

**Senate Environment and Communications Legislation Committee
Inquiry**



The future of Australia Post's service delivery

**Australia Post
3 July 2020**

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1. Executive Summary

Australia Post appreciates the opportunity to provide this submission to the Committee's inquiry and to explain why this temporary regulatory relief is so important to us. Australia Post's strategy throughout the crisis has been simple but strong:

- **Protect our people** - their safety and, for as many as possible, their roles;
- **Serve our country** - as many Australians and Australian Businesses depend on us to access and supply critical products and services; and
- **Safeguard our business** - as we know it is our best defence to protect our people and the services we offer for the future.

Timeline of the Pandemic

On 31 March 2020 Australia Post reached out to the Government and sought support for temporary regulatory relief due to the COVID-19 pandemic after having seen the early effects it was having on our business and the dire outcomes other international postal authorities were forecasting.

Six weeks earlier, in early February 2020, Australia Post started to see signs of the impacts of the pandemic, with a drop off in our inbound letters and small packets from China.

In that month, we also observed the first cases of infection within Australia, and the global impact to supply chains on products out of China. We quickly established a Pandemic Coordination Team, monitoring and managing any pandemic impacts throughout Australia Post.

It was not until 12 March 2020 the World Health Organisation declared COVID-19 a global pandemic. One week later the borders of our country started to close. On 21 March 2020 the Government shared new rules for social distancing and travel. By late March 2020 many overseas postal organisations announced they would be completely closed to receiving and sending parcels and letters.

On 17 March 2020 Qantas, who is our largest and most important partner as they carry the bulk of our letters and express post parcels in the belly of their planes, announced it would reduce its domestic air network to 40% and its international network to 10%. Days later it confirmed that two-thirds of their employees would be stood down. Other vital partners also reduced services, such as Greyhound Australia, who carries many letters and parcels for us to remote communities.

Our ability to operate efficiently and on time began to be impacted and our costs to operate safely started to rise.

Australia Post immediately worked to introduce split shifts and safe distancing for the frontline workforce and moved all other employees to work from home. By the end of March 2020 more than 4,500 employees were working remotely. Significant investment began in personal protective equipment (PPE) and protective screens for our post offices.

In this initial period, we started to experience extreme volatility in our business. With border closures, international parcels, passport applications and other identity services were significantly impacted. On 30 March 2020 (the day before our request for support) letters lodged fell 44% and, on the same day we saw strong growth in our Express and Premium parcels, both in volume and size and weight. At this same time, our road business suffered because retail stores closed their doors and our B2B business was significantly impacted. To add to our complexity, our parcels started to grow in number, size and weight. This meant an increasing percentage of our parcels needed to be carried by third-party contractors, as they could not be carried safely by our own posties either on motorcycles or by foot, which again increased our costs to deliver. Foot traffic in our metropolitan post offices fell significantly, with CBD post offices down 55%.

Queries to our customer service centre and to our website started to rise dramatically as expectations from consumers, who were suddenly required to do most activities from the home required their parcels faster. More businesses turned to Australia Post to support them as they hibernated their bricks and mortar premises and became reliant on ecommerce to survive. It became evident there was an increasing expectation and need for Australia Post to deliver parcels quickly, even though we faced significant operational challenges due to the lack of air freight and the important requirements to operate safely.

A combination of all these variances in our business gave us a great deal of concern.

As a leadership team we embarked on setting up review meetings with our international peers to take learnings from countries which appeared to be further progressed in the crisis than Australia. The peers we liaised with included USPS (US), Royal Mail (UK), Swiss Post, Hongkong Post, La Poste (France) and New Zealand Post. Several key lessons immediately emerged from these conversations. The first was the need to source and secure ongoing supplies of PPE – in the US some states had only 62% attendance rates at work as employees became concerned about the spread of the virus and the lack of PPE. In some countries, not only had letters collapsed as businesses hibernated but, where they had strict lock down rules, parcels had also dramatically fallen. Thirdly, many of our peers reported significant financial concerns and that they were under no doubt they faced large losses and would need a capital injection.

Finally, in order to secure as many jobs as possible, it was important we were recognised as an essential service.

On 21 March 2020 we asked the Government to consider Australia Post as an essential service, offering our unique network to carry medicine and food to the vulnerable. On 28 March 2020 we announced a partnership with the Pharmacy Guild of Australia to deliver medicine and on 20 March 2020 we announced a partnership with Woolworths to deliver food and essentials packages, both to support the elderly and vulnerable.

On 31 March 2020 we asked Government for temporary regulatory relief as we managed through the pandemic. We were extremely concerned about the potential impacts to our people, our business and our ability to serve the country at such an important time. We sought temporary regulatory relief to enable Australia Post to better utilise our valued postie network and to support more of our growing parcel volumes. This in turn would enable us to better serve the communities who increasingly became dependent on us and would help us better manage our growing costs in delivering parcels.

Managing the Network Pressure to Deliver

While still managing the impacts of the ongoing pandemic, on 9 April 2020 Qantas announced they would be reducing their air network to zero. Although this was modestly increased with government support, the significant fall required Australia Post to charter airplanes directly, to ensure we could serve the nation. We have now chartered additional Qantas planes dedicated to delivering for us. This has increased our costs by approximately \$1 million each week.

Throughout April 2020 we continued to see significant volatility in our network. Parcels volume in April 2020 rose by 64% and letters fell by 28%. On some days in April 2020 we experienced over 150% growth in parcel volumes and for more than 10 weeks we delivered more than 2 million parcels a day. These levels are unprecedented and have never been experienced before in our history. An additional challenge to the parcel growth, was that Melbourne and certain suburbs became disproportionately the hub where demand originated from. This was due to the fact that many larger ecommerce Merchants are based there.

To support this change and the volumes, we needed to quickly establish additional parcel processing facilities. We have now 16 additional parcel processing facilities across the country and have employed 600 additional employees to support them. Many of these employees were resourced from partners who had to stand down their own people, including Qantas.

On 21 April 2020 the Government announced temporary regulatory relief until 30 June 2021. This relief will provide Australia Post with some relaxed standards in delivering letters in metro areas where on average people only receive one letter every other day. The temporary regulatory relief will enable Australia Post to retrain thousands of posties to support our exceptional parcel growth. This will not only provide many posties with new skills, it will result in our existing letter posties having more letters to carry and as such preserving their roles longer. The relief will help us better manage through the health and economic crises, improve our parcel deliveries for all customers and it will help us protect our business and all the services we offer for the future.

Letter delivery frequency to customers in rural and remote Australia will be unchanged.

Working Together with our Key Stakeholders

Through-out the pandemic we have consulted widely and regularly with our employees, our customers, our partners, Shareholder Ministers, the unions and other key stakeholders. We are extremely proud of how our employees have supported the business. Our post offices remained open and our posties and drivers kept delivering, even though we were operating in a period of uncertainty about how the pandemic would develop.

Our head office employees took extended leave through Easter and our Board and Executive Team committed to 20% pay cuts. Around 450 letter posties retrained to drive vans, and thousands of employees from many departments volunteered to help out with overtime and working weekends to reduce the significant pressure on our business.

The Financial Impact of the Pandemic

In the first half of FY20 Australia Post announced letter losses of \$87 million. When we announced a 10 cent increase in the price of a stamp in January 2020, we acknowledged this modest increase would not fully offset letter losses for the full year. The significant falls in letter volumes in the April to June 2020 quarter has resulted in these losses accelerating. It is estimated that in the second half, despite the 10 cent price rise, the letters losses will have more than doubled.

This is a very unusual time and although it is difficult to forecast, we estimate the rate of letter declines will reduce going forward into the next year. However, the recent accelerated transition to digital communication is likely to be a structural shift and volumes are highly unlikely to return to pre-pandemic levels.

We expect online shopping and the need for Parcel delivery to remain strong in the year ahead, although the rate of growth will soften as people return to work, physical stores reopen and the level of government and other support reduces. If we are to remain viable, it is important that we find a balance from the increased costs in operating in this challenging period with supporting strong services for the changing needs of consumers.

Supporting the Community, our Partners and our People through the Change

Throughout the course of the year, until the temporary regulatory relief ends, we will work closely with our people, the communities we serve and our customers to ensure we fully understand their feedback and we commit to share these learnings. This period also gives Australia Post a reasonable period of time to understand what the new normal looks like and assess the opportunities to transform our business to ensure our longer-term viability.

Australia Post employs approximately 35,000 people directly and over 40,000 more through our licensed post offices, community postal agents and contracted delivery drivers – all of whom depend on us to remain viable to support their roles.

We have committed to our workforce there will be no forced redundancies and no cut to pay rates as a result of these temporary regulatory changes. We want and value all our posties and are committed to provide training to help them develop new skills and keep them safe.

Our important partners, including our licensees depend on Australia Post being successful in parcels, which is a highly competitive market, for their future viability. Our success in this market depends on our ability to offer a competitive and reliable product.

If we are unable to maintain the temporary regulatory relief, our options to remain sustainable as a business are limited.

Many businesses, small and large, increasingly depend on Australia Post to deliver promptly to all households across Australia. We take this responsibility very seriously and we believe this temporary regulatory relief will give us a better opportunity to support them and their recovery, as our country goes through a very challenging economic period.

Australia is well positioned to provide this support, as highlighted by recent Deloitte Access Economics analysis into Australia Post's activities during the pandemic, which identified that Australia Post facilitated an additional \$2.4 billion in eCommerce activity in Australia between March and May 2020, with around \$560 million in rural and remote Australia.

Australia Post has been serving all Australians for 211 years. The needs of our country have significantly changed through this period. Just over 30 years ago, when the *Australian Postal Corporation Act 1989* was passed, the internet was in its infancy and we delivered postal telegrams as well as letters to homes. Today our communities expect and need us to do so much more.

There has never been a more critical time in the last 70 years for Australia Post to deliver parcels to homes. As some communities emerge from Government restrictions, many brace themselves for extended periods of restricted travel and face significant economic challenges.

We urge the Senate to support Australia Post with these temporary changes so in turn we can protect our people, serve our country better and ensure we as an organisation emerge from this crisis fit for the future and able to meet the changed needs of all Australians.

2. The Pandemic, its Challenges, and our Responses

At the end of January 2020, and into the early days of February 2020, Australia Post had just completed a difficult summer of managing the impacts of floods and bushfires on our services. The challenges presented by the natural disasters reinforced how important both post offices and posties were to Australians a crisis – supporting vulnerable residents with core services such as access to a physical delivery network, communications and basic financial services and cash. The work of our people in proactively helping those in need was commendable.

Alongside those natural disasters, our people had once again risen to the challenge of delivering record parcel volumes through a successful Christmas and online shopping period in November and December 2019. Despite persistent letter declines and other challenges, we were cautiously optimistic about our ability to deliver another financial year of achieved and exceeded performance standards whilst managing our business in a manner consistent with sound commercial practice. We were also preparing to negotiate back-to-back enterprise agreements with our various representative unions from March 2020, in the interests of building together towards a sustainable future. It appeared to be something of a calm following a well-managed crisis during our busiest trading period.

Then, the COVID-19 pandemic arrived.

We immediately called out to our international peers, where the pandemic had been further progressed, to make sense of what threatened to be another crisis. In early March 2020, Royal Mail confirmed that 17,000 personnel, or 25% of its workforce, were absent from work, placing Royal Mail in a position where it was forced to consider cutting services, and New Zealand Post had seen parcel volumes fall 70% in just one week following announcement of their own stay at home restrictions. Australian consumer sentiment dropped dramatically in March 2020, and Australian organisations were announcing large scale stand downs or redundancies.

Based on the impacts being realised in countries impacted earlier than Australia, we immediately introduced a strategy to **Protect** our people, continue to **Serve** Australian communities, and **Safeguard** the future of Australia Post.

Our immediate and united commitment was that we would stay open to serve the needs of all Australians throughout this crisis wherever we could, which is what we have done.

