	£2,700,000,000	£3,210,000,000
11-Jun-15	15%	£750,000,000	£682,500,000	£802,500,000
13-Oct-15	13%	£591,500,000	£585,000,000	£695,500,000
	Total	£3,321,500,000	£3,967,500,000	£4,708,000,000
	Shortfall		£646,000,000	£1,386,500,000

Table 3: Potential share sale values

Estimating the sale value of Australia Post

PER CAPITA DISCUSSION PAPER

The value of Australia Post can be roughly estimated by comparing the assets, profitability, revenue, price to earnings ratio and some more speculative measures. Below we discuss various measures for assessing the sale value.

1. Book value. Although not necessarily instructive, the net assets of Australia Post are \$2313.1 million
2. The last twelve month (LTM) revenues are equal to \$6,990 million. However, given the low rate of return, weighting for LTM revenues should be low.
3. Comparable sales. Postal privatisations are by nature few and far between. A flurry of privatisations occurred in the early 2000 in Europe and Japan. As such the Royal Mail privatisation is more recent. Below we provide a table converting revenues and assets from 2013 GBP to 2020 AUD. This enables us to calculate the ratio of the size of Australia Post to the Royal Mail.

	Aus Post 2019	Royal Mail 2013 (GBP)	2019 GBP (adjusted for inflation)	2020 AUD (adjusted for inflation and exchange rate)	Ratio AP/RM
revenues	6878.4	9,146	10560	20030.1	0.343
net assets	2,313.10	1,405	1622	3076.3	0.752

Table 4

Following the calculation of these ratios, we can apply them to the actual Royal Mail sale price, the price at initial trading and the average price over the first 5 months of trading.

	Actual	Initial trading rate	5 month average
Royal Mail sale scenarios 2014 GBP	£3,321,500,000	£3,967,500,000	£4,708,000,000
Adjusted for inflation	£3,746,717,772	£4,475,418,564	£5,310,717,228
Converted to AUD 2020	\$7,101,052,455	\$8,482,139,280	\$10,065,258,154
Aus Post valuation revenue ratio	\$2,438,523,981.73	\$2,912,793,586.66	\$3,456,441,639.82
Aus Post valuation net asset ratio	\$5,339,350,659.45	\$6,377,803,324.60	\$7,568,165,860.65

Table 5: Royal Mail valuation conversion

	Weighting	Value based on actual sale (AUDM)	Value based on initial trading (AUDM)	Value based on 5 month av (AUDM)
Book value	0.1	231.31	231.31	231.31
LTM Revenues	0.2	1398	1398	1398
Actual				
RM sales (revenue)	0.35	\$853.48	\$873.84	\$1,036.93
RM sales (net assets)	0.35	\$1,601.81	\$1,913.34	\$2,270.45
Total (AUDM)		\$4,084.60	\$4,416.49	\$4,936.69

Table 6: Australia Post potential sale value

Given the long-term unprofitability of Royal Mail prior to modernisation, the value of Australia Post may be greater than accounted for by these calculations, as Australia Post is further along the modernisation process than Royal Mail was in 2014. There are also a greater number of competitor companies able to slice off sections of the profitable parcel business in the UK market than in Australia, primarily due to the low profitability of mail delivery in sparsely populated regional and rural areas our vast land mass, which further improves the relative position of Australia Post.

A more complete market analysis would assist in making these calculations more accurate. For example, it is likely that the value of future parcel trade will increase the profitability of the Corporation despite the declining letters service.

These caveats aside, we assess the sale value of Australia Post to be approximately A\$5billion, if it were sold under more market driven criteria than was the Royal Mail. Given the likely reduction in the quality of service, and an expected rationalisation of jobs; and compared to the returns to the Commonwealth through shareholder dividends, taxes and other charges, the privatisation of Australia Post would be a short-sighted, productivity draining response to the fixed-term crisis brought about by the COVID-19 pandemic.

