CUPW's Observations on "Canada Post in the Digital Age", the Discussion Paper of the Task Force for the Canada Post Corporation Review

The Canadian Union of Postal Workers has reviewed the 2016 discussion paper of the Task Force for the Canada Post Corporation Review entitled *Canada Post in the Digital Age.*

We believe that the financial projections and the observations on postal banking contained in the 2016 Task Force discussion paper should be disregarded as they are based on errors, omissions, misrepresentations and unsupported speculation.

Errors
The major errors in the discussion paper deal with labour costs, past financial performance and the significance of parcel revenues.

Omissions
The major omissions include the failure to report the changes to the newly negotiated collective agreement which provide greater flexibility, ignoring the successful 2016 Q2 financial results, and neglecting to mention the one-time events that had a major impact on the 2011 and 2013 financial results and the impact of changes in discount rates.

Misrepresentations
The discussion paper misrepresents the 2012 financial results and incorrectly reports the degree of public support for postal banking that is described in the Task Force report on public polling entitled *Final Report of Research with Canadians.*

Unsupported Speculation
Many of the projections contained in the discussion paper with respect to future volumes of parcel and admail volumes are based on unsupported speculation.

LABOUR COSTS

The discussion paper contains incorrect information on CPC labour costs. On page 4 and page 59 the discussion paper states *"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)."* On page 69 the discussion paper states *"the Canada Post productive labour rate is 45 per cent more than its competitors".*

Neither of these statements is correct according to information provided by Canada Post Corporation.

Currently there are two major groups of delivery personnel at Canada Post. Approximately one-third of the delivery routes are delivered by Rural and Suburban Mail Carriers (RSMCs) and two-thirds of the routes are delivered by letter carriers. Reflected as full-time equivalents, RSMCs constitute approximately 25% of Canada Post's delivery employees. The RSMCs deliver parcels in all suburban areas that are also serviced by the CPC competitors as well as rural areas where competitors often rely on Canada Post to deliver their products.

In the 2016 negotiations CPC provided CUPW and the mediators with the following labour cost comparison for letter carriers and delivery employees of Purolator, UPS and DHL. CUPW has added the rates for RSMCs based on information from Canada Post.

TABLE 1: PRODUCTIVE RATE ANALYSIS: CPC AND COMPETITORS

	CANADA POST		**COMPETITORS**		
	LETTER CARRIERS	**RSMC**	**PUROLATOR**	**DHL**	**UPS**
Base Maximum Salary Rate/Hr	$ 25.95	$ 20.22	$ 28.39	$ 25.99	$ 27.64
Annual Salary Incl. Allowances and Overtime	$ 61,505.00	$ 46,555.00	$ 63,266.00	$ 57,373.00	$61,037.00
Productive Hourly Rate without Benefits	$ 43.08	$ 26.93	$ 39.07	$ 36.17	$ 37.10
Productive Hourly Rate With Benefits	$ 58.41	$ 33.76	$ 48.22	$ 44.72	$ 45.86

Source: Canada Post, CUPW

As seen in the above table the difference in productive labour costs between Canada Post's delivery employees and the competitors is nothing close to the 41 per cent and 45 per cent figures provided by the Task Force.

ANALYSIS OF CPC 2011-2015 FINANCIAL PERFORMANCE

The Task Force based much of its negative projections for the future on its analysis of the past five years. Based on its analysis of the 2011-2015 experience it concludes (page 8) that *"Canada Post is at a crossroads. Canada Post's costs are growing faster than its revenues. Under the status quo, Canada Post will not be financially self-sustainable going forward".*

Instead of examining the impact of the specific non-recurring, one-time events that led to considerable losses in 2011 and 2013 the Task Force simply lumped the results altogether, noted the 2014 rate increase but ignored the 2015 rate freeze, and incorrectly characterized 2012 as a loss as opposed the $94 million profits that were reported.

Consider the comments of the task force on page 44 of the discussion paper.
"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 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."*

To understand the financial success of the 2014-2015 years it is important to examine the specific circumstances of each year.