We immediately requested Australia Post be considered an essential service, to ensure that we could continue meeting community needs and expectations. We also offered assistance to the Minister for Health in delivering essential medicines, and took immediate action to negotiate deliveries of urgent medical supplies and basic food and

home bundles for the elderly and vulnerable, with the Pharmacy Guild of Australia, and the Woolworths Basic Box respectively.

This commitment to serve clarified our purpose of providing valued services to all Australians, and provided an environment that encouraged and enabled our people to keep working.

The immediate response from our people was compelling.

We very quickly had around 4,500 of our employees working from home, and our IT support teams worked tirelessly to ensure they were supported with critical remote connectivity to be able to fulfil their roles.

We looked to our employees for help to safeguard our financial position and secure as many future jobs as possible, and they responded supportively. Corporate employees were encouraged to, and did, take weeks of annual leave either side of Easter, some nevertheless continuing to work during this time of crisis. Around 450 posties immediately volunteered to drive vans and deliver parcels – the best possible contribution to helping customers.

Our support for small businesses was also immediate. We helped small businesses implement mail hold and redirection services as they settled their staff into working from home, and helped to implement payment plans for those with cash flow difficulties that still needed to use our services.

Our actions from the first have – as identified above centred on **Protecting** our people, **Serving** our country, and **Safeguarding** the future of Australia Post.

The pandemic has, and continues to have, significant impacts on our business, our service delivery and our people.

The three most prominent challenges we have observed are: our paramount responsibility to protect the safety & wellbeing of our people, and take responsible steps to protect the safety & wellbeing of our customers and our communities; the significant disruptions to our domestic and international networks; and the both expected and unexpected changes in demand for our services. In particular, dramatic growth in parcels demand, and deepening declines in letters.

2.1 Extreme Network Disruptions

The pandemic brought with it extreme disruptions to Australia Post's domestic air and land transport networks, and extreme disruptions to the international air transport network.

Disruptions to Domestic Air Transport Networks

Australia Post works closely with Qantas to ensure priority access to the belly space of Qantas Group passenger services. Prior to the pandemic, up to 650 tonnes of letters and parcels were uplifted via domestic air passenger transport each week. The passenger network provides significant capacity that sustains vital connections to rural and remote zones in Australia, provides uplift opportunity for letters and parcels that cannot be serviced via road connections, and supports the most urgent and time sensitive movement of letters and parcels around the country – including life-saving equipment, medication and medical supplies and blood samples.

On 17 March 2020, Qantas announced it would need to ground its domestic flights by around 60% until at least the end of May 2020. On 8 April 2020 Qantas then announced that, starting 14 April 2020, passenger services around the country would be reduced to virtually zero, effectively removing all of this critical capacity. It was at this point that it became physically impossible for us to continue meeting our delivery speed commitments. At the same time, parcel demand was soaring, with up to 25% in additional volumes needing to be uplifted and moved. To be provided such little notice of such an extraordinary reduction in domestic air transport network capacity presented an enormous challenge which – in addition to the significant other disruptions and considerations at the time – Australia Post has had to work very hard to manage.

On 16 April 2020, the Government announced it would provide funding to underwrite the cost of the Qantas Group and the Virgin Australia Group operating a minimum domestic network, which resulted in the passenger network schedule returning to around 5% of the pre-pandemic domestic passenger flight network.

To mitigate both the continued loss of core air transport capacity and the increasing parcel volumes, Australia Post took steps to charter additional freighter aircraft. These aircraft have been operating multiple flights each night, adding over fifty additional freighter sectors each week, at significant additional cost.

A significant volume of additional road movements have also become necessary to accommodate in some part for the heavily reduced domestic air network. Those additional road movements have assisted, but – being smaller capacity land vehicles – have not been able to curtail significantly extended transit times wherever air connections and capacity are not available.

Since early June 2020, passenger schedules have been progressively increased to around 15% of the pre-pandemic levels, however capacity remains extremely limited, with little material benefit to our uplift capability.

In addition, ensuring services can be delivered to some of the smaller communities around Australia has been a particular challenge. In many instances, it is often not possible to charter flights to smaller cities and towns around Australia and – on many occasions – we have had to completely reconfigure our delivery routes to ensure Australians stay connected to our delivery services.

Disruptions to Domestic Land Transport Networks

A significant volume of additional road movements have also become necessary to accommodate in some part for the heavily reduced domestic air network. Those additional road movements have assisted, but – being smaller capacity land vehicles – have not been able to curtail significantly extended transit times wherever air connections and capacity are not available.

However, it has not only been the significant reduction in our domestic air transport network that presented challenges – a number of our key overland lanes have also been impacted. Australia Post works with Greyhound Australia for the movement, via bus, of freight from Adelaide to Darwin and then from Darwin to Broome – critical lanes for the delivery of letters and parcels to central, central northern and central north western Australian communities. When the South Australian and West Australian borders closed and passenger demand fell dramatically, Greyhound Australia indicated it would need stop operating its service. Australia Post moved quickly to use charter services to support delivery along those routes to ensure they remained operational, albeit with service frequency reduced from six to three days per week. Our partnership with Greyhound Australia is crucially important to getting letters and parcels to remote communities throughout Australia, including remote indigenous communities.

Despite some States closing their borders in recent months, and new border-crossing checks and processes being implemented, Australia Post's flow of interstate road and rail transport has – comparative to the other aspects of our delivery network – remained relatively undisrupted through the pandemic (thanks largely to the fact our land transport movements have been permitted across State borders).

We also very quickly opened or repurposed fifteen temporary processing and delivery facilities throughout the country to assist. Some were brand new sites and some were established within existing business-to-business facilities, each of which were used to receive stock from customers, perform a primary manual sort and organise despatch to end point destinations. We continue to explore all available transport, processing and delivery options to minimise the impacts on our services and customers.

Disruptions to International Air Transport Networks

Australia Post began to see disruptions to international air transport network capacity occurring from February 2020, initially in the form of a number of our merchants being unable to receive delivery of their stocks and supplies from overseas destinations, especially in Asia.

On 17 March 2020, Qantas announced it would need to ground its international capacity by around 90% – ie almost in its entirety – until at least the end of May 2020. The impact on Australia Post was immediate, as we utilise the passenger services of Qantas and its partner airlines to uplift approximately 225 tonnes of letters and parcels per week to approximately 180 destinations in 138 overseas countries. This represents almost all of our international volumes. This decision left Australia Post with no immediate ability to move letters and parcels overseas until alternative carriers could be found.

This constraint not only resulted in the removal of core capability, but was also reflected in rates tripling almost overnight for what little capacity was left available.

Compounding the issue, Australia Post saw growth in outbound international parcel volumes, which increased year-on-year by 16.6% over the two months of April and May 2020, with New Zealand and United States by far the largest destination countries – representing 40% of the total outbound volume.

By 23 April 2020, 115 international lanes were suspended due to a lack of air capacity. A decision was made to isolate the suspended despatches on hand, pending availability of airlift capacity. However, by the first week of June 2020, it was apparent air lift was not possible for 44 of those international lanes, and a returns process was accordingly put into action to return those items to their senders.

Despite the removal of our core international air capacity, we have successfully uplifted over 2.5 million kilograms of letters and parcels over the nine-week period until late June 2020. This has been achieved utilising:

- minimal continued operations of Qantas Freight, including additional rotations of Qantas' B767 freighter to New Zealand and Hong Kong;

- utilisation of Qantas Group partner airlines;
- engagement with other airlines that are operating minimal passenger services involving Australia (eg Emirates; Etihad and Qatar);
- engagement with United Airlines operating a daily passenger aircraft in 'cargo only' mode with 'in-cabin loading' to the United States;
- engagement with Government about its International Freight Assistance Mechanism to support priority utilisation for Australia Post where appropriate and practical; and
- sending economy/standard articles to Canada and Europe via sea freight.

Throughout the disruptions, Australia Post has communicated with stakeholders continuously, including:

- a weekly call with overseas postal organisations (including) China, the United States, Japan, Korea, Hong Kong, Canada, Great Britain, France, Spain, Thailand, and New Zealand, where each organisation reported on the status of backlogs, flight plans, and any opportunities to collaborate;
- meetings with Australian Government border agencies to discuss volumes and air and sea freight patterns, to assist border agencies to roster accordingly; and
- maintaining detailed and regularly updated information on international service delays and suspensions as quickly as possible via our website.

2.2 Volatility in Service Demand

The trends identified in changes to demand for our services in the decade before the pandemic, indeed since letter service demands began their decline following financial year 2007/08, have been accelerated as a consequence of the pandemic.

Domestic Parcels

Year-to-date March 2020 increases in parcel volumes were 12%. In April 2020, as Australians stayed in their homes more than ever before, the year-on-year change was 64%, and in May 2020 was 49%. The demand for our parcel services has, in these recent months, broken historical records – surpassing even the pre-Christmas 2019 peaks.

It is the accentuated growth in demand for parcel services that has been the most pronounced, and that makes our request for temporary changes so important.

Due to pandemic-related restrictions, we experienced extraordinary growth in parcels volume. However, capacity limits with postie vehicles (eg motorbikes) have resulted in a greater proportion being delivered by delivery contractors. Further, we have incurred considerable additional cost in processing and transporting parcels, as identified elsewhere in this submission.

These significant additional and unanticipated variable costs have meant a significantly lower marginal return on the revenue generated by the increased parcel volume.

Due to the unprecedented volatility and growth in parcels we have now reached peak carrying capacity of parcels by posties. All additional parcels growth is being delivered by contractors.

The unprecedented volatility and growth in parcels has also resulted in a greater proportion of parcels unable to be streamed to posties for delivery. We have now maximised the extent to which we can stream parcels to posties riding smaller vehicles.

Compounding other challenges, merchants have in most cases also been unprepared for the growth, despite doing their utmost and best in challenging circumstances, which has created additional challenges. Vehicles arriving at a merchant's premises expecting to collect a volume of parcels ended up actually being given 3 to 5 times the volume of parcels – sometimes more than were able to fit in the vehicle, and often requiring a repeat visit.

Some merchants, not wanting to lose a sale, were accepting online orders and advising customers the orders were with Australia Post for carriage, while in reality the stock had not yet been given to us. Their customers, believing their product to be packed and dispatched, would assume Australia Post was at fault for a related delay. Further, parcelling labelling was regularly sub-optimal, with merchants struggling with the volume of demand and not holding enough machine-readable labels and packaging material to ensure fully automated processing could be supported.

Domestic Letters

The domestic letter volume demand has been notably volatile and predominantly negative since the pandemic began. Year-to-date March 2020 letter volume declines were around 11%. In April 2020 volume decline was 28% and, by May 2020, was 36%.

The volatility was evidenced with some moderate, but many very low volume days. There were some days when letter volumes were extremely low, when on the same day parcel volumes were more than 100% up and desperately needing to be delivered.

Due to the predominantly fixed cost nature of the letters business, domestic letters comprises a much greater proportion of Australia Post's costs than of its revenue.

Post Office Transactions and Foot Traffic

The change in customer behaviour during the early stages of the pandemic saw a shift in foot traffic from central business district (CBD) and shopping centre post office visitation to more local/suburban locations. In April 2020, foot traffic decreased by 55% in CBD and 15% in shopping centre post offices. At the same time, we saw growth in our suburban post offices, with foot traffic into licensed post offices up by 4%.

Overall foot traffic declined by 5% compared to April 2019 with a significant decrease in the number of articles carded for collection at a post office down by 29%, passport application services down 80% and financial services down by 18% during the month. In line with the parcel growth during the period, we have seen an increase in the number of customers sending items via post offices, and also an increase in home and office merchandise being purchased. The decline in foot traffic has continued to be significant throughout April, May and June 2020 in CBD areas and shopping centres, with many businesses continuing to encourage workers to work from home.

