

CANADA POST IN THE DIGITAL AGE

DISCUSSION PAPER 2016

**TASK FORCE
FOR THE CANADA POST
CORPORATION REVIEW**

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The Honourable Judy M. Foote, P.C., M.P.
Minister of Public Services and Procurement

Dear Minister:

On May 5, 2016, this independent Task Force was established to conduct Phase 1 of the Canada Post Review. The mandate was to deliver a discussion paper that outlined viable options for the future of Canada Post Corporation. This paper would then serve as the basis for an informed public dialogue led by a Parliamentary Committee in Phase 2 of the Review which would then make recommendations to the Government. We, the members of the Task Force for the Canada Post Review, are submitting our discussion paper.

Our role was not to conduct any public consultations but rather the engagement of stakeholders. We must acknowledge and thank the thousands of Canadians and organizations that took the time to contribute to our part of the Review by meeting with us, responding to the question of the week on the website, or sending us their thoughts, ideas or submissions. Although definitive conclusions or findings cannot be drawn from this input, it did provide us with a broad range of perspectives.

To get a statistically representative view of Canadians and businesses from which conclusions could be drawn, formal public opinion research was conducted from coast to coast to coast. Patterson Langlois was commissioned to capture the views of Canadians, Environics the views of Indigenous peoples, and Ekos Research Associates the views of businesses of all sizes.


As part of our fact-finding and evidence gathering, we also retained the services of experts in financial analysis and international postal services. EY (Ernst & Young), a global financial firm, provided us with independent analysis of Canada Post's financial position and projections. Oliver Wyman, a global management consulting firm, supported us in the identification and assessment of new business opportunities some based on their knowledge of best practices of other postal organizations.

Our work would not have been possible without Canada Post Corporation. Management of the Corporation and the unions took the time to meet with us and help us understand the context of the operations and management of postal service. Management made available to our consultants the data and information needed to conduct an independent review. We thank them for their collaboration.

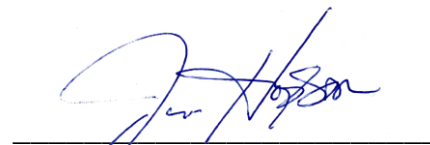
Last but not least, we were also supported by a Secretariat within your department. This Secretariat provided us with invaluable support and advice throughout our work. We could not have completed our work without them.

As we conclude our assignment, we are aware and appreciative of the issues and challenges facing Canada Post Corporation. With the complexity of adapting the present to the future, the partnership of Canada Post, the Government, other stakeholders and Canadians must be brought together to find optimal solutions. We would like to thank you for your confidence and having given each of us the opportunity to have played a role in the future of this important public institution. We remain available to you and the Parliamentary Committee as the next phase of the Review unfolds.


Sincerely,



Françoise Bertrand, Chair



Jim Hopson, Member



Krystyna T. Hoeg, Member



Marena McLaughlin, Member

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EXECUTIVE SUMMARY

On May 5, 2016, the Minister of Public Services and Procurement launched the Independent Review of the Canada Post Corporation with the objective that the Corporation provide quality services to meet the needs of Canadians at a reasonable price in a financially self-sustainable manner.

- The mandate of the **Task Force for Phase 1 of the Review** was to develop a discussion paper to inform Canadians, Parliamentarians and the Government on Canada Post Corporation's financial situation, the needs of Canadians, and potential viable options. The Review was to take into consideration the views of Canadians and other key stakeholders, comparisons with other national postal systems and past reviews.
- During **Phase 2, a Parliamentary Committee** is to consult Canadians on the options and make recommendations to the Government based on what Canadians need for the future of Canada Post.

The current era for the Canada Post Corporation began in 1981 when it was established as a Crown corporation. Prior to 1981, Canada Post operated as an appropriated federal department. Under the *Canada Post Corporation Act*, the Corporation is mandated to provide a standard of service that meets the needs of Canadians while conducting its operations on a **self-sustaining financial basis**, something that the Corporation achieved most years over the past few decades. While Canada Post operates as a commercial corporation, it differs from for-profit private-sector corporations in that its primary mandate is one of public service.

The history of postal services in Canada dates back to 1753. For much of Canada's history, postal services were key to enabling Canadians to communicate with each other, and they proved indispensable in first building and then binding the nation together. It is clear that the Canada Post brand resonates with Canadians. **Public opinion research** reveals that 68 per cent of businesses of all sizes and the vast majority of Canadians (94 per cent) in all regions in urban, rural and remote communities believe that mail is highly important and that Canada will always need postal services that are owned and operated as a public service (88 per cent of Canadians and 83 per cent of businesses). Canadians (91 per cent) and businesses (83 per cent) are also highly satisfied with Canada Post's services.

However, in the 21st century, most Canadians now communicate digitally by way of email, social media, messaging apps, smart phones, etc. According to public opinion research, 91 per cent of Canadians use the Internet and 69 per cent pay their bills online rather than through the mail as was the preferred method only a few years ago.

Public opinion research focus groups indicate that even though Canadians recognize the ongoing shift to digital communications, they are emotionally attached to mail: personal letters, parcels from loved ones, greeting and holiday related cards are viewed with much affection, even nostalgia.

Businesses are also increasingly moving their advertising, newspapers, magazines, financial services such as banking, etc., online. Digital technology, particularly through the use of smart phone apps, is also disrupting other traditional services such as those provided by the taxi, delivery and hotel industries where recent market entrants such as Uber, InPost and Airbnb are quickly becoming established competitors in Canada and many other developed economies. Also, most Canadians now prefer to bank online (69 per cent).

As a result of the disruptive effect of evolving technologies (e.g., Internet and smart phones), Canadians' postal usage is changing. Mail volumes are down (in 2015, the Canada Post segment delivered 8.8 billion pieces of mail down from a peak of 11.6 billion pieces for the segment in 2007) but 170,000 new addresses are added each year. Less mail is delivered to more addresses, which has the effect of increasing Canada Post's per-unit mail delivery costs.

Canadians still use mail but the mix of the mail delivered to the mail box is changing rapidly. **Transaction Mail** (domestic and international Lettermail, including letters, bills, statements, invoices and postcards) volumes have declined by 32 per cent or 1.6 billion pieces since 2006. This type of mail is no longer the main type of mail delivered despite still providing 50 per cent of the Canada Post segment's 2015 revenue of \$6.3 billion in part as a result of stamp price increases in 2014.

Most mail now delivered to the mail box is **Direct Marketing Mail**, which is often referred to as AdMail. This mail includes Personalized Mail (formerly Addressed AdMail, e.g., a credit card application), Publication Mail (e.g., a magazine), as well as Neighbourhood Mail (formerly Unaddressed AdMail, e.g., a pizza flyer). However, despite AdMail making up 56 per cent of mail volumes, it contributes only 19 per cent of Canada Post's revenues. The mix of AdMail has changed profoundly between 2006 and 2015: Personalized Mail volumes have declined 27.2 per cent; Publication Mail has declined 44.1 per cent but Neighbourhood Mail has only declined by 5.6 per cent in comparison. Of note is that Neighbourhood Mail is not part of the postal monopoly, or Canada Post's exclusive privilege, meaning that it is delivered in competition with companies (e.g., Valpak) and newspapers (particularly in smaller communities) that also deliver flyers.

All public opinion research focus groups conducted with Canadians indicate that AdMail is viewed as "Junk Mail". The fact that AdMail now makes up the bulk of mail delivered

to the mail box is proving an irritant among Canadians. Most of the AdMail received consists of flyers that are often directly recycled and at times litter the neighbourhood. A common observation from stakeholder engagement was the amount of litter around community mailboxes as a result of people not taking home their AdMail.

As for businesses, the public opinion research shows that only 22 per cent of businesses send AdMail via Canada Post. Out of these businesses, 78 per cent consider it moderately or highly important to their business. However, AdMail overall has declined by 15 per cent since 2006.

Canada Post's strategic focus has been "on growing revenues in parcels and the Direct Marketing businesses,"¹ however, AdMail is likely headed for a more significant decline as e-flyers are growing in popularity and usage among Canadians. Smart phone apps such as Flipp² are increasingly being used by Canadians and provide a greater ease of usage than physical flyers. And once the e-flyer has been considered, it may be deleted without producing the waste of physical flyers. As a result, e-flyers are seen as a greener alternative to AdMail. Going forward as green initiatives, including climate change, increasingly resonate with Canadians, they will become less accepting of AdMail.

Although digital technologies have disrupted Canada Post's Transaction Mail and Direct marketing business lines, e-commerce has driven **parcel delivery** in Canada to the benefit of Canada Post's business-to-consumer (B2C) parcel delivery. In 2015, the Canada Post parcel segment posted a revenue increase of 9.1 per cent, reaching \$1.6 billion,³ an almost 10 per cent or 16 million piece increase in parcels from 2014 to 2015.

Unfortunately, despite an almost 10 per cent growth in parcel volumes at Canada Post in 2015 over the previous year, the longer term revenue growth in parcels may not be sustainable or enough to offset future declines in letter revenues (section 4.3 E-commerce Growth and Parcels). The outlook for Canada Post in the Canadian parcels market is far from certain given the large number of competitors in the parcels market, including the new entrants this growing market is attracting. Greater competition is beginning to force down market prices and lower cost delivery venues will make it more difficult for Canada Post to compete since the Corporation has tied its parcel delivery to its labour-intensive mail delivery. While Canada Post is able to absorb the sizeable overhead network costs in its Transaction Mail line of business, this approach will

¹ Canada Post Corporation 2015 Annual Report, President's Message page 6.

² "Flipp" is an example of an app that provides e-flyers. Like physical flyers, consumers may "clip" coupons and use them to compare and indicate competitor prices when shopping.

<https://play.google.com/store/apps/details?id=com.wishabi.flipp&hl=en>

³ Purolator, on the other hand, which focuses on business to business (B2B) parcels, experienced an 8.7% decrease in revenues to \$1.5 billion in revenues as a result of growing B2B competition.

become less feasible over the longer term as Transaction Mail volumes continue to decline, unless corporate revenues are maintained or increased through higher stamp prices or other options.

A major challenge faced by Canada Post is that its **costs are largely fixed** despite falling mail volumes. Fixed costs are primarily comprised of infrastructure and overhead costs, and as such are difficult for the Corporation to reduce in reaction to declining business volumes. Traditional postal services are highly labour intensive. In Canada Post's case, labour costs represent about 70 per cent of total costs and according to EY (Ernst & Young), are 41 per cent higher than those of comparable businesses in the private sector (Purolator, United Parcel Service (UPS) and DHL). Since 2011, despite having reduced its headcount by about 10 per cent or approximately 5,800 employees, the Corporation's overall labour costs have remained stable at \$4.4 billion.

With more than 90,000 members and assets of \$21.9 billion,⁴ Canada Post has one of the largest pension plans in the country. Over the last five years, the annual pension expense (accrued) for Canada Post has been between \$300 and \$600 million, which significantly affects its net income. Although the pension plan registered a going-concern⁵ surplus of \$1.2 billion at the end of 2015, recent estimates by Canada Post now put the solvency deficit at \$8.1 billion.⁶ However, since Canada Post has been granted temporary relief from making annual special solvency payments,⁷ it deferred payments of about \$1.4 billion in 2015 as reported in the Canada Post Pension Plan Report to Members. Once Canada Post resumes making its solvency payments, unless the interest-rate environment improves substantially, the Corporation will not have sufficient cash on hand to finance its operations.

In addition to falling mail volumes and growing competition in parcels, Canada Post is contending with other challenges stemming from the obligations outlined in the *Canadian Postal Service Charter*. Most surveyed Canadians who receive mail through community mailboxes (81 per cent) or to the door (96 per cent) are satisfied with the method of delivery, and more than two-thirds (68 per cent) of surveyed Canadians who were converted to community mailboxes are satisfied.

Canada Post is prevented from closing or franchising almost 3,600 corporate post offices by the moratorium on the closure or franchising of rural post offices, commonly referred to as the "**Rural Moratorium**," which has remained unchanged since it was

⁴ https://www.cpcpension.com/db/documents/RTM_2015_E.pdf

⁵ The going-concern calculation determines how much is needed for the company's current pension obligations.

⁶ Recently, Canada Post CEO Deepak Chopra announced that the solvency deficit has now exceeded \$8 billion. <http://www.cbc.ca/news/business/canada-post-cupw-1.3728584>

⁷ The pension solvency calculation determines how much a company should be set aside to meet its obligations to pension plan members in the event the pension plan is terminated. The amount of the solvency payment is influenced by interest rates. In a low interest-rate environment, solvency payments are higher.

promulgated in 1994 and which now forms part of the *Canadian Postal Service Charter* announced in 2009. As in other countries, e.g., the United Kingdom (UK) and Australia, the corporate post offices could be converted to less costly franchises. In addition to providing lower operating costs to Canada Post, franchised post offices provide more convenience by virtue of being open longer hours than corporate post offices.

Furthermore, as part of a collective agreement with the Canadian Union of Postal Workers (CUPW) Urban component, Canada Post has agreed to maintain 493 corporate post offices that could otherwise be franchised. Given an overlap of 356 post offices covered by both the Rural Moratorium and the collective agreement, when combined, there are a total of more than 3,700 protected post offices. As a result of population growth the Rural Moratorium needs to be updated. However, there are select under-served rural and remote communities that will continue to need their post offices. Independent experts engaged by the Task Force estimate that Canada Post could save \$177 million by a combination of franchising some corporate offices currently protected by the Rural Moratorium⁸ and the collective agreement with CUPW.

At a time when mail boxes no longer receive mail every day, the *Canadian Postal Service Charter* also requires that Canada Post deliver mail five days a week. This is at odds with the views of surveyed Canadians, 73 per cent of whom were open to the idea of alternate day delivery.

In general, public opinion research revealed that most Canadians were willing to accept changes in the delivery of mail once they were made aware of some of Canada Post's financial challenges. However, Canadians were resistant to changes if they resulted in mass layoffs of postal workers or increased stamp rates. Also, perhaps in line with Canadian values, 92 per cent of Canadians were resistant to changes that would affect mail service to those with mobility challenges.

A third (32 per cent) of businesses were also generally open to changes such as longer delivery times for certain kinds of mail. However, businesses were generally resistant to the idea of rate increases, and some articulated opposition to the transfer or downloading onto clients of what were perceived as public service costs. Many businesses, on the other hand (76 per cent), were in favour of tiered pricing.

In **other countries**, postal services have also played an important role but mail volumes are declining everywhere in the developed world as their citizens adopt and embrace technological change. Postal services have reacted to declining mail volumes by cutting costs through rationalizing postal networks, reducing the frequency of delivery, and addressing labour costs. Some have also provided postal banking (discussed below

⁸ See CPC Review website <http://www.tpsgc-pwgsc.gc.ca/examendepostescanada-canadapostreview/index-eng.html>

and in more detail in Chapter 7), check-in services on seniors⁹ and shut-ins, and Posti of Finland is piloting the offer of lawn-mowing services this summer. In addition, many countries have regulated postal services to ensure reasonable pricing and fair competition.¹⁰

In looking to international best practices, the differing context in each postal market must be considered. Not all approaches taken in other countries are applicable in the Canadian context. Not only does Canada Post deliver across a very large postal territory that crosses six time zones, Canada is a country of low population density where postal delivery is frequently challenged by extreme weather conditions. In contrast, European nations have relatively small postal territories of high population density and experience moderate weather that makes delivery easier.

On the issue of **postal banking**, a comprehensive examination of the proposal was undertaken by third-party experts and informed by the views of Canadians who corresponded or submitted their opinions online, as well as by the presentations of other stakeholders, notably postal unions, that were engaged during the review process. Public opinion research on postal banking was also carried out. Most Canadians (60 per cent) think that full-scale postal banking would be a poor fit with Canada Post's business versus 39 per cent who believe that the idea has potential. Although a minority of Canadians seem to like the idea of postal banking, ultimately, only 7 per cent of Canadians and 11 per cent of businesses claim that they would actually use postal banking services.

While full-scale postal banking is unlikely to succeed within the Canadian context, a partnership model with banks or credit unions could be considered in corporate post offices in select under-served remote communities in line with the "community hub" option of offering services in select communities provided financial institutions have an interest in this initiative.

⁹ This is part of the public services offered by La Poste of France. Posti of Finland offers similar services and United States Postal Service (USPS) carriers watch for signs that something is out of the ordinary with the elderly, especially elderly persons living alone and report issues to the authorities.

<http://www.programsforelderly.com/safety-carrier-alert-usps.php>

¹⁰ E.g., postal services are regulated in the European Union (EU). https://ec.europa.eu/growth/sectors/postal-services/ergp_en

Options

International best practices, stakeholder suggestions and postal experts were all used to identify potential options to address challenges faced by Canada Post in line with Canada's rapidly evolving postal and parcels markets. In considering options, there was no limitation based on Canada Post's existing mandate or business model. Independent experts filtered 37 options (see Annex C) using three criteria:

- The option's potential to improve the Corporation's annual operating income;
- Market dynamics, including demand, level of competition and/or environmental factors; and
- The fit with the Corporation's existing capabilities.

Consequently, the following options were examined further:

Opportunity	Type	Profit Potential (upper limit)
Community mailbox conversion*	Savings	\$400M
Converting 800 of the highest volume corporate post offices to franchise outlets	Savings	\$177M
Alternate day delivery	Savings	\$ 74M
Further streamlining processing operations	Savings	\$ 66M
Pursuing further synergies with Purolator	Savings	\$ 16M
Selling advertising in retail network	Revenue	\$ 19M
Additional "last mile" delivery for 3rd parties	Revenue	\$ 10M

* Note that the conversion profit uplift potential of \$400 million identified above includes the \$80 million savings potential from the 830,000 addresses already converted by Canada Post.

Each option has considerations, advantages and disadvantages, which are more fully articulated in Chapter 7. Of note is that the financial uplift of each option should be considered separately since the total projected financial gains are not cumulative. For example, modifying the retail footprint could result in the reduction of opportunities for providing consolidated government services. In addition, some of the options, for example alternate day delivery, could be piloted with a view of providing a better understanding of the implications of its implementation.

Other options were considered by the Task Force for which further business cases should be developed in the event these options are recommended by the Parliamentary Committee. These are outlined in the following table:

Other Opportunities	Description
Price Based Strategy	Implications of increasing prices as a strategy to offset increasing costs
Review of Labour Costs	Opportunities to address Canada Post's largest cost component
Distribution of Marijuana	Opportunities for Canada Post to distribute marijuana if legalized
Post Offices Serving as Community Hubs	Creating hubs in selected rural and remote communities that currently have access to fewer services than other Canadians
Changes to Canada Post's Governance	Possibility of establishing a postal regulator

Postal banking was also thoroughly examined and presented in Chapter 7.

It is also important to note that, even with an optimal implementation of the foregoing options, Canada Post will not be positioned to operate in the future on a financially self-sustaining basis over the long term. Postal markets in developed countries are experiencing disruption by the rapid digitization of communications. In Canada Post's case, its Transaction Mail and Direct Marketing Mail lines of business are in decline. While mail revenues can be propped up over the short term by increasing prices, over the longer term, such a strategy will help accelerate consumer adoption of digital alternatives. Also, while e-commerce has led to a growth in parcels to the benefit of public and established private-sector delivery companies, many established delivery companies will not be positioned to compete over the longer term with lower cost delivery approaches, e.g., Uber delivery, parcel lockers.

Canada Post is at a crossroads. Canada Post's costs are growing faster than its revenues. Digitization is moving its business from letters to parcels. The *Canadian Postal Service Charter* obligates "last mile" delivery five days a week and the maintenance of the Rural Moratorium. Under the status quo, Canada Post will not be financially self-sustainable going forward. The Corporation's business model, which reflects the 20th century, needs to be realigned with the rapidly changing technological realities and the changing postal usage of Canadians. The Five-point Action Plan was a reaction to these changes, but was developed within the existing postal policy framework. As a result, both the policy framework and the Five-point Action Plan, no longer reflect the changing postal environment. Re-alignment of Canada Post's

business and operations in line with the evolving needs of Canadians is required. Change is necessary and would require collaboration from Canada Post, postal unions, other stakeholders, government and Canadians. Based on the comprehensive input to the Task Force, this realignment should be undertaken with appropriate consultation and an eventual change of governance.

1.0 INTRODUCTION

On May 5, 2016, the Minister of Public Services and Procurement launched the independent review of Canada Post Corporation (CPC) with the objective of ensuring that Canada Post provides quality service to Canadians at a reasonable price. For Phase 1 of the Review, a four-member independent Task Force was to prepare a discussion paper that would inform Canadians, Parliamentarians and the Government on:

- Canada Post's financial situation today and its financial projections into the future based on an objective third-party assessment;
- The views of Canadians and stakeholders regarding how Canada Post serves them today and how they wish to be served into the future; and
- Viable options and the associated implications for ensuring that Canada Post provides quality service to Canadians at a reasonable price and in a self-sustainable fashion.

In conducting its work, the Task Force was to take into consideration the views of key stakeholders, comparisons with other national postal systems, and consider but not duplicate the work of past reviews. The complete Terms of Reference are in Annex A.

The purpose of this discussion paper is to provide a basis for evidence-based and informed public dialogue on the future of Canada Post to be led by a Parliamentary Committee during Phase 2 of the Review. To support this work, the discussion paper includes key information that will assist in understanding Canada Post's business, operations and challenges. The paper is structured as follows:

Chapter 2, **Canada Post's Evolution**, gives a brief history of the Canada Post Corporation and some of the key reviews and policy decisions that have resulted in the corporation that exists today.

Chapter 3, **Canada Post Today**, gives an overview of the Corporation in 2016, in particular its lines of business and the vast network it uses to provide postal service to Canadian households and businesses from coast to coast to coast.

Chapter 4, **International Experience**, gives a brief overview of postal services in other countries. The goal was to learn from the experience of others.

Chapter 5, **Canadians' Needs**, provides the key results of the various forms of stakeholder engagement – public opinion research, face-to-face meetings, and other input received through written submissions and social media.

Chapter 6, **Financial Sustainability Assessment**, has the results of the third-party validation of Canada Post's current financial position and future projections.

Chapter 7, **Options**, offers a number of options along with the considerations to be kept in mind during deliberation of the merits and trade-offs of each.

Chapter 8, **Conclusion**, provides this paper's overview of Canada Post in a fast-changing world, citing challenges that will need to be taken into consideration for the financial self-sustainability of Canada Post.

The Task Force focused its work with the goal of meeting the Minister's expectation of providing a Parliamentary Committee with a comprehensive analysis of Canada Post based on facts and a statistically sound approach to defining the needs and attitudes of Canadians and businesses, while ensuring the financial self-sustainability of the Corporation. Canada Post is an important institution that has been delivering postal services for almost 250 years but it is now at a crossroads and needs to adapt to the 21st century. That is why, in meetings with stakeholders and with international experts, the Task Force researched different ideas and approaches that could contribute to new revenues and reduce costs for Canada Post. The ultimate goal of its work was to provide fact-based analysis, ideas and considerations so that the Parliamentary Committee could undertake its broad consultations with Canadians, and make the best recommendations possible to the Government. The Parliamentary Committee's recommendations should well-position the Canada Post Corporation in a rapidly changing digital world, in a financially self-sustainable manner, taking into consideration Canadians' views.

