Case Three

Thursday 4 & Friday 5 December 2014

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Overview

As Australia Post CEO, Ahmed Fahour took in the sweeping vista of the Brisbane River and Botanical Gardens, he reflected on what had been a difficult few weeks. He had seen the change coming for years, but others had taken far longer to realise what he'd said all along about the nature of his business.

He had recently announced the results for 2013-14. Australia Post had recorded a $116.2 million profit after tax – not a bad result in its own right, but it was down by more than a third (34.2%) from 2012-13. The operating loss from the traditional mail services business had widened by 15.2% to $328.4 million, wiping out most of the $337.5 million profit made from the parcel services business. It was clear that the mail services business would continue to lose money and within a year or two cause the entire business to be a loss-making entity.

The dividend paid to the sole shareholder, the Australian Federal Government, was down by 59.1% to $78.8 million this year, and soon Mr Fahour knew that there would be no dividend at all. On the contrary, on its current trajectory, Australia Post would need to be supported by taxpayer funds. At the Australian Senate's communication committee in late November, Mr Fahour presented a stark picture and there was discussion of Communications Minister, Malcolm Turnbull presenting a rescue package before the end of the year, including a two-tiered system for mail and flexible pricing for delivery.

"The clock is ticking really fast on our employees, on us and our licences, so this is really serious. The business is disappearing before our eyes," Mr Fahour told the committee.

Digital disruption and the decline of traditional mail

The Australia Post business had been disrupted significantly by the broad-based shift to digital channels. Australians' increasing use of the internet and mobile devices to communicate, access services, shop and pay impacted all of Australia Post's key businesses, but in different ways.

Letters Business

The letters business was the worst affected. With the advent of the internet and mobile communication had come initial trends towards email and text messages that had taken significant volume out of the business. Then, the movement of payments to electronic bills and direct debits and more recently the explosion of online communication through social media had further eroded the share of letters as a medium for communication.

Mail volume growth had tracked in line with GDP growth for decades up to the year 2000. Then it began to gradually decline for about eight years until 2008 and since then demand has fallen dramatically. The rate of decline had accelerated from 2-3 per cent at first to more than 6 per cent in 2013-14, and is forecast to fall away even more dramatically in the coming years. The result was that in 2013-14 there were 1.2 billion or 25% fewer letters delivered than at the mail peak in 2008. On a per capita basis the result was even worse, given that population growth had tracked at 1.5-2 per cent over the same period.

The entities posting mail was also a strong indication of further decline. Only 2.2% of mail volumes were Consumer-to-Consumer. The remaining 97.8% was made of Business-to-Business communications (46.3%), Business-to-Consumer (38.2%), and Government and Government Service Providers (13.3%). The Australian Federal and State Governments have adopted 'Cloud First' policies, promoting communication and storage of data electronically, and more specifically, online. Meanwhile, business continued to increase its adoption of online communication and applications. As a result, a structural decline in demand for physical letter delivery appeared to be a certainty.

However, Australia Post was limited in its ability to respond to these changes. As a regulated monopoly, it has a number of obligations it has to satisfy by law (i.e. the Australian Postal Corporation Act 1989). As a result, Australia Post has little control over its profitability – its costs in mail sorting and delivery are effectively fixed by these community service obligations (CSOs) as outlined in Table 1. For example it is currently obligated to deliver 5-days-a-week to 98 per cent of addresses and within stipulated timeframes. With population growth, the delivery network is expanding by 150,000 new points each year, meaning that a dwindling volume of letters is being delivered to an ever-expanding network.

CSO performance standards	Target	Actual 2013–14
Retail outlets		
Total	4,000	4,417
Rural and remote areas	2,500	2,560
Street posting boxes	10,000	15,805
On-time delivery (domestic letters)	94.0%	94.5%
Addresses receiving deliveries:		
Five days a week	98.0%	98.8%
At least twice a week	99.7%	99.9%

Table 1: CSO Performance Standards

This is amplified by Australia's relatively unique population density. The majority of the population lives in a handful of coastal urban centres, while the regional population is dispersed over a significant area. This results in a need to maintain a regional network without sufficient population demand to run these services at a profit. Ultimately, resolving the competing priorities of balanced budgets and maintaining compliance with CSOs is proving unsustainable under the current business model. This is a key strategic challenge for Australia Post going forward.

Retail Business

The Retail business, consisting of 4,417 retail outlets across Australia, has also felt the brunt of the digital shift in the community. Two of the key drivers of retail outlet foot traffic, personal mail volumes and bill payment, have been adversely impacted as both communication and customer payment systems increasingly move online. These are the two main factors contributing to post office customer visits being down 24 per cent in the past six years.

The business recorded a $175.6 million profit at EBIT level in 2013-14, broadly in line with the previous year. This was impacted by declining customer visits to post office outlets (down 9.7 million or 5 per cent), which resulted in lower merchandise sales and payment revenue. Growth in the financial, commercial and trusted services portfolio was not enough to offset the revenue implications of declining customer visits. Conversely, post offices in regional areas, provide a critical array of retail and business services that is vital to the community.

Although the performance of the retail business has held up relatively well in the face of a challenging environment, the decline in foot traffic is predicted to continue and is likely to have a more pronounced impact in years to come.

Parcels Business

The Parcels business is the sole unit which has benefitted from digital disruption. This unit consists of the Australia Post parcel service as well as subsidiary, the recently acquired StarTrack, which over the past 12 months has been integrated to create a logistics provider that services both business and consumer markets. Rapid growth in e-commerce and online shopping have significantly boosted parcel delivery volumes over the last decade, and Australia Post has been the partner of choice for most of these B2C e-commerce deliveries. Domestic parcel volumes have increased by 39 per cent over the last four years, with 70 per cent of total parcel volumes currently generated by an online transaction.

This has led to an operating EBIT result of over $337.5 million in 2013-14, up 20.8 per cent from 2012-13 and nearly double the $170 million result of 2009-10. This is the fourth consecutive year of profit growth in Australia Post's parcels business – and it was achieved despite a slowdown in ecommerce activity and intensifying competition across the parcels market.