Our 2,529 post offices in rural and remote Australia have continued to be vital pillars of their communities providing sending and receiving services throughout the pandemic, with many experiencing increased customer transactions and volumes as people moved back to regional towns. These rural and remote post offices have ensured all our communities across Australia have been able to access services and products online and have access to the essential services they need. They have also supported the essential expansion of many small businesses in rural and remote areas who, like other bricks and mortar retailers, have been required to go online to continue trading.

Another key area of importance for our post offices in rural and remote areas has been ensuring the access to core financial services during the pandemic. During the pandemic there have been over 400 additional bank branches across Australia temporarily closed. Not only were banks closing additional branches, but hotels, retail outlets and other stores who were in some cases housing a town's only automatic teller machine, were also closing their doors. Our post offices have been able to maintain critical services and also support those in communities who are reliant on these services. It was also incredibly important during the first round of Government stimulus announcements, as many of those receiving payments access available funds via the local post office.

International Letters & Parcels

Inbound letter and parcel demand, and outbound letter demand, has declined significantly in recent months, impacted by the dramatic decrease in the international air transport network and pandemic impacts affecting overseas postal organisations. In the last three months, inbound letter and parcel (including small packet) volumes have collapsed. Also, the volatility of inbound volumes has made it difficult to forecast what our domestic delivery network might need to carry on a particular day.

2.3 Other Impacts of the Pandemic

Effective 20 April 2020, we temporarily suspended our Express Post next business day guarantee (of a refund and replacement envelope or satchel for articles that do not meet the next business day delivery standard). While the Express Post service continued to be provided via the quickest available speeds, the suspension reflected our significantly impaired ability to commit to next business day movement of articles across the country, due to the constraints identified above.

On 22 April 2020 Australia Post notified the Universal Postal Union of a force majeure event covering the period of the pandemic. The notice advised the Universal Postal Union's member countries that, given the pandemic, Australia Post's delivery standards would be impacted (due to precautionary measures relating to self-isolation for affected individuals and disruptions with airlines and other transportation providers). The Force Majeure notice was subsequently notified to the various technical bodies of the Universal Postal Union.

2.4 External Observations

Australia Post has watched and engaged with other parts of our Australian and international communities throughout recent months, to ensure our actions and responses are taken with the benefit of the experiences and foresight of those also affected by the pandemic.

Domestic Observations

The pandemic has brought considerable uncertainty to the reliability of budgeting and forecasting throughout the private and public sectors of Australia alike. This manifested in the Government's decision on 20 March 2020 to defer the financial year 2020/21 budget to 6 October 2020, and a significant number of listed entities withdrawing their earnings guidance by 30 March 2020.

Since that time, the ongoing uncertain nature of Australia's economy has also been reflected in the variability of consumer sentiment. Following dramatic declines in consumer sentiment over March and April (the 18% fall in April 2020 was the single biggest monthly fall on record, Westpac-Melbourne Institute Index of Consumer Sentiment), there has been some a recovery in May and June 2020. In contrast to this recovery, the RBA on 26 June 2020 advised it expected that a recession would likely be "long-lived", with the economy requiring "massive economic support", despite an economic performance in the June quarter that had "turned out to be somewhat better" than expected. At the time of writing, the JobKeeper wage subsidy program is scheduled to end on 27 September 2020.

On 6 May 2020, new rules relating to how companies are able to communicate with stakeholders were announced, enabling boards to provide notices of annual general meetings to shareholders using email, including proxy forms, and to hold annual general meetings online. Shareholders will be able to put questions to board members online and vote online. These changes can be expected to accelerate letter volume decline.

This uncertainty, among many others, and the likelihood of a protracted economic recovery, underscores our need for temporary regulatory relief. As businesses increasingly replace letters with electronic communications, we need to protect our posties' futures by transitioning them from delivering more parcels in a way that reflects and supports the demand across those services.

International Observations

The pandemic impacts experienced to date by Australia Post – strong parcel growth and deepening letter declines – is consistent through many overseas postal organisations, including Canada, UK, Switzerland, Netherlands, Italy and Germany, although the rate of parcels growth appears greater in Australia, reflecting lower levels of online penetration in the pre-pandemic period. There has been in a common theme in other jurisdictions of additional costs incurred to realise the parcels growth, and additional costs from introducing operational changes to address pandemic-related safety requirements. Many overseas postal organisations are now forecasting losses in the current year, with the greatest profit impacts from those who were required to temporarily close or significantly reduce access to their post office networks (Italy, New Zealand, United Kingdom).

Relaxation of service obligations during the pandemic has been commonplace, with countries including Belgium, Canada, Switzerland, Spain, France, Hungary, Ireland, Italy, New Zealand and the United Kingdom, all receiving varying levels of relaxation to both post office and delivery functions. Our further observations of the experience of key international postal organisations through the pandemic are set out in Annexure 2.

3. Protecting our People

As referred to earlier in this submission, the Australian summer of 2019/20 had brought significant challenges to our workforce. Our people adapted and responded to communities in crisis with resilience and care. Our post offices became gathering places in affected communities, providing everything from a power point to charge a phone to information on how to access mental health resources and support. Our deliveries drivers drove new safer routes to ensure critical items could arrive into these areas. Our posties and parcel drivers in smoke affected areas managed incredibly challenging conditions, continuing to deliver when it was safe to do so wearing masks.

Just after the natural disasters had passed, our workers were faced with a totally new threat that would require rapid and wholesale change to the way they worked. Almost overnight, around 4,500 of our employees took their laptops home and the significant majority have not yet returned to the office, respecting and adhering to the direction "If you can work from home, you must work from home".

Throughout the pandemic, protecting the safety and wellbeing of our people has remained our highest priority, as evidenced by the extremely low levels of Australia Post employees having contracted the virus and no cases of work-related transmission to date.

3.1 Safety & Wellbeing

Vigilant distribution of hand sanitiser, gloves and masks, the rollout of protective screens across post office counters, ongoing communication and strict social distancing and zoning policies in operational areas, have together delivered this outcome. This is an outstanding result in an environment where our people have been handling millions of parcels and letters per day, and helping more than 800,000 customers per day in our post offices.

In early March 2020 we established a dedicated Pandemic Coordination Team (PCT) with senior representatives from every area of Australia Post, who met daily to review and address all pandemic-related safety issues before they escalated. We established a Corporate Incident Response Committee (CIRC), comprising our Executive Team and chaired by our Group Chief Financial Officer, and our Chief Risk Officer reported feedback from the PCT to the CIRC daily.

Our business continuity planning has enabled us to remain in operation in the midst of significant challenges referred to in this submission.

We engaged with our external medical provider, Jobfit, and obtained advice on a daily basis in the early stages of the pandemic to ensure we were adequately informed and prepared to protect our people. Jobfit provided advice on our infection control procedures, reviewed our risk assessments including the use of appropriate personal protective equipment and kept us up to date on the rapidly evolving epidemiological aspects of the virus as they related to our workplace.

Communicating clearly, frequently and transparently was critical to ensuring our people felt safe and protected. Particularly early in the pandemic as the situation was rapidly changing and there was conflicting information available publicly, it was paramount that we provided consistent, credible and evidence based guidance for our people to follow. We maintained an ever expanding list of frequently asked questions, responded promptly to individual queries, conducted webinars and virtual team meetings, delivered site safety briefings and produced videos, guides and email communications on a daily basis to ensure our people and their leaders were prepared and informed. Listening to our people's concerns, ideas and fears was a key part of ensuring we responded effectively and in ways that our people could resonate with. Protecting our people throughout this period has been at the heart of every decision we have made and their feedback was critical.

Throughout our post office network, we supported licensees who needed to temporarily close to manage the impacts of the pandemic on their workforce and, through the provision of protective screens, hand sanitiser, gloves and face masks, we have been able to minimise temporary post office closures, with only 21 closures occurring between March and May 2020, and preserve service delivery and contribute to the safety and wellbeing of our communities.

Our head office staff are working from home unless they are unable to do so, including our Customer Contact Centre employees who are dealing with record call volumes over a number of months. We responded quickly and effectively to the technology challenge of having large numbers working from home, with an extensive upscaling of the availability and reliability of virtual private networks.

Safety & Wellbeing in Deliveries Networks

Australia Post has taken extensive measures to protect our people and incurred additional costs to ensure that our people have remained safe. Significant amounts have been spent on a very large volume of personal protective equipment to ensure the safety our workforce – such as hand sanitiser, gloves, masks, thermometers and protective screens.

The largest contributor to this cost has been the supply of hand sanitiser and hygiene products, with costs also attributable to the supply of masks, glasses, wipes, gowns and gloves. In line with Government guidance, masks and gloves are not being provided as mandatory items and are used in specific circumstances such as for cleaning, and to provide to people who become unwell at work.

A range of social distancing and zoning policies have been implemented across all operating sites, to keep our people and communities safe, including:

- zoning: each operational site has been split into zones and individuals are required to stay within those zones during their shifts and maintain social distancing requirements as far as is reasonably practicable. When transitioning to shared areas, minimal contact with infrastructure or equipment is expected;
- shift times: staff start times have been staggered to reduce the number of people entering and exiting, or being on site, at the same time;
- temperature checks: temperature checks have been conducted at major Deliveries sites since late April 2020 as an additional measure of protection for our people;
- contactless delivery: the requirement for signature on delivery has been suspended, with alternative processes implemented to confirm delivery of parcels;
- monitoring and addressing: our Operational Control Centre has conducted spot checks to monitor the effectiveness of implemented social distancing measures in facilities. Breaches of social distancing requirements that are observed are reported to senior leaders and addressed at a facility level;
- social distancing: all office areas have adopted social distancing rules – 1.5 metres for interactions and 2 metres when seated, with staff in office areas continuing to be encouraged to work from home where they are able to; and
- third party visits: visits to non-retail premises have been cancelled, except where necessary (eg maintenance workers, or border agency staff) and all external stakeholder meetings have been held by phone or video conference wherever possible. Where visitors or contractors are required to enter a site, they are required to complete a declaration to identify if they meet any of the epidemiological indicators and, if they do, are not permitted to enter the site;

- cleaning products such as wipes and disinfectant sprays have been provided for individual cleaning for work areas and vehicles, with associated risk assessments and safety instructions conducted; and
- different levels of cleaning have been implemented across facilities concentrating on high touch areas. Deep cleaning procedures have been implemented for suspected, probable or confirmed cases.

Safety & Wellbeing in Retail Network

As referred to above, we have provided post offices with an extensive range of safety supplies including masks, protective screens, gloves and hand sanitiser. We have provided these to licensed post offices and community postal agents at no cost to the licensee or agent. Actions included:

- immediate implementation of social distancing instore, with clearly defined floor markings to assist staff and customers;
- sourcing and distribution very large quantities of liquid and gel sanitiser to post offices;
- distribution of information materials to post offices – and other parts of the workforce – emphasising the need for diligence and cleanliness; and
- the rapid design, manufacture, distribution and installation of protective screens, with 3,541 post offices receiving screens for multiple terminals.

The protective measures we implemented in response to the pandemic have been reviewed at various points by our health and safety regulator, Comcare and the New South Wales and Victorian Departments of Health. Our procedures and processes have been found to be effective as evidenced by our record of no workplace transmission. We have also continued to consult extensively with our unions on how to best protect our people.

Mental Health & Wellbeing

Whilst the physical protection measures implemented were vital to ensuring we minimised the risk of transmission of the virus, we equally needed to protect the psychological safety and wellbeing of our people in a period of great uncertainty and change. We immediately included reference to our Employee / Workforce Assistance Program in a variety of communications and reinforced its breadth of services including financial, legal and elder care advice.

We made available a new support service specific to dealing with pandemic-related implications, including the impacts of isolation, to our people leaders to support their staff. We produced guides on promoting connection for people working remotely, conducted manager support sessions to specifically address the challenges teams were facing and provided information on domestic and family violence and support services available.

As we move into the next phase of the pandemic, we will continue to ensure relevant and meaningful support is provided to assist our workforce to navigate the new ways of working and being in the world in mentally healthy ways.

Safety & Wellbeing of Australians Staying at Home

As the pandemic began to take hold and Government advised Australians to stay at home, our operations became under increasing pressure and reliance.