2011: Several one-time events had a very significant impact on CPC's financial results in 2011. These included a payment resulting from the 2011 Supreme Court decision on pay equity, estimated by the Public Service Alliance of Canada as costing $250 million. The payments were for service performed for the Corporation during 1983 to 2002.
Also there was a one-time increase of $63 million in pension benefit costs resulting from regulatory changes. The impact of the 2011 full-scale lock-out and rotating strikes has also been estimated at $50-70 million.

Without these one-time costs CPC would have generated a profit from operations despite being completely shut down during the period that the employer locked out the staff in June 2011.

2012: In 2012, contrary to the characterization included in the Task Force discussion paper, which reports a loss for 2012, the Canada Post segment reported a $77 million profit from operations and a net profit of $94 million.

For reporting purposes, the 2012 financial results were restated in 2013 to show the impact of the IAS 19 accounting changes introduced in 2013. 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 that bonuses were paid based on these profits. The claim that there were three consecutive years of financial losses is not true.

2013: No understanding of the 2013 financial performance of CPC can be made without an analysis of the impact of introducing the IAS 19 accounting changes. Despite the fact that the negative financial impact that IAS 19 would have on 2013 financial performance was discussed in both the 2011 and 2012 CPC Annual Reports there was no mention of the negative impact of the accounting change in the Task Force discussion paper. 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 (see 2013 Annual Report page 95). The impact of the adoption of IAS 19 is also seen by comparing the benefit costs reported for 2013 with that reported in the 2012 Annual Report. The 2013 Annual Report (page 59) cites employee benefit costs of $1257 million whereas the 2012 Annual Report (page 60) had employee benefit costs at $841 million. The Task Force completely ignores the enormous impact of this one-time accounting change and instead cites the financial results as evidence of long term unsustainability.

2014: The Task Force discussion paper acknowledges that CPC made a profit in 2014 but attributes this largely to the March price increase that generated $214 million in additional revenue. The discussion paper does not recognize the impact that the increase in the benefit cost discount rate from 4.4% to 5.0% resulted in a reduction of benefit costs of $181 million. The impact of changes in the benefit cost discount rate received only one reference in the entire discussion paper even though changes in the rate had a major impact on the financial results each year. For more on 2014 see also the section entitled Reliance on CPC for Financial Projections.

2015: This was another profitable year for Canada Post. It was achieved despite a considerable decrease in the discount rate from 5.0% to 4.0%, which drove up benefit costs by $189 million. Also most of the year was covered by a rate freeze. Despite the attempts of CPC management to attribute the profits to the introduction of the CMB conversion program the fact is that 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.

2016: The first six months of 2016 were very successful despite a price freeze for letter mail. CPC reported $3,185 million in revenues from operations during the first six months of 2016. This is the most revenue ever reported by CPC for the January-June period of any year! CPC also reported $45 million profits before tax in the first six months of 2016. This represents the highest profits in the same period since 2010. Plus, this was achieved despite CPC instructing large volume mailers not to mail during June 2016. The rate of parcel volume growth increased in the first half of 2016. Parcel volumes in the first six months of 2016 increased 11.4% over the first six months of 2015. The increase in revenue from parcels exceeded the loss in revenue from reduced lettermail. The Task Force discussion paper ignored all of these positive developments. Instead the discussion paper cites the increase in the pension solvency deficit that was reported in the 2016 Q2 report but neglects to mention the fact that the going-concern pension surplus increased from $1.2 Billion to $1.6 Billion.

FAILURE TO RECOGNIZE MAJOR CHANGES IN THE NEW COLLECTIVE AGREEMENT

The discussion paper makes only one reference to provisions in the new collective agreement. That is the retention of the clause that maintains 493 corporate retail counters. This is portrayed as a restrictive provision. Although the discussion paper paints a negative picture with respect to future growth in admail and parcel volumes it does not even mention the major changes in work rules governing the delivery of both of these product lines which have been agreed to by CPC and CUPW. In the negotiations CPC proposed new rules which would permit the corporation to significantly increase its market share in the admail and parcel market. The union agreed thereby paving the way for major growth in volumes. Likewise there is no mention of the new activity values included in the RSMC agreement that will increase productivity by reducing the time allotted to sortation of sequenced letter mail. The Task Force either choose to ignore these major developments or was not informed of them by CPC management.