This business has been a focus of significant investment for Australia Post in recent years, and in 2013-14 a substantial portion of the total of $523.1 million of investment was directed towards to the Parcel business. This included heavy investment in expanding parcel facilities with the ultimate goal of doubling processing capacity. In addition, the parcel business has been expanding its service offering by investing in parcel locker services across the country as well as providing parcel delivery on Saturdays, which is due to commence in late 2014.

Parcels should continue to be a strong growth area for Australia Post moving forward, although an increasingly competitive market is likely to put pressure on both margin and market share. Australia Post has performed well against its traditional competitors, such as DHL, UPS, FedEx and TNT Express. However, disruption through innovative technology and business models could change this over the long term. Seemingly outlandish technologies such as drones are already being tested in pilot programs by Amazon, Google, and DHL. Therefore, traditional competitors and significant new entrants to the sector may prove to be formidable and erode the healthy market share Australia Post currently enjoys.

The politics of privatisation

Australia has a turbulent political history when it comes to government owned corporations. With rising government debt and politically dominant beliefs that private enterprise is more efficient, governments from the left and right have released policies of 'asset sales' and 'privatisation' at various points in the past decade. This has included icons such as Telstra (Australia's predominant government telecommunications provider) and Qantas (Australia's national airline) undergoing a gradual release of ownership into private hands. These programs have not always been received well by the Australian public, often due to concerns of offshoring jobs, diminished quality of service delivery to regional areas, and even a perceived reduction in national sovereignty due to excessive foreign ownership. This has been a divisive and ultimately decisive issue in several elections, which is why politicians approach the topic with exceeding caution. Earlier this year, the right wing Federal Government briefly floated the idea of privatising Australia Post. However, it soon withdrew this idea when there was an unfavourable reaction in the press and public opinion. The left wing Opposition party (the Australian Labor Party) came out against the proposal so bipartisan support is unlikely in the foreseeable future. Selling off parts of the business, such as the profitable parcels arm may be tempting to maintain profitability in the short term. However, this may be short-sighted in the face of the likely losses that will grow from the letter business in the coming years. Similarly, it is unlikely that private enterprise would wish to inherit the distressed letter arm of the business, and the rigid CSOs that accompany it. As such it is not immediately clear whether privatisation can form part of the solution to Australia Post's significant challenges. Nonetheless, consideration of privatisation, or conversely acquisition of other firms to extend Australia Post's capabilities (e.g. StarTrack) shouldn't be ruled out.

Moving forward

The age of digital communication and commerce had brought with it numerous challenges for Australia Post, many of which it continues to adapt to. The partnership between Australia Post and China UnionPay International, the world's largest card organisation, announced in mid-2014 would now be impacted by the recently signed China Australia Free Trade Agreement. And in the past month, Australia Post launched ShopMate, a parcel forwarding service for Australian shoppers buying products from online sites that only ship to the United States.

Ahmed Fahour knew that things had to change quickly and dramatically. But at the same time, the business could not ignore its first priority, which by legislation it had to commit to – *"serving all Australians wherever they reside"*. Community service was not just an obligation, but the very reason for the existence of Australia Post. The business needed to respond to the many changes in its environment without losing sight of its primary purpose.

There were many options that Mr Fahour and his team had considered, but he wanted a fresh perspective. That was why he was considering engaging a team of consultants to develop a roadmap for the business for the next 15 years. He read over the brief for the short-listed consulting firms.

Brief for consulting firms

Background

Australia Post has declining profitability due to significant digital disruption to its core business. The ongoing financial viability of the organisation is of significant importance. However, Australia Post cannot stray from this core mission due to binding legislative, regulatory, and social equity considerations.

To offset this structural decline in profitability, Australia Post's current strategy is to diversify revenue streams by expanding its 'trusted services' offering through both digital and retail store touch-points. In addition, there is a continued commitment to expand the parcel business and to reformat the structure of the letters business.

Your consulting firm is being considered to be engaged as part of Australia Post's strategy refresh, which will form the basis of its vision for the next 15 years.

Objectives

To meet its core objectives, Australia Post must:

1. Continue as a self-sustaining operation (i.e. must stay profitable, or cover its costs)
2. Provide an equitable service to both regional and urban areas
3. Maintain physical letter delivery as a service offering until 2030
4. Continue to provide services to both businesses and consumers

While the objectives above are core requirements for the organisation, Australia Post is open to new ideas and solutions. It is important that the solution enhances the long term sustainability of the organisation. Also considered of high value would be solutions that transform the role of Australia Post so that it continues to be a relevant service provider to the community, now and into the future.

Scope

Given the context outlined above, your consulting firm must:

- Provide Australia Post with a strategy roadmap for the next 15 years (i.e. 2015-2030).
- Provide tangible and tactical initiatives that underpin this strategy, so that Australia Post can reshape its existing business model.
- Present your solution to a panel of business leaders. Your consulting team has 15 minutes to present, followed by a Q&A session with the panel.

Limitations

- There is no intent to change the Australian Postal Corporation Act 1989, including the Community Service Obligations (CSOs)

Appendices

The following articles, reports and assessments have been assembled for your information. Due to the size of some of the documentation, a number of these appendices have been provided in digital form on a USB for your convenience.

#	Name of Appendix	Description	Format Provided
A	Australia Post Annual Report 2014	Annual Report released by Australia Post. Outlines financial performance of the organisation for the last financial year.	USB & separate hard copy
B	Results of Australia Post National Conversation Platform.	Key insights as to consumer/citizen sentiment toward Australia Post and its role.	In this document
C	More mail-outs: Federal election drives revenue growth over current year	Report written by Caroline Finch for IBISWorld. Identifies the state of the postal services industry in Australia.	USB
D	IBISWorld Industry Risk Rating Report: Postal Services in Australia	Report released by IBISWorld. Identifies the risk in the postal services industry.	USB
E	Australia Post Licensed Post Office assessments	Report released by KPMG as part of a Senate Inquiry into the performance, importance and role of Australia Post in Australian communities.	USB
F	Australian and International Postal Services Overview Background Report	Report released by BCG. This included an initial assessment of Australia Post, impetus for reform, international experiences and responses, along with options for addressing the challenge.	USB
G	Geographic representation of Australian Population Density (as of 2010)	Visual representation by the Australian Bureau of Statistics. This illustrates that the majority of the Australian population is concentrated in urban centres, in contrast with a highly dispersed regional population.	In this document
H	The NBN makes Australia Post's privatisation inevitable and desirable	Article written by Stephen King for the Australian Broadcasting Corporation (ABC). This outlines the potential of using the National Broadband Network to change the role and importance of Australia Post. In addition, it outlines previous examples of privatisation.	In this document
I	The future of Australia Post will be off the beaten track	Article written by Jack Archer for The Conversation. Highlights the importance of Australia Post as a community service in regional areas.	In this document