National security implications of privatising Australia Post

As we have witnessed through the first phase of the COVID-19 crisis, the postal service plays a critical role in a crisis. This value must not be underestimated. The huge shift to home deliveries of food, medicines and other essential items has increased dramatically over the past few months, and is particularly important for vulnerable groups.

The postal service also plays a national security and public safety role, dealing with natural disasters, elections, identity theft and even in counter terrorism operations. It is the only universally accessible means of communication, with the unique ability to make contact with every household almost every day. This is a deeply undervalued characteristic of a nationally owned postal service.

In other countries these national security and public safety characteristics are tested more frequently and thus more highly valued. In the US, the USPS has proved to be a pivotal national security asset in recent times:

- It has managed attempted mass murder and assault via anthrax poisonings, and assisted in the police investigations to identify culprits.
- Following hurricane Katrina, which knocked out phone lines to 3 million households, and destroyed 50% of television and radio services across three states, the Federal Emergency Management Agency relied on the USPS to provide emergency information to every home.
- In 2009 President Obama signed an executive order to create plans by which posties would deliver medicines door to door in the event of a biological attack.³

³ <https://obamawhitehouse.archives.gov/the-press-office/executive-order-medical-countermeasures-following-a-biological-attack>

While our experience in Australia of mail-related terrorism, may have thus far been less severe than the US, and while the likelihood of an attack by a foreign power with chemical weapons may be lower, it is nevertheless vital that we protect this unique national infrastructure. Selling off parts or all of the post would weaken the overall capacity of the Postal service to respond to the needs of a government in crisis.

Aside from these extreme examples, Australia Post is a frontline agency against scams, identity theft and fraud. The threat from these crimes are multibillion dollar industries and are increasing year on year.⁴ If anything, greater federal investment should be made to utilise the vast infrastructure and data capacity of Australian Post to secure citizens, business and government from such attacks.

Public views about the privatisation of Australia Post

Keeping Australia Post in public hands is strongly supported by the public, as demonstrated by the findings of the Essential Media survey commissioned by the CEPU. A quarter of respondents (26%) saw a case for privatisation, while 47% either somewhat or strongly opposed such a measure.