To ensure our delivery services could continue to be provided without compromising the safety of our people our communities, steps were taken to limit the likelihood of the virus being spread via our delivery network. An immediate decision was made to suspend the practice of taking signatures on delivery from recipients for applicable services, reflecting the principles of the safety guidance provided by the Government.

Absence of Work-Transmitted Infection

The extremely low levels of Australia Post employees having contracted the virus, and the absence of a work-related transmission to date, is an extraordinary result reflecting our peoples' commitment to protecting themselves and the Australians we serve. Our delivery teams have touched every home and business, continuing to deliver parcels to customers front doors every day throughout the pandemic.

Our processing teams have worked tirelessly to process unprecedented parcel volumes. Their vigilance in maintaining social distancing and zoning procedures over such a long time is commendable. The result also reflects Australia Post's existing and ongoing focus on safety & wellbeing both before and during the pandemic. When the pandemic began to affect Australia, our strong safety culture positioned us well to respond.

3.2 Communication and Engagement

Protecting our people, as we continued to serve the nation during the pandemic, has been a key priority during the pandemic. We have regularly communicated with our people about the impacts of the pandemic, educating them on the way we would continue to operate safely during the pandemic, including regular messages from our senior leaders, as well as through weekly communication packs.

We have worked closely with our employees through our nationwide Health & Safety Representative (HSR) network, as well as at the local level as we implemented social distancing and other related safety measures in our workplaces.

Maintaining respectful and constructive working relationships with our union stakeholders is critical to safeguarding the future of Australia Post. We have consulted extensively with our principal unions, the Communications Electrical Plumbing Union (CEPU) and the Community and Public Sector Union, in relation to the impacts of the pandemic on our business, including the implementation of our metropolitan delivery frequency changes (referred to in our communications as our 'Alternative Delivery Model', or via similar language) subsequent to the Government announcing changes to our prescribed performance standards. We have consulted on an ongoing basis throughout the pandemic about how we propose keeping our people safe as our posties and delivery drivers continue to deliver to the nation, and our post office employees continue to provide essential services for our communities. These are discussions that have taken place with our senior Australia Post leaders and senior union officials, as well as occurring regularly at the local level.

Since 19 March 2020, our senior leaders have met (either face to face or virtually) with the National and State Secretaries of the CEPU on no less than 38 occasions to discuss the impacts of the pandemic on Australia Post, enterprise bargaining logistics, alternatives to bargaining and our metropolitan delivery frequency changes. This includes (some meetings overlapped in subject matter):

- no less than 15 meetings to discuss the impacts of the pandemic on Australia Post;
- no less than 7 meetings to discuss enterprise bargaining logistics and alternatives to bargaining; and
- no less than 22 meetings to discuss our metropolitan delivery frequency changes.

Since 3 March 2020, our senior leaders have exchanged written correspondence with the National and State Secretaries of the CEPU no less than 43 times on enterprise bargaining logistics, alternatives to bargaining during the pandemic and our metropolitan delivery frequency changes. This includes:

- no less than 23 written exchanges on enterprise bargaining logistics and alternatives to bargaining during the pandemic; and
- no less than 20 written exchanges on our metropolitan delivery frequency changes.

We also engaged with our principal delivery contractors in early May 2020 advising of our proposed implementation of the relief and committing to local engagement. A further written update was provided to principal contractors at the start of July 2020. Verbal briefings on the regulatory relief and Australia Post's proposed implementation was also provided during national teleconferences with this workforce group in May 2020.

By working closely with our people at the local level and by communicating frequently, we have consistently provided the whole of our workforce (both direct and extended workforce) with up to date and timely information on working safety during the pandemic, and we have worked collaboratively with our people and our union stakeholders to implement new ways of working to keep our people, our customers and the Australian community safe.

We have communicated extensively with our people to explain the need for temporarily changing our prescribed performance standards, and why we need to adapt the way we presently deliver letters and parcels to meet the changing needs of our customers and the community, as well as creating a sustainable future for Australia Post and its workforce.

We have formed local working groups with our employees and local management at relevant facilities to work through the changes to the delivery rounds and the safest and most appropriate mode of delivery. Moving forward, our postie workforce will consist of posties who deliver only letters, and posties who only deliver parcels – the only difference being the vehicle used to deliver.

We have undertaken an expression of interest (EOI) process, following extensive consultation with the CEPU, to understand our employees' delivery preferences, which we will seek to accommodate wherever we can in line with our business needs. We have a strong return rate of the EOIs so far, with over 70% of impacted posties completing the EOI and, of these, around 30% having indicated a preference to deliver parcels in a van, which generally aligns with our delivery modelling to date. In addition, 258 responders expressed comfort with delivering either letters or parcels. We have seen a keen interest from our posties to move to delivery in vans for some time. Since 1 April 2020 we have trained 568 posties to safely deliver in a van, due to a surge in parcel volumes during the pandemic.

3.3 Job Security

To ensure job security for our people in the longer term, we implemented a series of interventions, focused on preserving cash. These included: adjustments to our Group operating model; an in-year pay reduction for our most senior leaders and board; a temporary freeze on all recruitment; the scaling down of white collar contractors; deferral or cancellation of all non-essential people related training; as well as encouraging our head office employees to take extended leave throughout April 2020. All of these initiatives were taken with the explicit objective of conserving cash and ensuring a strong balance sheet in light of the uncertainty of the pandemic.

In light of the challenging cost environment we were facing into, in March 2020, we acted swiftly and made adjustments to our Group operating model at the senior leadership level. We undertook a review of our current model, and identified opportunities to better align resources to our immediate strategic priorities as well as bringing together like functions to drive a more consistent and streamlined experience for our customers.

The Group Chief Executive Officer & Managing Director, Executive Team members and Board members all voluntarily took a pay reduction of 20% for the period of the fourth quarter of financial year 2019/20 (six pay periods).

The temporary recruitment freeze extended across the entire organisation and we also concluded our engagement with 306 white collar contractors. From 18 March 2020, all non-essential people related training was either deferred or cancelled resulting in significant cost savings. Essential training continued to be delivered, ensuring strict adherence to social distancing rules, including: regulatory training (for example, Dangerous Goods, Chain of Responsibility etc); operational training that kept our people safe; and online compliance or policy learning that could be done in a self-paced scenario.

In addition, we implemented a head office Easter shut-down for two weeks, akin to our Christmas shutdown, throughout April 2020 during which approximately 3,675 employees in support functions took an average of 4 days of planned recreational, special pandemic purchased or unpaid leave.

In order to ensure our workforce were supported throughout this period, we adapted our people policies and made changes to the types of leave available to our employees. These included the introduction of a new Pandemic Leave policy, providing up to three weeks of additional leave for anyone directly impacted by the pandemic; the launch of an interim Purchased Leave Policy to provide extra leave to support head office employees who may not have meaningful work as well as enabling them to access Long Service Leave and Annual Leave at half pay.

We have invested in frontline training over the last three years, in response to our enterprise agreement 2017 training commitment – largely towards training and upskilling our award-level staff (Australia Post only), with a focus on transferrable skills including: Change, Employability and Customer Experience, and including over 20,000 customer service staff completing customer service training.

3.4 How our People Responded

Our people have responded by embracing new ways of working to enable us to continue to serve the Australian community.

Safety Advocates in the Community

Our deliveries and processing workers worked with us and the unions to separate their facilities into zones and to ensure we could maintain social distancing wherever possible. They adjusted their shift times and hours to make sure we could manage the amount of people in facilities at any one time. Our processing workers managed extraordinary volumes of freight, particularly early in the pandemic as people bought online to adjust their homes to suit their new reality. Our posties and delivery drivers willingly took steps to protect themselves and our community such as not requiring signature on delivery. They took immense pride in the vital role they were playing in the community - not just because they were delivering essential goods and services, but also because they might be the only smiling face a person in isolation would see for days or weeks at a time. Our post offices, once again, became community hubs, especially in metro suburbs as city workers stayed close to home. Our postal workers went to great lengths to protect themselves and the community, regularly cleaning surfaces and ensuring social distancing was enforced in store.

Throughout the initial uncertainty and rapidly evolving situation brought by the pandemic, our people remained calm and they adapted quickly and positively to each new challenge thrown their way. Our new ways of working are not always easy, but our people have truly embraced the fact we are all in this together.

Attendance, Engagement & Productivity

Attendance across the Australia Post workforce has increased since March 2020, with highest rates of attendance seen in the FY20 period in April 2020 at 94.1%, up from 93.1% in March 2020 and up from 92.8% at the start of the financial year in July 2019. This increased attendance is despite increased volume and changing work practices to meet operational and public health needs, and is contrary to early trends across Australia identified by Direct Health Solutions. Current research indicates a general attendance trend throughout the country that has seen a drop of approximately 10% in March 2020, with continued declines of up to 5% in the months from April 2020 to June 2020.

Current indications from available survey data across head office employees has indicated positive employee sentiment throughout this period and suggests our people are embracing the changed work environment. Non-operational teams are processing the same or increased volumes in shorter timeframes, likely due to better utilisation of time and resources and strongly indicating an increased level of productivity. There has also been consistent feedback from across the Australia Post Group that employees are feeling more engaged and connected to their role and teams, which has been indicated to be due to enhanced and flexible ways of working for parts of our workforce.

4. Serving our Communities

Australia Post touches and connects every community in Australia. Our network of over 4,300 post offices serves on average 4.2 million customers every week. Our fleet of vans, trucks and other vehicles, and our army of posties travel the length and breadth of Australia every day delivering to households and businesses alike.

In rural and remote Australia, the post office is often the lifeblood of the community. A 2019 Deloitte Access Economics report demonstrated the particular reliance on the post office by these areas with 92% of regional residents believing Australia Post is important for equity of access to core services.

4.1 Supporting the Vulnerable

Supporting vulnerable communities using our unrivalled network capabilities became one of the first priorities at the onset of the pandemic. Working with the Pharmacy Guild of Australia in March 2020 we quickly formed a partnership to allow vulnerable members of the community to receive medication and other essential supplies through Australia Post's Express Post network, with pharmacies receiving the full cost back through a Government rebate

The initiative incorporated Australia Post's contactless delivery in line with Government guidelines and supported vulnerable Australians, including those isolating themselves at home on the advice of a medical practitioner, people over 70 and people with chronic health conditions.

Working with the Pharmacy Guild of Australia we mobilised pharmacies across the country to participate and communicated this critical service through digital, email, public relations activity and press advertising.

Other partnerships were quickly put in place – including with Woolworths and Coles – to deliver essential groceries across the country to the vulnerable and isolated. The packages delivered contained meals, snacks and essential items for those in genuine need and were delivered via contactless doorstep delivery, within 2-5 business days Australia wide.

4.2 Supporting from a Distance

During the pandemic, Australia's ways of living and working changed dramatically, with significant and unforeseen impacts on our organisation. We needed to adapt quickly to support our consumers, business customers and communities across all our channels.

The redistribution of Australians away from their workplaces meant individuals and small businesses were faced with quickly setting up offices in their homes. Practical support provided by Australia Post included reducing the cost of mail redirection services for small businesses across the country, which made a difference to those struggling with the overwhelming logistics associated changing the location of their working arrangements.

Our website is vital for customers wanting to access information with over 370 million visits a year to auspost.com.au and 12.5 million visits to our app. This information is critical, as seen during the 2020 bushfires where there were over 450,000 visits to our webpages by businesses and organisations to understand the access to the fire ravaged communities.

A key change was that as customers worked from home and movement was restricted, we experienced large increases in digital traffic to our website, our mobile app and to our MyPost platform. This increase was driven not only by elevated levels of eCommerce but by the need for customers to seek information digitally rather than face to face in stores. This led to Australia Post recording its highest ever levels of digital traffic, with 73 million visits to our website and mobile app in April 2020 alone (a more than 200% year-on-year increase). In fact, at our highest traffic point, unique visitors to the website grew by 84% to 5.3 million in a single week. In line with this, usage of the mobile app also grew, with 328,000 unique visitors in a single day, over 50% more than the biggest day recorded in the last peak period.

