



**Australian Government**

**Department of Infrastructure, Transport, Regional Development and Communications**

## **Submission to the Environment and Communications Legislation Committee from the Department of Infrastructure, Transport, Regional Development and Communications**

### *The future of Australia Post's service delivery – July 2020*

#### **Introduction**

The Department of Infrastructure, Transport, Regional Development and Communications (the Department) provides administrative oversight of Australia Post's operations and obligations under the *Australian Postal Corporation Act 1989* (APC Act). The Australian Postal Corporation (Performance Standards) Regulations 2019 (the Performance Standards) are made under the APC Act.

The Department supports the Minister for Communications, Cyber Safety and the Arts as joint shareholder Minister of Australia Post. The Department provides advice to the Minister for Communications on:

- broader postal policy issues
- matters pertaining to governance of Australia Post, including its reporting and accountability arrangements and its regulatory obligations; and
- the performance, financial returns and strategic direction of the business.

The Department works closely on these matters with the other shareholder Department, the Department of Finance.

Australia Post is a Government Business Enterprise, legally and financially separate from the Australian Government. Its day to day operations are the responsibility of its board and management. Australia Post's regulatory requirements are set out at [Attachment A](#).

#### **Regulatory arrangements**

The APC Act imposes Community Service Obligations (CSO) on Australia Post to provide a national letter service at a uniform price.

The Performance Standards set out the detail of the CSO in relation to the speed, frequency and accuracy of letter delivery, the number of street posting boxes, and the number and locations of retail outlets.

#### *The Australian Postal Corporation (Performance Standards) Amendment (2020 Measures No. 1) Regulations 2020*

The Performance Standards make four main changes to the regulatory arrangements:

- Suspension of the priority letters service. At the time Australia Post requested the regulatory relief, Australia Post advised that this service accounted for around 12 per cent of letter volumes, but required manual sorting on receipt to separate priority mail from regular letters, and daily delivery and more frequent clearance of street posting boxes.
- Extension of Australia Post's required delivery time for regular intrastate letters to five business days after the day of posting. This is an increase from three or four days depending on where the letter is being sent from and delivered to. The delivery time for interstate letters is unchanged.

- Change the minimum letter delivery frequency, in metropolitan areas only, from every business day to every second business day. Delivery frequency in rural, regional and remote areas has not changed. People with a PO Box will continue to receive mail each business day.
- The number or location requirements for retail outlets have not changed, however Australia Post can temporarily close individual outlets should it be necessary due to workforce impacts of COVID-19.

These changes are intended to enable Australia Post to respond to COVID-19 impacts on the business, protect its workforce and meet changes in consumer demand with declining letter volumes and increased demand for parcels.

Almost all air-mail is carried by passenger planes – with domestic and international airfreight routes effectively shut down, Australia Post's ability to move large volumes of letters and parcels quickly and cost effectively has been severely impacted.

The changes were made following a request from Australia Post to the Australian Government, in which it outlined material risks to its finances, workforce and ability to meet its regulated letters delivery standards due to COVID-19.

The changes apply from 16 May 2020 to 30 June 2021, and will be assessed before the end of 2020 to determine if it is necessary for them to stay in place for the full period up until 20 June 2021. The assessment will include consideration of:

- letter and parcel volumes and delivery speeds, including whether Australia Post has met its prescribed performance standards under the relief
- community and business feedback to determine whether Australia Post is meeting the needs of the community and businesses during the COVID-19 pandemic
- the impact on the Australia Post workforce; and
- other dependencies, such as developments in the aviation sector.

This timeframe for application of the temporary changes and the assessment timing reflects the complexity required to change Australia Post's extensive national processing and delivery network, as well as the volatile and evolving circumstances around the COVID-19 pandemic.

### *Consultation*

Australia Post was consulted closely in developing the temporary arrangements so that they are targeted, flexible and reflect shifting consumer needs. Given the urgency and unprecedented circumstances, broader public consultation was not possible in advance of the regulatory relief being announced.

The Minister for Communications, Cyber Safety and the Arts met with union representatives on 27 April to explain the rationale for the regulatory relief.

### **Operational flexibility**

These temporary changes were provided to give operational flexibility to Australia Post to address the impacts of the COVID-19 pandemic.

There remains significant disruption to the postal and logistics sector, which is expected to continue for some time. Australia Post will need to continue to manage its workforce consistent with social distancing and hygiene requirements, which impose additional pressures and inefficiencies on the business. Freight capacity remains limited and unstable. At the same time as Australia Post is managing operational limitations, it continues to deliver unprecedented parcel volumes, while letter

volumes continue to decline. The temporary changes enable Australia Post to redeploy its workforce to critical areas experiencing a surge in volume, such as parcels.

Australia Post has announced that there will be no forced redundancies or across-the-board reductions in take-home pay due to these temporary arrangements.

## **Changes in demand**

### *Letter volume decline accelerated*

The majority of letters (97 per cent) delivered by Australia Post are sent by businesses and governments. Australia Post's 125 largest customers account for two-thirds of letter volumes (around 1.5 billion letters in 2017-18).

Even before COVID-19, letter volumes had declined approximately 55 per cent since peak in 2007-08, with the number of delivery points increasing by approximately 150,000 each year. Prior to the impact of COVID-19, it was estimated that by 2021-22, Australian households would receive an average of 2 letters per week. In comparison, in 2007-08, Australian households were receiving an average of around 2 letters per day.

COVID-19 accelerated the long-term letter decline, with May alone seeing a 36 per cent decline in volumes compared to May 2019.<sup>1</sup>

### *Exponential increase in parcel volume*

Australia Post's parcel volumes have increased dramatically during the pandemic. In April and May, the e-Commerce sector in Australia grew almost 80 per cent, with Australia Post seeing a 64 per cent increase in parcels in April alone. Large parcels – which are those too big to be carried by a postie on a bike – increased by 112 per cent in April compared to the same period last year.