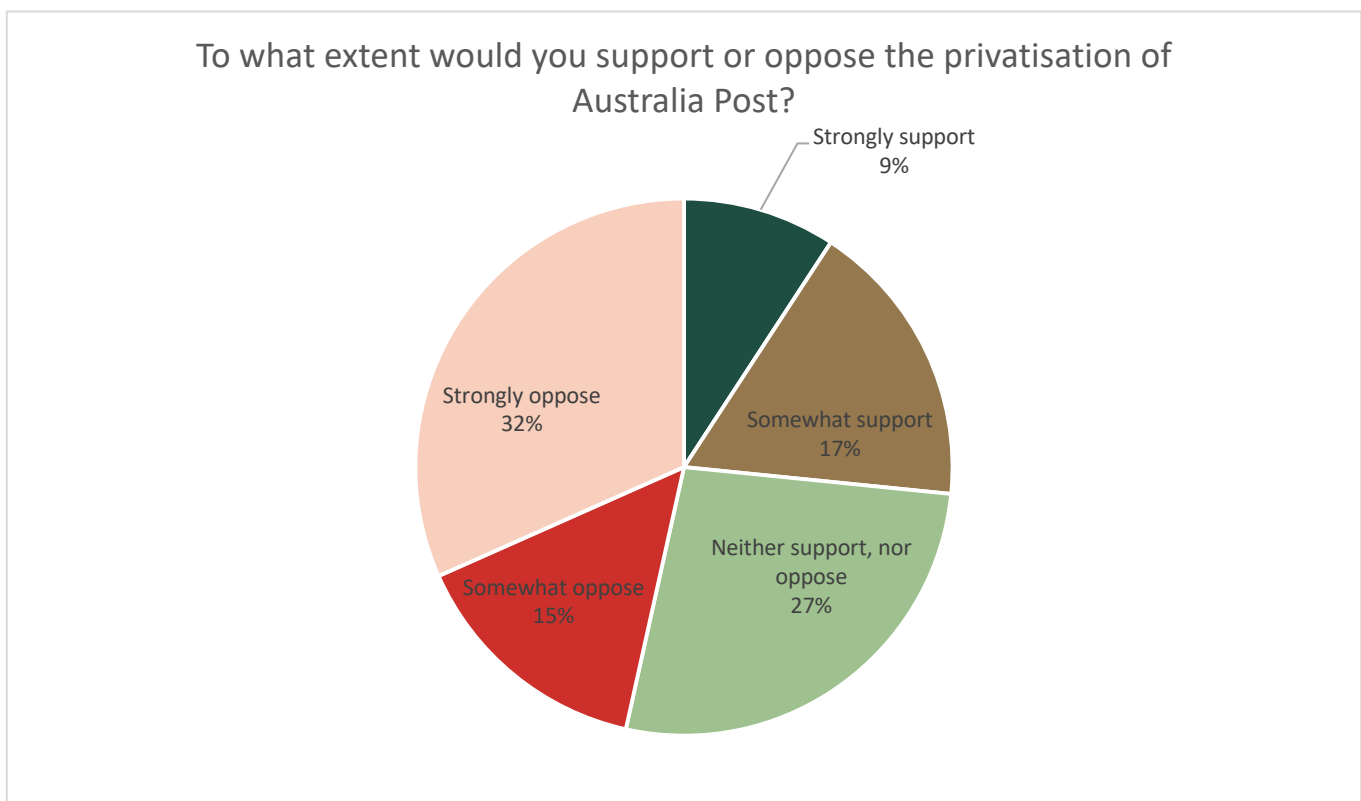


Figure 6

The level of support for public ownership is relatively uniform across demographic groups, with “strongly oppose” being the most common response to privatisation across all demographic groups, regardless of party identification, employment status, location or income group.

There is also nearly 10% greater opposition for non-capital city dwellers for maintaining public ownership, suggesting that regional and rural citizens are likely to oppose privatisation more than their metropolitan counterparts.

⁴ <https://www.abc.net.au/news/2019-09-06/drivers-licence-identity-theft-leaves-victims-exposed/11439668>