With Australian businesses rushing to move online, nearly 800,000 customers signed-up for new MyPost accounts in the period April to June 2020, and 8.4 million parcels were delivered via SafeDrop and Parcel Lockers – both doubling their volumes relative to the same period last year.

The extraordinary number of parcels in the network during the pandemic has had a flow-on impact to our Customer Contact Centre where contacts in April and in May 2020 were both higher than the December 2019 Christmas peak. Total contact volumes across all channels were up over 60% year-on-year in April, and over 25% year-on-year in May 2020.

As customer confidence in digital channels increased, the dynamic of our channel mix also changed as people chose to leverage interactive voice response (IVR) self-service via phone, and online capabilities for tracking parcels. We received more than 50% of total contact centre volumes through the digital channels across April and May 2020.

As more and more customers engaged with eCommerce, the increased parcel volume pushed our notification volume sky high – with over 230 million SMS messages sent between April and June 2020 to advise customers of the status of their parcels. This was an around 80% year-on-year increase.

We update all of our digital touchpoints (website, email, app) daily to keep pace with the constantly changing environment of the pandemic. We also enhanced our IVR content, encouraging customers to track and lodge enquiries online. We introduced voice recognition to capture tracking identification numbers, and to prioritise urgent calls to our Customer Contact Centre.

Although customers understood there were delays, they needed more information. To respond, we improved the accuracy of our delivery day estimate communications through our website, app and email. Through data analysis and improved calculations, the delivery day estimate accuracy improved by over 80% relative to the pre-pandemic period.

Tracking notifications were implemented to provide reassurance to receivers that their parcels were in transit. This rapidly developed service enhancement reduced customer calls by over 60% for parcels between the manifesting and processing stages of parcel delivery.

In close consultation with our merchant customers, we also built an email program for receivers whose parcels were late, helping to close out complaint cases and reduce the backlog of enquiries.

It is worth noting that when the movement of people within the community was restricted and work from home arrangements were encouraged, we had to deliver technology solutions quickly to enable our own workforce to work from home. Within 3 weeks over 1,200 Customer Contact Centre agents were working from home.

The impact of this change and the increased pressure on our customer service team members cannot be over-estimated. To support them, we swiftly implemented employee training to manage conflict resolution and the handling of aggressive callers. This was accompanied by the provision of mental health services to ensure that our staff knew they were not alone.

4.3 Supporting our Post Offices

Despite the challenges associated with distanced communities, our post offices remained open wherever possible to support rural and remote Australia. Post offices often worked with the community to assist with contactless delivery for those in the high risk areas. For example, in Charleville, Queensland, our local post office staff and posties went above and beyond to take on home delivery duties of food and essential items to customers who were unable to come to town.

To meet our changing customer needs our post office operations were adapted to ensure access for customers in all areas of the network. Where demand changed significantly, eg CBD areas, we on some occasions closed post office front of house areas but retained access such as through hatches and 24/7 service zones. In our rural and remote post offices, we supported the amendment of trading hours to ensure our Post Office teams could work safely but continue to provide the community with services.

We have continued to work very closely with our post office workforce throughout the pandemic to manage through a rapidly changing environment and support their viability. As we continue to navigate the pandemic across Australia, we still see varying impacts occurring across different areas of the post office network. Our CBD post offices still have significant foot traffic reduction and this expected to take significant time to return to pre-pandemic levels. We continue to work with different areas impacted such as the 28 Post Offices and local communities that are currently impacted by recent reintroduction of restrictions into hotspots in Melbourne metropolitan area.

4.4 Supporting Post Office Licensees and Community Postal Agents

Our licensed post offices represent the face of Australia Post to most Australians, particularly in rural and remote locations where our presence is most valued. Our licensees are critical to our future growth aspirations and to Australia Post being a key part of communities Australia wide. Support for licensed post offices is unwavering and will continue after the pandemic, as it has during this time.

From the outset of the pandemic we have focussed on providing support and assistance to our licensees and agents to ensure that they can continue to safely serve the community. We added a dedicated COVID-19 page to our post office licensee communication platform. This has allowed us to easily communicate key messages relevant to the retail network including: how we are helping our communities; how to stay mentally healthy during stay at home restrictions; how to reduce safety risks for themselves, employees and customers; what support is available for small businesses in each State (which is also accessible to many licensees, as small businesses themselves); links to important health information sources; and translation of key documents into key language groups.

We have also provided operational support to our licensee and agency, including:

- providing support to adjust operating hours to suit their local business situation, as well as the needs of their local community. This joint approach helped ensure licensees and agents knew that they were supported through this period, and that they could make decisions that best satisfied the needs of their people, their business and their communities; and

- localised support to keep post offices open where licensees, agents or their staff had to go into quarantine.

We have also worked with licensees during this time to assist where they may have been experiencing cash flow impacts. The importance of PO Box payments was crucial during this period as it represents a significant component of licensee payments each year. With the annual PO Box renewal period occurring during the early stages of restrictions across Australia, we provided our customers payment extensions on due dates, which supported our customers whilst also helping licensees in the form of reliable PO Box business.

We have worked hard to support licensees to grow their businesses and we will continue that support into the future. We have recently redesigned the payment scheme for licensee payments to align it with our growth aspirations (ie with sending and receiving of parcels, not just letters). We will continue to review and amend this payment scheme to support the growth of our licensees. Our MyPost Business accounts enable licensees to grow their revenues through customer acquisition and retention. We will be focused on supporting the growth of MyPost Business across our entire post office network.

Coupled with MyPost Business, our local business partner program is currently being rolled out nationwide. This program provides licensed post offices with more products and services to offer to customers through the post office network than have previously been available.

To support licensees with their growth in this digital era, we will continue to provide licensees with the technological support that they need to grow their businesses at no cost to them.

4.5 Supporting through Programs

In times of uncertainty, the role we play in providing support to communities across the country is more vital than ever. Our local people and post offices are often the first port of call in times of emergency. That role is underscored by the work undertaken with, and in supporting of, a range of community-focused programs.

Along with customers and businesses, multiple communities and the charities who serve them rely on Australia Post for the vital dissemination of information or for concession or charity mail rates. In the past year, Australia Post supported around 700 charities with discounted mail.

In recent months support became critical – for example where partnerships with Foodbank Victoria and the Australian Red Cross supported low income, isolating or unwell families.

Support for rural and remote Australia was demonstrated by our support for the 'Buy from the Bush' movement, which started in November 2019. Australia Post supported this initiative to drive sales of locally produced products through reduced sending rates through MyPost Business for the period of the campaign leading up to Christmas. We also amplified their activity on our social accounts.

Our national partnership with the Australian Red Cross enables us quickly to mobilise and provide essential support and information, as well as enabling fund-raising for those affected, through over-the-counter donations.

Our premier partnership with Beyond Blue meant we could quickly access critical mental health information and support services and deliver them to remote and rural communities, facilitating access to counselling and wider mental health management where necessary.

This need for connection drove the Dear Australia campaign which launched in May 2020. This campaign encourages everyday Australian's to write a letter to a national mailbox outlining their observations and feelings of the lockdown experience. Over 4,000 letters have already been received which will be held in the national archives for future generations. Support for the campaign by the community, MPs, schools and the media amplified this important message of solidarity.

Despite the lockdown during April and May 2020 we also proudly delivered more than 80,000 books to over 300 remote indigenous communities through our partnership with the Indigenous Literacy Foundation. These literacy materials encourage a love of learning and reading for this vulnerable group of Australian children.

Serving communities is part of the Australia Post DNA. Our annual Community Grants Program supports grassroots community organisations across the country with grants of up to \$10,000 to build community participation. This dedication to supporting local communities is also reflected in our 80,000-strong workforce where, every day, our people go above and beyond their roles to support what matters locally. We're proud that the Postie community spirit lives in every team member at Australia Post.

5. Safeguarding our Business

As the significant challenges identified above began to impact our business, our people, our communities and our services, and taking account of domestic and international observations at the time, Australia Post requested support from Government in the form of temporary changes to its prescribed performance standards. This support was considered critical to protecting our people – both their personal safety and their financial security – continuing to serve our country and safeguarding our business.

5.1 Our Request for Temporary Changes

Our request included several adjustments to our prescribed performance standards to improve our service to customers as the impacts of the pandemic took effect. It was clear that the need to meet customer expectations, in the face of the significant challenges presented, would require support in the form of temporary changes to those standards.

We were in a position where we were physically unable to meet a number of our prescribed performance standards. This presented an extraordinary challenge in an environment where Australian businesses, consumers and communities were relying on us to deliver.

We anticipated, in seeking relief, that the temporary changes would likely have a beneficial impact on our customers – who wanted to know that the parcel they ordered would be arriving on time, particularly as they were confined to their homes. Impacts on our letters recipients were not considered materially negative given that, on average, Australian delivery points are of late receiving one letter every second delivery day.

The temporary changes are expected to also assist our Deliveries staff, by supporting them support roles that reflect the accelerated changes in demand for our services – delivering parcels in bigger capacity, safer vehicles, or delivering greater letter volumes than they did, on average, before the pandemic. With over 1,700 posties having now expressed an interest in delivering more parcels, we are observing support for – and a willingness to participate in – the change.

5.2 The Temporary Changes

On 21 April 2020, a joint media release from Australia Post's Shareholder Ministers announced temporary regulatory relief to assist Australia Post to continue providing important postal services for all Australians during the crisis. Changes to reflect the temporary regulatory relief in law took effect on 16 May 2020, and Australia Post immediately turned to a program of implementing operational changes to reflect the temporary regulatory relief, as further detailed below.

Priority Letters

The request for a suspension of the priority letters service was made to accommodate an expected significant reduction in workforce availability at the peak of the pandemic, and in the context of the challenges identified above. The disruption to both airline flights and road transport routes (eg Greyhound Australia's decision to cancel passenger services from Adelaide to Alice Springs) placed an additional strain on achieving our service performance standard for the priority letters service in particular.

Importantly, Australia Post continues to operate a number of bulk mail services, allowing businesses / large volume senders to lodge bulk volumes of predominantly pre-sorted mail, provided some basic eligibility criteria is satisfied. Australia Post acted quickly to ensure these bulk mail arrangements could continue to be supported during the pandemic, establishing and communicating alternative priority and regular timetables for bulk mail services, which took effect from 1 June 2020.

Delivery Frequency

The decline in letter volumes made the request for reduced letter delivery frequency necessary and appropriate for our services, our people and our customers. Importantly, letter delivery frequency will not change during this period in rural or remote areas. In all areas, letters delivery to PO Boxes, Express Post delivery and parcel delivery will occur every business day.

The temporary change to delivery frequency will likely also prove beneficial from a safety perspective. Having half the number of posties delivering letters in metropolitan areas gives us an opportunity to reduce the number of posties using motorbikes (which is the transport mode associated with the most serious workplace injuries we see at Australia Post).

It gives our people the opportunity to serve Australians where the need is greatest – delivering growing parcel volumes to customers who are increasingly shopping online. For our customers, it enables more of the parcels they have ordered to be delivered on time, while maintaining a letters delivery service that maintains the frequency of letter deliveries to what is being delivered, on average, now: ie one letter every second day.

For our people still delivering letters, there will be more letters to carry – helping to sustain their important roles.

Delivery Speed

The request for an extension to our delivery speed standards (specifically, to our shortest letter delivery speed requirements) was made in the context of the challenges identified above, and in the context of the disruptions to our domestic deliveries networks in particular. The disruption to both airline flights and road transport routes (eg for example, Greyhound Australia's decision to cancel passenger services from Adelaide to Alice Springs) placed an additional strain on achieving those service performance standards.

We requested a relaxation to the delivery speed standards where we expected our operational challenges would impact the most. As identified elsewhere in this submission, this change – combined with temporary suspension of the priority letters service – is already beginning to result in a significant improvement to our on-time delivery performance, which was deteriorating significantly despite our best efforts.