#	Name of Appendix	Description	Format Provided
J	Australia Post, Telstra and the 'dying business' dilemma.	Article written by academics John Rice and Nigel Martin. This outlines the current predicament of Australia Post, and the difficulties with former Government monopolies and challenges with privatisation.	In this document
K	Don't gut or cut Australia Post.	Article written by Michael Danby for The Conversation. This identifies that it is currently politically unpalatable for Australia Post stop delivering equitable physical mail delivery.	In this document
L	Germany's post office beats Amazon and Google with launch of world's first drone delivery service.	Article written by Richard Weiss for Bloomberg News, identifying pilots of drone programs for delivering packages being conducted by DHL, Google, and Amazon.	In this document
M	Government agencies get more power in Cormann's 'cloud first' policy.	Article written by Fran Foo. This provides some background information on the 'cloud first' policy that the Australian Government is adopting.	In this document
N	Australia Post CEO says time is running out.	Article written by Patrick Durkin for Australian Financial Review with Australia Post CEO presenting to the Australian Senate communications committee.	In this document

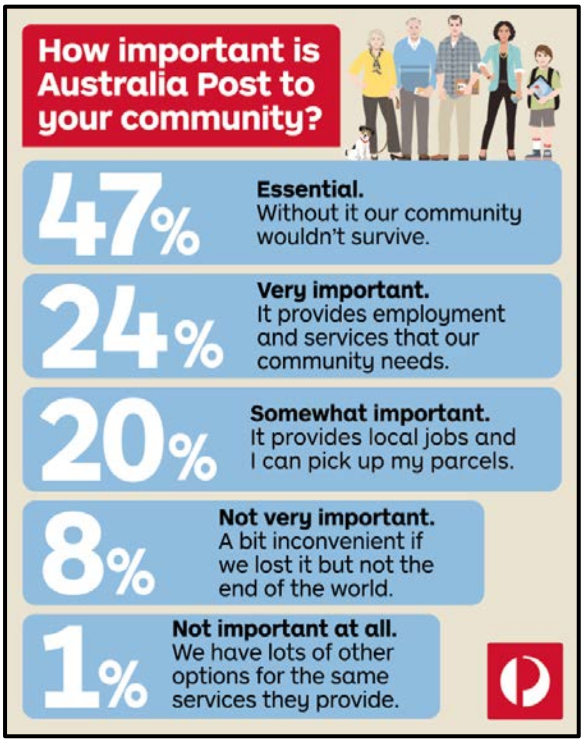
Appendix A – Australia Post Annual Report 2014
Published and authored by Australia Post. | 4 September, 2014.

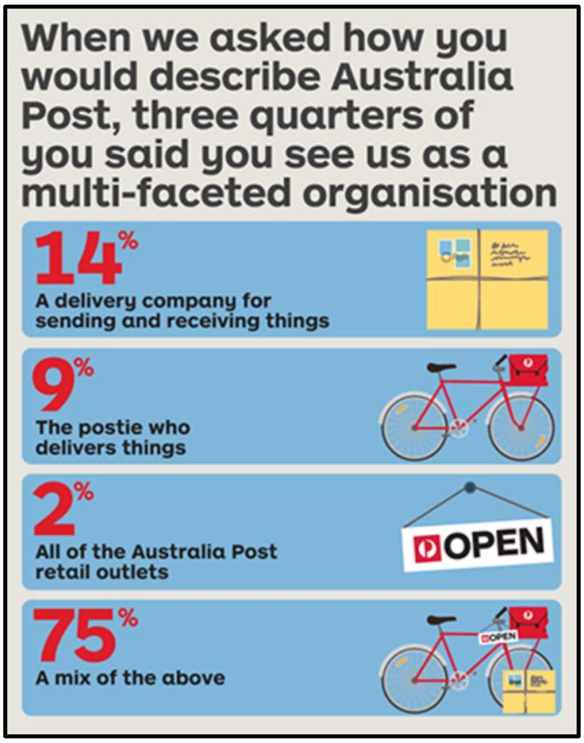
This document has been provided both as hard copy and digitally on USB.

It can also be accessed at http://auspost.com.au/about-us/publications.html

Appendix B– Results of Australia Post National Conversation Platform
Published and authored by Australia Post. | 2014.

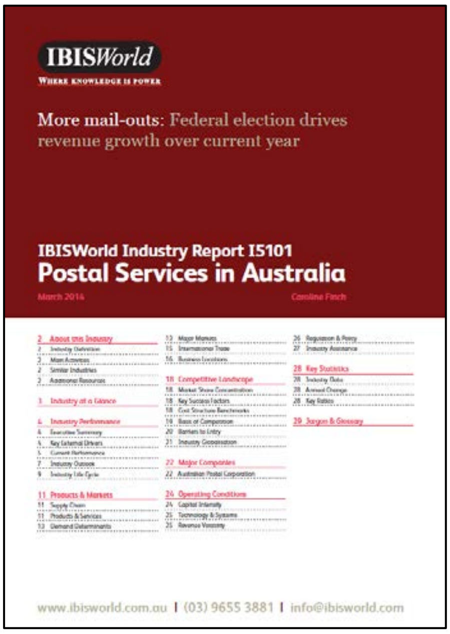
Further information can be accessed at https://conversation.auspost.com.au/national





Appendix C – More mail-outs: Federal election drives revenue growth over current year

Published by IBISWorld. Authored by Caroline Finch. | March 2014.