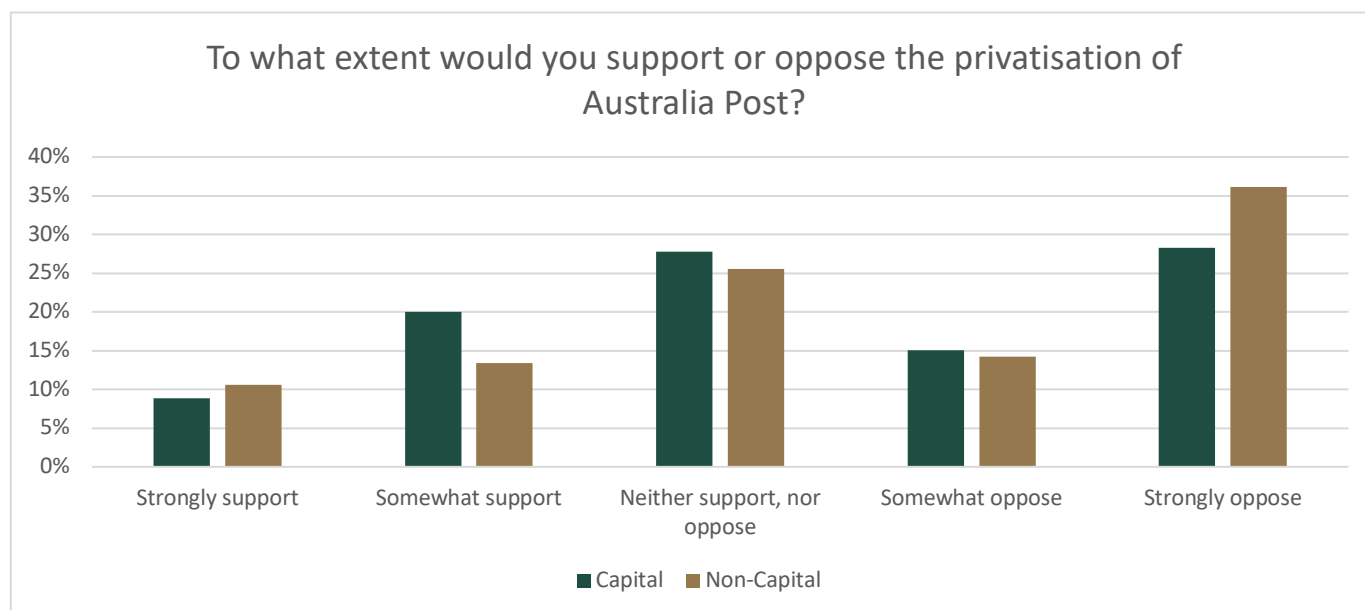


Figure 7

Low income respondents are more likely to strongly oppose privatisation than wealthier individuals.

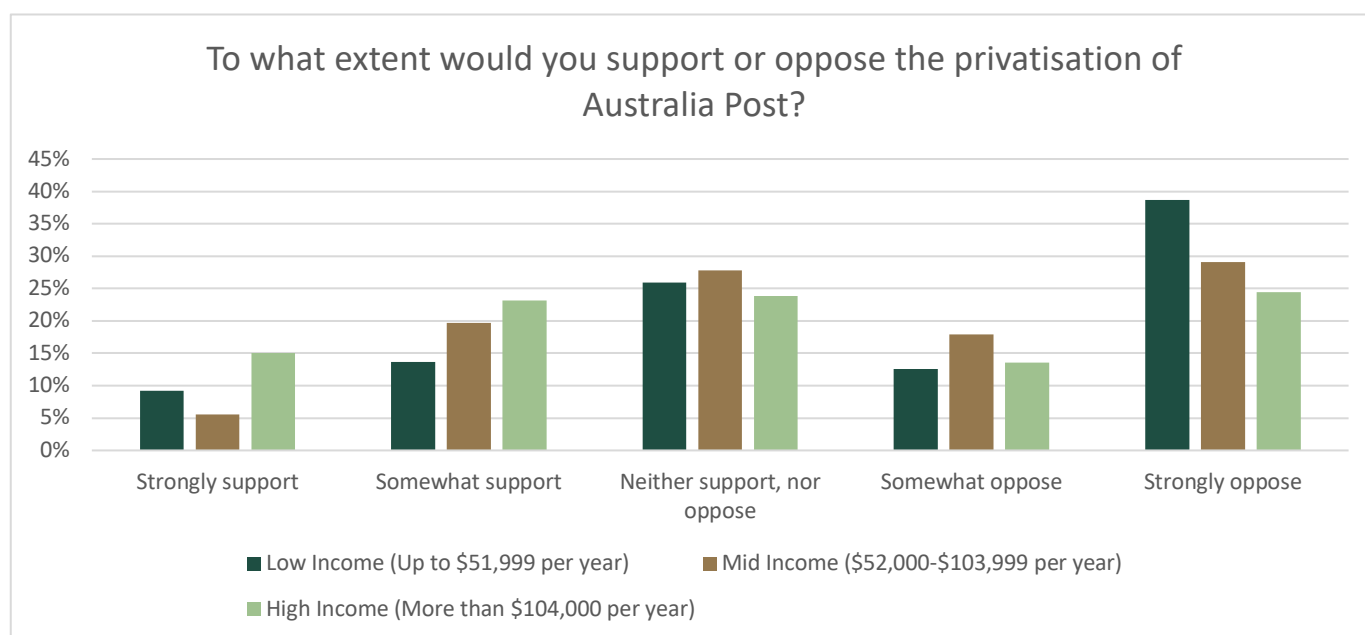


Figure 8

Retirees are the most likely group overall to oppose privatisation of any demographic group.