Post Offices

The most immediate concern when the pandemic outbreak occurred was the safety of our people on the frontline and of the community entering our Post Offices.

The temporary regulatory relief provided will allow post offices to close temporarily where necessary because of the impacts of the pandemic on the workforce – more specifically, to ensure post office staff, and the communities in which they operate, manage the pandemic responsibly and limit its spread. While we have had a very small number of post office closures, we have allowed licensees and agents to close their post offices temporarily, if they believed doing so necessary from a safety perspective.

5.3 Implementation and Timing

Australia Post will begin implementing delivery frequency changes in metropolitan areas progressively in the second half of the year, location by location, over a number of months. A comprehensive program of local, targeted communications will occur before the rollout begins in each location, including community postcards to affected mailboxes, local media, and targeted social media posts. Additionally, notices will be placed in our post offices, with local staff informed and empowered to assist with community enquiries. Our teams will also proactively engage State and Federal Members of Parliament and their offices, to ensure they are briefed on changes in their local communities.

Australia Post's priority letters service was suspended with effect from 1 June 2020.

Australia Post will continue to carry letters as quickly as possible during the period of temporary regulatory relief.

5.4 Communication with our Customers

Our consultation with internal and external stakeholders in relation to the pandemic and its challenges has been extensive. Since the Government's announcement of temporary regulatory relief, our consultation has been similarly extensive.

Our communication with our workforce, and its representatives, is set out in detail earlier in this submission.

We have communicated the changes with consumers and the public continuously in recent months – including via detailed and frequent updates to information on our website about the impacts of the pandemic on our services, and by responding to customers who contact us via our Customer Contact Centre and other channels.

Australia Post has in some ways provided a lifeline to retail merchants who have been reliant on online deliveries to keep the businesses viable. In an environment where bricks and mortar outlets have been closed, retail customers have relied heavily on reliable last mile delivery, and returns processes, to continue reaching their customers.

We have also communicated actively with our major sending customers, including mail houses, and have maintained alternative temporary timetables for the delivery of bulk mail during the pandemic.

5.5 Impacts of the Temporary Changes

The impacts of the temporary regulatory relief so far appear positive, providing critical support to our people, Australian business and communities, and ultimately to our business.

In transitioning our people to delivering more parcels, we are providing them with a sustainable future aligned to Australia Post's areas of increasing demand – namely, parcels. We will also be able to provide them a safer work experience, by having them deliver mail in safer, higher capacity vans rather than smaller vehicles that are more susceptible to safety incidents.

Service delivery will also be assisted. A postie in a van can safely deliver around 40 times more volume than can be carried on smaller vehicles such as motorbikes.

For our post office licensees in particular, the impacts are so far also positive. Licensees benefit from growth in parcel volumes delivered over the counter, and their PO Boxes customers will continue to receive letters delivery every day.

We acknowledge that we are responsible for ensuring Australia has a healthy and reliable postal service. Overall, we expect our customers will benefit from the increased number of posties delivering record parcel volumes on time during the temporary regulatory relief period. For householders in metropolitan areas, the change to letter deliveries every second business day should not have a material detrimental impact, given that, on average, our customers currently receive one letter every second day.

The temporary regulatory relief helps us safeguard Australia Post, its people and its services during the pandemic. With more posties delivering parcels, the temporary changes allow us to align our people and resources with the needs of our customers.

As the considerable economic uncertainty and volatility continues throughout the year ahead, and the pandemic continues to present challenges to Australian and global communities alike, it is critical that the temporary regulatory relief be maintained for the full period of financial year 2020/21.

5.6 When the Temporary Regulatory Relief Ends

We will use the time leading up to 30 June 2021 to consider and develop how we will provide our services after the temporary regulatory relief finishes. We need this time to see what the post-pandemic future will be – both in relation to our services and in the broader economic sense – and to refine our considerations of what will then be the best service arrangements to meet our customers' expectations.

The letters business is, and will remain, an integral and critical part of our business. We will continue to nurture and make every effort to reduce losses in our letters business whilst maintaining a reliable service. The pandemic has impacted the demand for letters in ways that may be irreversible, as customers depend more and more on digital solutions for communicating with each other. We do not foresee letter volumes returning to pre-pandemic levels.

While the future is uncertain, demand for parcels is expected to continue to grow, as customers participate more and more in online retail and the digital economy through the pandemic and beyond. We will need to position ourselves to support that growth.

One thing that will be unchanged is our commitment to Australian communities, particularly those in rural and remote locations – as recently exemplified by the services that we provided to impacted communities during last summer's natural disasters. Our post offices and posties played an important role, providing access to customers' funds

through our Bank@Post service when other access channels were unavailable, providing free mail redirection and mail hold services, and accepting over the counter donations for the Australian Red Cross Disaster Relief Fund.

We expect many retailers will be forced to be selective about which bricks and mortar outlets they retain after the pandemic, and banks can be expected to continue to close outlets. These changes would only increase the importance of the post office to rural and remote communities over time.

We are cognisant that the temporary changes end on 30 June 2021 and are subject to review. Any future changes to regulations will be a consideration for the Government. We will assist Government with the information it needs to undertake that review as required. We remain committed to consulting with a broad range of stakeholders – including our workforce, customers and communities – in respect of discussions about the future of our service delivery in an ongoing way.

6. Planning for a Sustainable Future

Australia Post's focus remains on protecting our people, serving our customers, and safeguarding our business through the pandemic. The temporary regulatory relief is already beginning to help us mitigate the impacts of the challenges confronting our organisation, our services and our workforce, and we look forward to continuing to adapt our resources during the pandemic in a manner that is best for not only our people, but for all Australians.

We acknowledge the implication in the terms of reference that Australia Post's future should involve services that meet community needs and expectations, and appropriate levels of job security for its direct and extended workforce.

Whilst our immediate focus is on continuing to provide the services that Australians need, our long term focus will always be to deliver on our obligations. These obligations include our community service obligations and prescribed performance standards, as well our commercial obligation and dividend expectation, while providing a viable and efficient service for all Australians.

Our key performance drivers remain volatile and are expected to continue for some time. Both letter and parcel volumes, and significant fixed costs associated with our large delivery and retail networks, will continue to be our challenge while we meet the needs of all Australians and remain sustainable.

6.1 Services that Meet Community Needs and Expectations

As previously mentioned in this submission, the pandemic has had a significant impact on all of Australia, including Australia Post. However, we have also learned a lot throughout this period that we can use to shape our future and create products and services to meet the new needs of communities.

We have seen a 'move to local' as customers have migrated from their place of work in the CBD to their suburbs and rural and remote communities. We have been fortunate that our ubiquitous presence Australia-wide has given us the privilege of being there for Australians when they needed us.

We have seen businesses across Australia pivot their business models – embarking on a rapid transition to digital – to capitalise on changing consumer buying behaviour. Local merchants, wine makers and artisans now understand the value of online trading in close partnership with Australia Post. The emergence of new eCommerce offerings has fundamentally reset the landscape and both opportunities and competition will now accelerate.

Whilst other organisations have sadly had to close their doors – either temporarily or permanently - we have seen new customers transact with us, and existing customers have purchased products they wouldn't usually buy from us. We have provided Australians with the ability to access their basic banking needs, send a parcel, and buy their technology products from us to work from home. These are all opportunities for our business. We can capitalise on this move to local, the rapid transition to digital business models, and these new customer demands.

To provide a local experience for Australians, to strengthen our relationship with existing customers and to attract new customers, we will reimagine the customer experience we provide. We will continue creating more meaningful and personal experiences in our post offices through a refreshed merchandise offering with a number of key anchor categories that are strongly supported by the themes of Australiana and personalisation. Our post office service models and formats need to match the needs of the local communities in which they operate (eg a different format for shopping centres relative to CBD, rural and other locations).

We will continue to roll out our local business partner program to provide relevant and meaningful products and services to local Australian communities across our nation.

We seek to create a powerful and personal experience for our customers through a move towards of a single account for all their interactions with us. For example, customers will be able to seamlessly and easily track all their parcels, buy merchandise and services through our online shop, and interact with our customer service consultants.

We will support the growth of Australian businesses as they emerge in the post-pandemic economy. We know that this pandemic has increased the willingness of Australians to buy products online and we realise that an efficient national parcel delivery service is critical for Australian businesses to compete against global retailers. We will continue to invest in processing capacity to meet this growing demand, whilst also investing efficiently in new delivery capabilities such as vans and parcel lockers to improve the experience of receiving a parcel or letter.

We will also continue to work closely with businesses – small and large – to develop unique solutions that help grow and maintain their business. Whether that is providing the infrastructure and post offices they need to serve their clients, simple and easy to use products, or innovative returns solutions for used products, we will be there to drive the growth of businesses in Australia.

A sustainable Australia Post is critical to the character of Australian communities and a strong Australia Post will ensure a strong Australia. A recent Deloitte report identified that Australia Post facilitated an additional \$2.4 billion in eCommerce activity in Australia between March and May 2020, with around \$560 million in rural and remote Australia.

The temporary regulatory changes are essential to provide us with a chance to be there to support Australian communities through financial year 2020/21. They provide our organisation with the relief it needs through this extremely challenging economic period and enable us to prepare to meet the future needs and expectations of Australian communities.

6.2 Accelerated Trends

Determining the role which Australia Post will play in supporting Australians in coming years will be influenced by the manner in which the emerging social and economic trends develop over the next nine months. It is only through careful consideration of the permanent versus temporal nature of these trends and broad consultation with a range of stakeholders that Australia Post can establish the specific direction required to protect our people, serve our customers and safeguard our business. Brief observations on some of the most critical trends to observe include:

Acceleration of Growth in eCommerce

- Australia has always lagged the most developed international eCommerce markets including the US, UK and Germany in terms of eCommerce penetration. Commentators have, for many years, identified a latent growth opportunity. The pandemic has accelerated this, but by no means closed the gap.
- Changing eCommerce customer expectations – with an increasing focus on convenience relative to price, and more conscious preferences for speed – a willingness to pay more for faster delivery.
- Potential expansion of particular eCommerce segments, including health and pharmaceuticals and food delivery.
- Growth in economic patriotism – supporting emergence of a wave of domestic eCommerce players with a particular focus on regional and hyper local providers.

Impacts on Acceleration of the Letters Decline

- Economic headwinds are ahead and a spotlight will be shone on productivity across the economy. How will this further impact our large business and government senders needs to be considered, especially as consumers continue to move to mobile and digital service consumption.
- The balance and distribution of marketing / sales spend as the economy moves towards recovery, and observing the impact on choices of preferred media channels – including the role of mail.

Our Role in Australia – Particularly Rural and Remote Communities

- The pandemic has had a disproportionate impact on our most vulnerable, both from a health perspective (including the mental health implications associate with isolation) and economic perspective. Australia Post can continue to play a critical role in supporting the vulnerable.
- Potential changes in physical retail networks, as retailers close bricks and mortar outlets and a potential reimaging of the role of physical retail.
- Potential for a migration to suburban, rural and remote Australia given a greater demand for, and acceptance of, flexible working arrangements.
- Operational complexities – elsewhere in the submission we highlight the range of challenges associated with configuring and adapting global and local supply chains during a pandemic. Careful consideration of the implication on our core products will be critical.
- The competitive landscape – the expectation is that competitors (both existing and new) will continue to look to capitalise on opportunities.

7. Overview of Australia Post

Australia Post exists for Australia, and our purpose has never changed – we put customers and the communities at the heart of everything we do.

We are incredibly proud of the role we have played in lives of Australians for over 200 years. We are also proud to deliver against our commercial, community, Government and international obligations. Customers, communities and businesses whether large or small, rely on us every day to help them achieve their goals. This wide remit and the nature of our multi-dimensional organisation mean we touch every part of this great country.

