Royal Mail: A hedge fund that delivers parcels

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It is thirteen years since pensions-fund expert John Ralfe described Royal Mail as a hedge fund that delivers letters. That was before privatisation and was Ralfe's warning about Royal Mail's secret decision to invest £5.13 billion of workers' pension funds into the futures market—a high-stakes gamble that risked financial ruin for thousands of postal workers.

A decade on from privatisation, Royal Mail Group—renamed International Distribution Services (IDS)—has become a hedge fund that mostly delivers parcels.

This economic reality—a network of investors feeding off the social labour of postal workers—is deliberately obscured by Communication Workers Union (CWU) officials Dave Ward and Andy Furey, who have spent the past month telling Royal Mail workers that the company faces an "Armageddon moment" which can be averted only if their negotiators' deal—the "RMG/CWU Business Recovery, Transformation and Growth Agreement"—is accepted in full. The alternative, Ward has claimed, is "mutual self-destruction".

Ward's arguments are premised on the false claim that workers and company owners (referred to as "stakeholders") share common interests. The CWU's 35-page agreement makes frequent reference to "mutual interest solutions" and "aligning the interests of employees, customers and other stakeholders".

As Karl Marx explained in *Capital*, for the individual capitalist the "use value" of the commodity or service they produce (its actual usefulness) is irrelevant. Those capitalists who invest in IDS/Royal Mail are "capital personified", seeking one thing only: the ever-greater accumulation and expansion of profit, whose sole source is surplus value extracted from the living labour power of the working class.

At Bank of America's London headquarters last Thursday, this fundamental truth was on display, with chief executives from IDS (incorporating Royal Mail and global parcels subsidiary GLS) announcing their unaudited financial results for 2022-23. It was the company's first in-person announcement since the pandemic, with around 150 analysts, bankers, institutional shareholders and investors listening in remotely.

IDS executives made clear that the company's forecast return to profitability over the next 12 months—and into the future—is dependent on the ruthless exploitation of its global workforce focused on parcel delivery. This includes gutting the Universal Service Obligation on six-day letter delivery which Royal Mail workers and customers regard as a vital public service.

Who owns Royal Mail?

Royal Mail's 140,000 workers—who created more than £1 billion in profits during the pandemic—were not the intended audience for IDS's financial briefing. Its executives were addressing "the market"—entities like Vesa Equity, Schroder Investment Management, RWC Partners, and Blackrock Inc, who between them hold 397,301,754 IDS shares worth more than £1.79 billion.

The largest shareholder is Vesa Equity with a 25.29 percent ownership stake controlled by Czech billionaire Daniel Kretinsky who creamed nearly £100 million in share payments off the back of Royal Mail workers in the pandemic's first year. Kretinsky's business interests include coal, oil, gas, media, retail, and sports, with a large stake in West Ham Football Club. He is worth an estimated £7.5 billion.

A decade after privatisation, IDS's top five shareholders control 51 percent of the company. In total, institutional shareholders own 55.7 percent of IDS (526,607,832 shares), while private equity/venture capital investors own 25.3 percent (239,279,363 shares). By contrast, the general public holds just 9 percent of shares and the Employees Share Scheme accounts for 10 percent—neither group has a controlling interest or say in the company's direction. The Royal Mail Plc Share Incentive Plan holds 5.97 percent of shares worth £111.3 million—ensuring that managers have a direct stake in ramping up the exploitation of Royal Mail's workforce.

JP Morgan, UBS, Deutsche Bank and HSBC were among those in attendance at last week's announcement as IDS executives Keith Williams, Mick Jeavons and Martin Seidenberg spelled out their global class war strategy against Royal Mail and GLS workers across Europe and North America. Royal Mail is no longer a UK-based company. It is a subsidiary of IDS encompassing GLS, which operates in 40 countries with a workforce of 22,300 serving 250,000+ customers.

GLS has overseen a major upgrade of its delivery hub network in Europe tackling "underperformance" in Spain and France, including a new facility in Madrid and a new central hub being completed in Paris. It is expanding in Eastern Europe (in Poland, Serbia and Slovenia) while in Canada IDS has acquired logistics company Rosenau. GLS operates a "subcontractor model" and "local entrepreneurial model" which "drives a relentless focus on quality, efficiency and costs".

Royal Mail's corporate partnership with the CWU

Company executives spoke with candour of the company's reliance on the CWU, which they referred to as "our union", to help transform Royal Mail along similar lines, to "drive greater efficiency" including "reduced headcount", "flexibility in work patterns", "seasonal variation in hours" and cuts to sick pay entitlements.

Williams, IDS non-executive chairman, said, "we've been at the crossroads for a considerable period, but things are now starting to move forward… Our agreement with the CWU includes a number of initiatives designed to help us improve, including removing sick absence and method change.” The former CEO of British Airways, Williams also chairs the Tory government’s Rail Review that is overseeing an historic assault on rail workers’ jobs, terms and conditions (with the collusion of rail unions the RMT and ASLEF), part of the Great British Railways re-privatisation agenda.

In words nearly identical to those used by Ward and Furey, Williams declared, “the negotiation agreement reached with the CWU offers a real opportunity to deliver a positive change for all stakeholders.” He emphasised “successful delivery of that agreement is essential. With it we can grow the business, and return the Group to profitability next year, and see both companies [Royal Mail and GLS] in profit the year after.”