Australia Post does not have a legislated monopoly over the carriage of parcels, and there is not a parcel CSO or regulated parcel performance standards. In regional, rural and remote areas Australia Post is often the only provider.

## **Retail outlets**

Australia Post is required to maintain at least 4,000 retail outlets across Australia, including at least 2,500 retail outlets in rural and remote areas. Australia Post currently exceeds these requirements.

Australia Post's retail network consists of Australia Post operated Corporate Post Offices, and Licensed Post Offices (LPOs) and Community Postal Agencies (CPAs). LPOs and CPAs provide important over the counter services, including financial and trusted services to communities, particularly in rural and regional Australia.

The regulatory relief does not change the minimum number or location of retail outlets. Outlets are expected to remain open during the pandemic, however the temporary relief gives Australia Post greater freedom in managing the post office network should staff at some retail outlets be affected by COVID-19. For example, it may be necessary for Australia Post to cease operations at a Post Office where staff are directly affected by COVID-19 or are in lock down to prevent possible transmission, and it is not possible to staff the Post Office safely. Australia Post must take all reasonable steps to keep outlets open.

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<sup>1</sup> Australia Post reports a letters volume decline of 28 per cent in May 2020 year on year excluding the 2019 Federal election related volumes.

## **Australia Post's financial position**

The ongoing and future financial impact of this unprecedented pandemic cannot be determined definitively at this time.

It is worth noting that Australia Post's profitability was vulnerable before COVID-19, due to changing consumer habits, a high-fixed cost business and increasing competition in the parcels sector. Australia Post's dividends have been low and volatile over the last 15 years due to the structural decline in letters. For example, Australia Post's declared dividend was \$446.2 million in 2007-08 compared to \$25 million in 2018-19.

Australia Post recorded a loss delivering letters in the first half of 2019-20 of \$87 million.

Initial analysis indicates that the accelerated decline in letter volume during COVID-19, and consequential increased letters loss has been offset by the boom in parcels. However there is considerable uncertainty about how long the boom in parcels will be sustained for. The increase was linked to restrictions introduced to manage COVID-19 that resulted in people working from home and retail outlets being closed. Australia Post has identified macro-economic conditions as a material risk to the continued parcels boom, and consequently, its ongoing profitability.

## **A sustainable plan for Australia Post**

As noted above, letter volumes have been in a long-term decline globally and in Australia, and this trend has accelerated since the start of COVID-19. It is too soon to predict whether this accelerated decline will continue, however there is an expectation that most businesses and governments that moved to digital communication channels during the COVID-19 pandemic will not revert to letters.

Letters will continue to be important. Remaining letter customers are likely to be those for whom digital alternatives are difficult to access due to factors such as lack of accessibility or familiarity with online offerings, financial issues or concerns about online security.

The shape of the regulatory framework will necessarily shape Australia Post's workforce and the size and location of its retail footprint. The temporary regulatory relief provides the corporation with flexibility to respond quickly to changes in customer demand and allocate its staff where the need is greatest.

If regulatory changes are required in the future, to ensure Australia Post continues to deliver services demanded by consumers and business, any changes to performance standards would be developed in consultation with relevant stakeholders. Such changes would be subject to parliamentary scrutiny and disallowance.

## **International and domestic trends and pricing**

Letter volumes are declining internationally, consistent with the long-term trend occurring in Australia. Many countries, including most Western European countries, experienced their peak letter volumes prior to Australia, with letter volumes starting to decline as early as 2001-02. This global trend is impacting the flow of letters into and out of Australia. Inbound letters declined by 21.1 per cent between 2009-10 and mid-2019, and outbound letters declined by 58.5 per cent in the same period.

Given this international trend, recent years have seen changes to the organisational structure of postal organisations in many countries, and a number of countries, including for example Italy, the United Kingdom and New Zealand have reviewed and/or amended their performance standards or organisational structure.

Australia Post sets the pricing of its domestic parcels and letters services independently, with the exception of the Basic Postage Rate (BPR). The BPR is the rate of postage for ordinary 'stamped' letters. Australia Post's proposed increases to the BPR are assessed by the Australian Competition and Consumer Commission (ACCC) and subject to disapproval by the Minister for Communications, Cyber Safety and the Arts. Australia has one of the lowest stamp prices amongst Organisation for Economic Co-operation and Development countries.

### **International postal operators and COVID-19**

Due to COVID-19, over 100 designated postal operators (including Australia Post) have declared Force Majeure. This is an international notification that the operator is unable to fulfil its obligations for delivery and quality of service for reasons that are outside its control.

COVID-19 has led to a steep decline in cross-border exchanges of mail during COVID-19, with these exchanges down by 21 per cent between 23 January 2020 and 14 May 2020, compared to the same period the previous year. The Universal Postal Union contends that this is due to disrupted supply chains and the economic shock and digital substitution.

Significant measures taken by other postal operators include:

- In France, La Poste implemented a three day work week and had around 10 per cent of postal offices open.
- In the United Kingdom, Royal Mail had at one stage 17,000 employees, or up to 25 per cent of its delivery staff on leave due to isolation needs.
- New Zealand Post saw parcel volumes fall by 70 per cent as it entered lockdown.
- Spain and Canada cut retail outlet opening hours to help facilitate necessary hygiene requirements.
- On 13 May, the New York Times reported that the United States Postal Service is expected to run out of cash without government support by the end of September<sup>1</sup>.

The response by countries around the world is tailored to its context. Australia is particularly unique given its reliance on the aviation sector to deliver within and beyond our borders. There is no one postal territory that affords an ideal model for Australia.