Over the last ten years however Australia has changed and we need to change to accommodate this new Australia. Declining letter volumes and less foot traffic at post offices sit alongside increasing parcel volumes, and an increased number of delivery points which has put pressure on our legacy operating model. Adapting to support this dynamic shift is critical for us to keep delivering for the future of this country.

7.1 Who We Are

Australia Post has a long and proud history as a vital part of Australia's service delivery infrastructure, dating back to 1809 when former convict Isaac Nichols was appointed as the nation's first postmaster, and opened a post office in his house in George Street, Sydney. The more formal origins of Australia Post lie in the first *Postal Act* of 1825, which enabled the New South Wales governor to fix postage rates and appoint postmasters outside of Sydney.

Throughout the nineteenth century, postal offices were among the first infrastructure offices developed in new towns throughout country. Through the latter part of that century, the need to provide a common and uniform system of communications across the country became clear, and was a driver behind Australia's federation. Under the *Commonwealth Post and Telegraph Act* of 1902 a national Postmaster General's Department was established, with responsibility for the nation's mail and telephone services.

In 1975 the Postmaster General's Department was replaced and, together with establishment of the Australian Telecommunications Commission, the Australian Postal Commission was established to undertake the postal responsibilities formerly the responsibility of the Postmaster General's Department.

In 1989 Australia Post was corporatised, and its existence continued, under the *Australian Postal Corporation Act 1989*, which remains its primary governing legislation today.

As a Commonwealth entity prescribed as a Government Business Enterprise, Australia Post is also subject to governance and accountability requirements under the *Public Governance, Performance and Accountability Act 2013*, associated instruments, and the Commonwealth's resource management framework.

The Australian Government, via the Minister for Communications, Cyber Safety & the Arts, and the Minister for Finance (also known as Shareholder Ministers) is Australia Post's shareholder.

Functions, Powers and Reservations

Australia Post's functions, powers and reservations are set out in the *Australian Postal Corporation Act 1989*.

Australia Post's principal function is to supply postal services within Australia, and between Australia and places outside Australia. In addition to its principal function, Australia Post also has a subsidiary function – relating to business or activities relating to postal services outside Australia – and incidental functions – relating to business or activity that is incidental to its principal and subsidiary function.

In connection with the performance of its functions, Australia Post has power to do all things necessary or convenient to be done for, or in connection with, the performance of its functions – such as the supply of: packet and parcel carrying services; philatelic services; courier services; document exchange services; mail management services; mail house services; funds transfer services; agency Government services; and postal services to Australia's external territories. Australia Post also a range of other powers in connection with the performance of its functions and its obligations, including in relation to the acquisition, development, and disposal of land.

Australia Post has the exclusive right to carry letters within Australia, whether the letters originated within or outside Australia (subject to certain exceptions including letters weighing over 250 grams, letters carried otherwise than for reward, and letters carried for fees at least 4 times the basic postage rate). Australia Post also has the exclusive right to issue postage stamps within Australia. Outside of these reservations, Australia Post competes with a broad range of service providers, in delivery and freight industries, and retail & agency service industries alike.

7.2 Our Obligations

Community Service Obligation and Prescribed Performance Standards

Australia Post is obliged to supply a letter service within Australia that is reasonably accessible to all people in Australia on an equitable basis, wherever they reside or carry on business, and that is available at a single uniform rate of postage (often referred to as the 'basic postage rate'. These obligations are often collectively referred to as Australia Post's 'community service obligation'.

In addition to the community service obligation, Australia Post is also obliged to meet a range of associated performance standards – prescribed in subordinate legislation – relating to matters such as the frequency and speed of letters delivery, and the accessibility of services via post office and street posting boxes. The performance standards also apply proximity requirements to Australia Post's retail network, applying Australian Bureau of Statistics data from the 1991 Census and dividing Australia into three zones – metropolitan, rural and remote.

Australia Post has, in recent decades, met or exceed its prescribed performance standards each year.

Commercial Obligation and Dividend Expectations

Australia Post is obliged to, as far as practicable, perform its functions in a manner consistent with sound commercial practice – incorporating obligations with respect to the need to earn a commercial rate of return on assets, the need to maintain financial viability, the cost of carrying out community service obligations and the expectation of the Commonwealth that Australia Post pay, out of its profit for a year, a reasonable dividend.

Australia Post has, in all but one year in the decade leading up to the end of financial year 2018/19, paid dividends to Government totalling over \$1 billion.

Government Obligations

As a Government Business Enterprise, Australia Post is subject to a range of general Government-related obligations, including:

- to perform its functions consistent with applicable government policy orders, directions given by Shareholder Ministers, and Australia's obligations under any convention;

- to participate in transparency and reporting mechanisms that assist in ensuring effective accountability and transparency to Government – including the provision of its Corporate Plans to Shareholder Ministers, participation in Senate Estimates processes, and the tabling of its Annual Reports in Parliament;
- assisting the Commonwealth to preserve Australia's safety and security by working closely of the Department of Agriculture, Water and the Environment, the Department of Home Affairs and other enforcement agencies at our international gateways and other facilities.

International Obligations – Australia's Designated Operator

Australia Post is obliged to supply a letter service between Australia and places outside Australia. Australia Post is also responsible for carrying out Australia's obligations under the Universal Postal Convention as designated operator for Australia to the Universal Postal Union, which comprises 192 member countries, is the second oldest international organisation worldwide, and is the primary forum for maintaining a global postal network.

Associated Costs

There are significant costs associated with the many obligations Australia Post manages concurrently. Australia Post's costs associated with such obligations includes:

- the combined cost of supplying an accessible letter service on an equitable basis at a single uniform rate of postage, and carrying out Australia's obligations under the Universal Postal Convention, also known as the 'CSO cost'; and
- the significant impacts of fees and cost associated with Australia Post's role in screening, clearance and related security activities.

7.3 Our Role in Australian Communities

In addition to our commercial, community, Government and international obligations, Australia Post proudly maintains a number of informal obligations to the communities within, and community of, Australia. Through our services and presence throughout Australia, Australia Post connects Australians with each other, and with the world.

While many of our services – including letters services and services offered in post offices – are subject to digital disruption and substitution, our services nevertheless remain highly valued by the Australian community and relied on in significant volume.

7.4 Our Operating Environment

Australia Post operates its business and services on a massive scale. By the end of financial year 2018/19, our operations included:

- a workforce of approximately 35,000 and over 40,000 in our extended workforce – the overwhelming majority in our deliveries, operations and post office networks;
- 4,343 post offices, including 2,529 in rural and remote areas – the majority owned and operated by third party small businesses and family enterprises as either licensed post offices or community postal agents – and 15,037 street posting boxes;
- 465 processing, delivery and gateway facilities;
- 4,485 vans, trucks, utes and cars, 6,224 motorcycles, 2,768 electric vehicles and 6 airline freighters; and
- delivery services to approximately 12.1 million delivery points.

In addition to its retail function, the post office network plays a critical role as both an acceptance and delivery point for both letters and parcels. Many hundreds of post offices provide over-the-counter delivery services, in places where we do not deliver mail to the home, and many hundreds of post offices also host delivery contractors who provide delivery services to local delivery points. Post offices also assist in the delivery of mail to our network of over 1.75 million available PO Boxes. In the 12 months before the pandemic, approximately 70 million, or 30% of all domestic parcels lodged with Australia Post are lodged at post offices, and around 91 million parcels delivered to customers in Australia by Australia Post, or around 30%, are delivered via post offices.

Service Demand Changes in the Decade Before Financial Year 2019/20

Not only does Australia Post's business and services operate on a huge scale, it has also been exposed to, and managing, a very large scale of service demand changes since financial year 2007/08, when the volume of letters being carried in Australia was at its peak. Over the last decade (ie using financial year 2009/10 as a base):

- the volume of domestic addressed letters carried by Australia Post has reduced from 4.6 billion to 2.1 billion;
- the volume of domestic parcels carried by Australia Post has increased from 140.3 million to 319.6 million;

- the volume of international letters and parcels carried by Australia Post has decreased from 277.8 million to 150.4 million (though noting that international letters decreased from 238.5m to 85.5m, and international parcels increased from 39.3 million to 64.9 million); and
- the number of delivery points being serviced by Australia Post has increased from 10.5 million to 12.5 million.

We have for many years now been embarking on a path of supporting eCommerce growth whilst maintaining our focus on providing Australia a reliable letters service.

The considerable growth in parcels in recent years in particular has been a key reason for Australia Post recent history is one of needing to maintain Australia's letters service for the benefit of all, whilst delivering parcels in increasingly bigger volume, in bigger dimensions, and while meeting increasingly high service expectations. Australia Post's continued financial sustainability in a period of ongoing letters decline, and our investments in capability, capacity, delivery choices and customer service have helped us to meet customers' ever-growing service expectations, and maintain our role in supporting a country that is increasingly participating in the world of eCommerce.

The Letters Business

Not only has the addressed letter volume more than halved over the last decade, the letters business that once turned a profit has now become a significant cost burden, as volume declines have continued throughout the decade and Australia Post has worked to manage a network with predominantly fixed costs (associated with accepting, processing, transporting and delivering letters) on a significant scale.

By the end of May 2020 the average number of small letters in a posties' round had fallen to just over 500. A decade ago, the average number was around three times larger. Over the last decade, the number of postie rounds across the country has also increased, and our posties, on average, travel 6 kilometres further per delivery round than the average delivery round ten years ago. As Australian communities continue to expand, the size and complexity of demand on the letters business increases.

Significant pricing constraints in both domestic and international contexts also play a role in the sustainability of the letters business.

In the domestic context, changes to the rate of postage for ordinary 'stamped' letters (also known as the 'basic postage rate') are subject to price surveillance by the Australian Competition and Consumer Commission under the *Competition and Consumer Act 2010*, and a Ministerial disapproval process under the *Australian Postal Corporation Act 1989*.

At the end of financial year 2007/08, when the volume of letters being carried in Australia was at its peak, the basic postage rate was \$0.50. The most recent adjustment to the basic postage rate occurred on 1 January 2020, when the basic postage rate was changed from \$1.00 to \$1.10, with the concessional stamp rate maintained at \$0.60 (which have been purchased around three quarters of a million times over the last 12 months) and seasonal greeting cards maintained at \$0.65. On a purchasing power parity basis, this puts Australia Post's basic postage rate as one of the lowest of economically developed countries.

In the international context, Australia Post earns fees for the delivery of inbound international mail via the Universal Postal Union's 'terminal dues' remuneration system, which governs payments between the postal operators of member countries, with the sending postal operator generally remunerating the postal operator in the destination country for processing and delivering that item.

Under the system, remuneration payable to a destination's postal operator is not based on the actual costs incurred in delivering this mail, and is instead based on a formula that uses a percentage of the postal operator's basic postage rate as its starting point. The system was created in 1969 and, in order to make changes to system, support from a majority of UPU member countries at a UPU congress is required. Australia Post is a net importing nation, meaning the volume of inbound mail exceeds the volume of outbound mail, and has made losses on inbound mail for decades.

At an extraordinary congress in late 2019, UPU members supported a move to self-declared rates over a number of years, to help postal operators better balance cost recovery needs and reduce market shocks. Australia Post hopes the self-declared rates systems will enable a cost breakeven point to be reached in the coming 3-5 years and, in the meantime, will continue to carry losses.

8. Appendices

8.1 Appendix 1 – Terms of Reference

On June 16 2020, the Senate referred to the Environment and Communications Legislation Committee for inquiry and report by 11 August 2020:

The future of Australia Post's service delivery, with particular reference to:

- a. the Australian Postal Corporation (Performance Standards) Amendment Regulations 2020 and their impact on services, the Australia Post workforce and affected businesses;*
- b. the impact of COVID-19 on the financial position of Australia Post and its future;*
- c. a sustainable plan for Australia Post to provide:
 - i. services that meet community needs and expectations,*
 - ii. job security for its workforce, and*
 - iii. support for regional and metropolitan licensed post offices;**
- d. international and domestic trends with parcels, letters and pricing; and*
- e. any related matters.*

8.2 Appendix 2 – International Observations

New Zealand

NZ Post made significant changes to its business in response to the pandemic. It has addressed capacity challenges resulting from parcels growth through a range of measures (including 24/7 processing, 3 new sites, and bringing on additional staff and around 200 extra vehicles¹) and has adopted contactless deliveries.² NZ Post continues (as it has since July 2025) to deliver standard letters and standard parcels every second day in major towns and cities.