Due to its size, this document has been provided digitally on USB.

Appendix D – IBISWorld Industry Risk Rating Report: Postal Services in Australia

Published and authored by IBISWorld. | September 2014.

Due to its size, this document has been provided digitally on USB.

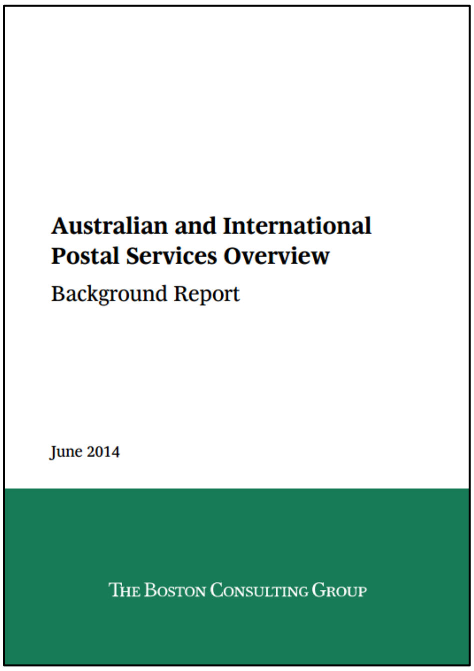
Appendix E – Australia Post Licensed Post Office assessments

Published and authored by KPMG. | 16 July, 2014.

Due to its size, this document has been provided digitally on USB.

Appendix F – Australian and International Postal Services Overview Background Report

Published and authored by Boston Consulting Group. | June 2014.



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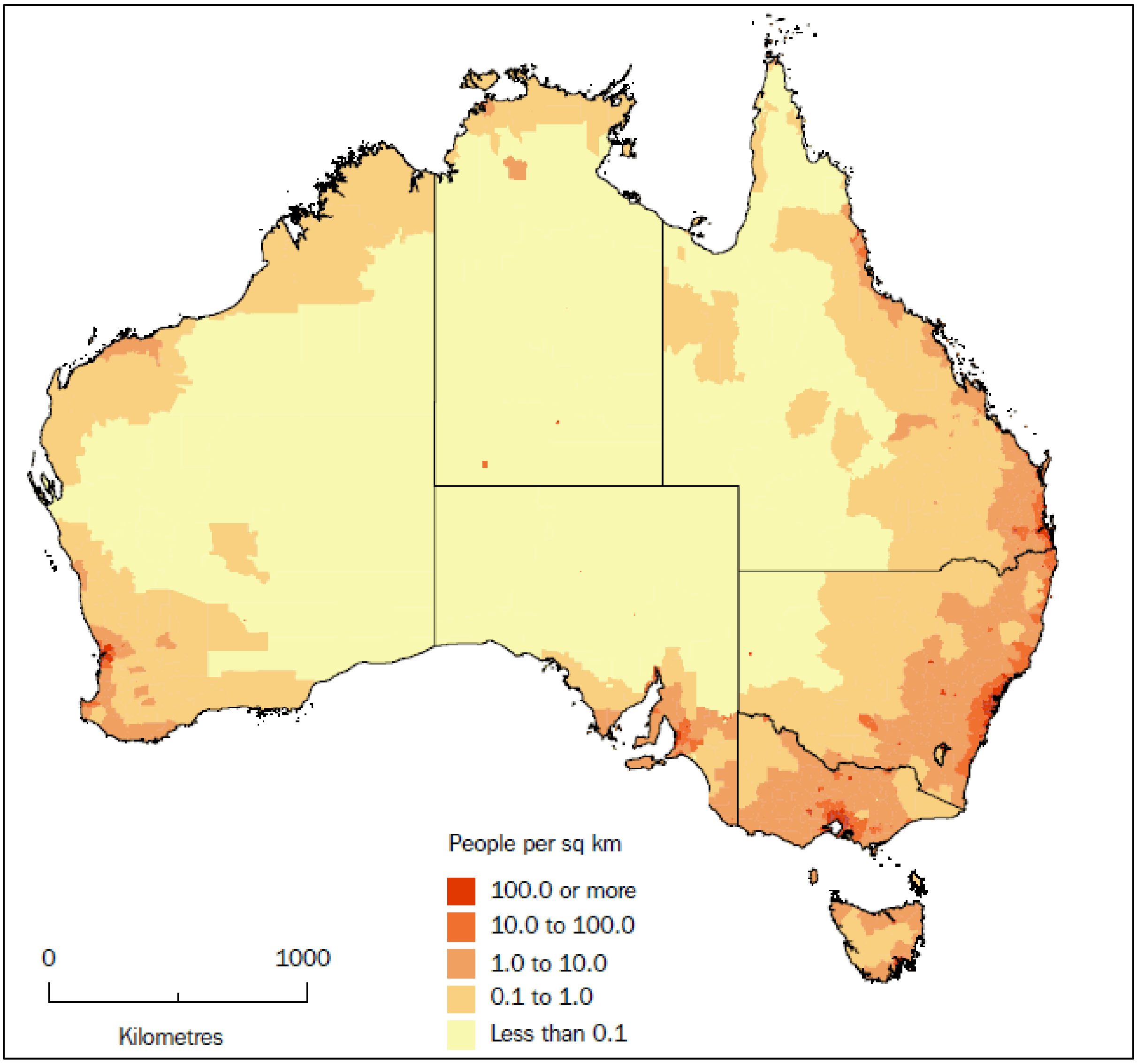
Appendix G – Geographic representation of Australian Population Density (as of 2010)

Published and authored by the Australian Bureau of Statistics | 24 May 2012, 11.30am Canberra Time



Appendix H - The NBN makes Australia Post's privatisation inevitable and desirable

Published by The Conversation. Authored by Stephen King, Professor Department of Economics at Monash University. | 28 January 2014

Australia Post, and its predecessors, go back over 200 years. The first Australian postmaster began work in the colony of New South Wales in 1809. At federation, the colonial post offices were combined into the Post Master's General department, and in 1975 the name 'Australia Post' was born.

So with such a long history of government ownership, why should Australia Post be privatized?

