A pattern of deception and misinformation from Canada Post management: 2011-2016

Since 2011, Canada Post Corporation (CPC) management has attempted to create an atmosphere of crisis concerning the current and future financial situation of the Corporation. In virtually all of its public statements, CPC management has suggested that major service cutbacks were required to save Canada Post from impending massive financial losses. Usually reduced volume of transaction mail has been identified as the source of the problem, although the Canada Post Pension Plan solvency deficit has also been cited whenever it is convenient. Consistently management has ignored their ability to adjust to volume decline through productivity improvements and staffing reductions. The very significant increases in benefit costs due to declining discount rates consistently receive no attention in public statements. Likewise, several one-time events which have had a significant impact on CPC's finances have either been downplayed or totally disregarded in management's explanation of the financial results.

Examples of deliberate deception and misinformation by CPC management include

- The 2011 CPC financial results
- The profit reported for 2012
- The Conference Board of Canada Report
- The impact of IAS 19 on the 2013 financial results
- The prediction of massive financial losses for 2014
- The characterization of the 2015 financial results

The 2011 financial results

The era of deception with respect to financial reporting began in 2011. For public relations purposes, the $329 million loss from operations for the Canada Post segment was attributed to the impact of the labour disruption, reduction in transaction mail volumes and the financial cost of the Supreme Court Pay Equity decision. Although the cost of the pay equity decision was estimated by the PSAC as being in the vicinity of $250 million, CPC always listed this last as a factor contributing to the loss and never once provided an estimate of the cost. The cost of the labour dispute was described in the 2011 Annual Report (page 5) as being "$200 million or more in lost revenue". This statement is highly misleading when one examines the figures provided in the 2011 Q2 Financial Report (pages 20 and 22) which state that the $167 million loss in revenue was offset by a $110 million reduction in labour costs during the labour dispute. In fact, the reduction in costs is never mentioned in any of CPC press statements which all highlight the reduction in revenue. The 2011 Q2 Report also cites a $63 million increase in one-time costs relating to an amendment of the Pension Benefits and Standards Act (PBSA) 1985.

This cost was never cited in press statements explaining the financial loss. Furthermore, the press statements concerning the 2011 financial results never mention the very significant increase in labour costs caused by a reduction in the discount rate 6.7% to 5.7%.

It is a fact that without the pay equity statement, the change in the PBSA and the decrease in interest rates, CPC would have reported a profit despite the labour disruption and despite reduced transaction mail volumes. Yet the public statements of CPC management would lead anyone to believe that reduced volumes and the labour disruption were the major cause of the loss.

The 2012 Profit that disappeared

In 2012, the Canada Post segment reported a $77 million profit from operations. In his president's message to the 2012 Annual Report CPC President Deepak Chopra never once mentioned the fact the Corporation had returned to profitability.

The following years, in his president's messages of 2013 and 2014, CPC President again made no reference to the profits of 2012. Then in his president's message to the 2015 Annual Report, Chopra actually referred to CPC as having experienced a financial loss in 2012 when he referred to "three consecutive years of reported losses" prior to 2014.

How was the 2012 reported profit converted to a loss? On January 2013, the amendments to IAS 19 became effective. For reporting purposes, the 2012 financial results were restated to show the devastating impact of IAS 19. The reported 2012 net profit of $94 million was restated for comparative purposes as an $83 million loss in the 2013 Annual Report (page 94). The adoption of IAS 19 in 2013 does not change the fact that CPC reported a profit in 2012 and the claim that there were three consecutive years of financial losses is not true.

The 2013 Conference Board of Canada report

In 2012, Canada Post commissioned the Conference Board of Canada to write a report claiming that CPC would lose $1 Billion by 2020 unless drastic actions were taken. The Report was released in April 2013. The day following the publication of the report, CPC launched a nation-wide advertising blitz proclaiming its $1 billion financial crisis and asking Canadians what type of major cutbacks they would support to address the coming financial catastrophe. In public statements, the $1 billion figure was frequently portrayed as fact rather than a prediction. For the next two years, the Corporation used the Conference Board Report's $1 billion prediction as its primary justification for major cutbacks, such as the replacement of home delivery with community mailboxes.

The predicted $1 billion loss was based on a projection of steady financial losses beginning in 2012. The report concluded that, even if a major price increase was introduced in 2014, CPC would lose $1350 million during 2012-2015.