2.0 CANADA POST'S EVOLUTION

Although created in 1753, Canada's current postal service began with the establishment of the Canada Post Corporation as a Crown corporation in 1981. Prior to 1981, Canada Post operated as a federal department. The change in governance responded to the consensus in the 1970s that the postal system had to be reformed to deal with deficits, labour strife, technological challenges and deteriorating service.¹¹

Under its legislation, the *Canada Post Corporation Act*, Canada Post is required to conduct its operations on a self-sustaining financial basis, while providing a standard of service to meet the postal needs of Canadians that is similar with respect to communities of the same size.¹² Embedded in this direction is a dual mandate: the imperative to provide the same "basic and customary service" to all Canadians, which is

¹¹ Robert M. Campbell. *Modernizing Postal Systems in the Electronic and Global World*. McGill-Queen's University Press. Montreal and Kingston. 2002

¹² The *Canada Post Corporation Act*. <http://www.laws.justice.gc.ca/eng/acts/C-10/>

a public policy objective otherwise referred to as the Universal Service Obligation (USO), while providing these services on a financially self-sustaining basis in a competitive market.

2.1 PREVIOUS REVIEWS AND KEY POLICY DECISIONS

Reviews of the Canada Post Corporation have been conducted to examine issues of the day and as such they did not all have the same focus. However, all reviews were conducted with the premise that Canada Post should not receive appropriations to subsidize its operations.

In 1994, the Government introduced a moratorium on the closure of rural post offices or conversion to franchises often referred to as the Rural Moratorium, which remains in place today. In addition, the Government has conducted three major reviews since the 1980s that have informed postal policy decisions. These have shaped the evolution of Canada Post.

2.1.1 The Marchment Report

In 1985, the Government announced the Review Committee on the Mandate and Productivity of the Canada Post Corporation, commonly referred to as the Marchment Committee, after the chair Alan R. Marchment. The Committee was charged with responsibility “to assess the Corporation's legislative mandate, policies and practices and to report to the Minister Responsible for Canada Post Corporation on the future requirements for a national postal system.” The Marchment Report,¹³ which looked at the mandate and productivity of the Corporation, led to a wide range of measures to strengthen Canada Post's commercial viability.

2.1.2 1996 Mandate Review

In 1996, a mandate review was undertaken¹⁴ that led to a reaffirmation of Canada Post's public policy role through the Universal Service Obligation (USO), and also confirmed that Canadian taxpayers should not be required to subsidize Lettermail. Subsequently, the Government implemented a multi-year policy and financial framework that:

- Maintained the Rural Moratorium;
- Introduced service standards for urban and rural service delivery;

¹³ Review Committee on the Mandate and Productivity of Canada Post Corporation. Government of Canada Publications, 1985.

¹⁴ The future of Canada Post Corporation: Report of the Canada Post Mandate Review. Government of Canada Publications, 1996.

- Established a price-cap formula for basic Lettermail that limited increases to two-thirds the rate of inflation; and
- Set financial goals.

2.1.3 2008 Strategic Review of the Canada Post Corporation¹⁵

In 2008, an advisory panel chaired by Dr. Robert Campbell, an expert on postal industry, conducted an analysis, made recommendations and provided advice with the view to ensuring that Canada Post continue to offer universal postal service on a financially self-sustaining basis “in an evolving postal world that had been made more competitive and challenging as a result of technological change and globalization.”

The panel made a total of 60 recommendations in the areas of Universal Service Obligation, modernization, financial self-sustainability, rural services and governance. Specific recommendations include the re-examination of the Government’s governance relationship with Canada Post to update, clarify and communicate (with a view to improving accountability and transparency) the respective roles, responsibilities and authority of the Board of Directors, Canada Post’s management and the Government. The Strategic Review also recommended an independent third-party review of existing collective agreements to identify those parts that inhibit modernization or impede the realization of productivity improvements necessary for financial self-sustainability, or which otherwise compromise Canada Post’s long-term viability.

While not all of the recommendations were implemented, a number of changes resulted, including the announcement of the *Canadian Postal Service Charter* in 2009, the implementation of a modernization initiative referred to as the Postal Transformation (final cost \$1.8 billion¹⁶), as well as five years of basic Lettermail rate increases to 2014, replacing the price-cap formula.

2.1.4 Summary

Many of the key challenges that were identified in previous reviews are still relevant today, if not more acute as a result of the digital disruption of postal services in developed countries, including Canada. In many countries, declining mail volumes has meant that revenues from the postal monopoly (or exclusive privilege) are no longer sufficient to finance the provision of postal services without dramatic price increases or changes to the provision and/or organization of postal services.

¹⁵ Strategic Review of the Canada Post Corporation: Report of the Advisory Panel to the Minister. Government of Canada Publications, 2008.

¹⁶ 2014 Annual Report, page 54.

2.2 CANADA POST'S FIVE-POINT ACTION PLAN

In 2013, under contract with Canada Post, the Conference Board of Canada issued its analysis of the future of postal services in Canada and identified potential paths forward. The Conference Board found that Canadians still relied on postal service but were steadily shifting communications from physical to digital means. Further, the postal usage of Canadians is evolving, and Canada Post was delivering a higher standard of service than Canadians expected or used. Based on its analysis, the Conference Board estimated that Canada Post would be facing annual operating deficits close to \$1 billion by 2020 unless changes were made. Canada Post used this report as the basis for its subsequent consultations with Canadians¹⁷ and the development of its Five-point Action Plan.¹⁸

The Five-point Action Plan consists of:

1. Converting the 5 million urban Canadian households receiving door-to-door mail delivery to less costly **community mailboxes**. On October 26, 2015, Canada Post suspended conversions. As of that date, approximately 830,000 addresses had been converted to community mailboxes;
2. Introducing **tiered pricing** and providing discounts for books or coils of stamps. A new pricing structure was implemented on March 31, 2014, that raised the cost of a single stamp to \$1, or \$0.85 on a per-unit basis if purchased in volume. Businesses and charities that use postage meters and meet volume and preparation requirements were also provided lower rates. These rates remain in effect today;
3. Strengthening the **retail network** by opening more franchise postal outlets that cost less to operate than corporate post offices. As of March 2015, 73 new franchise postal outlets had been opened across the country in more convenient locations and offering extended hours of operation;
4. **Streamlining operations** for a more efficient flow of mail and parcels to the customer. Some processing has been consolidated in major plants in Montreal, Toronto and Halifax to leverage investments in automation and in September 2014, a new processing plant with high-speed automated sorting equipment for Lettermail and parcels was opened in Richmond, BC to serve the Pacific region. These and other measures to restructure and streamline operations respond to the shift from Lettermail to parcels and improve efficiency; and
5. Addressing the **cost of labour** through attrition and collective bargaining.

¹⁷ The Future of Canada Post: Our Consultations with Canadians, 2013.

https://www.canadapost.ca/cpo/mc/assets/pdf/aboutus/c_en.pdf

¹⁸ Canada Post's Five-point Action Plan: Our Progress to Date. March 2015.

https://www.canadapost.ca/cpo/mc/assets/pdf/aboutus/5_en.pdf

The intent of the Five-point Action Plan was to reduce costs to allow Canada Post to operate on a financially self-sustaining basis. Overall, this Plan targeted \$700 to \$900 million in savings by 2023.

3.0 CANADA POST TODAY

Given the long history of postal services in Canada, Canadians have a strong appreciation of Canada Post's services and "brand." Canadians value postal services but do not necessarily think about them often and in general assume they will always be provided. To have an informed discussion on the future of postal services, Canadians need to have an understanding of the scope, size and magnitude of the institution and how its environment is changing.

The Canada Post Corporation is one of the largest Crown corporations in Canada. It uses a vast service delivery network, infrastructure and workforce to meet the expectations set out in the *Canadian Postal Service Charter*, including delivery five days a week, uniform postage rates, 88 per cent of consumers having a postal outlet within five kilometers.

Canada Post is one of the largest employers in Canada. Its over 50,000 employees delivered 8.8 billion pieces of mail to 15.8 million addresses. It delivers letters, advertising and parcels, as well as providing remittance services in the form of MoneyGrams and postal money orders. Its network of post offices is one of the largest retail networks in Canada that are often the only manifestation of the federal government in some rural communities, and often a place for people to meet.

3.1 CORPORATE STRUCTURE

The Canada Post Corporation and its three subsidiaries are collectively referred to as the Canada Post Group of Companies.

1. Canada Post is the traditional postal segment (Canada Post Segment). It is wholly owned by the Crown, making its shareholder the Government of Canada;
2. Purolator Holdings Ltd. provides integrated business-to-business (B2B) freight, parcel and logistics services. It is 91 per cent owned by Canada Post Corporation;
3. SCI Group Inc. provides supply chain solutions, including warehousing, distribution and logistics services. It is 99 per cent owned by the Canada Post Group of Companies; and
4. Innovapost Inc. provides information technology (IT) services to the Canada Post Group of Companies and is 98 per cent owned by it.

Of these four corporations, Canada Post and Purolator represent the largest portion of employees, volume and revenues of the Corporation.

3.2 BUSINESS LINES

Four business lines encompass the operations of Canada Post. They are Transaction Mail, Direct Marketing Mail, Parcels and Other Services. These business lines represent varying levels of volume and revenues for the Corporation.

Canada Post Segment 2015 Results (in millions)	Revenue	Volume
Transaction Mail	\$3,190	3,691
Direct Marketing Mail	\$1,196	4,917
Parcels	\$1,646	181
Other	\$284	N/A
TOTAL	\$6,316	8,789

3.2.1 Transaction Mail

Also referred to as Lettermail, Transaction Mail includes letters, bills, statements, invoices and postcards. It includes both domestic and international mail. As specified in the *Canada Post Corporation Act*, Canada Post has an exclusive privilege or monopoly to collect, transmit and deliver letters up to 500 grams within Canada. However, there are a number of exceptions to the exclusive privilege, including items of an urgent nature that are priced more than three times the price of a 50-gram letter (i.e., express mail). Postage stamp prices are regulated by the Government under the *Letter Mail Regulations*.

Canada Post's customers in the financial, telecommunications, government and utility sectors send the most Transaction Mail. Although small and medium-sized businesses do not generate large volumes, many depend on this business line for their invoicing and bill payment.

Canada Post receives an annual appropriation of \$22.2 million to help cover the postage fees of providing two programs on behalf of the Government: Parliamentary Free Mail and Material for the Blind. Canada Post covers any postage fee shortfall in providing these two programs.

Transaction Mail is under pressure from digitization. In 2015, Canada Post delivered 3.4 billion pieces of domestic Lettermail but this is 1.6 billion fewer pieces than ten years earlier in 2006—a decline of 32 per cent. However, as Canada's population continues to grow, about 170,000 new addresses are added each year. From 2014 to 2015, while

domestic Lettermail volume declined 5.2 per cent, Lettermail volume per address declined 6.8 per cent. To summarize, Canada Post is delivering less mail to more addresses.

3.2.2 Direct Marketing Mail

This business line, also referred to as AdMail, is comprised of three main products:

1. **Personalized Mail** (formerly called Addressed AdMail) such as a credit card applications and promotional messages tailored to specific consumers;
2. **Neighbourhood Mail** (formerly called Unaddressed AdMail), such as a fast food flyer, enables customers to reach specific neighbourhoods or regions with information on promotional offerings and coupons; and
3. **Publication Mail** such as newspapers, magazines and newsletters.

Both Neighbourhood Mail and Publication Mail operate in competitive markets. Direct Marketing Mail represented more than half (56 per cent) of the total volume of mail products processed by Canada Post in 2015 but a much smaller portion of its revenue (about 19 per cent).

Like Transaction Mail, Direct Marketing Mail has experienced declines in business volume from 2011 to 2015, coinciding with increased use of electronic marketing alternatives and a broad trend toward reducing paper waste. Although volume held steady between 2014 and 2015, volume declined at an average annual rate of 1.4 per cent, falling from 5.2 billion pieces in 2011 to 4.9 billion in 2015. However, Direct Marketing Mail operates on thinner margins (i.e., less profit per piece) than Transaction Mail. Consequently, volume declines in this business line have had less of a negative impact on Canada Post's overall profitability than have declines in Transaction Mail.

3.2.3 Parcels

The Parcel business line encompasses items that exceed 500 grams and courier items such as Express Lettermail. Standard, Expedited, Priority and Xpresspost parcel delivery services are offered and are focused in the business-to-consumer (B2C) segment where Canada Post competes with numerous local and regional courier and delivery companies, as well as multinational players such as FedEx and United Parcel Service (UPS).

Unlike Transaction Mail and Direct Marketing Mail, Parcel volumes have been increasing at an average annual rate of 6.1 per cent, rising from 143 million pieces in 2011 to 181 million pieces in 2015. In one year alone, Canada Post delivered 16 million more parcels in 2015 than in 2014, an increase it attributes almost entirely to e-commerce orders. However, the value of this advantage may diminish over the next few

years as Canadians accept delivery to locations other than their home addresses in return for lower delivery costs.

3.2.4 Other Services

This business line, as referred to by Canada Post as Other Services, is the business line that includes a number of small-scale products and services. In 2015, this category accounted for about 5 per cent of Canada Post's operating revenue. Customers include businesses, governments and individual consumers.

Some of the products in this business line are:

- epost™, which allows users to receive, pay and manage bills in one place online;
- Remittance services, including
 - MoneyGram™, which is an electronic money transfer service available at any Canada Post location at competitive costs and exchange rates, and
 - Postal Money Orders, which are certified cashable documents sent through the mail to transfer funds or to make payments or purchases locally or internationally;
- Mail redirection, which allows individuals and businesses to have mail forwarded following a change of address;
- Data products for Direct Marketing Mail such as postal code data for targeted marketing mailing lists; and
- Commemorative stamps, gifts and coins.

3.3 DELIVERY NETWORK

To meet the requirements set out in the *Canadian Postal Service Charter*, Canada Post utilizes nearly 21,000 letter carrier routes and five modes of delivery for getting Transaction Mail, Direct Marketing Mail and Parcels to the 15.8 million addresses of Canadians and Canadian businesses it serves. Under the current postal policy, not all Canadians receive their mail the same way. It is recognized that one size does not fit all.

Delivery Method	Number of Addresses (in millions)	% of total addresses
Door-to-door, which is common in older, urban areas	4.3	27%
Centralized point (e.g., lock boxes found in lobbies of apartment buildings, condominiums, and retirement and assisted-living residences)	4.0	26%
Group mail boxes, community mailboxes and kiosks, which are common in suburban areas	5.1	32%
Post office boxes and General Delivery mail, which are widely used in rural communities; and finally	1.8	11%
Rural mail boxes at the end of laneways	0.7	4%
TOTAL	15.8	100%

Of the changes to service delivery that have occurred in recent years, the most significant has been in urban areas, with the conversion of approximately 830,000 addresses from door-to-door delivery to less costly community mailboxes.

3.4 RETAIL NETWORK

Canada Post has over 6,200 postal outlets, which consist of about 3,700 corporate post offices and 2,500 dealer-managed (franchise) outlets. Together, these outlets make up Canada Post's retail network for purchasing stamps and other products, sending mail and parcels, and for parcel pickup.

Under the Rural Moratorium, a large proportion of Canada Post's corporate post offices (i.e., almost 3,600 or 96 per cent) are located in rural and suburban areas that fall under the Rural Moratorium and cannot be easily closed or converted into franchise outlets. This includes post offices in locations¹⁹ such as Gatineau, QC, Brampton, ON, Saskatoon, SK, and Halifax, NS. However, it should be noted that Canada Post continues to open franchise post offices where needed.

¹⁹ See CPC Review website <http://www.tpsgc-pwgsc.gc.ca/examendepostescanada-canadapostreview/index-eng.html>

There are also over 490 corporate post offices that are protected from closure under the collective agreement between Canada Post and the Canadian Union of Postal Workers. Note that about 350 or more than 70 per cent of these offices are also protected under the Rural Moratorium.

3.5 INFRASTRUCTURE

To handle intake, processing, sorting and shipping of Lettermail, AdMail and Parcels for delivery, Canada Post relies on physical infrastructure that includes:

- 19,766 street-level letter boxes, for mailing letters;
- 21 centralized mail processing plants, where incoming Lettermail, AdMail and Parcels are scanned, their size and weight confirmed, are sorted by address, and then scanned again before being dispatched to letter carrier depots;
- A fleet of almost 13,000 Canada Post-owned vehicles, of which more than half are fuel-efficient; and
- 485 letter carrier depots, to which mail and parcels are prepared for subsequent last-mile delivery.

This physical infrastructure is wholly owned by Canada Post. Its property, plants and equipment have a net book value of \$2.5 billion.²⁰ For the most part, the physical infrastructure is integrated across business lines, with some exceptions, the same core infrastructure is used for the intake, processing, sorting and shipping of Lettermail, AdMail and Parcels. In 2015, there was \$2.4 billion in unallocated fixed costs, primarily comprised of infrastructure and overhead costs.

Operating such a large infrastructure requires continuous maintenance and investment. From 2009 to 2014, Canada Post undertook its \$1.8 billion Postal Transformation program to reduce costs and increase productivity by modernizing outdated mail processing plants and equipment, automating manual sorting processes and consolidating delivery. In 2015, Canada Post spent approximately \$250 million²¹ on property, facilities and maintenance.

²⁰ 2015 Annual Report, page 100.

²¹ 2015 Annual Report, page 81.

3.6 WORKFORCE

Traditionally, mail delivery has been a labour-intensive service. In 2015, Canada Post had over 50,000 employees which are largely unionized. There are four unions that have five collective agreements with Canada Post.

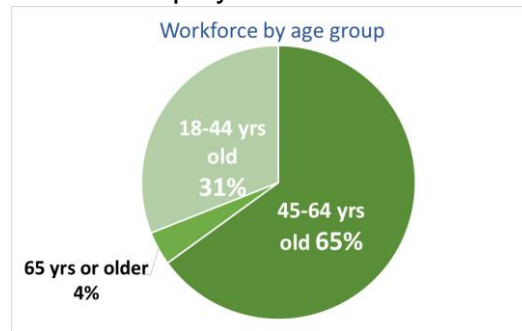
- Association of Post Office Officials of Canada (APOC): Supervision of mail processing, mail transportation, mail delivery and sales.
- Canadian Postmaster and Assistants Association (CPAA): Postal and retail services in rural areas.
- Canadian Union of Postal Workers (CUPW)
 - Rural and Suburban Mail Carriers (RSMC): Transportation and delivery of mail in rural and suburban areas.
 - Urban: Mail processing, collection and delivery; retail, and equipment/vehicle maintenance.
- Public Service Alliance of Canada / Union of Postal Communications Employees (PSAC/UPCE): Administrative services, program administration, financial administration, engineering, etc., and supervision of mail processing, transportation, delivery and sales.

The workforce is distributed as follows:

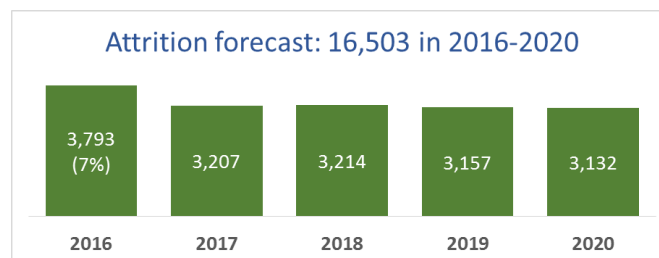
Type of Work ²²	% of Work Force	Approx. Headcount
Mail collection and delivery	35%	17,500
Mail processing	26%	13,000
Rural and suburban mail delivery	15%	7,500
Postmasters and assistants	10%	5,000
Supervisory and operations support	7%	3,500
Executive, management and non-unionized	5%	2,500
Clerical, technical and professional	2%	1,000
TOTAL	100%	50,000

²² 2015 Annual Report, page 57.

The average age of Canada Post employees is 49.



With an aging workforce, Canada Post estimates that over 16,500 employees can retire or leave the Corporation from 2016 to 2020.

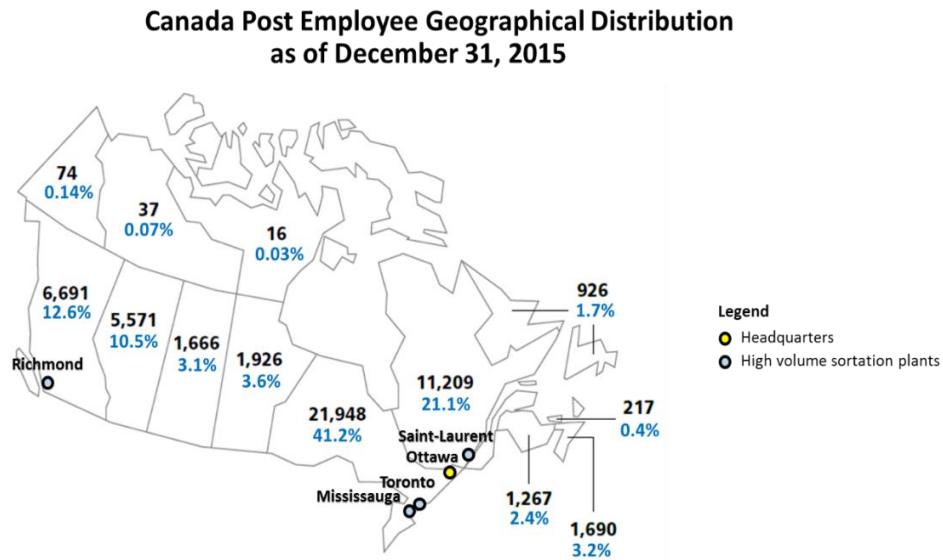


Canada Post's ability to resize its labour force has been limited by clauses in its collective agreements as negotiated by both parties, management and unions. Of its unionized employees, the majority (those who are members of CUPW) have job security clauses that prevent layoffs after five years of tenure and have a job guarantee within a 40 km radius. This makes timely workforce adjustments and adopting less labour-intensive business models to keep pace with the decline in Transaction Mail challenging. Currently, to reduce the size of its workforce, Canada Post's main options are attrition and the offering of buyout and severance packages.

Since 2011, Canada Post has reduced its employee headcount by about 10 per cent but despite these workforce reductions of over 5,800 employees, Canada Post's overall labour costs of approximately \$4.4 billion have been relatively stable due to wage increases and growing benefit costs for the organization's remaining workforce.

3.7 SUMMARY

The chart below demonstrates the geographic distribution of Canada Post's employees and largest mail processing plants.



Note: The CPC active pension plan membership of 53,238 from the 2015 Pension Plan report to members has been used as a proxy of CPC employee geographical distribution.

For over 200 years, the delivery of postal services has evolved to meet the needs of Canadians. The Canada Post of today is a complex organization with over 50,000 employees delivering 8.8 billion pieces of mail to 15.8 million addresses, five days a week but with more addresses being added every year and fewer pieces of mail being sent every year, Canada Post's business model will need to change to meet the future needs of Canadians while operating in a self-sustainable manner.

4.0 THE INTERNATIONAL EXPERIENCE

Motivated by the Task Force's mandate to outline viable options for the future of the Canada Post Corporation, the Task Force undertook a comprehensive examination of international best practices and benchmarks. Practices of other national postal service providers were reviewed in an attempt to identify initiatives that might be applicable to the Canadian situation, recognizing that each country has its own characteristics and context.

Postal administrations in other countries are facing similar challenges to those of Canada Post. Until the 1990s, and the widespread adoption of the Internet, mail was the

primary means of sending messages. According to some estimates, mail is now used to convey fewer than 10 per cent of messages in some markets.²³

The disruptive effect of the Internet on postal services has also affected other modes of communication from the dissemination of news through newspapers, the publishing of books, television (Netflix) and radio broadcasting, which is increasingly broadcast over the Internet, and the use of the phone (landline and Smart), which is being replaced by free mobile applications. Text messages, Instagram and messaging apps are virtually free of charge compared to the cost of sending a letter.