Media reports of last year’s profit results have headlined Royal Mail’s £1.1 billion loss, blamed on 18 days of industrial action. But IDS executives cited several factors, led by a global economic downturn and cost-of-living crisis that saw domestic parcel volumes decline by 21 percent year-on-year, affected also by NHS Covid test-kit deliveries ending.

The financial impact of the CWU’s piecemeal industrial action on Royal Mail’s finances was estimated by IDS at £200 million—showing how the immense potential clout of postal workers was stymied by the union. Company executives made clear the sacrifice was worth it, pointing to future payoffs from their negotiators’ agreement with the CWU. In fact, the company has already cashed in, with Williams citing last November’s five-point stabilisation plan: “On rightsizing the business, for example, we said we’d target a reduction of 5,000 FTEs by the end of March, and in fact, we delivered around a 10,000 reduction on exit from the year earlier. Revisions have now been completed in all units.” All thanks to the CWU’s collusion.

Royal Mail’s plans to “maximise return on investment”

While Ward and Furey have cited the threat of Royal Mail’s bankruptcy to bully workers into accepting the agreement, Williams’ presentation was comparatively upbeat, citing retained earnings of £3.8 billion and access to liquidity of £1.7 billion. He concluded, “Despite the impairment of assets at Royal Mail, the group balance sheets remain strong”. He cited “reasons to be optimistic with a plan that shows a return to profitability this year 23/24, and both companies in profit the year after.”

Royal Mail’s £1.1 billion loss was partially offset by stable GLS profits of €403 million (GLS is 70 percent larger profit-wise than three years ago) for a year-end Group loss of £748 million.

The overall message was clear: while Royal Mail has taken a hit, this is partly strategic, including capital investment into parcel modernisation of £1.4 billion over the past five years. Williams concluded, “The investment phase is now complete for Royal Mail, and so we need to focus on maximising the returns from those investments, including the two new Super Hubs. Our Northwest Super Hub opened in June last year, and next year we are opening our Midland Super Hub.” IDS’s deal with the CWU aims to “maximise return on investment”.

Automation is part of these plans. Instead of being used to make work easier, it is creating a platform for ramped-up exploitation. Body-breaking workloads are already being used to drive older staff out and bring in new entrants on inferior pay, terms and conditions.

The Universal Service Obligation on six-day mail delivery (being flouted in practice) will be ditched. In reply to a question from JP Morgan about the UK carrier’s long-term profitability, Williams said, the “USO is not sustainable in its current form” and that “the union recognise that in the agreement. They want to work with us in putting forward what changes need to happen to the USO”. IDS Chief Financial Officer Mick Jeavons said the agreement “contemplates us working together” on a broader “modernisation” of the USO, including the “tracking on parcel services that consumers buy in the post office”.

IDS executives made clear that retention of Royal Mail was their preferred option, based on a deal with the union that delivers the company everything it wants. But should the agreement be rejected by workers, then “Group separation remains an option”. Williams told investors, “we will always represent the interests of shareholders”.

In their joint announcement, Royal Mail was treated like a fresh carcass, with investors and analysts watching on like vultures. Williams announced that Royal Mail “will be dependent on asset disposals” in the year ahead, including the sale of the four-acre Parcelforce site at Royal College Street Camden. When a Barclays analyst pressed for more information on “the magnitude of disposals”, Jeavons confirmed plans for widespread asset-stripping, “we’ve got a couple of sites in what is currently a very attractive part of London for developers”.

There is no “mutual interest” between workers and Royal Mail

Any acceptance of the CWU’s claims that Royal Mail workers and the company share a “mutual interest” is a road to destruction. Ward and Furey say that if workers sacrifice now to save the company they will be repaid for their efforts down the line. This warmed-up Thatcherite trickle-down-economics is an insult to the working class.

BT is the most recent example of this fraud. In 2021, the CWU betrayed strike action by 40,000 telecoms call centre workers and engineers, recommending a below-inflation pay deal and partnering with the company to deliver £500 million in “efficiencies,” claiming this would prevent job losses. CEO Philip Jansen had described the CWU as “vital partners,” while CWU officials said the deal would strengthen “the way we work together.”

Two years later and the fruit of this partnership is BT’s announcement that 50,000 staff will be culled by 2030—42 percent of the company’s workforce. The CWU issued a statement on May 18 saying the news came as “no surprise” and that new technology “was always going to result in less labour costs for the company in the coming years.” A CWU spokesperson said, “it’s imperative that we should be in the room discussing and shaping the new skills required of the workforce as they move to a more digital network… the company has agreed ongoing discussions with the CWU on these matters.”

BT announced its jobs massacre despite profits of £1.9 billion, citing a one-off tax break having masked a 12 percent decline in profits to £1.7 billion—a result still punishable by investors.

Workers must act to defend their independent class interests. If Royal Mail faces collapse, then it must be nationalised under the democratic control of the working class, its major shareholders expropriated, and their wealth used to fund improved pay, terms and conditions and guaranteeing a healthy work-life balance for postal workers while protecting a service vital to millions of people.

Royal Mail’s owners plan their strategy on a global basis, and the working class must respond with its own global strategy, aimed at unifying its struggles across national borders and sectoral boundaries against the dictatorship of the financial oligarchy exercised by their representatives in government and in the corporatist trade union bureaucracy.

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