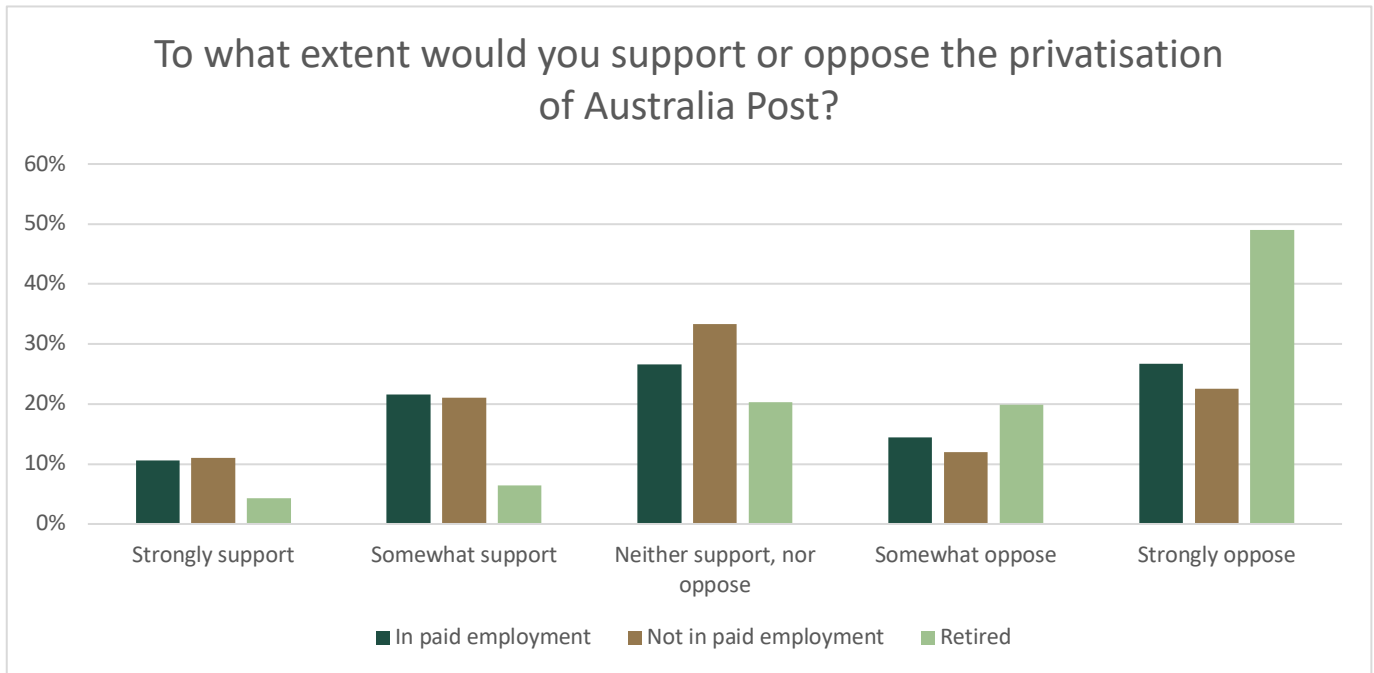


Figure 9

Among political preferences, there is slightly higher strong support for, and fewer people strongly opposed to, privatisation among Coalition voters. Opposition to the privatisation of Australia Post is highest among voters who support minor parties, such as Centre Alliance and One Nation, and independent candidates, with more than half of these voters opposed, 43.3 per cent strongly.