Reliance on CPC for Financial Projections

The Task Force discussion paper makes a serious error in relying on Canada Post management for future projections of financial performance. The corporation has a long track record of being wildly inaccurate. Consider the actual results as compared to CPC's projections.

Table 2: Consolidated Results: Actual Reported Profit from Operations Compared to CPC Plan		
Year	Actual Profit from Operations *($ millions)*	CPC Planned Profit from Operations *($ millions)*
2010	315	81
2011	(226)	151
2012	131	73
2013	(193)	(475)
2014	299	(256)
2015	169	61

Source: CPC Annual Reports

It should be noted that even without a rate increase the CPC segment has reported profits of $45 million for the first six months of 2016. Usually the last quarter is the most profitable.

Special note should be made of the financial projections which CPC made 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 Task Force discussion paper made a serious error by relying on CPC management for its financial projections. It appears to have made the same error as the Conference Board of Canada when it relied on CPC management when making its projections. In its 2013 report, entitled *The Future of Canada Post*, the Conference Board predicted CPC would lose $1 billion per year by 2020. This predicted 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 Table 3, the financial projections in the report were completely inaccurate. The Conference Board Report, like the Task Force, greatly underestimated parcel volume increases, productivity gains, impact of the 2014 rate increase and the ability of CPC to reduce staffing in line with transaction mail volume declines.

Table 3:

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

Instead of following the logic of the Conference Board and predicting a $1 billion loss for 2020, the Task Force has accepted CPC's new and improved projection of a $721 million loss for 2026. This would be laughable if it did not potentially have serious consequences for future planning at Canada Post.

Impact of Declining Discount Rates

In one single reference the Task Force discussion paper recognizes that declining discount rates have had a major impact on CPC's financial results during the past five years. However the impact of potential changes in discount rates is not considered in the analysis of the Task Force when it speculates on the future. Consider the observation on page 51 of the discussion paper:

"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."*

Table 4:
Impact on Employee Benefit Costs of Changes in the Benefit Cost Discount Rate

Year	Benefit Cost Discount Rate	Impact of Change from Previous Year on Employee Benefit Costs
2011	5.7%	+$57M
2012	5.3%	+$11M
2013	4.4%	+$60M
2014	5.0%	- $181M
2015	4.0%	+$189 M
2016 Q1	4.1%	-$19M

Source: CPC Annual Reports and 2016 Q1 Report

As seen in Table 4 it has been reduced discount rates that have largely been responsible for the ongoing increase in labour costs during past years. There is no reason to assume that this will continue. More likely a slow, gradual increase in the discount rate will significantly reduce benefit costs and contribute to even greater profits in the future.

Productivity Improvements and Cost Reduction Measures

The Task Force discussion paper downplays the ability of CPC to adjust its costs in the face of declining letter mail volumes In contrast to the volatility of one-time events and ever changing discount rates, the one constant at Canada Post has been regular productivity increases and a steady reduction in staffing which has matched the overall decline in transaction mail volumes. The ability of Canada Post to adjust staffing and labour costs to reductions in mail volumes is illustrated in Table 5.

TABLE 5: COMPARISON OF THE REDUCTION IN PAID HOURS AND MAIL VOLUMES 2005-2015			
	2005	**2015**	**Change**
Hours Paid: Inside Workers	34.6M	26.2M	-24.3%
Hours Paid: Urban Delivery Workers	50.8M	41.8M	-17.7%
Hours Paid: Maintenance Workers	1.6M	1.6M	0
Total Hours Paid: Urban CUPW	87.0M	69.6M	-20.0%
Total Mail Volume	11.1B	8.8B	-20.7%

Source: CPC Annual Reports, Staffing Information provided by CPC

It is important to consider that the new provisions recently negotiated in the new collective agreement concerning sizes of admail and staffing for parcel delivery will significantly enhance the ability of CPC to increase productivity and adjust staffing in response to changing volumes and service offerings.