Over the past few years, mail volumes have declined, particularly in countries where populations were early adopters of the Internet and smart phones. With a mail volume decline of 68 per cent between 2000 and 2015 (including a 16 per cent decline in 2015), Denmark is the extreme example of the foregoing,²⁴ though the Netherlands is not far behind.²⁵

4.1 UNIVERSAL SERVICE OBLIGATION

According to the Universal Postal Union (UPU), the United Nations agency that oversees the world's postal system and coordinates postal policies among member nations, 156 of 197 member countries and territories have a USO in place.²⁶ In developed countries, each national post has a USO that defines postal service with respect to scope, frequency of delivery, access (e.g., to post offices and post boxes), speed and reliability, financing, price setting, etc.

It is important to note, however, that USOs differ from country to country. For example, in 2015, 74 countries included financial services in their USOs and 110 included parcels. With respect to delivery frequency, the USOs of some countries demand six days a week (e.g., the United States, France and Germany), others demand five (e.g., Canada) and yet others demand only a few days a week (Denmark, New Zealand and Sweden) depending on the class of mail.

²³ Copenhagen Institute of Future Studies. "Role of Mail 2020." Report prepared for the International Postal Corporation.

²⁴ PostNord 2015 Annual and Sustainability Report.

http://www.postnord.com/globalassets/global/english/document/reports/annual-reports/2015/pos_ar15_eng_web.pdf

²⁵ Over five years from 2011 to 2015, mail volumes have declined more than 34% in the Netherlands. See http://annualreport2015.postnl.nl/docs/PostNL_AR2015/interactive-charts.php?pst=sp-pnl-pos-enabout-postnlabout-usannual-report-2015-footerbanner3-interactive_charts and PostNL 2015 Annual Report <http://www.postnl.nl/en/about-postnl/about-us/annual-report-2015/>

²⁶ Universal Postal Union. Survey Results on the Provision of the Universal Postal Service. October 2015.

It is also interesting to note that, in France, La Poste is an instrument of the state and receives government funding for the delivery of social programs²⁷ on behalf of the government while it also has free rein to compete with the private sector.²⁸

4.2 FINANCING THE USO

Traditionally, national postal service providers financed the USO through an “exclusive privilege” to deliver mail within the country. This meant that national postal services had a monopoly to provide postal services within national borders. More recently, particularly in developed countries where mail volumes have been declining, the exclusive privilege no longer generates sufficient revenues to finance postal services.

As a result of insufficient mail revenues, many postal service providers have responded either by increasing prices, subsidizing postal services from revenues generated by other businesses, running deficits (as is the case with the United States Postal Service, which had a deficit of US\$5.1 billion in its 2015 fiscal year and a high of US\$15.9 billion for 2012²⁹), cutting delivery costs (e.g., NZ Post’s implementation of alternate day delivery in 2015³⁰), or a combination of these approaches. In addition, some national postal service providers, such as La Poste in France, receive government subsidies in support of the USO for the delivery of government social programs that also have an impact on regional development and retail banking.³¹

4.3 E-COMMERCE GROWTH AND PARCELS

Global online retail sales are growing. According to eMarketer, in 2015 in Western Europe, e-retail sales reached 7.5 per cent of total retail sales and in Asia-Pacific, the share is 10.2 per cent, the highest in the world.³² Sales to consumers are surpassing sales to businesses and are expected to see accelerated growth over the short term.

E-commerce growth currently presents an opportunity for many postal service providers to leverage their extensive delivery networks to compensate for the drop in mail volume. In some countries, parcel revenues are offsetting the decline in mail revenues. In the United Kingdom (UK) for example, parcel revenues now account for more than half of

²⁷ Contrat entreprise entre l’État et La Poste. Contrat relatif aux missions de service public confiées au Groupe la Poste

²⁸ La Poste operates some 250 subsidiaries. See http://www.pilot-reseaulog.fr/annuaire.php?nldFichier_PM=159

²⁹ For more information on the United States Postal Services losses, see <http://usgovinfo.about.com/od/consumerawareness/a/Postal-Service-Loses-By-Year.htm>

³⁰ See “Enhancing the value of our network’s value” in NZ Post’s 2015 Annual Report <https://annualreview2015.nzpost.co.nz/>

³¹ See La Poste’s 2015 Corporate Social Responsibility Report [http://legroupe.laposte.fr/en/finance/publications/\(annee\)/2015](http://legroupe.laposte.fr/en/finance/publications/(annee)/2015)

³² <http://www.emarketer.com/Article/US-Retail-Sales-Near-5-Trillion>

Royal Mail's (RM) revenues.³³ To encourage e-commerce and subsequent parcel delivery, some national postal services (e.g., Australia Post³⁴ and Singapore Post³⁵) have set up addresses in the United States and other countries to lower the cost of buying goods abroad for their customers. As in Canada, many other postal service providers compete with international companies such as UPS, FedEx and DHL in the courier and parcels markets. However, the growth in these markets has attracted new lower cost delivery competition (e.g., UberRUSH,³⁶ deliv,³⁷ grocery companies such as Tesco in the UK³⁸ and online grocer in Ottawa,³⁹ and InPost parcel lockers around the world⁴⁰ and now in Toronto⁴¹) that is putting pressure on the more established private-sector and postal competitors.⁴²

Giant e-tailers such as Amazon are continuing to look for cheaper delivery venues since driving down delivery costs allows greater profits. In the UK, for example, over the past few years, Amazon is increasingly moving parcel delivery away from Royal Mail. Amazon has now established a network of more than 13,000 parcel pickup locations across the UK, including parcel lockers.⁴³

4.4 INVESTMENT IN OTHER BUSINESSES

Some national postal services are investing in other lines of business to generate additional sources of income. As in Canada, many other postal services compete in **parcel and courier products**. Canada Post invested in Purolator in 1993, and Deutsche Post (Germany), La Poste (France) and the Royal Mail (UK) have also invested in courier companies. Deutsche Post started acquiring DHL in 1998 and slowly integrated the company into its express and parcels divisions, which generated revenues of €29.8 billion (about \$43.3 billion) in 2015.⁴⁴ In addition, Deutsche Post has acquired other companies in the express and logistics sectors allowing it to become a global multinational express and logistics company that employs half a million

³³ Royal Mail 2015 Annual Report.

³⁴ <https://shopmate.auspost.com.au/our-services/how-shopmate-works>

³⁵ <https://www.vpost.com.sg/>

³⁶ <https://rush.uber.com/how-it-works>

³⁷ <http://www.deliv.co/>

³⁸ <http://www.tesco.com/groceries/>

³⁹ <http://www.onlinegrocer.ca/>

⁴⁰ <https://inpost24.com/en/inpost-lockers/global-reach>

⁴¹ <https://inpost24.ca/>

⁴² In the UK, for example, see <http://news.sky.com/story/royal-mail-warns-of-lower-parcel-revenues-10395864>; in the US, for example, see "Technological Disruption and Innovation in last mile delivery" Stanford Business White Paper June 2016. <https://www.gsb.stanford.edu/sites/gsb/files/publication-pdf/vcii-publication-technological-disruption-innovation-last-mile-delivery.pdf>

⁴³ Culpan, Daniel. wired.co.uk. "Amazon free delivery extended to 13,000 pickup locations." August 26, 2015.

⁴⁴ http://www.dpdhl.com/content/dam/dpdhl/presse/mediathek/fact_sheet_dp_en.pdf

employees, had revenues of €59.2 billion in 2015 and owns several airlines.⁴⁵ The group's activities now far surpass the company's traditional postal activities.

Other business activities carried out by national postal services include the provision of various kinds of insurance by Italian Post⁴⁶ and Post Office Ltd. in the UK,⁴⁷ and bus services in Switzerland.⁴⁸ A subsidiary of Posti, Finland's postal service, OpusCapita, provides digitalized and automated purchasing, invoice handling and payments, cash management and supplier financing.⁴⁹ In May 2016, at the suggestion of postal carriers, Posti also began piloting the mowing of customers' lawns; this activity is in addition to the delivery of some two million meals to Finnish homes a year, and providing home care for the disabled.⁵⁰

In some countries, entire **post office retail networks** have been sold off (e.g., Germany and the Netherlands) to reduce the high costs of maintaining postal networks. Other countries have largely franchised or licensed their post office networks to reduce costs (e.g., Australia Post,⁵¹ the UK's Post Office Ltd⁵²). In some countries, postal retail networks that are often made up of franchises or licensed post offices are leveraged to provide services other than postal. In the UK, Post Offices Ltd., which is a state-owned enterprise largely made up of franchised post offices and its own workforce that operates separately from Royal Mail,⁵³ offers a number of products and services through post offices, including passport and identity services, licences, vehicle tax, insurance (home, business, vehicle, life and pet), travel (e.g., currency exchange and travelers cheques), broadband and phone services, full agency banking services (including credit cards, remittance services, cash withdrawals and deposits from partner banks, mortgages) and pre-paid funeral plans.⁵⁴ In France, post offices offer public

⁴⁵ Deutsche Post DHL Group 2015 Annual Report. <https://annualreport2015.dpdhl.com/>

⁴⁶ Italian Post entered into the insurance business in 1999

(http://www.postevita.it/resources/contenuti_editoriali/pdf/sala_stampa/2013/W13ND_D02_v2_PosteVita.pdf)

at a time when the postal company was attempting to improve its mediocre performance by leveraging its postal network with postal banking and insurance. For recent information on Italian Post's insurance, see the 2015 Annual Report. <http://www.posteitaliane.it/resources/editoriale/pdf/En/Annual-Report-2015.pdf>

⁴⁷ Post Office Ltd competes with private-sector insurance companies. For more on Post Office Ltd insurance, see <http://www.postoffice.co.uk/insurance>

⁴⁸ Swiss Post has provided public transportation for some time. In 2015 it generated revenues of CHF 743 million (\$995.6 million). <https://www.postauto.ch/en>

⁴⁹ OpusCapita generated about 15.5% of Posti Group €1.65 billion in 2015. 2015 Annual Report. <http://www.posti.com/>

⁵⁰ "Finland's Postal Service Is Offering to Mow Your Lawn" FORTUNE. April 29, 2016.

<http://fortune.com/2016/04/29/posti-finland-mow-lawn/>

⁵¹ <http://auspost.com.au/about-us/licensed-post-office-information.html>

⁵² <http://corporate.postoffice.co.uk/business-opportunities>

⁵³ Some years ago, before the Royal Mail was privatized (begun in 2013 and completed in 2015), Post Office Ltd. (POL) was split off from Royal Mail as a separate entity. Royal Mail services and products are provided through POL's retail network.

⁵⁴ Post Office Limited Network Report 2015. Presented to Parliament Pursuant to Section 11 of the Postal Services Act 2011

services in agreement with the government of France: the USO, regional planning and banking accessibility. Mobile phone sales and services are also offered. Most of the post offices that are not run by La Poste are managed in partnership with local municipalities through a framework agreement between La Poste and the French Mayors' Association (*Association des Maires de France*).⁵⁵ This is possible given a centralized government model in France that has subsidized La Poste, which has a network of about 250 subsidiaries.

In addition, a number of countries have **postal banking**⁵⁶ as a part of the postal service provider's mandate and have been providing postal banking since the late 19th and early 20th centuries. Canada Post had provided postal banking services from 1868 to 1969. More recently, some countries with high levels of banking inclusion have exited postal banking or are in the process of privatizing their postal banks, such as Japan and Italy. In other countries, postal banking became an attractive option particularly in cases where there were sizable unbanked minorities (e.g., India Post⁵⁷) or where there was not a strong national bank (e.g., New Zealand's Kiwibank⁵⁸) or where citizens did not have faith in privately owned banks.

4.5 REGULATING POSTAL SERVICES

Many countries have postal regulators which oversee each country's postal market, including the businesses that compete in the market, as well as the success of the national postal service provider, and to ensure a system of fair prices and rates.

In the United States, the Postal Regulatory Commission (PRC) exercises regulatory oversight over the postal service.⁵⁹ PRC is tasked with conducting public, on-the-record hearings concerning proposed rate changes, mail classification or major service changes, and recommending decisions for action by the postal Governors. The European Union (EU) requires member countries to regulate their postal services to ensure the guarantee of a universal service and that the markets are competitive for the purposes of creating a single EU market in postal services.⁶⁰

Of course, a regulatory model is not the panacea. In order to be effective, a regulatory model should be light-handed, minimal, and regulate only when necessary. Decisions need to be rapid to not impede the flow of business.

⁵⁵ Le Groupe La Poste: Document de référence. 2015

⁵⁶ More on postal banking may be found in Chapter 7

⁵⁷ According to the World Bank, 53% of Indians had bank accounts in 2014.

<http://datatopics.worldbank.org/financialinclusion/country/india>

⁵⁸ For more on Kiwibank, see <https://www.kiwibank.co.nz/about-us/>

⁵⁹ For more on the PRC, see <http://www.prc.gov/about>

⁶⁰ For more on postal regulation within the European Commission, see http://ec.europa.eu/growth/sectors/postal-services/ergp_en

4.6 EFFICIENCY / COST SAVING MEASURES

In some ways, the USPS and Canada Post are more similar than either is to European national postal services. For example, as a result of the greater distances between residences in North America compared to Europe, there are comparatively greater cost savings that may be realized by changing the delivery venue. Over the past few decades, the USPS and Canada Post have both cut labour costs by decreasing the number of addresses that receive delivery to the door.

In the United States, about 28 per cent of delivery is to the door, which is the most expensive delivery method. However, these numbers are gradually changing as in 2014, over 122,000 customers volunteered to be converted from door delivery to cluster mail boxes.⁶¹ In other countries, such as the Netherlands, most full-time carriers were laid off and replaced by part-time, low-paid workers. Yet other countries have rationalized their retail networks, including Deutsche Post, which completely sold off its post offices.

4.7 SUMMARY

In looking to international best practices, the differing context in each postal market must be considered. For example, compared to most other countries, Canada has one of the largest postal territories, one of the lowest population densities and experiences extreme climate that challenges mail, including parcel delivery. In addition, the division of powers between the federal and provincial governments would make it difficult for Canada to use its postal service provider as an extensive instrument of social policy as has been the case in France.

Every developed country is facing similar challenges with its postal services given the global trend in digitization. Traditional postal services are labour intensive with the related costs. Digitization has brought about “uberization,” that is the on-demand revolution driven by technological and economic shift in consumer preferences for low-cost services usually provided by low-cost labour without regard to traditional business models or licensing regimes. Each country has had its own set of responses, in line with its own political, cultural and social environment. Some acted earlier than others, e.g., selling post office retail network, increasing “*de minimis*” thresholds or entering the parcels market. Despite the efficiency of Canada Post, adaptation to the changing environment is a never ending necessity.

⁶¹ USPS 2015 Annual Report. Cluster mail boxes are analogous to Canada Post’s community mailboxes.

5.0 CANADIANS' NEEDS

The Task Force's mandate included the need to take into consideration the perspectives of key stakeholders in its work. This includes the views of Canadians, major mail system users, Canada Post, unions and all other relevant stakeholders. Stakeholder perspectives were gathered using three methods: public opinion research, face-to-face meetings with stakeholders and other methods such as written submissions and social media.

5.1 PUBLIC OPINION RESEARCH

Three public opinion research studies⁶² were commissioned to gather statistically reliable evidence on the needs and perceptions of Canadians. Qualitative research (focus groups, bulletin boards and interviews) was used to test the relevancy and wording of the survey questionnaires. As such, this section highlights the results of the survey only.

The **views of Canadians** living in urban, suburban, rural and remote communities were gathered through a national telephone survey conducted with 2,246 randomly selected Canadians with an over-sampling of autonomous seniors, cell phone only users, youth 18 to 34, people with mobility issues, rural Canadians, and Canadians living in the North. Overall survey results are considered accurate within a margin of error of ± 2.0 per cent at the 95 per cent confidence interval.

The views of **Indigenous peoples** living on- and off-reserve across Canada were gathered through a national telephone survey with a random sample of 401 Indigenous peoples. The margin of error for the total sample is ± 4.9 per cent, and for the on- and off-reserve samples is ± 6.9 per cent, both at the 95 per cent confidence level.

Note that references to Canadians in this section includes all segments of Canadians unless otherwise noted.

Finally, the views and opinions of **small, medium and large businesses** in the private, public and not-for-profit sectors across Canada were gathered through a national telephone survey conducted with 1,202 randomly selected businesses. Overall survey results are considered accurate within a margin of error of ± 2.8 per cent at the 95 per cent confidence interval.

⁶² The links to the complete public opinion research reports and data tables are listed at www.tpsgc-pwgsc.gc.ca/examendepostescanada-canadapostreview/rapport-report/consult-eng.html

5.1.1 Client Satisfaction

Canadians, and businesses of all sizes have a positive perception of Canada Post and its services with the vast majority of those surveyed believing mail is highly important and that Canada will always need postal services, owned and operated as a public service.

Importance of Postal Services	Canadians	Business
Mail is highly important	94%	68%
Canada will always need a Canada Post, owned and operated as a public institution	88%	83%

They also have a very high level of satisfaction with overall service, as well as specific service attributes.

Satisfaction with Postal Services	Canadians	Business
Overall satisfaction	91%	83%
Method of delivery	88%	87%
Speed of delivery	85%	82%
Frequency of delivery	91%	-
Delivery of parcels	81%	86%

In addition, nine in ten businesses (93 per cent) agree that Canada Post ensures that everyone can send and receive mail to all parts of the country. More than eight in ten businesses (81 per cent) also agree that Canada Post provides good value for the money and 75 per cent agree that it is still the most secure way to send and receive Lettermail. Reliability is by far the element of service that businesses value most when it comes to delivery of Lettermail. Six in ten (61 per cent) selected reliability as most important when mailing a letter. Speed of delivery (26 per cent) and the cost of a stamp (11 per cent) were viewed as less important. However, businesses are more sensitive to stamp prices.

5.1.2 Mail Usage

A significant proportion of Canadians (91 per cent) reported that they are now online, with 69 per cent who pay their bills online. However, three in ten Canadians (31 per cent) still prefer to receive all their bills on paper. This is particularly true of older Canadians (47 per cent, 60 years or older). Adoption of digital alternatives is also slower among Canadians with lower levels of income and education, Canadians with mobility issues and for rural Canadians where broadband penetration is weaker.

Digitization	Canadians
Internet access	91%
Deal with some or all bills online	69%
Purchase online	73%

The research also confirms that, overall, 39 per cent of Canadians are decreasing their use of Lettermail. However, a small percentage (8 per cent) indicated that they are increasing their use of Lettermail. The opposite trends were found for parcels, with 17 per cent of Canadians indicating they are receiving fewer parcels versus 27 per cent indicating they are receiving more parcels.

The pattern for businesses is similar. Survey results reveal that Canadian businesses have decreased the amount of Lettermail sent out over the past five years. According to 85 per cent of businesses, the main reason for the change in volume of time sensitive mail is due to use of digital alternatives.

However, businesses rely on Canada Post to send and receive mail. Overall, 87 per cent of businesses state that it is very (68 per cent) or moderately important (19 per cent) for the health of their business to send mail through Canada Post. Similarly, overall, 90 per cent of businesses state that it is very (73 per cent) or moderately important (17 per cent) for the health of their business to receive mail through Canada Post.

5.1.3 Recognition of Systemic Pressures

Canadians recognize that the volume of mail has been decreasing for some time due to the widespread adoption of digital media. To a lesser extent, Canadians understand that Canada Post is facing financial pressures that threaten its long-term survival.

Canadians agree that operational changes to Canada Post are necessary to make the system sustainable, and that does not vary statistically between urban, suburban and rural dwellers.

Views and Opinions on Systemic Pressures	Agree	Disagree
Adoption of digital media led to decrease of mail volume	85%	11%
CPC facing financial pressures that threaten long-term survival	66%	20%
Operational changes to CPC are necessary to make system sustainable	85%	10%

Despite Canadians' grasp of the larger, systemic pressures on the Corporation's business model, the same cannot be said about the understanding of Canadians of Canada Post's self-sustaining mandate or its cost structure.

Canadians Views of CPC Financial Situation	Agree	Disagree	Unsure
CPC is legally required to break even	44%	30%	15%
CPC costs are higher than those of private industry	31%	45%	15%

A plurality of businesses seem to be as uncertain about the financial state of Canada Post. Four in ten businesses (43 per cent) either believe that Canada Post has a bright future (11 per cent) or has some issues that can easily be fixed (32 per cent). The other half believes that Canada Post is facing significant challenges requiring some operational changes (36 per cent) or a significant reorganization of its business (14 per cent). So, although there is reasonably widespread understanding that the digital age has had an impact on the environment within which Canada Post operates, only half appreciate the severity of the impact and implications for needed changes.

5.1.4 Community Mailbox and Door-to-Door Delivery

Among Canadians and businesses, overall satisfaction levels are not statistically different between urban, suburban and rural areas but they do vary based on the method of delivery. Canadians (96 per cent) who receive door-to-door delivery are more satisfied with Canada Post services, overall, than those who receive mail in community mailboxes (86 per cent). Businesses receiving door-to door-delivery or delivery to their driveway are typically more satisfied with the delivery method (91 per cent and 94 per cent, respectively) than those receiving their mail at the local post office (83 per cent) or a community mailbox (78 per cent).

Over half of Canadians (54 per cent) do not feel the need to check their mail every day. This view is more pronounced among Canadians who receive their mail at a post office box (75 per cent) or at a community mail box (64 per cent) but this perspective is not shared by those who receive mail to the door (67 per cent disagree). A plurality of Canadians (43 per cent) also agree that they would probably not notice if their Lettermail took twice as long to reach them; 56 per cent of Canadians disagree.

Views and Opinions of Canadians	Agree	Disagree
Not necessary to check mail every day	54%	45%
Would not notice if mail took twice as long to reach me	43%	56%

There is agreement that Canada Post should increase the number of community mailboxes necessary to make the system sustainable. However, the social value of Canada Post is also an important consideration. Canadians are near unanimous in supporting the view that door-to-door delivery is essential for people with mobility issues and other health problems, including some elderly. It is also worth noting that 84 per cent of businesses support the maintenance of full delivery service for the elderly, people with mobility issues and other health problems.

Views and Opinions of Canadians on CMB vs Door-to-Door Delivery	Agree	Disagree
Increase the number of CMBs to make the system sustainable	69%	25%
Maintain door-to-door for those who currently have, even if it costs more	60%	38%
Door-to-door is essential for people with mobility and health problems, including some elderly	92%	8%

5.1.5 Measures to Deal with Sustainability

Level of understanding of the financial and operational realities of Canada Post affects the views of possible solutions, and the speed at which these need to be implemented. Canadians support “business-like” operational principles at Canada Post. There is agreement that Canada Post should provide only the level of service within the revenue it generates. When specific service changes are examined as options to achieve financial sustainability, Canadians clearly favour certain options. In fact, the majority of Canadians did not agree with changes to Canada Post if they resulted in mass layoff of postal employees or cutting Canada Post employees’ pay and benefits.

Views and Opinions of Canadians on Measures to Deal with Sustainability	Agree	Disagree
CPC should provide only the level of service it can deliver for the revenue it brings in	61%	37%
Switching everyone in urban and suburban areas to CMB	67%	31%
Reduce delivery to every other day	73%	27%
Reduce delivery to once a week	20%	80%
Add a day or two to the time it takes for a letter to get to destination	65%	34%
Significantly increase the price of a stamp	34%	65%
Cutting pay and benefits	30%	66%
Cutting the level of employment at CPC	36%	60%

Businesses were asked to state their preference for a different set of options that more readily speak to their business needs. Eight of nine possible actions that could be taken in the face of declining revenue from mail volumes are supported by half or more of businesses, with some seen as clearly more favourable than others.

