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Senator Anne Ruston
Chairman, Standing Committee on
Environment and Communications
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Senator

I refer to the supplementary submission made by the Licensed Post Office Group (LPOG) to the Senate Standing Committee on Environment and Communication's ("Committee") inquiry into the performance of Australia Post and our Licensed Post Offices (LPOs).

I wanted to take the opportunity to provide you with my views around this submission and the ongoing public statements being made by the LPOG. We do not propose to provide a public response to the points raised by the LPOG as our dealings with them has shown their desire to use any response we might offer as merely a further opportunity to fuel publicity around their claims.

Since the inception of the Senate Inquiry in late 2013, we have worked to ensure the Committee and other interested parties have a clear understanding of the challenges facing Australia Post. As part of this, we have through our submission and subsequent responses to the Committee been very open and provided a level of detail and disclosed facts around the conduct of our business and the operation of our LPO network which has not previously been placed into the public domain.

We have also taken steps to provide clarity around the relationship we have with our licensees and to highlight how as independent small business operators they have:

- purchased in most cases an underlying business from a party other than Australia Post – the value of that purchase taking into account in some form the associated income;
- voluntarily applied to be part of the Australia Post network and at their discretion choose to maintain this relationship;
- entered into the agreement with full knowledge of the applicable payments and contractual terms involved and providing a declaration they had sought independent legal and financial advice on these matters; and

- responsibility for how they conduct their own business to which we provide in most cases, but one stream of revenue.

We believe that a reasonable person would agree through the evidence we have provided to the Senate Inquiry that we operate our licensed/ franchise network in an appropriate manner and in keeping with the expectation of the wider community around fairness and doing the "right-thing". We have also demonstrated that we have robust systems and processes in place to ensure we manage our LPO network in compliance with all our contractual obligations as well as the associated requirements of the franchising code of conduct.

Notwithstanding this we are sensitive to the challenges our licensees are facing as a result of changing customer needs, the availability of on-line alternatives and the evolving nature of our business and have chosen to take steps to provide assistance to them above and beyond our contractual obligations. To this end, in recent times we have implemented a range of initiatives providing some $15m in new payments to licensees. This is in addition to the $25m increase in annual payments licensees will receive as a result of the recent increase to the Basic Postage Rate.

We have worked constructively with the Committee and have taken steps where appropriate to address the concerns raised with us during the course of the Senate Inquiry. We are currently working on what we regard as the last of these steps by looking to identify alternative benchmarks to price increases in delivery compared to the current methodology tied to the Basic Postage Rate. In consultation with licensee representatives we intend to work with them to see if alternatives systems could be implemented that is cost neutral, but provides for a better system taking into consideration our expected declines in the letters business and rising losses.

Beyond this, in our view we have reached the point where further concessions around our LPO arrangements would not be commercially responsible and in our current financial position are simply not affordable.

The LPOG endeavours to portray Australia Post as being dismissive of their concerns and the plight of licensees in general. They speak of an LPO network in crisis and endeavour to create through the media public concern around impending post office closures. They advocate for a new LPO Agreement and for payments to be aligned to CPI going back some 20 years.

In our view the facts around these matters are different. Our views are:

Consultation

We have agreed to consultative arrangements with the LPOG and have met with them under these arrangements. The LPOG have been provided with the opportunity for genuine engagement with Australia Post and consideration of their views.

These consultative arrangements do not extend to negotiation or seeking approval/ endorsement for any given course of action, rather it provides a reasonable opportunity for their input to Australia Post's decision making process.

LPO Sustainability

As confirmed by the recent independent assessment conducted by KPMG into LPO sustainability, the LPO network as a whole is not in crisis and licensees continue to receive a return in-line with comparative industry expectations for their business investment.

Commercial reality is that the level of return any individual licensee receives in dollar terms will be reflective of the business they purchased rather than any notion of a minimum working wage.

Recent initiatives, such as our rural sustainability package has provided additional targeted support to those smaller LPOs in rural and remote locations with limited opportunities around transactional revenues.

LPO Payments

Adjustments to LPO payments have been made annually over the 20 years of the LPO agreement in accordance with the relevant contractual terms.

A claim to adjust payment rates going back 20 years fails to recognise licensees purchased their businesses with reference to the applicable contractual arrangements. Further, what licensees paid for their business was reflective of the income being received and in-part how payments would be adjusted going forward.

I look forward to discussing the above further with you at our meeting on Wednesday.

Yours sincerely

Ahmed Fahour

CC: The Hon Malcolm Turnbull MP, Minister for Communications
CC: Senator The Hon Mathias Cormann, Minister for Finance
CC: Mr John Stanhope, Chairman, Australia Post