As seen in the accompanying Table, the financial projections in the report were completely inaccurate. The Conference Board Report greatly underestimated parcel volume increases, productivity gains, and the impact of the 2014 rate increase while underestimating the ability of CPC to reduce staffing in line with transaction mail volume declines.

By the second quarter of 2014, it was known that the report was wildly incorrect in its financial projections. However, this did not stop CPC management from using the projected $1 billion loss in its attempts to justify the community mailbox program to the media, the public, and municipal, provincial and federal politicians throughout 2014. In fact, a senior management official characterized the report as independent and used the $1 billion projection in his testimony in the Hamilton legal challenge in April 2015.

Profit (Loss) From Operations ($millions): Canada Post Segment

	2012	2013	2014	2015
Conference Board Projection Without Price Increase	(250)	(300)	(400)	(450)
With Large (10%) Price Increase in 2014	(250)	(300)	(400)	(400)
Actual Results: *results of accounting change	77	(269)*	204	92

The impact of IAS 19 on the 2013 financial results

In both the 2011 and 2012 CPC Annual Reports, there was commentary describing the very significant impact the introduction of IAS 19 would have on profitability when it was introduced effective 2013. The 2011 Annual Report stated (page 68) “this accounting change is effected to significantly increase our employee benefit costs”. The 2012 Annual Report (page 30) stated the adoption of IAS 19 is “expected to have a significant negative effect on net profit in 2013”. The impact was enormous. As a result of IAS 19, what would have been a net profit of $321 million was converted into a $29 million loss (2013 Annual Report page 95).

Despite the fact that the financial impact of IAS 19 was discussed in the 2011 and 2012 Annual Reports there was no mention of the negative impact of the accounting change in any of the public statements made by Canada Post management. In the press release describing the financial performance for 2013 and in Chopra's 2013 president's message, the entire loss was attributed to reduced transaction mail volume.

The explanations for the 2013 financial results were totally false. They were designed to reinforce the narrative that there was a crisis resulting from reduced mail volumes in order to justify the community mailbox program and other aspects of the CPC's five-point plan.

Creating the crisis: Prediction of massive financial losses for 2014

In December 2013, CPC announced its five-point plan, including the major price increase and an end to door-to-door delivery, to be replaced by community mailboxes. At that time, it projected an operating loss for Canada Post of $256 million for 2014. This planned financial loss enabled CPC management to justify the community mailbox program to the media, the public, and municipal, provincial and federal politicians throughout 2014 by stating that they were in a financial crisis. The actual result was an operating profit of $299 million.

There was no reason for Canada Post management to predict an operating loss in 2014, other than as part of a public relations strategy. In December 2013, CPC knew that the discount rate would rise from 4.4% to 5.0% (page 106). The "beneficial results" of a higher discount rate for 2014 was predicted in the 2013 Annual Report (page 67). Additionally there was the impact of a very significant rate increase. All signs pointed to a successful year yet the CPC plan deliberately called for a huge financial loss.

The characterization of the 2015 financial results

2015 was another profitable year for Canada Post despite a considerable decrease in the discount rate from 5.0% to 4.0%, which drove up benefit costs by almost $200 million. When explaining the profit in his president's message in the 2015 Annual Report, CPC President Chopra tried to take credit for the financial result stating "the transformation we embarked on in 2013 contributed about $390 million in 2015". As usual, there is no explanation of this claim. The fact is that the only aspect of the 2013 five-point plan that contributed meaningfully in a positive manner to the financial results was the 2014 rate increase. The introduction of the CMB program, with its large capital and installation costs in excess of $200 per point of call, (see Côté letter October 18, 2012, Tab 12), actually decreased profitability for 2015. The vast majority of CMBs were only converted late in the year and the impact of attrition in reducing staff in 2015 was minimal.

The actual explanation for the profit in 2015 lies with increased parcel volumes, increased productivity gains and CPC's ability to reduce staffing to adjust to lost volumes of transaction mail.

The characterization of the 2016 first six months financial results

True to form, in its press release announcing the 2016 Q2 results, CPC management mentioned that the Canada Post pension solvency deficit increased but failed to mention the going concern surplus increased from $1.2 Billion to $1.6 Billion.

Conclusion: More fact and less fiction needed

For five years, CPC management has spread disinformation concerning the actual financial situation of Canada Post. It is time for truth and transparency, as opposed to self-serving myth making.

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