The Task Force is wrong on Postal Banking

Of all the possible services, the biggest and most profitable possible new service which the report declined to totally recommend is postal banking. Overall, the discussion paper is negative on a new post office bank, although it does open the door to providing new financial services and to partnering with banks and credit unions in rural and remote locations.

The section on postal banking was deeply flawed and contains two major errors.

On page 82 of the discussion paper the Task Force states:
"It is interesting to note that among Canadians that seem to like the idea of postal banking, ultimately, only 7 per cent claim that they would actually use postal banking services."

This is incorrect. The Task Force report on public polling, entitled *Final Report of Research with Canadians*, on page 93, reports that 7% of all Canadians declare that they would "certainly use" full banking services at Canada Post and 22% more would "probably" do so. This is a very sizable proportion of the population that are stating they would definitely or probably bank with a CPC postal bank. The discussion paper also ignores the fact that over 600 municipalities including Toronto and Victoria have passed resolutions supporting postal banking!

The second error is found on page 86 where the discussion paper states *"having a government entity competing in the financial sector would contravene Canada's trade agreements with other countries."* This statement is also incorrect. A postal bank would not contravene Canada's trade agreements as long as the bank followed the agreements. Canada already has three federal banks and financial institutions EDB Export Development Bank, BDC Business Development Bank and FCC Farm Credit Canada, as well as the state owned ATB (Alberta Treasury Branch).

There are also many other problems with the discussion papers comments on postal banking. The discussion paper did not examine the postal banking success stories in countries very similar to Canada. Rather it looked only in some detail at New Zealand, a country 1/7 the size of Canada and whose successful Kiwi bank was dismissed as a model because it was owned in NZ and competed with foreign owned banks and so this is why it grew rapidly. Even if we were to accept this rather simplistic reasoning to explain Kiwi Bank success, the discussion paper did not examine in detail postal banks in countries which are more similar to Canada both in size and in the concentration of big global banks. In the UK, France and Switzerland there is a banking culture of the private banks similar to that of Canada. In each of these countries and Canada there is a banking culture which is highly profitable, very concentrated with big banks controlling most of the business. In all four countries there are some of the biggest banks in the world. The UK has, by assets, 5 of the world's top 50 banks; France has 5 out of 50, Switzerland 2 and Canada 3. And yet the first three of these countries, all have very large successful postal banking services all contributing to the revenues of the post office system.

Also the argument that there is great service in Canada to all citizens by the existing banks and credit unions is incorrect. The number of branches of banks and credit unions has shrunk dramatically. The discussion paper accepts the banking association's numbers about how many branches exist now compared to before. They claim there are now 6,348 bank branches in 2014 (up from 6,151 branches in 2010). However if one looks at the longer decline a different picture emerges. In 1990, there were 7,964 bank branches in Canada. The 6,348 branches we have left today means a decline of over 20% since 1990, even though the population Canada has increased by 31% since then. As for credit unions, the recent decline in branches has been even steeper.

Many Canadians are just not served by banks and credit unions. A study of all rural post offices in Canada was carried out in 2014 for the Canadian Postmasters and Assistants Association. It found that out of the 80% of the 3326 rural and small communities which answered the survey, all of which have a post office, there is no bank or credit union branch in 45% of them. In big cities there are now also many neighbourhoods which no longer have a bank but still have a post office. Also many neighbourhoods now have few banks and credit unions but more pay day loan businesses.

Also the discussion paper is incorrect when it claims that bank branches are no longer used at all and so we do not really need them. A recent survey by the Canadian credit union system shows that over 50% of customers are still using branches regularly and this has gone up in the last five years. For rural communities and Indigenous communities or reserves with no bank or credit union around, the effect is dramatic on business development.

CONCLUSION

This paper has only dealt with a few aspects of the discussion paper. There are many other issues that it did not address. These include the importance of Canada Post playing a leadership role with respect to the environment.

However where the discussion paper does place its emphasis, on the issues of the financial viability of CPC and the issue of postal banking, it displays a lack of objectivity and provides only a superficial analysis of these complex issues.

As stated in the introduction, we believe that the financial projections and the observations on postal banking contained in the 2016 Task Force discussion paper should be disregarded.

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