Australia Post is a parcel and delivery company, like DHL, UPS, FedEx and TNT Express. And Australia Post is pretty successful in competing against these private competitors. It owns Star Track Express (a company that began as a privately-owned distribution service) and in 2012/13 made a group profit of $312m for its taxpayer-owners.

But, unlike its private competitors, Australia Post has community service obligations. It must provide accessible and affordable letter services to all Australians, regardless of where they reside. And for more than a century, Australia Post has helped link the city and the bush.

In recognition of its community service obligations (CSOs), and to avoid private entrants from 'cream skimming' letter profits in the cities while neglecting the bush, Australia Post has an effective legislated monopoly over 'standard' letters up to 250 grams. The problem, however, for Australia Post is that standard mail volumes are falling, raising the cost of the CSOs. And the issue for the Australian Government is that the Postal CSOs will soon be redundant, replaced by the CSOs on the National Broadband Network (NBN).

In 2012/13, regulated mail volumes dropped 5.4%. Indeed, they have been falling at 3% or more per year for the last six years. Australia Post's loss on regulated mail was $91.3m in 2010/11, $148m in 2011/12 and $312m in 2012/13. And this is despite increasing the price for a stamp: from 50c to 55c in 2008, to 60c in 2010, and with a proposal for the price to rise to 70c this year.

The reason is the internet. As more people move on-line, standard mail volumes drop. Every electronic bill, on-line payment or e-mail puts another nail in the standard letter's coffin. And this trend will accelerate, not decline.

Australia Post is not alone in facing this problem. It is faced by postal services worldwide. Most recently, the government-owned Canada Post decided to stop all home mail deliveries. Rather:

“every person … will now have to traipse to a community “super-box” to pick up their mail.”

Australia Post could try similar cost saving innovations, such as reducing the number of home deliveries each week or setting different prices depending on the speed of delivery. And if it doesn’t do this then the taxpayer burden will just keep on rising. Every dollar of loss on the standard mail service is a dollar less federal government revenue to spend on other things.

Fortunately, in Australia, the NBN means that Australia Post’s CSOs will be redundant – replaced by the NBN’s CSOs.

“[T]he NBN will provide the necessary infrastructure for every premises in Australia to be able to have broadband access to the internet …”

The NBN will also have uniform pricing Australia wide and, as with post, private competition to the NBN has been legally restricted to prevent ‘cream skimming’ by private entrants in urban areas.

Now, you may or may not think these restrictions are a good idea. But one thing is clear. Once the NBN is rolled out to the bush, we do not need BOTH the Australia Post CSOs and the NBN CSOs. One set will do. Just as the internet is making standard mail redundant, the obligations on the NBN make Australia Post’s CSOs redundant.

Without its CSOs, however, Australia Post is just another delivery company. So there are two sets of questions for the federal government:

First, how is the government working to transition the ‘standard mail’ obligation from paper (with Australia Post) to e-mail (with the NBN)? And if not, why not, given the growing burden on taxpayers from the standard letter?

Second, once Australia Post’s CSOs are gone, what justification is there for the federal government to own a parcel company that would be underwritten by taxpayers while competing against numerous private businesses? And if this means Australia Post should be privatised once the NBN is up and running, how is the government planning the transition towards a private Australia Post?

Partial and full privatization of postal services is not new. Examples include Germany, Holland, Austria and, more recently, the UK. But the key driver is that technology has changed the way Australians communicate. The NBN will link all Australians. For the small number who need special assistance, that should be available, as it is for the current mail service. As the internet, via the NBN, takes over the CSO under government ownership, it makes sense to remove the CSO from Australia Post. And once that occurs, privatization of a profit-maximizing parcel company makes sense.

Appendix I - The future of Australia Post will be off the beaten track

Published by The Conversation. Authored by Jack Archer, General Manager Research and Policy at Regional Australia Institute | 6 June 2014

In the near future a trip to the Post Office in regional and remote Australia may mean picking up a parcel or a letter. It could also mean a virtual meeting with your tertiary education provider, a virtual consultation with a medical specialist or a discussion with an expert about how to leverage your local products into the Asian market.

Australia Post's future, including its ownership and business model, has reached a tipping point at the centre of which is the decline in Australians' use of the humble letter. Last week the government took privatisation off the table, removing a distraction from the bigger issues facing Australia Post.

Despite recent permission by the Australian Competition and Consumer Commission (ACCC) to increase the cost of postage from 60c to 70c per stamp, Australia Post still has to change its business model in response to the sharp decline in letters, or face rising losses.

Ultimately, changes to the obligations Australia Post must meet under Section 27 of the Australian Postal Corporation Act will be needed. Clause 1 in the Community Service Obligations (CSOs) section of this legislation states that "Australia Post shall supply a letter service".

As a result, much of the focus in this debate to date has been directed at the importance and future of regular, affordable letter deliveries. Some, such as Monash economist Professor Stephen King argue the introduction of the NBN will make the current CSO on Australia Post obsolete. Others are determined to preserve the status quo.

Australia Post is different in the regions

This argument over letters is a distraction from what is really at stake. The services Australia Post provides to rural and remote communities cannot be neatly replaced by the National Broadband Network (NBN).

Australia Post provides a diverse range of services alongside letters that are vitally important for communication and trade. It is the only possible provider of these services in many regional areas.

And 60% of Australia Post's 4,429 retail outlets operate in regional, rural and remote Australia. These outlets are often the hub of business activity in small towns.

Australia Post is also the only provider of parcel services in many areas, even though nationally this is a highly competitive market. As an agent for more than 750 businesses and government entities, Australia Post retail outlets provide access to services in areas where they are not likely to be replaced by private providers.

Any changes to existing CSOs will have implications for the broader network of outlets and services that Australia Post supports throughout rural and remote Australia.

The worldwide trend in demand for letter services suggests that the decline in the need for this service is terminal.

However people will still need to send parcels to each other, get passports and do other things over a counter. Some level of obligation on Australia Post to maintain services in areas the market will not go will be required to guarantee basic service and cost equity in communications for Australians.

But Australia Post could also help to reduce or even eliminate the net cost of services to smaller communities, and at the same time improve and expand services outside its traditional letter business.