Views and Opinions of Businesses on Service Changes to Achieve Sustainability	Agree	Disagree
Create tiered pricing for those wanting faster delivery	76%	21%
Add new business lines	71%	23%
Realign labour costs	66%	23%
Use revenue from urban service delivery to offset costs of delivering in rural areas	64%	30%
More franchise offices in retail stores	56%	39%
Subsidize postal delivery, if needed, to offset the decline in revenue from mail to ensure service delivery	53%	40%
Subsidize postal delivery with tax dollars, if needed, to offset the decline in revenue from mail to ensure service delivery	40%	55%
Leverage CPC Lettermail operations to offset costs of delivering parcels	50%	38%
Phase out door-to-door delivery, which costs 2.5 times the price of CMB delivery	50%	46%
Increase length of delivery time to reach destination	32%	65%

Note that the level of support for the option to subsidize postal delivery decreases when reference is made to using tax dollars to offset the decline in revenue. While businesses support the use of subsidies, they do not support the use of tax dollars to finance Canada Post.

5.1.6 New Business Lines

Although the majority of Canadians and businesses supported adding new business lines, they had varied reactions when presented with options. While the core idea of generating new revenue was understood and even desirable to many, research results suggest limited support for most of the ideas tested. The notable exception to this was the option of having post offices act as a service hub for the provision of government services.

Views and Opinions on New Business Lines for CPC	Canadians	Canadians	Business	Business
	Good fit	Poor fit	Support	Not Support
Service hub for Government services like those available at Service Canada outlets	75%	22%	82%	17%
Offer new banking products like pre-paid credit cards, cheque cashing and so on	47%	52%	-	-
Open a bank that offers a complete line of banking services	38%	60%	39%	58%
Offer other services like insurance, travel, etc.	29%	69%	-	-
Acting as a service hub/broker for private business services (e.g., insurance, some banking)	-	-	39%	59%
Engage in retail or service activities like selling merchandise or coffee	26%	73%	-	-
Provide marketing support to assist producers and distributors of AdMail	-	-	76%	22%

When asked if they would use such services if they were available, Canadians and businesses had mixed reactions.

Likelihood of Use of New Business Line	Canadians	Business
Service hub for Government services like those available at Service Canada outlets	26% certainly 45% probably 27% unlikely	-
Offer new banking products like pre-paid credit cards, cheque cashing and so on	11% certainly 27% probably 62% unlikely	-
Open a bank that offers a complete line of banking services	7% certainly 22% probably 70% unlikely	28% high 40% moderately 27% low
Engage in offering other services like insurance, travel, etc.	7% certainly 18% probably 75% unlikely	-

Businesses were not asked their likelihood of use of a new business line. The only likelihood of use question was asked of businesses that supported the idea of postal banking. Out of the businesses that supported postal banking, only 28 per cent of the 39 per cent were likely to use postal banking services. Once generalized across all businesses, only 11 per cent would be likely to use banking services offered by Canada Post.

5.2 STAKEHOLDERS' VIEWS

Face-to-face meetings were held with a variety of stakeholders and experts to hear their views and perspectives for the future of postal services in Canada. Over 40 meetings were held with groups, associations and representatives of a wide array of interests affected by Canada Post. Given the wide range and sometimes opposing views of stakeholders⁶³, the summary of the meetings in this section are generalized with some exceptions where stakeholders have on their own accord made their views public.

Unlike public opinion research, the results of these meetings are not statistically representative; however, they provided a perspective on all segments of Canadians and all sectors of the economy. Although the groups and associations presented their specific interests, on a couple of fundamental matters, they were in agreement and aligned with the public opinion research results. They all agreed that postal services are important and that door-to-door service should be maintained for Canadians with mobility issues.

⁶³ See CPC Review website <http://www.tpsgc-pwgsc.gc.ca/examendepostescanada-canadapostreview/index-eng.html>

As the subject of the review, **Canada Post Corporation** is a key stakeholder that the Task Force met with several times. Management took the time to explain the Corporation, the postal business environment and their challenges. Furthermore, time was taken to provide tours of the Gateway plant in Toronto and a carrier depot in Ottawa. These tours were useful in seeing first hand some of the operations and meeting some of the employees that are key to delivering the mail.

Another key stakeholder were the **unions** representing 95 per cent of Canada Post's workforce with a detailed knowledge of the operations of the Corporation. Given that the Canadian Union of Postal Workers (CUPW) represents the vast majority of the workforce, the Task Force met with them two times. CUPW is doubtful of the difficult financial situation of Canada Post; however, all unions supported the concept that Canada Post should be financially sustainable unless it is required to provide services below cost. From a service delivery perspective, the majority supported door-to-door delivery as opposed to the conversion to community mailboxes. One of the supporters noted that the labour savings from converting to community mailboxes was offset by ongoing maintenance costs. They were also generally against the closure or franchising of rural post office as these rural post offices are sometimes the only presence of the federal government in their communities, and also contribute to the economic growth of the community. All unions also supported delivery five days a week as it is useful to small businesses and for parcels, a growing part of Canada Post's business.

Unions were consistent in their support of other sources of revenue. There was support for postal banking as a means to promote financial inclusion and economic development. The various unions proposed a number of other new business lines, including a hub for government business, provision of social programs (e.g., checking in on seniors), and establishing environmental programs (e.g., electric charging stations).

Meetings were also held with **associations of municipalities** representing at least 90 per cent of the population of Canada. A common theme from these associations was that they wanted meaningful consultation or even partnership with Canada Post before changes are made to postal services. Since postal services are delivered in their communities, municipalities would like to have changes aligned with their municipal plans. Many municipalities did not have a position on postal banking but others thought there was a potential to have a positive effect on rural communities. There was a differing of positions on other aspects. Large cities do not support the conversion to community mailboxes. Furthermore, if there are changes, they want meaningful consultation on their location and maintenance to align their implementation with their municipal plans, including traffic flow, snow clearing and proper lighting. Rural municipalities support the Rural Moratorium and noted the need for expanded broadband. To address Canada Post financial challenges, some municipalities supported alternate day delivery instead of community mailbox conversion, while others were in favour of the conversion.

Meetings were also held with **associations representing segments of Canadians such as the disabled, seniors and rural youth**. These associations expressed strong support for continued door-to-door for seniors, the disabled and those with mobility challenges but not all were in favour of the need for proof of eligibility for continued receipt of such service. The associations representing the disabled and seniors were against community mailboxes because community mailboxes are a barrier for people with disabilities (i.e., especially problematic for those with mobility issues). In order to maintain door-to-door delivery, there was a willingness to go to a reduced frequency of delivery, i.e., three or four days a week.

Similar to rural municipalities, the rural youth association noted that the lack of high-speed broadband in rural areas means they rely on Canada Post for larger publications such as magazines, community newspapers, and club newsletters.

From a **business perspective**, some businesses are clients, some are competitors and some are partners. Meetings were held with associations representing not only from these perspectives but also from the perspective of specific sectors such as over 100,000 independent businesses, retail sector and more than 45,000 retail store fronts, marketing sector and financial sector. Businesses are the largest users of Canada Post services and therefore the largest source of Canada Post revenues. In fact, one of the associations claimed that its membership represented 80 per cent to 90 per cent of Canada Post's revenues.

Businesses are also being affected by digitization and working to adapt their businesses to the new world. As a result, on the one hand, they are sympathetic to Canada Post's challenges, but on the other hand, do not want to suffer as a result. In general, their priorities for postal service are speed of delivery, reliability, customer service and cost. They are against using large price increases to alleviate Canada Post's financial pressures but rather support ensuring efficiency of the service, including the conversion to community mailboxes to reduce costs. A number also noted the need to better manage labour costs, with one association going so far as suggesting wage freezes and reducing the pension benefits.

As the primary source of revenues for the Corporation, businesses do not want the rates they pay to be used to fund non-commercial or social policy programs. In this regard, they do not believe postal banking would be profitable. Therefore, if the Government decides to implement this option, the costs of establishing and operating a postal bank should be paid for by the users of the postal bank and/or the Government itself. In general, businesses want Canada Post to focus on its core service and not expand into unrelated new business lines.

Businesses want transparency of costs. While some suggested regulatory oversight as a mechanism to enhance transparency, others indicated that regulatory oversight could impede innovation. However, all want to work in partnership with Canada Post and want the Corporation to put more emphasis on innovation to remain sustainable in an evolving marketplace.

Canada Post currently competes against the private sector in parcels and direct marketing. With the consideration of options for new business lines, there is the potential that the scope of competition would expand. In meeting with **current and potential future competitors**, all noted that any competition with Canada Post should be fair and that transparency in its pricing was a key component of ensuring fairness. Businesses see a regulator as a body that could oversee Canada Post's pricing to make sure there is no cross subsidization of monopoly Lettermail to commercial products. Furthermore, competitors want access to Canada Post's infrastructure and products at commercial rates.

The perspectives of **researchers, academics and other experts** were also sought. The majority of these recognize the move to digital, its effect on Canada Post revenues and that the future is in parcels. Just as has happened with music and videos, new technology will continue to be developed such that everything that can be digitized will be, and will no longer need to be sent through the mail. Drone technology is not yet ready but it is quickly evolving, and it too will impact the delivery of postal services.

The majority of experts the Task Force met with did not support postal banking and did not believe that it would be a viable option given the need for significant and ongoing investments required in hardware, software, regulatory compliance, security (both physical for buildings and cyber security) and new skill sets. However, researcher John Anderson of the Canadian Centre for Policy Alternatives supported postal banking and encouraged the Task Force to undertake an independent business case analysis as part of this review. The majority of experts were of the view that diversification into other business lines would distract management attention away from not only its core business but also from innovation.

Given the nature of stakeholder groups, there are differing and even competing views and perspectives on Canada Post service and its future. In looking to the future of Canada Post, all perspectives need to be considered.

5.3 VIEWS THROUGH SUBMISSIONS, SOCIAL MEDIA AND OTHER MEANS

Steps were also taken to enable Canadians to share their views about Canada Post and its future directly with us. Canadians' input was solicited using both traditional and digital engagement methods such as the Review website and social media, including Facebook and Twitter.

As of the end of July, there were about 95,000 visits to the Canada Post Review website that included information about how the Review was being conducted and how to submit views. Input was received from more than 22,000 Canadians and businesses through email, mail and fax on how they use Canada Post, what services they value and need, and where they see the future. There were also over 43,000 Tweet impressions and more than 1,500 Facebook likes. Furthermore, from May to July, a different "Question of the Week" was posted on the Review website and social media channels and close to 11,000 responses were received. The Minister also encouraged her colleague members of Parliament to conduct town hall meetings with their constituents to gather their views.

Information received through this type of engagement is not statistically reliable and cannot be used to draw conclusions with respect to Canadians or any sub-segment of the population.

It is interesting, however, to note that the view of identifiable respondents were consistent with those of the relevant key stakeholder groups the Task Force met with. Union locals submitted views similar to their executive such as the expansion of services into postal banking, greening initiatives and the provision of government services at post offices. Business clients' views were consistent with the views of the business associations such as their reliance on Canada Post for invoices and shipping, as well as their view that investments in technology, infrastructure and innovation were needed.

Among the respondents, there was consensus that postal services were important to them and that Canada Post plays a key role in delivering these services. There was also a common theme that with declining mail volumes and the increasing shift to digital communications, Canada Post should operate differently. Respondents want reliable, cost-effective, efficient and timely postal service.

5.4 SUMMARY

Based on the Task Force's engagement, Canadians and businesses do not all have the same needs. Their usage of postal services differ and hence so do their needs.

However, Canadians and businesses are satisfied with the service Canada Post provides and there is consensus that this is an important service to them. There is also acknowledgement that with the increasing shift to digital communications, Canada Post should operate differently and the expectation is that postal services should be reliable, cost effective and efficient.

6.0 FINANCIAL SUSTAINABILITY ASSESSMENT

The Task Force contracted the financial consulting firm EY (Ernst & Young) to assist with the financial assessment of Canada Post. EY analyzed the Corporation's consolidated financial statements, annual reports, internal management reports and other relevant information, including details on each of its business lines and subsidiaries.

Canada Post has indicated that serious challenges persist in its business. The Canadian Union of Postal Workers is of another view. Given that the Canada Post Group generated profits 17 of the last 20 years, the union is of the view that the Corporation is not facing financial challenges. The EY review, however, concluded that Canada Post is facing an uncertain financial future. The current model is no longer sustainable over the medium and long terms with projected annual losses of over \$700 million by 2026. The negative financial impact resulting from the reduction in Transaction Mail volumes, which started over a decade ago, has been temporarily slowed by the stamp price increase in 2014 which saw the price of a single stamp rise from \$0.63 to \$1.00. However, Canada Post's costs continue to increase as its delivery network grows to cover more than 170,000 new addresses every year. Its labour costs are high and its retail network is expensive. In recent years, Direct Marketing Mail volumes, especially Personalized Mail, have started to decline as more businesses are using digital channels to reach their clients. Parcel volumes have grown in recent years but this line of business is unlikely to generate sufficient revenues to support Canada Post's continuously growing costs.

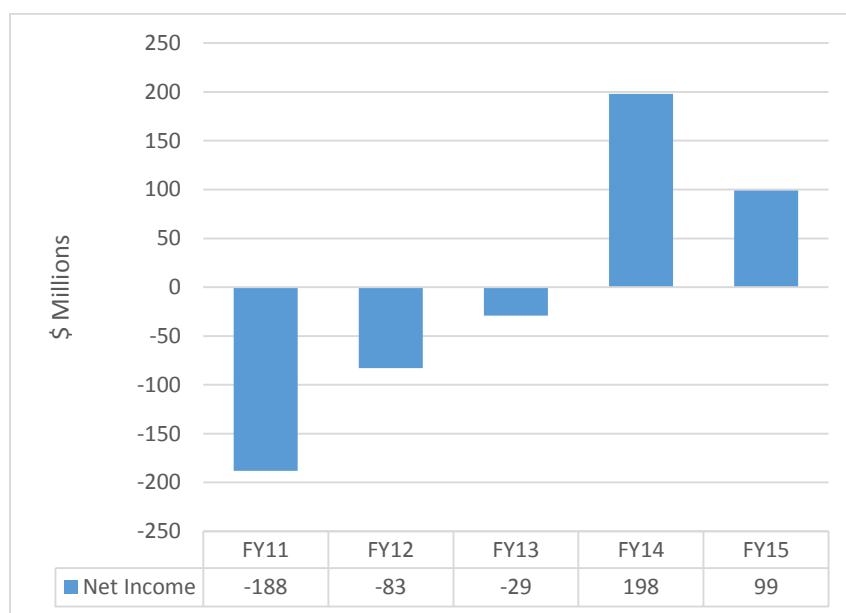
6.1 FINANCIAL PERFORMANCE FOR THE LAST FIVE YEARS

The financial assessment relied on financial information provided by Canada Post, including the audited financial statements. Canada Post follows the reporting requirements for Crown corporations in the *Financial Administration Act* (FAA). It prepares its financial statements using International Financial Reporting Standards (IFRS). As required by the FAA, Canada Post's financial statements are audited by the Auditor General of Canada jointly with an accounting firm, which has been KPMG for many years. In its annual report, Canada Post also presents its audited Annual Cost Study Contribution Analysis. This statement presents the contributions for each of its

competitive and exclusive privilege segments. Canada Post also publishes quarterly financial statements as required by the FAA.

The preparation of the financial statements contains several assumptions that are reviewed by the auditors during their audits. The financial statements for 2011 to 2015 used for the review all received clean audit opinions and no reporting issues were noted in the audit reports.

The Canada Post Group generated a net loss for three of the last five years (2011 to 2013) and a net income for 2014 and 2015. The analysis of the **last five-year financial results** shows that the Canada Post Group generated a cumulative net loss of \$3 million over that period, with annual income ranging from a net income of \$99 million in 2015 to a net loss of \$188 million in 2011. The change from a loss in 2013 to a profit in 2014 was mainly due to the March 2014 stamp increase that generated \$214 million in additional revenue in 2014 alone.⁶⁴ The chart below provides the net income for each year.



Over the four years from the end of 2011 to 2015, the Canada Post Segment has experienced a 1.9 per cent compound annual growth rate in its total revenues, which reached nearly \$6.32 billion in 2015. This reflects significant growth in Parcels, little-to-no growth in Lettermail, and declines in Direct Marketing Mail.

⁶⁴ 2014 Annual Report, page 50

Transaction Mail volumes have declined by an annual average of 5.5 per cent between 2011 and 2015, largely because of digital substitution, and total revenues have grown less than 1.0 per cent. This volume decline represents an annual revenue decrease of approximately \$175 million. Annual revenue growth in Lettermail (domestic, outbound and inbound) from 2011 to 2015 was only 0.7 per cent. The price increase in March 2014 contributed \$214 million toward Canada Post revenues that year. Domestic Lettermail, which accounts for over 90 per cent of revenues in this business line, achieved a slightly better annual revenue growth rate of 0.8 per cent while being challenged by significant average annual volume erosion of 5.3 per cent.

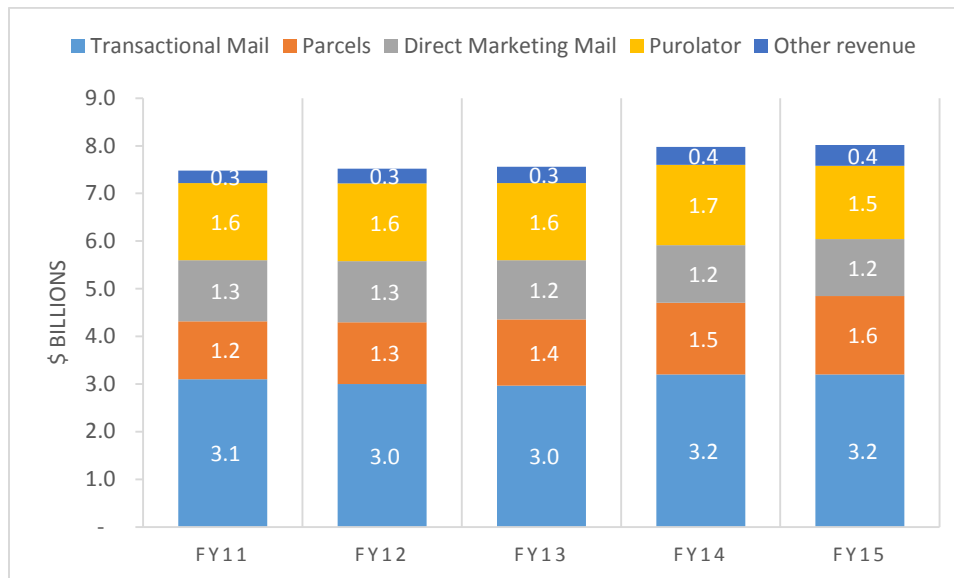
Over the five-year period, **Direct Marketing Mail (AdMail)** experienced an annual revenue decrease of approximately 1.7 per cent. Publication Mail, which accounts for an average 18 per cent of this business line's revenues, experienced the most pronounced annual volume erosion, at 7.8 per cent. Personalized Mail (Addressed AdMail), which accounts for nearly half of business line revenues, experienced an annual volume erosion of about 4.3 per cent. Neighbourhood Mail (Unaddressed AdMail), which accounts for approximately 32 per cent of business line revenues, was the only area in this business line that experienced a slight increase in annual volume with 0.4 per cent average growth. However, the average revenue per piece for Neighbourhood Mail is \$0.12, compared to \$0.53 for Personalized Mail. Consequently, its volume growth has not translated into revenue stabilization or growth for the business line as a whole.

Canada Post Segment parcels revenue increased by over \$400 million between 2011 and 2015, representing an average annual growth of 7.8 per cent. Volume growth has been driven by e-commerce, and has such been growing consistently over the last five years. Canada Post and its subsidiary, Purolator, face stiff competition from the private sector in this business line, which constrains price increases.

For the Canada Post Segment, many online retailer customers now bring their parcels closer to the processing facilities or depots nearer the delivery point, and negotiate volume discounts. Shifts in end-consumer choices favouring lower average parcel weights has also contributed to declining average revenue per piece. As such, its parcel revenue increase has lagged behind volume growth as revenue per piece declined in 2015.

Purolator, which is focussed on the business-to-business (B2B) segment of the parcels market, saw its volumes decline by 21 million pieces (or 15 per cent) from 2011 to 2015. During this same time period, average revenue per piece climbed from \$11.45 to \$12.81 (or 12 per cent). Although price increases were sufficient to offset volume declines from 2011 to 2014, revenues were ultimately affected in 2015. In contrast, Canada Post Parcels experienced strong revenue growth of approximately 35 per cent (from \$1.2 billion in 2011 to \$1.6 billion in 2015).

From 2011 to 2015, the Canada Post Group generated cumulative revenue of \$38.6 billion. The following chart shows annual revenue by key line of business and for Purolator for the period 2011 to 2015.



The Canada Post Group **operating costs** have remained relatively stable from 2011 to 2015 at \$7.7 to \$7.8 billion. Savings measures have had to be implemented in order to offset increasing inflation and labour-related costs. In 2013, Canada Post put forward its Five-point Action Plan with the objective to implement five major cost reduction initiatives to generate \$700 to \$900 million in annual savings by 2023. The five initiatives are: community mailbox conversion (\$400 to \$500 million), price increase, efficiencies in post offices, streamlining operations (\$100 to \$150 million) and reducing labour costs. Several of these initiatives have been partly or fully implemented and generated savings of \$108 million in 2014 and \$240 million in 2015:

- Lower wages for new hires and other provisions negotiated in collective agreements;
- Optimizing retail operations and closing corporate post offices;
- Wage freeze;
- Conversion of door-to-door to community mailboxes; and
- Streamlining operations and consolidating depots.

The Canada Post Group generated a cumulative **cash flow** from its operations of \$2.0 billion, and invested \$2.1 billion in capital expenditures between 2011 and 2015. Capital expenditures were primarily for the Postal Transformation program (i.e., consolidating processing and investing in automation).

6.2 FINANCIAL OUTLOOK FOR 2016 TO 2026

The Canada Post segment has a defined set of policies and processes for the modelling and building of its financial projections for the segment. They have been in place for over 15 years and are imbedded within its financial planning activities. The modelling methodology requires sign-off from vice presidents or senior vice presidents for the inputs relevant to the projections to provide accountability and to enhance the quality assurance process.

Canada Post has prepared a **financial projection for the period 2016 to 2026** on the assumption that the community mailbox conversion is suspended. The first year of the projection is a forecast and is the most accurate. The next two to five years are considered to be relatively reliable, while the last five years of projections are naturally less robust given the uncertainty associated with long-term forecasts.

The following table reflects the forecast from the perspective of earnings, cash and borrowing requirements.

Canada Post Segment (\$ million)	2015	2016	2026	Variance 2016 to 2026
Revenue from operations	\$6,316	\$6,224	\$6,922	\$606
Cost of operations	\$6,225	\$6,268	\$7,576	\$1,351
Net investing and financing income (expense)	(\$29)	(\$19)	(\$67)	(\$38)
Profit (loss) before tax	\$63	(\$63)	(\$721)	(\$784)
Cash and equivalents	\$1,427	\$1,512	\$1	(\$1,511)
Loans and borrowings	\$1,052	\$997	\$2,913	\$1,861
Net cash and equivalents	\$375	\$515	(\$2,912)	(\$3,427)

The review of Canada Post's overall projections for the period 2016 to 2026 concluded that they are materially and directionally correct. Some assumptions seem optimistic; for example, the volume change projections for Direct Marketing Mail and price increase projections for Parcels. Therefore, the projected losses (from \$100 million in 2016 to over \$700 million in 2026) are most likely at the low end of the reasonable range and projected borrowing requirements likely represent the minimum requirements. Under this scenario, required borrowings are forecast to increase from \$1.1 billion at the end of 2015 to \$2.9 billion by 2026. This amount would exceed Canada Post's borrowing limit of \$2.5 billion.