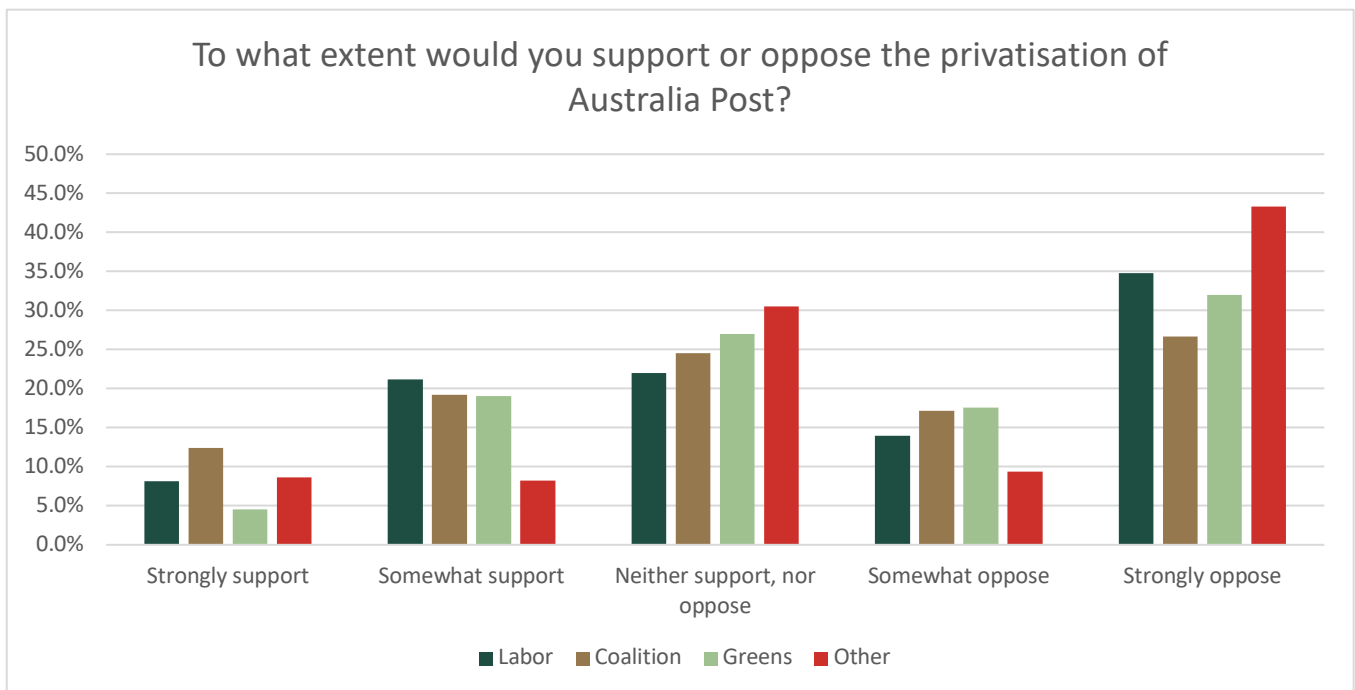


Figure 10

Conclusion

Australia Post is, as this report has demonstrated, a trusted essential service, used frequently and valued highly by all Australians.

With the rise of online shopping and e-commerce, and the decline of many community services, such as banks, in regional and rural Australia, the services provided by Australia Post are likely to become more important to households and businesses across the nation.

It is incumbent upon government to ensure that Australia Post is maintained in public ownership, and provided with regulatory certainty to enable it to continue to fulfil its essential function within our economy, and to the Australia people.

Further, the quality and reliability of the services Australia Post provides must not be further eroded by misguided attempts to reduce operational costs that will only impose higher costs on small and medium businesses, and households, as Australians work to restore our economy and standard of living in the wake of the COVID-19 pandemic.

We make the following recommendations to support the ongoing viability of Australia Post, the security of its workforce, and the value of its services to the Australian people.

Recommendations

For Government

1. An unequivocal government commitment to keeping Australia Post in public ownership.
2. Legislation to impose a Universal Parcel Obligation by amending the Australian Postal Corporation Act 1989.
3. Consideration of extending Australia Post services, including through the possible establishment of a public banking service through Australia Post's vast physical and online network.

For Australia Post Management

1. A commitment that there will be no reduction in the quality or frequency of letter or parcel deliveries.
2. A commitment to maintain current staff levels across Australia Post retail outlets (post offices), transport, processing and delivery services (posties, for both letters and parcels).

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