Consider what regions really need

As we innovate in health, education and other areas of government, these services have a growth potential we cannot yet measure. Australia Post may be the perfect vehicle for redistributing government and other services back to smaller places around Australia at a low cost with potentially big benefits in overcoming the divides in service availability and quality around Australia.

“Australia Post shall supply a letter service” does not capture the community service needs of the future.

Intransigence on the letter issue is more about instinctive resistance to change than anything else. Many regional Australians already survive without everyday letter delivery and have done so for a long time.

It’s important to ask people in regions about the services they value now and their expected needs in the future. This something that has not yet been adequately gauged by Australia Post or the government and must be part of the next steps on this issue.

Appendix J - Australia Post, Telstra and the 'dying business' dilemma

Published by the Conversation. Authored by John Rice Associate Professor in Strategic Management, Griffith University, and Nigel Martin, Lecturer at the College of Business and Economics at Australian National University. | 12 June 2014.

Who would run a former government-owned monopoly these days? In the last week, Australia Post's Ahmed Fahour announced 900 administration jobs were to go from its Melbourne operations, while last week Telstra's David Thodey recounted discussions from his recent trip to the US, where he was told his "business model is dead".

Both organisations, ironically once part of the same Commonwealth Postmaster General's department, face massive disruptive change from new technologies. How they manage these changes will have consequences far beyond their corporate results, with important consequences for the nation.

The Good Old Days …

Once, for Telstra and AusPost, the future was certain. Growth in the core telecommunications and mail businesses was seen as a function of general economic growth. The demand for these essential services, it was expected, was assured.

The internet, in different ways, put paid to those certainties. For AusPost, the most significant change was the collapse of the traditional letter delivery business. Once a monopolistic license to print money, the era of the internet has seen the demand for its core letter delivery services collapse by 30% over the last five years. This has seen this segment of the business become a significant drain on the organisation's performance – letter delivery lost A$122 million in 2011, A$187 million in 2012 and A$218 million in 2013.

Future Ready or Future Shock?

In 2010, AusPost announced its "Future Ready" strategy, seeking to identify future market segments where its performance could be developed and improved. This strategy revolves around developing three areas, namely communications (digital and physical), the provision of a physical portal to access government, business and financial services and finally as a deliverer of parcels.

Of the three business segments identified in Future Ready, one is promising (parcels), one is questionable (the services portal business) and one is abominable (letters) – hence the recent manoeuvres to clarify and separate the business into its core elements, most probably with a view to the future privatisation of that part of AusPost that makes profits – parcels.

AusPost is seeking to innovate – thus far with limited success. For example, in 2012 it launched MyPost Digital Mailbox, seeking to offer customers a secure way to pay bills (sound familiar, BPay?). Recent reports suggest it has met with limited success.

The Digital Mailbox illustrates two key problems for AusPost as it attempts to transform itself into a digital transaction hub. First, it pursues such initiatives as a late mover, confronting established incumbents with deep pockets and an installed base. Second, any such initiatives are subject to eventual competition from the likes of PayPal, and indeed the Australian banks, whose global reach and e-commerce capabilities should frighten AusPost.

Whither Telstra?

Telstra too faces serious challenges. Ever since voice was digitised, telecommunications companies have essentially been in the business of shifting data between users. The problem with this is that the transfer of data is rapidly commoditising, with a large number of alternative and interoperable access arrangements or gateways (wireless, optic fibre, copper) and network infrastructure (NBN, satellites, subsea communications cables) interconnected through the internet.

The risk for players like Telstra has always been that one day (soon) virtual Telcos would emerge, bundling fast data and seamless access points located within cherry-picked markets like our major urban centres.

Don’t forget the Community Service Obligations

A major problem for both AusPost and Telstra relates to their community service obligations. These are enshrined in the relevant Commonwealth legislation for both Telstra and AusPost, generally requiring both companies to provide an adequate service to all Australians, wherever they be.

The problem is that postal and telecommunications services to rural and remote areas, while of fundamental importance to those communities, tend to be a financial deadweight for the companies.

For example, one aspect of AusPost’s community service obligations is the provision of at least 2,500 outlets in rural and remote Australia. These are often integrated into local retailers, providing an important hub for communities, allowing access to mail, banking and financial services. Significant closures of these outlets would have devastating consequences for many rural communities.

Thus the government should proceed with caution with any plans to allow AusPost to split in two, and it should monitor carefully the implications of technological change on Telstra. For AusPost, selling the profitable parcels business would leave a legacy letters and services business that would almost certainly see declining use and huge financial losses into the future. For Telstra, the consequences of a myriad of new competitors cherry picking its profitable city markets, while ignoring the costs associated with ubiquitous infrastructure in the regions, could be calamitous.

Regardless of promises and projections, the temptation for AusPost's and Telstra's managers to cut services and costs to reduce (especially non-urban) losses could well be irresistible.

Appendix K – Don't gut or cut our Australia Post

Published by The Conversation. Authored by Michael Danby, Federal Member of Parliament, Australian Labor Party (ALP). | 30 June 2014

The "privatise everything" faction of the Liberal Party has its sights set on Australia Post. But their arguments don't stack up, and cutting delivery or selling it off is simply short-sighted, writes Michael Danby.

Finance Minister Mathias Cormann has retreated. Apparently, the Abbott Government now has no plans sell Australia Post.

Considering the number of backflips this Government has undertaken on key policy promises, I don't find the Minister's claim particularly reassuring.

Despite the essential service Australia Post provides taxpayers, and despite its overall profitability, you can hear the ideological drumbeat continuing to pound for Australia Post's privatisation. The Institute of Public Affairs (IPA) and the "privatise everything" faction of the Liberal Party long to hear Minister Cormann saying "hasta la vista" to Australia Post.

Communications Minister Malcolm Turnbull recently noted that Labor supports reforms to secure the future of Australia Post. But wanting to secure the future of Australia Post doesn't necessarily mean agreeing with all proposals for reform that are put forward.