The financial outlook for the Canada Post Segment is concerning largely as a result of volume erosion and its continuously growing costs. Projections for 2016 to 2026, based on the continued suspension of the Five-point Action Plan, indicate that Canada Post is not financially sustainable without new revenue growth or significant cost reductions.

Continued erosion in the Transaction Mail segment will result in a revenue decline of \$0.6 billion by 2026. Revenue is projected to grow from \$6.2 billion to \$6.9 billion between 2016 and 2026. This is primarily attributed to strong growth in the Parcels segment (\$1.5 billion) driven by e-commerce but curtailed by the erosion in Transaction Mail volumes (\$0.6 billion). The forecast net revenue growth of \$0.7 billion, however, is insufficient to offset the inflationary pressure on costs, which are expected to increase by \$1.3 billion over the same period, leading to growing projected operating losses. Transaction Mail is expected to contribute only 35 per cent of total revenue in 2026, compared to 49 per cent in 2016. Direct Marketing Mail will also see a reduction in share of total revenue, from 19 per cent in 2016 to 13 per cent in 2026. Parcels is expected to become the highest contributor to revenue with a 47 per cent share of total revenue in 2026, compared to 28 per cent in 2016.

In the absence of significant cost reduction initiatives, operating costs will increase at an average annual rate of 1.9 per cent between 2016 and 2026. Total operating costs will increase from \$6.3 billion in 2016 to \$7.6 billion in 2026. This increase will come from labour costs, expected to increase at an average rate of 2.4 per cent, and growth in the delivery network required to serve new addresses, at an annual incremental cost of approximately \$15 to \$20 million.

Borrowings will increase by approximately \$1.8 billion to support contemplated capital expenditures, pension funding requirements and operating activities. In the event that pension solvency special payment relief is extended beyond 2017, Canada Post would still be required to borrow in excess of \$0.5 billion to meet its cash requirements. While the cost of the pension plan continues to be a significant challenge to Canada Post, it continues to face strong headwinds from volume erosion and the inability to significantly reduce costs.

Any further decrease in revenue due to volume or pricing decline would cause further financial deterioration, making less cash available to pay pension costs. This would be exacerbated by further interest rate declines, which create additional cash pressures in the form of requirements to make greater special pension solvency payments. In contrast, an improvement in any of these variables would reduce pension costs and funding requirements.

6.3 KEY ISSUES TO FINANCIAL SUSTAINABILITY

6.3.1 Challenges Replacing Financial Contribution Lost from Erosion

Over the past five years, volume reductions in Transaction Mail and Personalized Marketing Mail have resulted in significant downward pressure on Canada Post revenue and cash flows. The projections for the period 2016 to 2026 show a continued trend in that direction. Exclusive privilege products which include Transaction Mail and Personalized Mail generate the highest financial contribution (revenue less long-run incremental costs⁶⁵) to Canada Post unallocated fixed costs⁶⁶ (\$2.4 billion in 2015), as shown in the Canada Post Annual Cost Study Contribution Analysis.⁶⁷

Competitive services, which include Parcels and Neighbourhood Mail, generate a margin of 29 per cent. This group of services contributes less to fixed costs than exclusive privilege products (Lettermail and Personalized Mail), which generate a margin of 47 per cent. Therefore, selling more products that have a lower contribution margin, such as Parcels and Neighbourhood Mail, will not generate sufficient income and cash flows to offset the financial impact of volume erosion in Transaction mail and personalized products. It should be noted that although Neighbourhood Mail accounted for 39 per cent of total Canada Post volumes in 2015 (3.5 billion pieces of Neighbourhood Mail from a total of 8.8 billion pieces) but had a minimal contribution to fixed costs.

Stakeholders and Canadians raised comments and concerns about the viability of **Neighborhood Mail (Unaddressed AdMail)**, in light of their greater sensitization and that of political leaders to environmental issues. It might be too early to say that it is an immediate risk to the business model of the Corporation but in a time when Canadians are becoming more aware of the carbon footprint of the current way of life, one cannot discount the possibility that Canadians will question the environmental affordability of Neighbourhood Mail sooner rather than later. Furthermore, the precedent of “The Do Not Call” list (established pursuant to the *Telecommunications Act*) for telemarketing might be an indication that at some point, in a not too distant future, Canadians will demand a change.

The vulnerability of this line of business to policy or legislative change is difficult to determine at this time but the timeline for this risk to materialize is well within the 10-year horizon mandated by the Government for its review. Should the volumes disappear, the impact on the operations of the Corporation would be dramatic.

⁶⁵ Long-incremental costs is defined by Canada Post as: Costs caused by the provision of a service.

⁶⁶ Fixed costs include: Costs for the fixed part of the delivery network; Corporate administrative costs; “Trapped” retail time (idle time for retail employees); and Expenses related to new initiatives not specifically associated with a product.

⁶⁷ Source: Canada Post 2015 Annual Report.

Currently, Neighborhood Mail accounts for approximately 40 per cent of all Canada Post volume. However, given its very low unit cost, it contributes marginally to the overall financial health of the Corporation.

The impact on the work would be structural, reducing the volume of pieces processed by 40 per cent and triggering a reconfiguration of mail routes together, which may affect jobs. The lack of flexibility in the current collective agreement negotiated between both parties would trigger financial losses well in excess of a billion dollars while the Corporation gradually reduces its workforce.

While somewhat different, the dynamics of the demand for **Personalized Mail** are also troubling. The major threat to this specific business line is more associated with disruptive technologies affecting its major clients, such as those in the financial and public utilities sectors. We are reminded that it took 30 years for electricity and 25 years for telephones to reach 10 per cent adoption but less than five years for tablet devices to achieve the 10 per cent rate. It is prudent to assume that unknown disruptive technologies affecting Canada Post business clients will become ubiquitous in the near term.

Canada Post's fixed costs, estimated at over \$5.0 billion in 2015 (or over 80 per cent), reflect the current infrastructure and service delivery model developed over time to fulfill the Canada Post mandate, meet its Universal Services Obligation, comply with collective agreements and respect the Rural Moratorium on the retail network.

Of these fixed costs, \$2.4 billion is not allocated to the respective business lines, including approximately \$1 billion that is primarily attributed to back office and management functions.

With the continued volume erosion in Transaction Mail and Personalized Marketing Mail, it will become increasingly challenging for Canada Post to generate sufficient income and cash flows to pay for its fixed costs. Canada Post's fixed costs are likely to continue increasing as its delivery network continues to grow to service new addresses.

Without significant changes to its infrastructure and operating model, Canada Post will continue to experience financial challenges as its growth products do not generate sufficient contribution to pay its fixed costs.

6.3.2 High Employee Costs for the Canada Post Segment

Negotiated collective agreements limit Canada Post's ability to reduce its labour costs. Labour costs account for about 70 per cent of Canada Post overall costs and 25 per cent (approximately 16,500) of this workforce becomes eligible for retirement over the coming five years. In order to reduce labour costs within the parameters of collective

agreement constraints, Canada Post must realign and streamline operations during this timeframe in order to take full advantage of this attrition window.

Total labour costs from 2011 to 2015 remained relatively stable at around \$4.4 billion, despite a 10 per cent decrease in the number of employees (approximately 5,800 down to more than 50,000). These reductions effectively offset only the impact of wage inflation for the remaining employees according to EY analysis. Direct labour costs (salary, wages and overtime compensation) per employee increased at a compound annual growth rate of 2.7 per cent. This is largely in line with the average Canadian wage inflation for this period of 2.6 per cent.

Total benefit expenses (including pension and other long-term and post-employment benefits) increased at a compound annual growth rate of 6.3 per cent from \$993 million in 2011 to approximately \$1.3 billion in 2015. This is primarily due to the cost of future employee benefits, which have experienced a lot of volatility driven by fluctuations in the discount rates, investment returns and other actuarial assumptions. Annual pension expenses have ranged between \$0.3 billion to \$0.6 billion during the period 2011 to 2015.

Overall, labour accounts for about 70 per cent of Canada Post's costs. Labour costs are high and largely fixed. According to Canada Post, its labour costs in 2015 were second highest as a percentage of its revenue compared to its peer postal services:

Country	Total Labour Cost (% of total revenue)
US	82%
Canada	66%
UK	57%
France	55%
Australia	44%
Netherlands	34%
Germany	33%

Source: Canada Post

Canada Post has also analyzed the composition of its labour costs and compared them to its competitors, and its subsidiary, Purolator. The analysis shows that Canada Post has the highest level of total wages and benefits, as well as the highest productive hourly rate (i.e., labour cost per hour worked), for both its "inside" sorting workforce and its "outside" delivery workforce. Following are some details:

- Sorting/inside workers
 - Salary and benefits: Approximately 44 per cent higher than competitors

- Labour rate per productive hour: Approximately 68 per cent higher than competitors
- Delivery/outside workers
 - Salary and benefits: Approximately 11 per cent higher than competitors
 - Labour rate per productive hour: Approximately 26 per cent higher than competitors

Benefit costs at Canada Post are 60 per cent higher than competitors. Benefits provided by Canada Post to its employees represent 40 per cent of salary compared to 25 per cent for competitors. Cost of the pension plan is responsible for the majority of this variance but other benefits, such as post-retirement benefits, also explain the difference.

6.3.3 Pension plan issues for the Canada Post Segment

In 2000, Canada Post assumed responsibility for its pension plan. Previously, the pension plan was part of the Public Service Pension Plan and enjoyed the same benefits such as full indexation. Although Canada Post has subsequently introduced a defined contribution pension plan for some of its employees, the majority of its employees are still members of a defined benefit pension plan that is virtually the same as that of the core federal public service except that Canada Post is subject to standards set out in the *Pension Benefit Standards Act* (PBSA). Although pension solvency liabilities will only materialize over a long period of time, they represent a substantial financial commitment, particularly considering the limited net income or loss that Canada Post generates (on average, Canada Post has generated a nil income or loss over the last five years).

As the **sponsor and administrator of the Plan**, Canada Post is responsible for its administration and investment of the pension funds. All costs, charges and expenses incurred to administer the Plan are generally paid for by Canada Post but charged back to the Plan. Royal Bank of Canada's Investor and Trustee Services (RBC) is the trustee and custodian and holds the Plan's assets. RBC calculates a target return based on Canada Post's Statement of Investment Policy and the asset mix it sets out. Actual returns have met or exceeded targets in all but three of the past 14 years.

Under the PBSA, there are two requirements for how the Plan must be funded:

1. On a **“going-concern” basis**, i.e., funded on the basis that it will continue indefinitely; and
2. On a **“solvency” basis**, i.e., based on market assumptions, funded to a level that ensures obligations to its members will be met (assuming the Plan is terminated).

At December 31, 2015, as set out in the following table, the Plan was in a surplus position on the “going-concern” basis but was in a \$5.9 billion deficit position in terms of its solvency (solvency deficit has increased to \$8.1 billion⁶⁸ as of June 30, 2016). The solvency position of the Plan has deteriorated in recent years mainly because of declining interest rates. The Governor of the Bank of Canada signalled in April 2016 that “the neutral rate of interest will be lower...for a very long time” and that “those in the pension business need to get used to it.”⁶⁹

Component (at December 31, 2015)	Financial Position (\$ millions)
Going-concern Financial Position	
Plan Assets (smoothed)	20,446
Going-concern Liability	19,200
Going-concern Surplus	1,246
Funded Ratio	106%
Solvency Financial Position	
Plan Solvency Assets	21,967
Solvency Liability	28,038
Solvency Deficit	6,071
Funded Ratio	78%

Canada Post is required to fund the solvency deficiency in addition to making ongoing contributions for pension benefits being earned by its employees. The Canadian Union of Postal Workers does not recognize the relevance of the pension solvency deficit. It is of the position that Canada Post should be permanently exempt from making its annual solvency payments. This is predicated on the fact that the pension solvency test is relevant only when the pension plan is at risk of being terminated, a situation CUPW does not foresee nor support.

Over the past few years, certain pension solvency relief measures have allowed for some flexibility. In 2011, in response to the economic downturn in 2008 and lower interest rates, the Government provided all Crown corporations with temporary relief from the need to make special solvency payments to their pension plans. Relief was extended for Canada Post for an additional four years in February 2014, when the Government introduced the *Canada Post Corporation Pension Plan Funding Regulations*. However, this relief ends in 2018 at which time Canada Post will be subject to solvency deficit special payments requirements that will be significant and subject to volatility based on future interest rates and investment returns.

⁶⁸

https://www.canadapost.ca/web/en/blogs/announcements/details.page?article=2016/08/25/canada_posts_q2_and_catttype=announcements&cat=updates

⁶⁹ <http://www.cbc.ca/beta/news/business/poloz-trade-economy-1.355326>

The solvency deficit of \$5.9 billion at December 31, 2015 (estimated \$8.1 billion as of June 30, 2016), for the Defined Benefit Pension Plan puts significant pressure on the Canada Post financial situation. The solvency deficit may result in a significant need to increase borrowing requirements. The funding requirements tied to interest rate volatility put Canada Post at risk of being unable to sustain its business, including investing in capital assets.

There are a number of possible options to reduce solvency payments; however, such options would require changes to either the regulatory framework or the Plan. Such options include: i) a continued extension or exemption from making solvency payments; ii) an agreement with the Government that will see Canada Post pension assets and liabilities be reabsorbed into the Public Service Pension Plan; iii) an exemption of liabilities relating to indexation to be excluded from the solvency funding criteria; iv) a conversion of the Plan to a Shared Risk model; v) changes to the benefit design; and vi) a switch to defined contribution plans. All options would likely be difficult to implement. In accordance with its mandate, the Task Force assumed that Canada Post will continue to assume responsibility for its pension liabilities.

Canada Post could reduce its future borrowing requirements by disposing of certain real estate assets and could also consider a sale of its subsidiaries. Considerations of these options would require further analysis.

In the absence of relief that reduces the solvency funding payments over the next ten years, Canada Post's financial position will remain subject to great uncertainty, particularly with respect to its borrowing requirements. The recent and forecast financial performance of Canada Post raises question about its ability to fund current employee benefits.

6.4 PUROLATOR HISTORICAL FINANCIAL PERFORMANCE

Purolator is a subsidiary of Canada Post that provides freight, parcel and logistics services largely in the business-to-business (B2B) segment of the market.

Purolator net income has fluctuated over the past five years, from a low of \$28 million in 2012, to a high of \$53 million in 2014. Facing strong competition from private-sector companies, including FedEx, UPS and Deutsche Post (DHL), Purolator's volumes declined an average of 4.0 per cent annually from 2011 to 2015. From 2014 to 2015, they declined 9.1 per cent. Revenue increased from \$1.6 billion in 2011 to \$1.7 billion in 2014 before dipping to \$1.5 billion in 2015. Sales revenue to Purolator from Canada Post Segment declined from \$90 million in 2011, to \$25 million in 2015, primarily because Canada Post sourced air cargo services from a third party.

Total cost remained relatively stable from 2011 to 2015 as growth in operating costs (average annual increase of 2.0 per cent) was offset by reduction in transportation costs and other support costs (average annual decrease of 3.5 per cent). The growth in operating costs was mainly due to an increase in future benefit costs averaging 18.5 per cent annually. Salaries, wages and active benefit compensation have increased only 1.0 per cent annually over this period, as the number of employees fell from 11,962 in 2011, to 10,814 in 2015.

Purolator remits an annual dividend to Canada Post, which from 2011 to 2015 has averaged \$11 million. This amount represents approximately 2 per cent of Canada Post's equity in Purolator.

6.5 MEDIUM AND LONG-TERM SUSTAINABILITY

The following table summarizes Canada Post Segment key financial situation information.

(\$ billions)	2011 Actuals	2015 Actuals	2016 Projections	2026 Projections
Revenue	5.9	6.3	6.2	6.9
Net income (loss)	(0.2)	0.0	0.0	(0.5)
Labour costs	4.4	4.3	4.4	5.2
Loans	1.1	1.1	1.0	2.9
Pension solvency deficit		5.9	8.1 (June 30)	TBD

New revenue growth or significant cost reductions are required. With no change, borrowing will have to increase to support ongoing operations, to fund capital expenditures required to maintain productive assets, and to address pension solvency funding requirements. When combined with continued erosion in Transaction Mail and Direct Marketing Mail, anticipated revenue growth in Parcels will not be sufficient to support operating costs of the current operational model. Without the implementation of process streamlining and cost savings measures, Canada Post labour costs alone are anticipated to increase by \$0.9 billion by 2026.

The Five-point Action Plan announced in 2013 was intended to address financial sustainability by implementing changes. Initiatives under the Plan included: 1) Door-to-door conversion to community mailboxes; 2) Price increase; 3) Retail store efficiency; 4) Operations streamlining; and 5) Labour cost reduction. In November 2015, when Canada Post suspended the door-to-door conversion to community mailboxes, it had completed the conversion of approximately 830,000 addresses with for an estimated \$80 million in annual savings. Nonetheless, the estimated savings from the Five-point

Action Plan are deemed to be insufficient to offset Canada Post's total projected costs over the medium and long term.

Furthermore, under the current solvency funding required for its defined benefit pension plans, Canada Post could face further volatility such as from a market shock or interest rate decline, pushing solvency funding payments higher than its borrowing capacity, and putting the Corporation at risk of being unable to sustain its business and invest in its capital assets. On the other side, should any of these variables improve, the solvency payment would decrease. For the first six months of 2016, changes in these variables had a negative impact on Canada Post's solvency deficit, increasing from \$5.9 billion as of December 31, 2015, to \$8.1 billion as of June 30, 2016.

In the absence of major business and operational changes, as well as reduction in pension costs and funding, Canada Post's financial self-sustainability is not achievable in the medium and long terms.

7.0 OPTIONS

7.1 CONTEXT

The needs of Canadians and businesses for Transaction and Direct Marketing Mail have evolved dramatically over the last two decades. In parallel, e-commerce has opened a whole new business for Canada Post by creating a strong demand for parcel services of a scale unthinkable two decades ago. The mail delivery needs are being replaced by parcel delivery needs. The direction of this fundamental change is one way, and one way only.

Canadians indicate that they value the Corporation. They appreciate its reliability and service, even though many said that some of the service levels provided by the Corporation exceeded their expectations. The brand of the Corporation is positively regarded by most Canadians. Many have fond memories of mail and parcels delivered by their letter carriers, and they have developed an emotional attachment to the Corporation. At the same time, many Canadians and businesses no longer use Canada Post for mail services as they rely heavily on electronic means of communications. However, they do use it more and more for parcel delivery.

This major shift in the need for postal services is the root cause of the deterioration of the Corporation's financial health. This negative trend will accelerate in the face of rapid progression and penetration (e.g., truly high-speed Internet across Canada) of communication technologies, evolving Canadian needs, emerging new business models (e.g., "uberization" of services) and disruptive technologies (e.g., drone, 3D printing, blockchain), which will add new competitive alternatives to serve Canadian needs.

Furthermore, changing public opinion on environmental practices and evolving government policy on environmental matters could also impact the financial viability of Canada Post.

The current business model of the Corporation does not generate sufficient income and cash to finance the realignment needed to continue its journey from a letter-centric to a parcel-centric business, let alone remain a self-sustaining business post realignment.

While the directional financial outlook put forward by the Corporation has been validated by EY, challenging as it is, the downside risks are real and significant, and could materialize much sooner given the rapid pace of volume declines and technological change affecting postal service. The Task Force considered their impact in its analysis of opportunities.

As noted earlier, the Corporation launched its Five-point Action Plan in 2013 based on the environment at the time, and certain assumptions. However, the current economic outlook, market and operational changes are indicating that the Action Plan is no longer sufficient to enable self-sustainability for the Corporation.

Additional revenue will be needed and/or cost will have to be realigned.

7.2 OPPORTUNITIES EXIST

7.2.1 Approach Used to Identify Opportunities

A robust multi-pronged approach was used to identify opportunities to position the Corporation to achieving self-sustainability while providing services Canadians need. It encompassed engagement of stakeholders, data analysis, benchmarking, development of business cases, and rigorous evaluation of options.

A long **list of risks** in its analysis was weighted, including financial (e.g., especially as it relates to estimation of pension liability), competition, current and emerging technologies, shifting demographics, operational feasibility, evolving customer demand, societal acceptability, labour dynamics and competencies.

The Task Force engaged Canadians and met with Canada Post on many occasions regarding a wide range of issues to better understand the unique complexity of its business. It also engaged Canadians, postal experts in Canada and abroad, and stakeholders. The services of the global consultant firm of Oliver Wyman (OW) were retained for their recognized expertise on the topic of postal business, to help identify additional cost or revenue opportunities. Global benchmarking was conducted to identify ventures tried by other national post offices. Ideas for complementary services in other

industries in Canada and abroad were also examined for possible synergies and feasibility.

EY provided deep understanding of the financial construct of Canada Post and the financial implications of the current trends, operations, and possible courses of action. They tested and challenged assumptions for reasonableness and consistency with the logistics and distribution sector but also in that of the major institutional clients of the Corporation. Their pension experts examined options to address the sustainability of the current pension liability, let alone future liability.

A wide net was cast for creative ideas and a **long list of potential opportunities** to help address the financial challenges facing Canada Post was developed. In total, 37 discrete opportunities were identified and examined (see Annex C). Given Canada's mixed and mature economy, there are few opportunities for Canada Post to pursue new lines of business that would generate enough revenues to offset implementation and operating costs. Nonetheless, the Task Force also examined other options: price-based strategy, review of labour and pension costs, distribution of marijuana when legalized, post offices serving as community hubs, changes to Canada Post's governance, and postal banking.

7.2.2 Methodology Used to Filter Opportunities

The methodology was multi-staged and involved four successive activities:

- 1) The development of a long list of potential business opportunities, including some specific options already considered or planned by Canada Post but focusing on novel ideas and opportunities identified with input from the Task Force, stakeholders, and Oliver Wyman's international experience and resources.
- 2) The establishment of a filtering methodology for evaluating the long-list and using quantitative and qualitative inputs and clear scoring to identify the strongest options for further analysis.
- 3) The iterative assessment of the long-list according to the filtering methodology, including the introduction of new options as appropriate, culminating in a short list of strongest options.
- 4) Development of more detailed business cases and analysis of key elements of each of the shortlisted options, articulating relative strengths, weaknesses and opportunities.

Each of the opportunities was assessed using the following three criteria:

- A. **Potential upside** – if successful, by how much could this initiative improve Canada Post’s annual operating income considering the size of the market it addresses and profitability?
- B. **Market dynamics** – do external conditions such as demand, competitive intensity or socioeconomic and/or environmental factors favour this initiative or new offering by Canada Post?
- C. **Fit with Canada Post’s capabilities** – how well does the initiative fit with the skills and competencies of Canada Post’s workforce, the relevance of its current assets, investment requirements and “time to market”?