In the post office function, all outlets were temporarily closed for 3 weeks on 25 March 2020;³ most were reopened (albeit with reduced hours) by 14 May 2020.⁴ In addition, KiwiBank is offering hardship solutions to banking customers.⁵

No financial results have been released by NZ Post since the beginning of the pandemic, however it has commented that its revenue loss totalled “tens of millions of dollars” as at mid-May 2020.⁶

The Government's 2020 Budget supports NZ Post with a NZD130 million Government subsidy to maintain the universal postal service. New Zealand's basic postage rate is NZD1.40 (higher than Australia notwithstanding the greater scale, complexity and geographic spread of Australia Post's business).

NZ Post recently received a NZD150 million equity injection from the Government's COVID Response and Recovery Fund. In addition, NZ Post successfully applied for the Government's COVID wage subsidy program (while government-owned, NZ Post is eligible as it is run as a state-owned enterprise⁷) and will receive NZD29 million in wage subsidies.⁸

NZ Post has informal temporary regulatory relief from its delivery and post office accessibility standards.

¹ New Zealand Post, 'COVID-19 Updates' website page, sourced 26 June 2020

² New Zealand Post, 'New Zealand Post changes delivery process in response to Covid-19,' 16 March 2020

³ New Zealand Post, 'New Zealand Post services will continue to deliver essentials at Level 4', 25 March 2020

⁴ New Zealand Post, 'COVID-19 Personal FAQs,' sourced 28 May 2020

⁵ Kiwibank, 'Coronavirus updates' website page, sourced 28 May 2020

⁶ New Zealand Post, 'NZ Post welcomes its shareholder's confidence in its future,' 14 May 2020

⁷ International Postal Corporation, 'COVID-19 financial assistance to the Posts,' 11 May 2020

⁸ NZ Herald, 'Covid 19 coronavirus: NZ Post receives \$29 million in wage subsidies - on top of \$280m from Government's budget,' 29 May 2020

Canada

Canada Post appears to have made relatively moderate changes in response to the pandemic. In the delivery function, it introduced a range of measures to manage parcels growth (particularly increasingly bulky parcels), including weekend processing and delivery and training of temporary staff,⁹ and adopted contactless deliveries by defaulting to safe drop and carding.¹⁰ While Canada Post has a relatively higher basic postage rate, it has quite different delivery standards to Australia Post. Canada Post no longer delivers to more than 50% of Canadian homes, instead delivering to community mailboxes.

In the post office function, it reduced trading hours and introduced priority service for vulnerable customers during the first hour of the day.¹¹

Canada Post reported an overall Group loss of CAD53 million before tax for Q1 2020, down CAD92 million relative to Q1 2019.¹² Moderate parcels growth of 10.4% was unable to offset the combined impact of increased costs and significant mail declines. It is anticipated the pandemic will have a larger impact on Q2 results, with parcels growing at a record pace between April and May 2020.¹³

Canada Post has informal temporary regulatory relief from its delivery and post office accessibility standards.

France

La Poste made significant changes to its business in response to the pandemic. In the delivery function, it introduced contactless deliveries, suspended some delivery guarantees and temporarily reduced the frequency of delivery and street posting box collections to 3 days a week (though mail and parcel deliveries are expected to gradually return to regular frequency soon).

In the post office function, it reduced trading hours and services, installed protective barriers, and undertook widespread temporary closures of the post office network.¹⁴ Approximately only 1 in 10 outlets were open at the pandemic peak; but most outlets were reopened by end of May.¹⁵

⁹ Canada Post, 'Parcel delays to continue as Canada Post delivers at record levels,' 26 May 2020

¹⁰ Canada Post, 'Christmas-level parcel volumes resulting in delays as Canada Post continues to deliver,' 23 April 2020

¹¹ Canada Post, 'Important Changes to Canada's Postal Service,' 23 March 2020

¹² Canada Post, 'Canada Post segment reports \$66-million loss before tax in first quarter,' 25 May 2020. Note the Canada Post Group (including the Canada Post and Purolator courier segment) made a \$53m loss

¹³ Canada Post, 'Parcel delays to continue as Canada Post delivers at record levels,' 26 May 2020

¹⁴ La Poste, 'COVID-19 Frequently Asked Questions' website page, sourced 28 May 2020

¹⁵ International Postal Corporation, 'COVID-19 Exceptional Events Log v26,' sourced 26 June 2020

In addition, La Poste maintained services for senior citizens (eg postie check ins, meal delivery) during the pandemic, and is offering elderly check in services for free until end of August 2020.¹⁶

No financial results have been released by La Poste since the beginning of the pandemic.

Following the French Government's state of health emergency decree, La Poste exercised force majeure from its delivery and post office accessibility standards. The decree was scheduled to be in place until 10 July 2020.

Italy

Poste Italiane made significant changes to its business in response to the pandemic. In the delivery function, it stopped Saturday deliveries, suspended Direct Mail delivery between 6 March and 19 April 2020, reduced sorting centre operating hours and temporarily stopped deliveries to 'red zones.'¹⁷

In the post office function, it temporarily closed some outlets and reduced opening hours while it introduced controlled access (eg by name, in alphabetic order).¹⁸ More broadly, it is playing a role in delivery the pension to the elderly, and has stopped offering some 'Services at home'.

Poste Italiane released its Q1 2020 results; reported revenue was down and one-off costs were up due to the lockdown, driving a significant decline in profitability.¹⁹ Business-to-consumer parcel growth has been accelerated by the pandemic while mail revenue declined by 19%.

Poste Italiane has informal temporary regulatory relief from its delivery and post office accessibility standards.

¹⁶ La Poste, 'Daily Services & Family' website pages, sourced 26 June 2020

¹⁷ Poste Italiane, 'Information regarding COVID-19 containment measures,' sourced 28 May 2020

¹⁸ International Postal Corporation, 'Poste Italiane interview on Covid-19 measures,' sourced 26 June 2020

¹⁹ Poste Italiane, 'Poste Italiane Q1 2020 Results,' 13 May 2020

Spain

Correos (Spain's postal agency) has made some moderate changes to its business in response to the pandemic. In the delivery function, it adopted contactless deliveries, temporarily suspended Saturday deliveries,²⁰ temporarily cut staff working in-person by around 75%²¹, and is providing logistical support to solidarity initiatives (eg respirators and food).²² In the post office function, it temporarily reduced operating hours.²³

No financial results have been released by Correos since the beginning of the pandemic.

Independent of the crisis, in mid-May 2020 the European Commission approved a €1.28 billion financial subsidy to Correos for postal services for the 2011-2020 period; Correos will submit a new request for support later in 2020 for the 2020-2025 period.²⁴

There are no apparent changes to Correos' service obligations.

Switzerland

Swiss Post has made significant changes in response to the pandemic. In the delivery function, it extended A Mail delivery windows and extended grocery deliveries to Sunday,²⁵ as well as adopted contactless deliveries.²⁶ In the post office function, it temporarily closed some outlets and reduced trading hours.²⁷ More broadly, Swiss Post is paying CHF 10.5 million in immediate staff bonuses²⁸ and created a CHF 100m fund to pay suppliers' invoices early.

Swiss Post released its Q1 2020 results, reporting Group EBIT of CHF 115 million (down 57 million relative to 2019).²⁹ Parcels incurred significant additional costs and volume growth has not offset the negative effects in other business units (eg PostBus). Addressed letter volumes were down 5.6% year-on-year for Q1 and parcel volumes were up 10% in Q1 (with March up 16.9%).

²⁰ Correos, 'Correos only provides the mandatory public postal service with the minimum essential staff,' 23 March 2020

²¹ Financial Times, 'Europe split over handling of postal services while in lockdown,' 3 April 2020

²² Correos, 'Correos, among the companies best valued for their social commitment during the pandemic,' 21 May 2020

²³ Correos, 'Correos takes extraordinary measures,' 15 March 2020

²⁴ Correos, 'The European Commission endorses the aid of 1,280 million to Correos for its public service,' 8 May 2020

²⁵ Swiss Post, 'Swiss Post supports the Swiss economy - time window for A Mail extended,' 20 March 2020

²⁶ Swiss Post, 'The postal workers also do a special job in times of the corona virus,' 17 March 2020

²⁷ Swiss Post, 'Swiss Post reacts to falling customer volumes and relieves pressure on employees,' 26 March 2020

²⁸ Swiss Post, 'Swiss Post seeing the significant effects of the coronavirus crisis,' 20 May 2020

²⁹ Swiss Post, 'Quarterly result down as expected – effects of coronavirus crisis significant,' 18 May 2020

In addition, at 11 May 2020, Swiss Post had applications pending for financial assistance specific to the print media and public transportation sectors. It requested support to offer free or discounted print media (compensated by the State), and compensation for lost PostBus revenue.

Swiss Post received formal temporary regulatory relief from its delivery time and post office accessibility standards.³⁰ In return, it is required to do everything in its power to maintain delivery times and reopen all outlets. It is sorting parcels on Saturdays as an exceptional measure.

United Kingdom

Royal Mail and the Post Office Group have made significant changes in response to the pandemic. In the delivery function, they temporarily stopped Saturday letter deliveries for 6 weeks in May (resumed in mid-June), adopted contactless deliveries, suspended some delivery time guarantees and are providing logistical support for virus testing.³¹ In the post office function, they reduced trading days and hours, introduced new cash collection services and are offering 3-month payment breaks on loans.³²

Royal Mail reported significant pandemic impacts in first 2 months of financial year 2020/21 (April and May). For the first 2 months, revenue was down £29m and operating profit was down £108 million.³³ Royal Mail parcel volumes were up 37% year-on-year, while addressed letter volumes (excluding elections) were down 33%. Forecast financial scenarios for financial year 2020/21 estimate total revenue decline between £200-600 million, and the total cost of the pandemic at £140-155 million.

Royal Mail received temporary regulatory relief to its delivery frequency obligations for 6 weeks but has since highlighted that acceleration of a transformation program (including headcount reduction of 2,000 people in a management restructure) is insufficient to sustain the universal service. It has indicated it will undertake stakeholder and union engagement before seeking permanent regulatory reform.

³⁰ Swiss Post, 'The Confederation's postal requirements are being adapted to the crisis,' 30 March 2020

³¹ Royal Mail Group, 'Coronavirus: changes to service', 22 June 2020

³² Post Office, 'Coronavirus Help and Support' website page, sourced 26 June 2020

³³ Royal Mail Group, 'Full Year 2019-20 Results and Business Update,' 25 June 2020

United States

USPS has made some moderate changes to its business in response to the pandemic. In the delivery function, it adopted contactless deliveries and extended some delivery guarantees (eg adding 1 day to the Priority Mail timetable).³⁴ In the post office function, it is largely operating normally, with some temporary reduction in trading hours.³⁵

USPS released its Q2 FY20 (Jan-March) results and reported no significant COVID-19 impact, though that it started to see some downward trends in late March 2020.³⁶ It estimates its current net operating loss will significantly increase over the next 18 months. There are no apparent changes to USPS' service obligations.

³⁴ USPS, 'USPS Coronavirus Updates: Expected Delivery Changes' FAQs, 17 April 2020

³⁵ USPS, 'Our COVID-19 response' website page, sourced 26 June 2020

³⁶ USPS, 'U.S. Postal Service Reports Second Quarter Fiscal 2020 Results,' 8 May 2020

8.3 Appendix 3 – Front Page Photograph

The photograph on the front page of this document is of Effie Tsapogias, a member of the Dock Operations Support team at Australia Post's Melbourne Parcel Facility.