Minister Turnbull supports Australia Post's CEO, Ahmed Fahour's view that because Australians are sending fewer letters the letter delivery side of its operations is "bleeding money". Thus to avoid "extinction", Mr Fahour is cutting Australia Post's workforce by 900 and pushing for a reduction in its services; advocating reducing delivery of letters to three times a week.

Yes, modern technology, especially email, has resulted in a decline in standard post over the past few years. However, to suggest that this means that we should cut our post delivery service from five to three days a week - when Germany, France, the UK and New Zealand all have six-day-a-week post delivery - is short-sighted and diminishes the role Australia Post mail still plays within our society as a public service.

Australia Post's own mission statement on its website reads:

"We deliver an important social and economic dividend for all Australians. Australia Post continues to balance its commercial objectives with its community service obligations ... Our commercial success ensures we can reinvest in the communities we serve, and continue to improve the products and services we provide."

So any discussion around the future of Australia Post still hinges on the very purpose for which it was created more than 200 years ago: to provide Australia with a fully functioning postal service. It seems that the Labor Party is the only one left committed to Australia Post's own mission statement.

There is a fundamental misunderstanding throughout this debate around how profitable Australia Post actually is. Despite the manufactured perception, Australia Post is still profitable overall.

Last financial year it made $312 million. The organisation returned a 2013 dividend to the government of $244 million - and paid taxes of $447 million. These profits have come overwhelming from the delivery of parcels. Indeed, Australia Post's alleged losses in letter delivery ($218 million) were comfortably outweighed by its profits in parcel delivery ($648 million).

Over the last year or so a number of well-placed articles have pointed out that Australia Post has more than $4 billion in assets, so selling it would deliver a cash windfall for the government. Sadly, even the Australia Post chairman, John Stanhope, has been quoted as supporting the Post's privatisation.

What's more, the ideological brains trust of this Government - the Tea Party libertarians at the IPA - insist that there is no sound rationale for Australia Post to stay in Government hands.

In matters of national security or racial discrimination, the Abbott Government, particularly the Attorney-General George Brandis, seems to be influenced by the ideologues at this Melbourne-based think tank.

Conveniently for privatisation purposes, Australia Post's parcel delivery service is undertaken by a wholly owned company, Star Track Express. Separating Australia Post's business in this way boosts the argument that Australia Post is a sinking behemoth in need of radical privatisation.

But what, I ask, is the urgency if Australia Post is still providing healthy dividends to the government? Why is it so "absurd" for one arm of a government service provider like Australia Post to cross-subsidise another arm?

In my view it's a false distinction to talk about profitable parcel delivery and unprofitable letter delivery. Hasn't the letter service previously supported a sub-optimal parcel service? Doesn't your local postie deliver many small parcels?

One area where costs ought to be cut is executive remuneration. Aussie Post's Mr Fahour was paid $4.75 million last year. By contrast, Royal Mail CEO Moya Greene is paid £1.2 million ($A2.14 million). As recently as 2012, US postmaster general Patrick Donahoe received $US512,093 ($A544,000) - a figure that was itself decried as exorbitant despite Mr Donahoe running a $65 billion business with responsibility for about half a million staff.

There are also currently 435 Australia Post senior employees earning more than $180,000! That's roughly three full parliaments, and they don't face the citizens' performance review every three years either.

In total more than $120 million is spent on Mr Fahour and his senior employees each year. If this number of high-paid executives were halved, Australia Post would have savings of roughly $60 million annually.

That's a better way of adding to the bottom-line than cutting off elder ladies from their mail service.

If more Australians were aware how profitable Australia Post is, and how much its senior executives are earning, I am sure they would disagree with arguments for cuts to mail services and talk of eventual privatisation.

Instead of considering the public interest however, the IPA, the Australia Post leadership and the "privatise everything" faction in the Liberal Party are pursuing a very ideological agenda to gut this 205-year-old public institution.

Michael Danby (ALP) is the federal member for Melbourne Ports, Victoria. View his full profile here*.*

Appendix L - Germany's post office beats Amazon and Google with launch of world's first drone delivery service
Richard Weiss, Bloomberg News | 26 September 2014

Germany's Wadden Sea, World Heritage-designated wetlands recognized for their importance in the conservation of migratory birds, will soon host frequent fliers of a different kind when drones enter the skies typically populated by spoonbills, cormorants and geese.

Deutsche Post AG, Europe's largest postal service, is about to begin deliveries of medication and other urgent goods to the island of Juist using unmanned helicopters after securing approval from state and federal transport ministries and air traffic control authorities to operate in a restricted flight area. The vehicles, called parcelcopters, will operate from Friday, weather permitting, and fly for four to six weeks in the pilot project, the Bonn-based company said yesterday.

"With the parcelcopter, an unmanned aircraft operating outside the controller's field of vision will perform deliveries for the first time in a real-world mission," Juergen Gerdes, Deutsche Post's board member responsible for mail, parcel and electronic commerce activities, said in a statement.

The trial-run may help Deutsche Post stake a claim to a part of the logistics chain in which postal operators and express service providers are increasingly being challenged by Internet retailers. U.S. online retailer Amazon.com Inc. and search giant Google Inc. have begun testing drones for deliveries, while the Federal Aviation Administration last year said it won't permit autonomous flights without pilots in the U.S. until it crafts rules for them.

The German company will fly the drones along the 12-kilometre stretch from the passenger port of Norddeich to a designated launch pad on Juist, from where a local courier service will transport the goods to the recipient. The service will improve availability of medication on the island, which is a car-free zone that's only reachable by aircraft and ferry.

Related

Amazon .com Inc shares rise as it petitions FAA to fly drones for deliveries

Google Inc to buy Titan Aerospace, a startup that makes solar-powered drones intended to fly for years

FAA shuts down plan for beer delivery drone designed for ice fishers

Canadian startups are using drone technology to spot new business opportunities

Powered by four identical fixed-pitch propellers, the drone can carry loads of up to 1.2 kilograms in specially designed containers. While it's designed to be rain, snow, and dust-proof, operations will only commence when weather permits, Deutsche

Post said. The drone can fly for 45 minutes, and will be monitored from a ground station.