Business cases took account of the extent to which they would address one or more of the following key factors affecting Canada Post’s performance:

- **Shifting demand** – mail volumes declining and parcel volumes increasing as a result of digital substitution and fast growing e-commerce in the business-to-consumer (B2C) segment;
- **Growing competition** – the shrinking business value to Canada Post of the exclusive privilege in Transaction Mail given the accelerating adoption of non-paper-based digital alternatives by its largest institutional customers, alongside aggressive competition in Parcels from its rivals;
- **Split business model** – while Canada Post has integrated capabilities, operations and infrastructure for Transaction Mail and Parcels, in several key respects they represent two different businesses. Their interactions are complicated by exclusivity and government-prescribed service levels for one (i.e., Transaction Mail) and prices and service levels set by the market for the other (i.e., Parcels); and
- **High unit cost of productive labour** – the Canada Post productive unit of labour is up to 41 per cent more costly than those of comparable businesses in the private sector (Purolator, UPS and DHL). The make-up of this differential is discussed later in this chapter.

Given the magnitude of the financial challenges of the Corporation, the Task Force was conscious of the need for Canada Post to focus on opportunities that had the highest potential to yield improvements as opposed to those with limited potential. Examples of revenue opportunities examined but not further pursued include expanding retail offerings, offering of physical storage, introduction of C-class mail (with lower delivery speed guarantee), and extension of e-commerce fulfillment solutions. Examples of cost savings opportunities examined but not further pursued include reduction of delivery

frequency based on volume, and replacement of some urban retail locations with parcel lockers.

7.3 PRICE BASED STRATEGY

The advantage of a strategy of sustained and significant price increases is that in itself, it is one of the easiest ways to increase revenue. It could be quick and, should the market accept the new rates, the additional revenue would flow directly to operating income and increase cash flows.

However, as noted in Chapter 5, it is clear that Canadians would resist such a strategy and would likely move away even faster from the services offered by Canada Post. As seen by the recent push in the taxi and telecommunication industries, monopolies are increasingly difficult to enforce in light of rapidly evolving technology and business models. The large institutional clients of the Corporation are very savvy business operators, many of them at the leading edge of emerging technologies and new business models. They are themselves facing ongoing cost optimization challenges that are not going away. They will be the first ones to redirect their business to lower cost alternatives if they experience additional cost pressure from the Corporation.

Under the current *Canadian Postal Service Charter*, Canada Post must charge the same price for delivering a letter across Canada, regardless of the distance between origination and delivery points. The situation is different for parcel delivery, which operates in a competitive market. Prices are established by the market and prices are different based on the distance and location of origination and delivery points. A user-pay approach (e.g. distance-based, speed of service) may be a reasonable approach to generate moderate revenue but would require changes to the *Canadian Postal Service Charter*.

Although a one-time large increase may be needed while longer term realignment activities are undertaken, it may be worth pursuing annual price increases in the longer term.

7.4 REVENUE AND COST-BASED STRATEGIES

These opportunities focus on the greatest potential for improving or optimizing Canada Post's current operations. Critically, these opportunities would all require flexibility and collaboration on the part of stakeholders, including the Government, Canada Post and its unions.

In summary, the seven opportunities are as follows, together with their upper range order of magnitude of financial impact per year:

Opportunity	Type	Profit Potential (upper limit)
Community mailbox conversion*	Savings	\$400M
Converting 800 of the highest volume corporate post offices to franchise outlets	Savings	\$177M
Alternate day delivery	Savings	\$ 74M
Further streamlining processing operations	Savings	\$ 66M
Pursuing further synergies with Purolator	Savings	\$ 16M
Selling advertising in retail network	Revenue	\$ 19M
Additional “last mile” delivery for 3rd parties	Revenue	\$ 10M

* Note that the conversion profit uplift potential of \$400 million identified above includes the \$80 million savings potential from the 830,000 addresses already converted by Canada Post.

Of note is that the financial uplift of each option should be considered separately since the total projected financial gains are not necessarily cumulative. For example, modifying the retail footprint could result in the reduction of opportunities for providing consolidated government services. Furthermore, most of these opportunities cannot be expected to yield their full financial benefits immediately. Many will take months and years to be deployed. They all have varying levels of complexity to implement. All will need to be tested and/or piloted, and unidentified risks could surface to force the Corporation to reassess the viability of some of the opportunities.

7.4.1 Community Mail Box Conversions

When Canada Post put forward its plan in 2013 to convert approximately 5 million addresses (32 per cent of the total 15.8 million addresses served by Canada Post) from door-to-door delivery to community mailboxes, savings were projected to be identified as being between \$400 and \$500 million annually. This estimate has since been revised to \$400 to \$450 million, based on lessons learned from the first wave of implementation. That first wave included 830,000 addresses and is projected to generate \$80 million per year in savings.

To better contextualize the complexity of the conversion to the community mailbox program, it is worthwhile to note that Canada Post had to invest a net amount of over \$240 million to implement these conversions. This level of investment illustrates that Canada Post needs considerable financial resources to reduce ongoing costs, which

will not be easy to achieve. The main reasons for the reduced long-term savings are as follows:

- Lower efficiencies than anticipated;
- Longer implementation process than planned; and
- Introduction of an accommodation program for those with mobility issues.

The degree of resistance in major cities with the proposed conversion strategy was not initially anticipated by Canada Post and the Corporation was forced to adjust its plans in response to local concerns, which led to the revised savings target. This revised target of \$400 to \$450 million has been assessed by EY to be reasonable. Estimated annualized savings have been found to be sound, robust and based on defensible assumptions.

It is worth noting that downward revisions of forecasts are not unique to Canada Post. This is commonly experienced by large organizations with an extensive geographic footprint when implementing cost reduction initiatives.

To provide a fuller picture of the community mailbox dynamics, the potential impact of not proceeding with the conversion in full or in part was examined. During the conversion of the first 830,000 addresses, several municipalities raised a concern about converting to community mailboxes in high density urban areas. Municipalities identified that it was difficult to find suitable space for community mailbox street furniture and street parking in the densest of urban areas. This issue was also raised during the meetings with stakeholders. An assessment of the issue indicates that over 800,000 addresses of the 5 million identified for community mailbox conversion are located in such high-density areas (representing 16 per cent of addresses). According to Canada Post estimates, high-density areas are expected to generate lower cost reduction as there are fewer walking routes to be removed. Total cost savings from community mailbox conversion of these addresses are estimated at \$32 million. On a per-address basis, this represents less than half the savings potential on a per-address basis than of the other 4.2 million addresses targeted for conversion (\$39 vs \$80 to \$90 per address).

The impact of indefinitely suspending the community mailbox conversion program was also assessed. To this end, two different options for recovering the lost savings have been identified:

- 1) In the form of an annual fee for service amounting to \$22 per address if applied to all addresses, or \$88 if only applied to addresses receiving door-to-door delivery; or
- 2) In the form of a further base increase in the price of a stamp, of \$0.15, or 17 per cent. This base increase would then continue to grow in line with falling Lettermail volumes and increasing operating costs. With such a price increase, it

should be anticipated that volume erosion might accelerate, creating a spiral effect.

The cost of full door-to-door service restoration was also examined. The estimated annual cost of doing so would exceed \$1.2 billion annually, which would further compound the financial challenge of Canada Post and the Government. To this end, two different options for covering the costs were considered:

- 1) An annual fee for service per address that would vary from \$73 if applied to all addresses to \$124 for those currently receiving door-to-door services.
- 2) The cost of a stamp would have to increase by a further \$0.50, over and above normal inflation increases, and keep rising to match declining mail volumes.

The total savings target for the initiative would reduce from a range of \$400 to \$450 million to a range of \$350 to \$400 million, should the community mailbox conversion program be modified as follows:

- Canada Post provides accommodation to serve Canadians with mobility issues; and
- The over 800,000 addresses in high-density areas should be removed from the conversion program considering the challenges they pose and the lower cost reduction they would generate (\$32 million annually).

7.4.2 Updating the Retail Network, including the Rural Moratorium

Canada Post has a network of over 6,200 post offices across Canada, including over 3,700 corporate post offices. Over the years, it has augmented the number of franchise post offices to 40 per cent of total locations. This franchising approach mirrors the strategy adopted by most successful service organizations in Canada and around the world. It provides for sharing of risks and rewards between companies and their retail network operators, cost-effective use of deployment of capital, enables both parties to focus on their core competencies, and where possible, leverage on other services to increase customer base. Canadians appreciate the longer operating hours and the convenient locations of franchises.

Canada Post operates about 880 post offices in urban areas and 2,860 in rural areas, at an annual cost of about \$200 million and \$400 million, respectively. An urban post office processes an average of 19,000 transactions per year while a rural post office processes half of that volume. **Corporate post offices** are significantly more expensive to operate for a given level of service and an activity than is the case of franchises, which represent 60 per cent of total locations but 79 per cent of total cost. The higher cost of corporate retail outlets is partly explained by low transaction volumes and low labour utilization ratios (average 58 per cent). As a result, corporate post offices incur

over \$200 million of unproductive labour costs per year. Even when removing the impact of trapped time (idle time for retail employees), a corporate post office is typically \$30,000 to \$140,000 more expensive to operate, regardless of the number of transactions.

The structure of the Canada Post retail network is driven by the service expectations set out in the *Canadian Postal Service Charter* (i.e., percentage of the population covered within a specific distance of post office). A restructuring of outlet locations in a way that would affect its coverage of the population would require that the *Canadian Postal Service Charter* be modified.

Some corporate outlets located in urban areas are not protected by the Rural Moratorium but instead are protected under a labour agreement with CUPW. To convert these outlets to dealerships or to close them, Canada Post would have to revisit its labour agreement.

While Canada Post was busy deploying a proven **franchise model**, governments were faced with counter arguments from their constituents on the benefits of post office closing, or conversion. As a result, successive governments chose to limit the closing or conversion of post offices in rural areas. Canada Post's physical footprint is an important reminder of the presence of the federal government in providing services to all Canadians, wherever they reside in Canada. In fact, it is the last of such comprehensive national public networks, further to the privatization of a number of Crown corporations in the second half of the 20th century. Canadians living in rural locations, especially smaller ones, became more and more concerned with closure or conversion of post offices, fearing the collateral effect of the very existence of a number of smaller villages. In response to this concern, the Government enacted a **Rural Moratorium** on closure and conversion of post offices in rural Canada in 1994. Today, the Rural Moratorium is still in place with no changes.

Since the implementation of the Rural Moratorium in 1994, Canada's rate of urbanization has progressed every year. Many of the locations that were deemed to be rural at the time have since become urbanized and would likely no longer qualify as rural in demographics studies. In many of these areas, the population has grown significantly and Canada Post has opened many franchise post offices to serve Canadian people and businesses. These examples clearly demonstrate the need to update the Rural Moratorium to better reflect today's reality of rural Canada.

Canada Post also has to deal with the reality that many of its corporate post offices generate little revenue compared to the costs of operating. This is especially true for rural post offices.

Refreshing the Rural Moratorium after its implementation over 20 years ago is reasonable given the changing demographics. The definition of rural locations and criteria used to determine the number of rural post offices required to serve Canadian citizens and businesses should be updated to better meet the needs of Canadians while being cost effective. The Government might wish to update the definitions and criteria to a more contemporary understanding of rural Canada. This would facilitate self-sustainability and, as importantly, without reducing quality of services to Canadians.

In a scenario where Canada Post was to convert to franchises or close all of its corporate outlets, it could realize savings of up to \$357 million per year, though it may only be able to achieve part of these savings. To realize approximately 50 per cent of the total savings, Canada Post could focus on converting to dealership the 800 highest yielding offices, resulting in savings of \$177 million per year. Such a conversion would certainly encounter many policy, labour agreement and other stakeholder challenges but the savings would significantly contribute to Canada Post's long-term financial sustainability. The analysis demonstrated that the conversion of corporate post offices to franchises or the closure of some outlets would have minimal impact on services in most cases, since other post offices are located within a reasonable distance.

Canada Post would face important challenges in implementing such changes, in particular securing agreement from the Government for the Rural Moratorium, CUPW and the general public, including changes to the *Canadian Postal Service Charter* and labour agreements. Modifying the 1994 Rural Moratorium and CUPW agreement is essential to implementing this opportunity. In past years, Canada Post obtained success in securing acceptance from communities in closing or converting some 30 outlets to dealership for some locations, suggesting some level of acceptance for such changes.

Refreshing the Rural Moratorium to align its definition and criteria to the current reality of urban and rural communities could help better meet the needs of Canadians and businesses while enabling cost-effective utilization of Crown assets. An initial target of \$177 million savings to adjust the retail footprint of Canada Post could be pursued if the challenges were to be taken into account.

7.4.3 Alternate Day Delivery

The alternate day delivery option was assessed favourably by the filtering process previously described. It was also an opportunity often mentioned during the engagement with stakeholders and public opinion research. As revealed by the public opinion research, many Canadians feel they do not need to receive mail every day. In fact, many Canadians receiving mail via community mailboxes do not pick up their mail on a daily basis. This option also presents a positive environmental impact from reduced vehicle emissions.

A recent analysis conducted by Canada Post concluded that savings of \$74 million per year would be achievable but only after a lengthy implementation period that could take up to five years. Some of the issues identified for the implementation of alternate day delivery are:

- **Implementation challenges:** Route and depot consolidation, parcel delivery integration and community mailbox conversion;
- **Operational complexity:** A letter carrier could have more than one route;
- **Need for an alternate parcel delivery approach:** Parcel delivery would remain time sensitive and would need to be delivered daily;
- **Potential reduction in Neighbourhood Mail revenue:** Delivery schedule of Neighbourhood Mail may no longer be possible so advertisers may prefer other options; and
- Requirement to **renegotiate some collective agreements** and make changes to the *Canadian Postal Service Charter*.

Despite the implementation challenges identified above, this option is strongly supported by Canadians. It is reasonable that in an environment of declining mail volume and in consideration of the \$74 million in potential savings, this option could be investigated further but should be implemented through the use of pilot exercises.

7.4.4 Further Streamlining Processing Operations

The Corporation operates 21 **mail processing plants across Canada**, feeding a network of 485 depots across the country. The top four mail processing plants handle approximately 66 per cent of the mail volume. The bottom half handles 6 per cent of the volume but still costs approximately \$100 million a year to operate.

Over the years, the Corporation has pursued efforts to consolidate mail volume to its largest facilities, to benefit from scale, including moving mail processing from Ottawa to Montreal, Hamilton to Toronto, Quebec City to Montreal, and St. John to Halifax. Additional efforts have also included increasing automatic sorting and sequencing of the mail at plants. Also of note is that while Canada Post has consolidated some of its depots, it also had to accommodate parcel growth, which has been a key focus in recent years. Reengineering mail processing centres toward a parcel-centric approach will present a challenge.

The 2014 Corporate Plan Summary and the Five-point Action Plan identified up to \$150 million in potential annual savings from streamlining operations, though the current plan only identifies \$90 million of savings tied to specific initiatives, approximately \$50 million of which are still in early planning and implementation stages. The initial capital

investment (CAPEX) estimate needed to implement these early stage opportunities are in the \$275 million to more than \$400 million range, reminding us again that ongoing cost reduction will not come without heavy investments.

To reach its target, Canada Post would also need to conduct additional research to identify over \$66 million of incremental initiatives. However, this amount does not seem unreachable given Canada Post's size and considering that the company has already identified incremental opportunities such as depot consolidation.

The overall run rate for incremental savings of depots and mail processing centres is in the order of over \$66 million per year.

7.4.5 Pursue Further Synergies with Purolator

It is standard practice that related companies seek to maximize the synergies among them to improve efficiencies. Canada Post and Purolator have been focused on realizing synergies since 2010. Each segment has also worked on synergies with Innovapost. Canada Post indicated that further synergy values are in the process of being achieved in 2016 and are not part of this option.

Additional initiatives have been identified to provide incremental synergies for an additional \$16 million annually by 2019. However, there are structural considerations that may challenge additional opportunities, including corporate structure and labour agreements which may be addressed in the future.

Further synergies between the corporate entities of the Corporation is a viable opportunity but the unique challenges associated with it need to be recognized.

7.4.6 Sell Advertising

Canada Post could partner with an out-of-home (OOH) media group to monetize its unique retail network and delivery vehicle fleet, by installing advertising panels in Canada Post high-traffic corporate outlets and offering advertising on its visible urban/suburban delivery fleet.

Canada Post has 1,400 corporate outlets with sufficient foot traffic (more than 15,000 transactions a year) to support **partner-installed advertising panels**. It also operates a fleet of over 13,000 vehicles in areas on which it could also offer advertising space, similar to the "bus-wrap" we often see on municipal buses across Canada. Advertising partners typically provide a percentage of sales realized for the advertising privilege.

The Corporation could have an attractive value proposition, as few advertising networks can offer equally dense nationwide coverage and indoor advertising tends to be sought

after by advertisers. However, the exact value of the audience that Canada Post could provide has yet to be determined. A rough order of magnitude would likely be:

- Retail network could generate new revenue of \$11 million per year, assuming that advertising space in retail outlets sells for approximately \$600 per four-week period and the Corporation receives 65 per cent in fees from the partner.
- The delivery fleet could generate new revenue of \$8 million per year, assuming vehicle wrap would also sell for approximately \$600 per 4 week period and Canada Post receives 50 per cent in fees from the partner.

While financial risk appears limited for Canada Post, implementation may require securing support from municipalities, as well as addressing some operational risks. Municipalities may have regulations regarding outdoor advertising, and the Corporation may have to secure agreements to display ads on delivery trucks. Minor adjustments to operations may have to be made to allow advertising change-outs in post offices and on delivery trucks, as well as regular maintenance.

Offering advertising may create some risk for Canada Post's reputation or brand, though past examples from transit agencies and airports suggest this risk should be fairly minimal.

Selling advertising might be a relatively easy option to pursue as a source of incremental recurring revenue.

7.4.7 Provide Additional "Last Mile" Delivery for Third Parties

In 2015, a very small percentage of parcels and courier products were delivered by Canada Post on behalf of other parcel delivery companies (FedEx Ground, FedEx Express and Purolator), at interliner agreement rates. Purolator, FedEx and UPS all induct packages deep into Canada Post's network, relying on the Corporation for "last mile" delivery particularly in rural and remote areas.

The locations to which Canada Post delivers for third parties covers between 15 to 30 per cent of the population, primarily rural and remote areas but vary by partner agreement. In these areas, interliner volume represents between 0.8 to 3.0 per cent of Canada Post's parcel deliveries.

Canada Post is determined not to repeat the experience of the US Postal Services, which they understand offered final-mile delivery on terms so attractive it encouraged the growth of the zone-skipping industry and may have diluted its own value and competitiveness for the growing e-commerce parcel business. Canada Post has made an effort at prudence in this regard and has yet to determine how aggressively to pursue this opportunity.

Canada Post may be able to capture additional interliner volume by offering more attractive rates or other negotiated terms for interliner delivery in more suburban areas. In more dense areas, a lower ARP may be required to attract interline volume, as long as profitability is maintained for the Corporation.

Assuming parties are able to negotiate mutually beneficial rates in a total of 50 per cent of Canada, up from current delivery areas, Canada Post could deliver approximately 1.4 million additional packages annually, with a potential financial value of \$9 to \$10 million in revenue. Lower rates or improved terms may also increase interliner volumes in areas already seeing interliner deliveries but the amount could not reasonably be estimated.

This strategy carries a risk of cannibalization. Overreliance on this strategy could hasten the growth of competitors to the detriment of Canada Post. In a competitive world, one should not lose control of its customers, i.e., of the experience and the revenue it does not originate. So there is risk to the Corporation. Given that the Canada Post productive labour rate is 45 per cent more than its competitors, it could enable them to take over last-mile delivery once they have attracted enough volume of their own. Finally, large-scale “zone skipping” could cannibalize the Corporation’s sales and relegate it to the highest cost-to-serve and least attractive markets and customer segments.

While there are risks associated with this option, there could be the potential for revenue growth.

7.5 REVIEW OF LABOUR AND PENSION COSTS

Canada Post’s largest cost element is its labour costs, which represents approximately 70 per cent of total costs. Given its relative size, no possible solution to improve self-sustainability can be designed without impacting labour. Canada Post has a highly unionized workforce with 95 per cent of employees being represented by one of four unions: CUPW, APOC, CPAA and PSAC. Over the years, collective agreements have resulted in various clauses that limit workforce flexibility, impact productivity or increase costs, including high pension and benefit costs.

As presented in Chapter 6, **benefit costs** at Canada Post are 60 per cent higher than competitors. Benefits provided by Canada Post to its employees represent 40 per cent of salary compared to 25 per cent for competitors. Cost of the pension plan is responsible for the majority of this variance but other benefits, such as post-retirement benefits, also explain the difference.

Current **negotiated collective agreements** impact the flexibility for redeployment or reduction of labour. When decreasing work no longer justifies maintaining a position, the

Corporation has limited options to adjust its cost structure to new business conditions in a timely manner. This is due to limitations, including the reallocation of employees among positions and employee job security at a time when Transaction Mail volumes are declining and the business landscape is evolving rapidly. Without significant increased flexibility, Canada Post will not be in position to generate the level of the savings estimated for the opportunities noted above.

In dealing with labour costs, public opinion research results indicate that the majority of Canadians did not agree with changes to Canada Post if they resulted in mass layoff of postal employees or cutting of their pay and benefits. On the other hand, the research indicates that the majority of businesses are in favour of the realignment of Canada Post's labour costs.

The 2008 Strategic Review recommended that “an independent third party work with Canada Post and its unions to review the existing collective agreements, in order to identify whether any parts will inhibit the modernization plan or impede the realization of productivity improvements necessary to ensure Canada Post's financial self-sustainability, or otherwise significantly compromise Canada Post's long-term viability.”

Building on the 2008 Strategic Review, a deeper analysis of the labour environment in collaboration with all stakeholders, including Canada Post, unions and the Government will be required to address the labour cost structure, which must be fundamentally improved, given the evolving digital world.

It is recognized that Canada Post and the Canadian Union of Postal Workers recently reached a tentative agreement. Both sides will continue their efforts to successfully conclude this agreement.

7.5.1 Pension and Post-employment Benefits

Canada Post's **Defined Benefit Pension Plan** also creates financial challenges for Canada Post as discussed in Chapter 6. The Plan is expensive with annual costs of \$300 to \$600 million. It also requires significant amount of money to fund its solvency deficit currently estimated at \$8.1 billion (June 30, 2016), increasing from \$5.9 billion as at December 31, 2015. Future services pension costs are uncompetitive and Canada Post has a significant pension liability to fund. This problem will not be solved by restructuring the pension plan for future employees. While a restructuring of the pension plan could help stem the future growth of liabilities, the substantial pension obligations incurred to this point will remain.

Canada Post has approximately \$3.6 billion in future post-employment and long-term benefit liabilities. The post-employment and long-term benefit obligations will generate increasing pressures on the Corporation's cash availability. At present, Canada Post does not generate sufficient earnings and cash from operations to finance these

obligations, as well as pension special payments and other needs (e.g. operating requirements and capital investments). Prudent management suggests that these obligations, particularly pension special payments, should remain a priority to mitigate the risk to sustainability going forward.

There are a number of options available to reduce solvency payments; however such options would require changes to either the regulatory framework or the Pension Plan. These options have varying degrees of difficulty to implement. Given Canada Post's status as a Crown corporation, its presence in competitive markets, and that ultimately the pension obligation would fall on the taxpayer, the Corporation must address its pension issues rather than be relieved of them. The table below summarizes the effectiveness and implementation challenges for each option.

No.	Option	Effectiveness	Ease of Implementation
1	<i>Regulatory</i> - Eliminate solvency valuation requirement	High - no solvency funding required	Medium - Government consent needed
2	<i>Regulatory</i> - Defer solvency valuation requirement/extend payments	Medium - limitation of solvency funding	Medium - Government consent needed
3	<i>Regulatory</i> - Amalgamate with PSPP	High - no solvency funding required	Medium - Government consent needed
4	<i>Regulatory</i> - Exclude indexation from solvency valuation	High - no solvency funding required	Medium - Government consent needed
5	<i>Regulatory</i> - Shared risk model	Medium - limitation of solvency funding	Low - Government and employee consent needed
6	<i>Measurement</i> - Adjust inflation assumption to market	Medium - limitation of solvency funding	High - Management decision only
7	<i>Benefit design</i> - Various amendments	Low - limited reduction in solvency funding	Low - Government and employee consent needed
8	<i>Benefit design</i> - DC pension plan introduction	Low - limited reduction in solvency funding	Low - Government and employee consent needed
9	<i>Assets</i> - Match assets to liabilities	Low - limited reduction in solvency funding	High - Management decision only

1 and 2: Elimination or deferral of solvency valuation

As an agent Crown corporation, it may be argued that funding the solvency deficiency in Canada Post's Plan does not increase the security of member benefits as the federal government is ultimately responsible for the Plan in contrast to a private-sector pension plan. Funding a solvency deficiency may also result in building an excessive surplus on a going-concern basis, which could result in trapping surplus capital that would not provide an economic benefit to Canada Post. For these reasons, Canada Post may wish to request a further deferral, extension (such as the 10 year smoothing discussed), or permanent exemption from solvency funding requirements. However, this may set a precedent for other Crown corporations.

3. Amalgamation with the Public Sector Pension Plan (PSPP)

Another potential consideration would be to request that the Canada Post assets and liabilities be reabsorbed into the Public Sector Pension Plan ("PSPP") from which the Canada Post pension plan originated. The PSPP is only funded on a going concern basis and is not subject to solvency funding requirements. Given that Canada Post is well funded on the going concern basis, no additional top-up contributions would be required. While reverting assets and liabilities to the PSPP may be viewed unfavorably by the competitive market place, it can be argued that Canada Post competitors would not have had the burden of a legacy public service plan as a starting point in their history.

4. Indexation Excluded from Solvency Funding

Legislation in certain other jurisdictions (e.g., Ontario and Nova Scotia) allow for liabilities relating to indexation to be excluded from the solvency funding criteria. Canada Post may request a similar exemption to reduce the solvency funding burden. Based on the current valuation of the pension plan, the removal of indexation would eliminate the existing solvency deficiency. Such a change would have the impact of significantly reducing solvency deficiency payment requirements in the future, as well as reducing the risk of developing a future surplus.

5. Shared Risk Model

Subject to legislative changes, another alternative would be the conversion to a Shared Risk model. This would allow greater flexibility in funding and changing benefit levels. Within the Shared Risk framework, Canada Post may choose to continue to provide a guaranteed base pension to employees but only provide indexing conditional on investment performance. Certain businesses have explored shared risk models such as hybrid pension plans.

When considering the above alternatives, attention should be given to the impact on Canada Post's competitors, the potential impacts to the competitive market place; and the repercussions that may be felt to other players in the sector. In doing so, however, government and stakeholders alike should be cognizant that Canada Post and their employees bear the legacy of the Public Service Pension Plan as the starting point in its history, unlike the private sector.

6. Adjust inflation assumption to market

Canada Post's current valuation assumes a long-term inflation assumption of 2.0 per cent for solvency purposes. Using a market-related measure of long-term inflation could yield a lower assumption under the current environment where the markets outlook for inflation is slightly below long-term normative levels. A reduction in the solvency inflation assumption from 2.0 per cent to 1.5 per cent for illustrative purposes would result in a \$1.3 billion reduction to the solvency liability. Similarly, a reduction in the inflation assumption from 2.25 per cent to 1.5 per cent for financial reporting purposes for illustration would result in an approximate reduction in the balance sheet liability of \$2.6 billion and a reduction to the annual pension expense of \$150 million. The Consumer Price Index trend for the past 10 years has been a CAGR of 1.7 per cent.

7. Various amendments

Benefit design changes can also have the impact of reducing volatility of future payments. In recent years, Canada Post has increased the level of employee cost sharing in benefits, negotiated changes in the eligibility requirements for an unreduced pension and established a defined contribution component for certain new hires. The impact of changes to benefit design is limited as design changes are generally limited to changes to future service accruals which do not impact the current solvency deficiency but will limit the growth of solvency deficiency in the long term. In addition, the implementation of plan design changes is subject to notice requirements and labour agreements.

8. Defined Pension Plan Introductions

Compared to a DB pension plan, the key feature of a defined contribution ("DC") pension plan is the fixed (or narrow range variation) nature of the amount of the employer contribution. The amount of the employer contributions are usually tied to a combination of factors consisting of earnings, optional contributions by employees, and years of service. Further, the combined contributions of employees and employers are bounded by regulation which caps the contributions. Consequently, this feature means that the associated pension benefit expense and cash outlays are more consistent year over year and only variable based on labour costs.

9. Match assets to liabilities

A de-risking strategy can minimize the volatility of future solvency deficiency payments. Canada Post has adopted an investment policy that increases the allocation of assets toward liability matching assets as the solvency-funded position of the Plan improves. This type of policy aims to lock investment gains that are achieved over time to reduce the volatility in a plan's pension solvency position and associated solvency special payments. While such policies aim to reduce solvency funding volatility in the long term, short-term volatility remains until improvements in the solvency funding position are ultimately observed. RBC Royal Bank of Canada is the custodian for the Plan.

The current level of liability for benefits related to past services, as well as the cost of the Defined Benefits Pension Plan constitute a major obstacle to Canada Post future financial self-sustainability. These costs and liabilities call for a significant use of cash. Such use needs to be reduced and contained.

7.6 DISTRIBUTION OF MARIJUANA

The current Canadian government has indicated its intent to legalize marijuana for recreational use. However, the industry structure has yet to be defined. A **Task Force on Marijuana Legalization and Regulation (Marijuana Task Force)** has been established to review outstanding policy questions regarding this initiative with a report due in November 2016.

As of the writing of this report, key policy decisions such as sales jurisdiction (federal versus provincial), taxation levels, and modes of distribution are yet to be made. These decisions will materially affect the extent to which a federal Crown corporation, such as Canada Post, could participate in the value chain emanating from the legalization of marijuana for recreational use.

Today, the Canadian medical marijuana market is restricted to delivery through the mail with Canada Post. Per the Marijuana Task Force, "this provides reliable, low-cost delivery to all parts of the country in a discrete manner that does not encourage increased usage. It also helps keep prices low as no overhead is required to maintain a retail distribution system."⁷⁰

The Marijuana Task Force has also identified three possible options for its eventual retail and distribution:

⁷⁰ Toward the Legalization, Regulation and Restriction of Access to Marijuana. Page 17.

- 1) **Phased-in approach to distribution:** In the initial stages of legalizing marijuana, only allowing a proven system of distribution (e.g., through the mail, as is currently done in the medical marijuana regime).
- 2) **Storefronts:** Allowing for some ability for the sale of marijuana to take place in a legal and regulated retail environment.
- 3) **Local choice:** Decisions on appropriate distribution mechanisms to be left to provincial and territorial governments to determine the best approach.

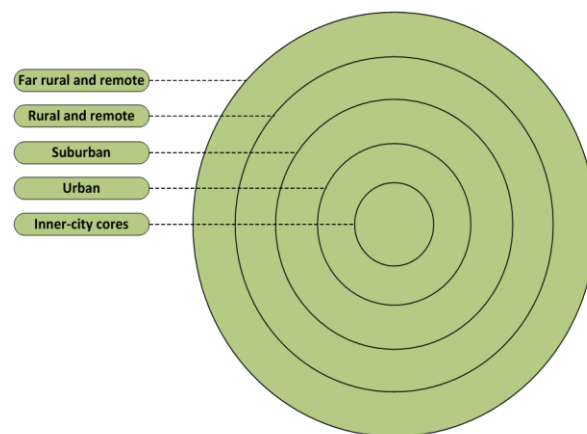
As a result of the above-proposed options, it is observed that the legalization of marijuana could present a new revenue potential for Canada Post. Through its currently unparalleled national delivery network, Canada Post stands to capture a large part of the recreational shipment volume. Furthermore, given the July 2016 introduction by the Liquor Control Board of Ontario (LCBO) of a new and convenient way to buy alcohol products through online sales, Canada Post is positioned to benefit from increased distribution revenues regardless of whether sales jurisdiction is accorded to the federal or provincial levels.

7.7 POST OFFICES AS COMMUNITY HUBS

Canada Post provides a public postal service that has been predicated on the traditional maxim that Canadians in all regions of the country should be included in having access to public services. For this reason, the notion of the **Universal Service Obligation** became the foundation of the kind of services Canada Post provides. It is largely taken for granted that basic letter stamp rates and postal service access are virtually the same regardless of where in Canada a letter is posted and regardless of how distant the eventual delivery of the letter. Nonetheless, given Canada's vastness, it is an incredible logistical feat that a basic letter from one Toronto neighbourhood to another may be as dependably delivered as a letter mailed from Heart's Content, Newfoundland to Dawson, Yukon.

Notwithstanding the universality of postal services, Canadians across the country do in fact have different postal needs depending on where they live. Throughout the course of the Task Force's review, it became clear as a result of engagement with stakeholders, as well as the results of public opinion research, that one size does not fit all. For example, it is clearly more difficult to furnish community mailboxes in inner-city cores, given the premium of space and traffic considerations, than is the case in suburban neighbourhoods. The

Concentric Circles showing different postal service needs



reality of differing postal needs suggests that in the case of postal services, universality of service could best be provided if the disparate needs of Canadians are considered depending on where they live.

While one of the options discussed is the rationalization of the postal retail network (see 7.4.2 Updating the Retail Network), the intent is not to deprive Canadians of postal services depending on where they live or how difficult it is to provide services to them. Rather, the intent is to ensure that quality postal services are provided at a reasonable cost to all Canadians. However, in some cases in select far rural and remote communities, there may be situations where Canadians are not currently accessing postal or other services that meet their needs.

In **some far rural and remote communities**, residents have limited Internet (at least with respect to the existence of high-speed broadband), telephone or other services. **Federal government services**, such as those offered online by Service Canada, could be accessed through Internet bridging services. Service Canada online services would be supplemented through the availability of the guides, pamphlets and other written material that is typically found at Service Canada centres. Similarly, services of **other levels of government** could be offered. Printers in the post office could also be made available in the event community residents wish to download and make a hard copy of online information.

Such services could range from the posting of community events on bulletin boards to the provision of high-speed Internet Wi-Fi to allow residents to access online services that are not locally available. In essence, the post office could become a community “hub” since it would become a community resource centre. Internet “bridging services” would allow residents to connect to the rest of Canada, including businesses and various services at all levels of government.

Where residents are not familiar with the use of the Internet, the local post mistress or post master would serve as a resource person, assisting residents with their connections to the wider world.

The **availability of Internet** would also permit residents to engage in online banking as do most other Canadians.⁷¹ Credit unions and some banks (such as the First Nations Bank and many of the chartered banks that offer online services to rural, remote and Aboriginal communities) would undoubtedly welcome the opportunity to provide services to currently under-served rural and remote residents. Contacts could be identified at such financial institutions that would assist residents with their banking needs.

⁷¹ According to research conducted by Yahoo Canada earlier in 2016, on a weekly basis, 68% of Canadians now bank online. http://paymentsbusiness.ca/Images/CA_TalkingFinance_0316_Infographic_CMYK_160318-screen.pdf

Over the longer term, the offering of services in select rural and remote post offices could potentially generate revenues for Canada Post.

7.7.1 Summary

To provide improved postal public service, the differing needs of Canadians depending on the communities or “zones” in which they live should be considered. The provision of universal service does not necessarily mean that the delivery of the postal service is identical in every zone. Instead, it should be understood to mean that all Canadians have access to postal services in keeping with their own particular needs depending on where they live in Canada.

The provision of post office hubs in far rural and remote communities is one example of the provision of postal public services tailored to meet the needs of Canadians depending on where they live. Other postal service developments are possible once some thought and further consultation is carried out in each of the zones illustrated in the concentric circles.

7.8 CHANGES TO CANADA POST’S GOVERNANCE

The business of Canada Post is in the process of evolving from providing a more traditional “letter-centric” protected monopoly postal service to providing delivery services in competition with the private sector. Eventually, Canada Post will evolve into a more “parcel-centric” business in competition with the private sector but with a protected postal service that will make up an ever-declining element of its business lines.

To manage the ongoing decline of Canada’s postal service, there is a need for **enhanced regulation** to provide structure balanced between the public interest and in response to competitive market forces. Regulatory oversight, which is currently limited to government approval of regulated rate increases, could be expanded through amendments to the *Canada Post Corporation Act*, including its regulations. Alternatively, an independent regulator could be established to regulate Canada’s postal service. A regulator could either be a distinct postal regulator, or an existing regulator could take on the additional role of postal oversight.

Through **due process** (e.g., public hearings and stakeholder submissions) and otherwise through the process of market research, a regulator is best positioned to provide the kind of regulatory structure that is sufficiently nimble and dynamic to react to the changing postal usage of Canadians within an increasingly competitive market. An arm’s length regulator could afford oversight and protection to stakeholders, not least of which includes Canada Post. Guidance through regulation would refocus the Corporation’s purpose and provide clear expectations of Canada Post, particularly in the area of basic services and predictability for all stakeholders. Also, a potential updating of the Universal Service Obligation could allow Canada Post to better manage its operations in a rapidly changing market.

Within the ambit of clear regulatory constraints, Canada Post could be allowed to update the Rural Moratorium, implement less-expensive delivery venues or close surplus sorting centres. In addition, Canada Post could operate within a regulatory framework that would facilitate exploring partnerships with private-sector companies in competitive business lines.

With respect to **Canada Post's competitors**, a regulator could provide verification and oversight to ensure that transparent competitive structures are in place for the mail and Canada Post's competition within the virtually unregulated courier and parcel sector. Governance oversight could include a requirement that Canada Post fully disclose its profits and losses per business line to a regulator.⁷² In this model, profits and costs, including overhead costs, would be broken down by business line. The advantage of a more transparent cost allocation would be to assure competitors that Canada Post is not cross-subsidizing its competitive business lines from its exclusive privilege or mail monopoly.

Using this approach, the regulator could also determine the cost of providing exclusive mail service until such time it is no longer needed. This approach would protect the consumers of postal services, particularly Canadians in rural and remote services who have limited access to competing services. The approach would also allow the provision of other services that could be delivered in select under-served remote and rural communities in line with the "community hub" approach discussed in Section 7.7.

Once costs are fully broken down by business line, the determination of postal rates that are reasonable both to consumers and businesses to cover costs of the delivery of an efficient postal service may be made. Eventually, should Canada Post not be in a position to finance or entirely finance mail services from its revenues, financing from a mixture of government appropriations⁷³ and or fees levied on parcel and courier competitors could be considered.⁷⁴

Having a **regulator** in place also permits greater consultation with stakeholders, including through public hearings.⁷⁵ During the Task Force's engagement with stakeholders, a common criticism made about Canada Post was that it did not consult with them sufficiently before making or proposing delivery changes. This point was also made in every one of the 12 focus groups conducted during the course of the public opinion research. Clearly, Canadians want a greater say in how they are served by their postal service.

⁷² While Canada Post did not provide this level of breakdown, other Crown corporations have used this approach to better determine cost allocation, including to subsidized services.

⁷³ At present, Canada Post receives annual appropriations of \$22.2 million for the delivery of two programs on behalf of the Government: Parliamentary Freemail; and Materials for the Blind.

⁷⁴ While the issue of fees levied on competing parcel and courier companies is controversial, provided fees are nominal and "buy" certain competitive safeguards in return, they may be accepted. One approach could be the eventual creation of a fund similar to the "CRTC Telecom Fund" to finance rural and remote parcel delivery.

⁷⁵ Crown corporations also hold annual public meetings, but, this may not be sufficient in the case of postal services which can affect sizable numbers of Canadians and businesses on an ongoing basis.

An added benefit of a regulator would be the provision of postal, parcel and courier market intelligence to the Government and other stakeholders, including Canada Post and its competitors. Such intelligence would form the basis of government postal policy analysis.

7.8.1 Postal Regulation in Other Countries

In many other countries, various types of postal regulatory systems exist to oversee competitive postal and courier (in some countries) market, as well as to ensure a system of fair prices and rates.

- In the United States, the Postal Regulatory Commission (PRC) exercises regulatory oversight over the postal service. The PRC is tasked with conducting public, on-the-record hearings concerning proposed rate changes, mail classification or major service changes, and recommending decisions for action by the postal Governors.
- The European Union requires member countries to regulate their postal services to ensure the guarantee of a universal service and that the markets are competitive for the purposes of creating a single EU market in postal services.
- In Australia, the Australian Competition and Consumer Commission's (ACCC) assesses the notifications of proposed price increases for Australia Post's reserved services, inquiries into disputes about the terms and conditions on bulk mail services, and monitors the cross-subsidy between reserved and non-reserved services.
- In the United Kingdom (UK), the Royal Mail (RM) is regulated by Ofcom under the Postal Services Act 2011 to secure the financial sustainability of the UK's universal postal service. Ofcom has tasked RM, which has been fully privatized since the fall of 2015, to be the universal service provider in the UK. Ofcom also requires RM to deliver the mail of its private-sector competition to the "last mile" or the address.

Similar to the "light" regulation practices of Canadian regulators, the Australian postal regulator oversees Australia's postal market at a minimal level with a view to ensuring fair competition. The ACCC also prescribes the postage rate for AP. The UK's Ofcom, on the other hand, has a more stringent regulatory approach that imposes certain constraints on RM, such as providing universal service and allowing RM's competitors to use RM's delivery network at cost, even though RM is fully privatized.

The US PRC approves postage rate increases, monitors USPS performance, as well as provides market intelligence to the Government. In practice, however, the PRC and the USPS have minimal flexibility to make changes to postal services due to Congress' reluctance to entertain changes to the postal system and get involved in the postal system despite the existence of the PRC.

7.8.2 A Canadian Postal Regulator

The establishment of a regulator or the addition of postal regulatory powers to an existing regulator could be guided by international and Canadian regulatory best practices and lessons learned.

Canadian regulators (e.g., Office of the Superintendent of Financial Institutions (OSFI) and the Canadian Radio-television and Telecommunications Commission (CRTC)) tend to regulate with a light touch compared to regulation in many other countries. The same approach would perhaps be the most efficient in the postal context. Optimally, regulation would be minimal, effective and rapid. The potential role of the regulator would be in response to the foregoing issues. To summarize, a postal regulator in the Canadian postal market could:

- Be mandated to define the USO for the 21st century and to update the *Canadian Postal Service Charter*;
- Oversee the rising level of competition in the growing parcel sector and ensure fair competitive structures are in place for the mail and Canada Post's competition within the relatively unregulated courier and parcel sector;
- Provide distance from the Government of Canada to ensure Canada Post's operational autonomy;
- Approve stamp rates that are reasonable in accordance with the needs of consumers, including businesses;
- Provide postal, parcel and courier market intelligence to the Government and other stakeholders, including Canada Post and its competitors;
- Charge modest fees to competitors in the postal and courier markets to cover the cost of regulation and potentially provide funding for delivery to rural and remote areas; and
- Update the Rural Moratorium.

7.9 POSTAL BANKING

The Task Force thought it essential to provide facts to the Parliamentary Committee on postal banking given the position developed by the postal unions and their supporters in favour of Canada Post undertaking such an initiative in the future. A thorough examination of postal banking was carried out that was informed by the analysis of third-party experts, the views of Canadians and businesses gathered through public opinion research, and those who corresponded or submitted their opinions online, as well as by the presentations of other stakeholders (e.g., postal unions, academics, banks, credit unions and their associations, and many others who voiced their opinions on postal banking) that were engaged in the review process.

The overall finding by third-party experts was that Canada Post would be entering a well-established banking market that serves Canadians well, and in which a new player would have to earn its market share through fair competition. The basic pre-requisites are significant and include substantial investments in infrastructure, IT, security, acquiring new skill sets, and complying with increasingly complex regulatory requirements both domestic and international.

According to the third-party expert the “market structures and macroeconomic conditions in Canada are unfavourable for a traditional postal banking model in which Canada Post would compete against Canadian banks and credit unions.” Four different business models were studied:

1. Developing a proprietary low-cost product offering (similar to Post Italiane).
2. Providing a lower cost alternative to payday loans, as proposed by CUPW.
3. Partnering with a single large bank or credit union to provide a low-cost extension to the branch network in less profitable locales.
4. Partnering with 3 to 5 large banks or credit unions to provide a low-cost extension to the branch network in less profitable locales.

Of the four opportunities explored above, only the fourth option (partnering with 3 to 5 large banks or credit unions), was assessed to be a “marginal opportunity” and the other three opportunities were not found to be viable options. However, even the fourth option was found to be only marginally profitable with high investment risk including the assumption that banks or credit unions would agree to partner with Canada Post.

7.9.1 What is the Canadian Banking Environment?

The World Economic Forum has ranked Canada's banks as the soundest in the world for the eighth year in a row.⁷⁶ Research carried out by the World Bank and compiled in its Global Findex Database indicates that in 2014, 99.1 per cent of Canadians (up from 95.8 per cent in 2009-11) had bank accounts, including rural Canadians, 98.3 per cent of whom had bank accounts in 2014.⁷⁷

According to the Canadian Bankers Association (CBA),⁷⁸ there are about **80 banks** operating in Canada, with 6,348 bank branches in 2014 (up from 6,151 branches in 2010), including about 2,000 that operate in rural and small towns. Many Canadian

⁷⁶ http://www3.weforum.org/docs/gcr/2015-2016/Global_Competitiveness_Report_2015-2016.pdf

⁷⁷ World Bank. Financial Inclusion Data / Global Findex. 2014.

<http://datatopics.worldbank.org/financialinclusion/country/canada>

⁷⁸ “How Canadians Bank.” The Canadian Bankers Association. July 2015. <http://www.cba.ca/en/media-room/50-backgrounders-on-banking-issues/125-technology-and-banking>

banks offer programs geared toward rural Canadians and Aboriginals, including the First Nations Bank.⁷⁹

In addition, there are more than **600 credit unions** in Canada, which operate 2,898 branches.⁸⁰ Desjardins, which is predominantly represented in Quebec, is the largest credit union group in Canada and the sixth largest cooperative financial group in the world.⁸¹ The credit union movement continues to grow in Canada and has a total membership in excess of 10 million.⁸² Credit unions are also present in rural communities and lower income neighbourhoods, areas which might also be targeted by postal bank outlets. Given the scope of their membership, the Canadian Credit Union Association (CCUA) is concerned that “any postal bank offering should not compete with credit unions and other financial institutions.”⁸³

In addition to bank and credit union branches, there are over **65,000 automated banking machines (ABMs)** in Canada.⁸⁴ According to the World Bank, Canada has the highest penetration of ABMs of any country in the world (if Macau, which is a Special Administrative Region of the People’s Republic of China, is not counted as a separate country).⁸⁵ The physical presence of branches and ABMs is becoming less important as most Canadians now bank online.⁸⁶ Consequently, the total number of bank branches is anticipated to decline over the next few years in Canada, as well as in other developed economies. Nonetheless, banking inclusiveness is expected to increase as a result of high Internet penetration and as Canadians increasingly bank online.