Google’s researchers have been exploring the use of unmanned aircraft for about two years, testing the delivery of radios, dog treats and cattle vaccines to farms in Queensland, Australia. Amazon has only tested drones within the confines of its laboratories or outside the U.S., and has requested permission in its home country to expand outside its research labs.

Movie makers, real-estate agents, criminal-defence lawyers and farmers are also among groups lobbying to make drones legal. The FAA expects to propose rules for commercial drones weighing less than 55 pounds later this year and has so far only approved such flights in the Arctic regions of Alaska.

Appendix M – Government agencies get more power in Cormann's 'cloud first' policy

Published by The Australian. Authored by Fran Foo. | 14 October 2014

THE heads of departments and agencies will have unprecedented power to determine whether personal information can be hosted offshore while public entities such as NBN Co and the Reserve Bank will be exempted from Canberra's "cloud-first" policy.

Finance Minister Mathias Cormann said a whole-of-government cloud services panel was expected to be operational in January. Finance's request for tender for the panel closes on October 20.

The previous policy required government agencies to obtain dual ministerial approval — their relevant minister and the -Attorney-General — where personal information was to be held in offshore or in outsourced onshore public cloud ICT -arrangements.

The recommendation to use a public or private cloud ICT -arrangement was made by the -requesting agency.

"The type of information that may be held in a cloud arrangement is now at the discretion of the agency head," Senator Cormann said. "Agency heads will be able to approve proposals to place certain information in either offshore or domestically hosted (onshore) public cloud.

"Security classified information must be handled in accordance with existing policies and guidance of the Protective -Security Policy Framework and Information Security Manual," he said.

"Non-corporate departments and agencies under the Public Governance, Performance and Accountability Act 2013 are required to use cloud services for new ICT services whenever the cloud services are fit for purpose, provide adequate management of risk to information and ICT assets, and offer the best value for money," he said. This includes some of the largest ICT users such as Defence, Health, the tax office, Immigration, Human Services, Australian Bureau of Statistics and Customs.

The Attorney-General's department, Finance and Prime Minister and Cabinet are also on the list.

Senator Cormann confirmed not all government entities would be subject to the policy, which was released last week. He said corporate departments and agencies under the PGPA Act 2013 may "apply the policy voluntarily and are not excluded from using the cloud computing panel and/or other whole-of-government cloud service initiatives.

“The cloud panel is available to all bodies governed by the states and territories.”

This means NBN Co, CSIRO, the RBA, Medibank, the ABC, and SBS won’t be forced to use cloud computing providers.

He said Finance would monitor cloud services procurement through the cloud panel, Aus-Tender and the agency solutions database to keep track of policy adherence. The policy received mixed reviews. Research house Ovum gave it the thumbs-up while industry body OzHub chairman Matt Healy criticised it.

Mr Healy said the British government had a goal of shifting 50 per cent of its new government IT spending to cloud-based ser-vices by 2015 but not Australia.

Senator Cormann said that while the policy did not contain a specific target, non-corporate departments and agencies must use it for new ICT services and when replacing existing ICT services.

He said a number of activities were under way to increase the adoption of cloud services by departments and agencies, including the relocation of critical data to a secure government cloud using automated tools, and the review of the data centre-as-a-service-multi use list.

Ovum global public sector chief analyst Steve Hodgkinson said the “practical reality” was government agencies would always be more comfortable “buying local” because of data sovereignty concerns (real and imagined) and because it more directly supported the local economy and employed Australians.

Dr Hodgkinson said jobs and security concerns were likely to see a preference for data to stay local where possible.

“The problem, however, is that the cloud services model is all about scale and the most mature, functional and innovative services will always be operated as global businesses,” he said.

Whether there was a business case for a global cloud service provider to set up local data centres depends on demand, so “there is a ‘chicken and egg’ situation here”, he said. “This is why the federal government needs to show leadership by putting its demand on the table.

Appendix N – Australia Post CEO says time is running out
Published by The Australian Financial Review. Authored by Patrick Durkin. | 20 November 2014

Australia Post chief executive Ahmed Fahour has urged the federal government to allow the agency to immediately lift prices and lower service standards, warning that the clock is ticking for the agency's 36,000 employees and 2900 licensed post offices.

Standard & Poor's has put Australia Post on notice of a credit downgrade before Christmas, after losses in its letters business caused a net loss in the second half of last financial year for the first time since the business was corporatised in 1989.

"Our year-to-date performance is already down 50 per cent for the whole company. The parcels business is going great, it is just that the size of the loses in letters is so overwhelming that it is just sucking everything into it," Mr Fahour told the Senate's communications committee on Thursday.

"I don't want to use emotive words like 'desperate', but the clock is ticking really fast on our employees, on us and our licences, so this is really serious.

"This business is disappearing before our eyes," he later added.

Mr Fahour has asked Communications Minister Malcolm Turnbull to present a rescue package to cabinet before Christmas, including a two-tiered system for mail and flexible pricing for delivery services. *The Australian Financial Review* revealed on Wednesday that, under the radical plan, the price of stamps could rise to as much as $1 each as letter volumes fall off a "cliff". Under the reforms, the government would approve a two-tiered pricing system, similar to the United Kingdom's second-class mail service, for non-urgent letter deliveries. Customers wanting speedier delivery would pay more than the standard rate, which increased from 60¢ to 70¢ in March this year. Concessions for the disadvantaged, including pensioners, would remain.

Mr Fahour pointed to recent price rises for stamps in the UK and Canada and said Australia Post should be entitled to recover its "good, fair costs" from the 97 per cent of letters delivered on behalf of government and corporations. "The UK is about $1.50, roughly – it is a small little island. Whereas Australia, if you look at the distances we have to travel, the post offices and the network we have to support, it doesn't make sense that we have the second-cheapest postage stamp in the world."

Mr Fahour said no decision had been made on price and it would vary for individual products, but admitted the price of delivering letters had blown out to around $1 each.

"The price of a stamp does not reflect the [post office's] costs or Australia Post's costs," he said.

“What we would like to do is to have corporates and government and big business … factor in recovery of the stamp price and we believe franchisees deserve to be paid a price which helps them recover their costs.”