7.9.2 What are the Results of the Public Opinion Research?

While 47 per cent of surveyed Canadians would describe the offer of new banking products such as pre-paid credit cards (a service that Canada Post already offers) and cheque cashing as a “good or excellent fit” for Canada Post, 52 per cent of surveyed Canadians disagreed. Some 60 per cent of surveyed Canadians think that having “Canada Post open a bank that offers a complete line of banking services” would be a poor fit with Canada Post’s business, versus 38 per cent who believe that the idea has potential. It is interesting to note that among Canadians that seem to like the idea of

⁷⁹ See, for example, <http://www.rbcroyalbank.com/commercial/aboriginal/>; <http://business.financialpost.com/news/fp-street/an-emerging-market-at-home-how-canadian-banks-are-making-a-big-push-into-aboriginal-banking> and <https://www.fnbc.ca/Personal/>

⁸⁰ Canadian Credit Union Association. National System Results. First quarter 2016.

⁸¹ For more information on Desjardins, see <https://www.desjardins.com/ca/about-us/desjardins/who-we-are/quick-facts/index.jsp> and <https://www.desjardins.com/ressources/pdf/2016051201-e.pdf?resVer=1463071604000>

⁸² Canadian Credit Union Association. National System Results. First quarter 2016.

⁸³ https://www.ccu.com/news/2016_04_18_banking_goes_postal

⁸⁴ “The ABM Market in Canada.” The Canadian Bankers Association. July 2015. <http://www.cba.ca/en/media-room/50-backgrounders-on-banking-issues/118-abm-market-in-canada>

⁸⁵ World Bank Automated teller machines (ATMs) (per 100,000 adults) 2014. <http://data.worldbank.org/indicator/FB.ATM.TOTL.P5>

⁸⁶ According to research conducted by Yahoo Canada earlier in 2016, on a weekly basis, 68% of Canadians now bank online. http://paymentsbusiness.ca/Images/CA_TalkingFinance_0316_Infographic_CMYK_160318-screen.pdf

postal banking, ultimately, only 7 per cent claim that they would actually use postal banking services.

7.9.3 Would Payday Loans be an Opportunity?

Postal unions and their supporters are advocating postal banking as an alternative to payday loans.⁸⁷ Increasingly, payday-loan type businesses are moving online. This suggests that the establishment of postal bank branches will not have a significant effect on the existence of payday businesses. Since postal banking also exists side by side with payday loan businesses in countries such as Australia and the UK that also have high banking inclusion, establishing postal banking in Canada may not deter short-term loan businesses that target lower-income citizens.

According to the Canadian Payday Loan Association, to qualify for a payday loan, “the individual must be employed or have a source of income and a bank account”.⁸⁸ According to the Canadian Bankers Association (CBA), 80 per cent of payday loan companies are located within one kilometre of a financial institution. The CBA is of the view that providing additional credit to customers who have exhausted other credit lines is not helpful and that customers in this kind of credit predicament should receive credit counselling.

In addition, it was pointed out that banks make a number of options available to their clients that may be a substitute for payday loans at far lower cost. With respect to inclusiveness, Canadian banks offer a range of low-cost and no-cost account packages, including select bank accounts for \$4 per month. Banks will also open an account for individuals who are unemployed and do not have an initial amount to deposit. In addition, banks are obligated to cash federal government cheques up to \$1,500 without charge regardless of whether a client has an account.

Also, in competition with payday lenders, credit unions are increasingly offering low-cost, low-amount loans to their members.⁸⁹

Payday loan companies charge high interest rates to mitigate the high-risk loan given the likelihood of default. In Quebec, there are relatively few payday loan-type businesses compared to most other provinces since Quebec’s consumer regulations, which cap per-annum interest rates at 35 per cent,⁹⁰ make it difficult for such companies

⁸⁷ For example, the postal banking approach using post offices is proposed in “Delivering Community Power: How Canada Post can be the hub of our Next Economy.” This document that was jointly issued by CUPW, CPAA, the leap manifesto, friends of PUBLIC SERVICES, SmartChange.ca and ACORN CANADA. http://d3n8a8pro7vhmx.cloudfront.net/themes/56d341b216b7e2ffad000001/attachments/original/1456690136/DeliveringCommunityPower_EN.pdf?1456690136

⁸⁸ Canadian Payday Loan Association – What is a payday loan and who uses it? <http://www.cpla-acps.ca/english/mediabackgrounders1.php>

⁸⁹ <https://www.vancity.com/Loans/TypesOfLoans/FairAndFastLoan/FAQs/>

⁹⁰ For more information on Quebec consumer protection, see <http://www.opc.gouv.qc.ca/en/home/>

to operate profitably. Recently, the province of Alberta has passed legislation that will make it difficult for payday loans to charge high interest rates and service fees.⁹¹

Other countries such as the UK are beginning to cap loan interest rates in a bid to control payday loan businesses⁹² and Virginia in the United States has set up a state database in an attempt to control the industry and limit the vulnerability of payday loan users in undertaking more loans than may be paid back.⁹³ This latter approach is supported by the Canadian Bankers Association, who have indicated that many users of payday loan lenders choose the service because of the relative anonymity it affords.

Payday loans is a highly competitive market that charges high rates to mitigate the high risk of default on loans. As a result, despite the high rates, it has low margins.

7.9.4 What is the Situation with Postal Banking in Other Countries?

Many existing postal banks were established in the late 19th and early 20th centuries. Some of these postal banks have since been discontinued (e.g., in Canada, the United States, the Netherlands⁹⁴) or sold in part or in full to the private sector (e.g., Germany, Japan and Italy).⁹⁵

Other national postal service providers exited their original postal banking services but now offer services in post offices as agents of non-postal banks. For example, An Post of Ireland, which sold off its original postal bank in 2010, now offers the services of independent banks at its post offices,⁹⁶ as well as banking, bonds and pension services on behalf of the Irish government. Similarly, Australia Post,⁹⁷ Norway Post Offices⁹⁸ and the UK's Post Office Ltd.⁹⁹ offer banking services on behalf of non-postal banks.

Some countries opened postal banks that make use of the large post office retail networks. Originally, **New Zealand** established a post office bank in 1867 which was sold to an Australian-headquartered bank in 1989. However, in response to the

⁹¹ <http://www.alberta.ca/release.cfm?xID=41747840F017D-BA4D-A70A-741F47E398B7F6C4>

⁹² Since capping interest rates effective January 2, 2015, payday loan businesses are finding it increasingly difficult to survive in the UK. For more information on the UK's approach, see <https://www.fca.org.uk/news/fca-confirms-price-cap-rules-for-payday-lenders>

⁹³ <https://www.vapdl.com/AboutUs.aspx>

⁹⁴ Tangerine in Canada, previously known as ING, an online bank with no physical bank branches has the original Dutch postal bank as one of its ancestors.

⁹⁵ On November 3, 2015, Japan Post, including Japan Post Bank, began to be privatized <http://www.bloomberg.com/news/articles/2015-11-04/japan-post-poised-to-jump-on-debut-after-year-s-biggest-ipo> ; Italy is also in the process of privatizing state-owned industries, including Italian Post and postal financial services, see, for example, <http://www.reuters.com/article/italy-privatisation-idUSL6N00237W20140516>

⁹⁶ <http://www.anpost.ie/AnPost/MainContent/Personal+Customers/Money+Matters/An+Post+Financial+Services/>

⁹⁷ <http://auspost.com.au/money-insurance/bank-at-post.html>

⁹⁸ Norway exited postal banking, which represented a net cost, following a report by Copenhagen Economics, (https://www.regjeringen.no/globalassets/upload/SD/Vedlegg/Post/rapport_bankplikt_copenhagen_economics.pdf) and DNB, Norway's largest financial institution now offers banking in post offices.

<http://www.posten.no/en/products-and-services/banking-services/banking-transactions>

⁹⁹ <http://www.postoffice.co.uk/banking>

domination of its banking sector by four Australian banks, in 2002 the Government of New Zealand established New Zealand Post's Kiwibank, which operates out of postal outlets ("PostShops") and online. The bank became an overnight success since New Zealanders preferred to bank in a New Zealand bank, and since New Zealand Post guaranteed Kiwibank's payment obligations (New Zealand Post is state-owned).¹⁰⁰

The future of postal banking in developed countries is unclear given that banking is increasingly moving online and banks are closing branches since walk-in customers increasingly bank online, through the use of smart phones, or at automated banking machines (ABMs). Traffic at post offices in most developed countries is also on the decline regardless of the availability of postal banking.

Apart from economic development, there may be other factors that play a role in the existence of postal banking apart from historical precedence, as may be seen in the following table. In some countries, the insecurity of the banking sector may lead citizens to prefer a state-backed postal bank. In other countries, the lack of a developed economy or poor banking sector "soundness" may play a role in whether postal financial services are offered. The following table indicates that postal banking may occur in countries regardless of financial inclusion. Note that inclusiveness data have increased in countries where Internet access and smart phones are common.

Selected National Banking Systems¹⁰¹

Country	Banking Soundness	Pop w/ Bank Accounts	Poorest 40% w/ Accounts	Corruption Index	Postal Banking?
Australia	3	98.9	98.4	13	Banks offer svcs in post offices
Canada	1	99.1	98.4	9	Remittance services
China	78	78.9	72.0	83	Full service
France	40	96.6	94.9	23	Full service
Germany	46	98.9	97.1	10	Privatized
India	100	53.1	43.9	76	POSB largest in India.
Ireland	126	94.7	90.9	18	Banks offer svcs in post offices
Italy	96	87.3	83.4	61	Privatized in part
Japan	28	96.6	95.4	18	Privatized in part
NZ	4	99.5	99.0	4	Kiwibank svcs in post offices
Russia	115	67.4	61.8	119	Joint venture March 2016
Switzerland	20	98.0	96.7	7	Full service
UK	63	98.9	98.3	10	Bank of Ireland services in post offices
US	39	93.6	87.1	16	Remittance service

¹⁰⁰ For more on Kiwibank, see <https://www.kiwibank.co.nz/about-us/more-about-us/>

¹⁰¹ Banking soundness from 2015 World Economic Forum Report which ranks the soundness of 140 countries http://www3.weforum.org/docs/gcr/2015-2016/Global_Competitiveness_Report_2015-2016.pdf; World Bank. Financial Inclusion data <http://datatopics.worldbank.org/financialinclusion/>, Transparency International (The Global Coalition against Corruption). 2015 Index. <http://www.transparency.org/cpi2015>

7.9.5 What is the Postal Banking Opportunity for Canada Post?

While full-scale postal banking is unlikely to succeed within the Canadian context, a partnership model with banks or credit unions could be considered. Although Canada Post's piloted partnerships with a couple of banks in the late 1990s did not succeed, given the changes in the banking environment since that time, there may be an opportunity now for corporate post offices in select under-served remote communities in line with the Task Force's "hub" option of offering services in select communities provided financial institutions have an interest in this initiative.

7.9.6 Summary

According to experts and stakeholders, Canada's financial environment is not conducive to the establishment and operation of full-scale postal banking. Postal banking is not likely to succeed in Canada as a result of the existence of a mature and competitive banking environment, as well as the extensive market coverage of not-for-profit credit unions in which more than 10 million Canadians have accounts. In addition, Canadians in all economic circumstances in all regions of Canada already have access to one of the best, most inclusive financial systems in the world.

As stipulated above, launching a traditional postal bank today would be entering a highly competitive market and an expensive endeavour requiring significant investments in infrastructure, IT, security, acquiring new skills sets, and compliance with complex regulatory requirements both domestic and international. Postal banking is unlikely to generate a profit in the Canadian context. In addition, the *Bank Act*¹⁰² would have to be altered to allow a Crown corporation to engage in banking. The Office of the Superintendent of Financial Institutions (OSFI), as the regulator of the banking industry, would also have a key role in the establishment of a bank, including needing to be assured of the soundness of the bank. Furthermore, having a government entity competing in the financial sector would contravene Canada's trade agreements with other countries.

Since payday loan or cheque-cashing services require customers to have bank accounts, adding a postal bank is unlikely to provide an alternative. Payday loan businesses are high risk and require high interest rates and service charges to earn low margins, which would be contrary to the services offered by a government-sponsored bank.

¹⁰² Section 23 of the *Bank Act* states: *Letters patent incorporating a bank may not be issued if the application therefor is made by or on behalf of*

(a) Her Majesty in right of Canada or in right of a province, an agency of Her Majesty in either of those rights, or an entity controlled by Her Majesty in either of those rights.

8.0 CONCLUSION

The assignment was to assess Canada Post's current financial situation and its projections into the future, while offering viable options ensuring quality service to Canadians at a reasonable price. This task was to be accomplished with the input of Canadians and stakeholders. Financial self-sustainability was the objective.

In summary, the financial challenges are large and growing at an accelerated rate. Although operational viable options have been presented, they alone are insufficient to bridge Canada Post to a financially sustainable future; other fundamental and transformational changes must be brought to bear over the next number of years to catch up with the changing world.

Digitization has been embraced by most and has disrupted many...Canada Post among them. The speed of change and the need to adapt has produced winners, losers and those that are working diligently to keep up; there is evidence of this everywhere we look, in all walks of life. This dynamic environment requires commensurate evolution, transforming to suit the circumstances.

Canada Post's legacy business, Lettermail, is in significant decline; it is being digitalized. Currently, for certain marketing platforms, AdMail is an important part of the mix; however, it is challenged by a certain amount of receiver rejection. Growing "Green" initiatives and preferences will continue to deselect paper, be it Lettermail, marketing AdMail, or publications.

E-commerce has fostered and enabled online shopping, a growing segment of retail. Canada Post's parcel business has risen to the occasion. Parcel volumes are growing with Canadian purchasing channel preferences; if Canada's "*de minimis*" threshold is brought in line with international standards, this trend will continue and may accelerate.

Parcel delivery presents a further opportunity to Canada Post but it faces serious commercial navigation. In this line of business, Canada Post competes with several large international couriers and many small local courier services in the private sector. Its infrastructure accommodates delivery of Lettermail, AdMail and Parcels on one pass. Most Canadians are satisfied with alternate day delivery for Lettermail but Parcels at least five days a week; marketers want AdMail delivered toward the end of the week. Not only is Canada Post's infrastructure and routing not set up for this but its negotiated labour contracts do not allow for smooth flexing and its labour rates outpace those of its competition.

While the future of Canada Post will move from a greater proportion of Lettermail to feature parcels, the *Canadian Postal Service Charter* obligates it to deliver, under the

USO, to the “last mile” within an outdated retail network prescribed in 1994's Rural Moratorium. To fulfill its mandate of financial self-sustainability, Canada Post, a Crown corporation, faces necessary realignment. It must do this within the framework of a Lettermail monopoly with a social mandate, while competing with the private sector in AdMail and Parcels. Based on the comprehensive input to the Task Force, realignment should be undertaken with appropriate consultation and an eventual change of governance. Change is necessary and would require collaboration from Canada Post, postal unions, other stakeholders, government and Canadians.

ANNEX A: TASK FORCE TERMS OF REFERENCE

1. Mandate

The Minister of Public Services and Procurement has established this Task Force to undertake an independent review of Canada Post Corporation (CPC) with the objective of ensuring that CPC provides quality service to Canadians at a reasonable price.

The mandate of the Task Force is to deliver a discussion paper to the Minister. The objective of this paper is to outline viable options for the future of CPC. This paper will serve as the basis for an informed public dialogue led by a Parliamentary Committee.

The Task Force, supported by a dedicated Secretariat within Public Services and Procurement Canada, will collect information and prepare a discussion paper that presents viable options, costs and associated implications for the delivery of quality, affordable and sustainable Canada Post services.

The work of the Task Force will be informed and guided by an examination of Canada Post's financial and business position, views of Canadians and key stakeholders, as well as previous studies.

2. Scope and purpose of the discussion paper

The Task Force will provide the Minister with a discussion paper to inform Canadians, parliamentarians and the Government on:

- Canada Post's financial situation today and its financial projections into the future, based on an objective third-party assessment;
- the views of Canadians and stakeholders regarding how Canada Post serves them today and how they wish to be served into the future; and
- viable options and the associated implications for ensuring that Canada Post provides quality service to Canadians at a reasonable price and in a sustainable fashion.

This discussion paper will be made public by the Minister and form the basis of an informed public dialogue led by a Parliamentary Committee, which is targeted for the fall of 2016.

3. How the Task Force will carry out its work

- **Stakeholder engagement:** The Task Force will take into consideration the perspectives of key stakeholders in its work. This includes the views of Canadians, major mail system users, Canada Post, its bargaining agents and all other relevant stakeholders. To this end, it will conduct public opinion research

on how CPC currently provides its full range of services and how these services should be provided in the future, including views on door-to-door delivery.

- **Financial assessment:** The Task Force will assess and validate CPC's current financial situation, as well as its future financial projections.
- **Comparative analysis:** The Task Force will assess, within a Canadian context, solutions found by comparable organizations, including, but not limited to, other national post systems that address similar challenges to those faced by CPC.
- In carrying out this review, the Task Force will be guided by the following principles:
 - **Evidence-based:** The Task Force's work will be guided by the best evidence regarding what works—both here in Canada and in lessons drawn from the experiences of other national postal systems.
 - **Representativeness:** Beyond having the expertise to understand Canada Post's financials, the Task Force will bring both urban and rural perspectives to its work.
 - **Avoiding duplication of effort:** The Task Force will not duplicate past reviews but will be informed by them.
 - **Fiscal responsibility:** The Task Force's options will not imply the introduction of operating subsidies to Canada Post—it has a mandate to be self-sustaining and this does not change through this review.
- The Minister, supported by the Task Force and Secretariat, is fully committed to an open and transparent review process. The primary goal of the Task Force's work is to conduct an in-depth review of Canada Post and provide the Minister with viable options for postal services. These options will inform a national discussion on the future of Canada Post, led by a Parliamentary Committee. The Minister will make public the Task Force's work, as well as the analysis of viable options where possible.

4. Other requirements

In consultation with other Task Force members, the chair will issue any contracts that may be required to complete the work (e.g., financial analysis, writer). The chair is also expected to ensure that the Task Force conducts the timely execution of all required activities for the completion of a discussion paper by September 2016, including providing regular progress updates to the Minister.

The Task Force may be asked to participate (e.g., as witness) during the Parliamentary Committee consultation phase.

5. Canada Post Corporation Review Secretariat

The Secretariat will support the Task Force by providing policy and legislative guidance, contextual information on CPC, including foundational work (e.g., previous reviews, backgrounder on postal services and international comparators), as well as logistics and administrative support.

ANNEX B: Member Biographies

Françoise Bertrand, Task Force Chair

Ms. Bertrand is a distinguished business leader with over 30 years of experience in private and public sector organizations. She has held senior management positions at the Université du Québec, Télé-Québec and major consulting firms.



A recipient of the Order of Canada, Ms. Bertrand was the first woman to chair the Canadian Radio-television and Telecommunications Commission (1996–2001) and the first woman chief executive officer (CEO) of Télé-Québec. She made notable contributions in both of these roles.

Ms. Bertrand most recently served as the president and CEO of the Fédération des chambres de commerce du Québec, an organization that includes 150 chambers of commerce, representing 60,000 businesses operating in all sectors of the Quebec economy. She is a member of several boards, including the Commission de la santé et de la sécurité du travail, Redevances Aurifères Osisko Ltée, Desjardins Securities and Concordia University. For eleven years, she served on the board of Quebecor and later as its chair from 2011–14.

Ms. Bertrand holds a bachelor's degree in sociology from the Université de Montreal and a master's degree in environmental studies from York University in Toronto. She is also a graduate of the Rotman School of Management Directors' Education Program. She resides in Montréal, Quebec.

Krystyna T. Hoeg, Task Force member

Ms. Hoeg is a corporate director and the former President and Chief Executive Officer of Corby Distilleries Limited. She has held senior leadership roles in various sectors, including health care, entertainment, manufacturing and resource development.

Ms. Hoeg currently serves on the board of directors of several Canadian companies and organizations, including New Flyer Industries and Imperial Oil. She is also Chair of the Toronto East General Hospital.



Ms. Hoeg is a chartered accountant and holds a bachelor of commerce and master of science from the University of Windsor and a bachelor of science from McMaster University. She holds both a chartered professional accountant and a chartered accountant designation and currently resides in Toronto, Ontario.

Jim Hopson, Task Force member

Following a distinguished career as an educator and principal, Mr. Hopson retired as Director of Education for the Qu'Appelle Valley School Division at the end of 2004. Mr. Hopson was raised in North Annex, a small town on the outskirts of Regina. Before his retirement, in addition to being an educator, he was a professional football player. Mr. Hopson began his professional football career in 1973, joining the Saskatchewan Roughrider Football Club.



In 2005, Mr. Hopson became the president and chief executive officer for the Saskatchewan Roughriders. He served in this role until retiring in 2015. Under his guidance, the Roughriders made four Grey Cup appearances and captured both the 2007 and 2013 Grey Cups.

Today, Mr. Hopson is a popular keynote speaker for both small and large groups in a variety of sectors, including small communities, presenting on topics such as leadership, team building, managing change and building excellence. Mr. Hopson is also a board member of SaskPower.

Mr. Hopson graduated from the University of Regina with a degree in education and a master's degree from the University of Oregon.

Marena McLaughlin, Task Force member

During her impressive 31 year career in the federal public service, Ms. McLaughlin has held increasingly senior positions, including Deputy Commissioner of the Atlantic Region for Correctional Service Canada.



More recently, Ms. McLaughlin has provided consulting services to various organizations. She performed organizational reviews for Correctional Service Canada, managed federal/provincial cooperative ventures and led a change management initiative for the Government of Canada Pension Centre.

Ms. McLaughlin resides in Dieppe, New Brunswick.

ANNEX C: LIST OF OPTIONS

New Business Leveraging Post Office/Retail Assets		Other New Business Opportunities	
1	Service Canada Centre joint-delivery (Host-SSC)	17	Offer green packaging and recycling
2	Rent advertising display and space	18	Provide document digitization and management
3	Offer cellphone and telecommunication retail products & services	19	Become an internet service provider
4	Expand retail offerings (office supplies)	20	Develop an Electric Vehicle charging network
5	Offer 3rd party use of parcels locker network	21	Introduce e-Post 2.0
6	Offer insurance referrals	Adjustment to Product Portfolio and Pricing	
New Business Leveraging Current Delivery Services		22	Expand interliner offering
7	Deliver grocery or other products door-to-door	23	Offer fee-based door-to-door delivery
8	Scheduled elderly/disabled monitoring & services	24	Introduction of C-class mail
9	Contract to offer simple route services	25	Discontinue unaddressed AdMail delivery
10	Offer retail sales from delivery vehicles (rural)	Adjustments to Network and Delivery	
11	Offer home parcel pickup / packaging services	26	Pursue increased synergies with Purolator
New Business Leveraging Other Operating Assets		27	Use drones to make deliveries
12	Sell additional data, data services, and insights based on addresses / volumes (Big Data)	28	Increase use of outsourcing to fulfill select current business functions
13	Commercialize Innovapost	29	Reduce delivery frequency (every 2 days)
14	Offer physical storage	30	Reduce delivery frequency (based on volume)
15	Renting out idle post trucks / car sharing service	31	Adjust the retail footprint (Amend 1994 Moratorium)
16	Expand postal services into foreign markets	32	Replace some urban retail locations with parcel lockers
		33	Rationalize depots and sortation centres
		34	Community Mailbox Conversion
		E-Commerce initiatives	
		35	Develop a CPC E-commerce marketplace
		36	Provide mail digitization and e-delivery services
		37	Extend E-Commerce fulfillment solutions

Legend

Explored in this Discussion Paper

Options examined in addition to those listed above include review of labour and pension costs, changes to Canada Post's governance, distribution of marijuana, post offices as community hubs, and postal banking.