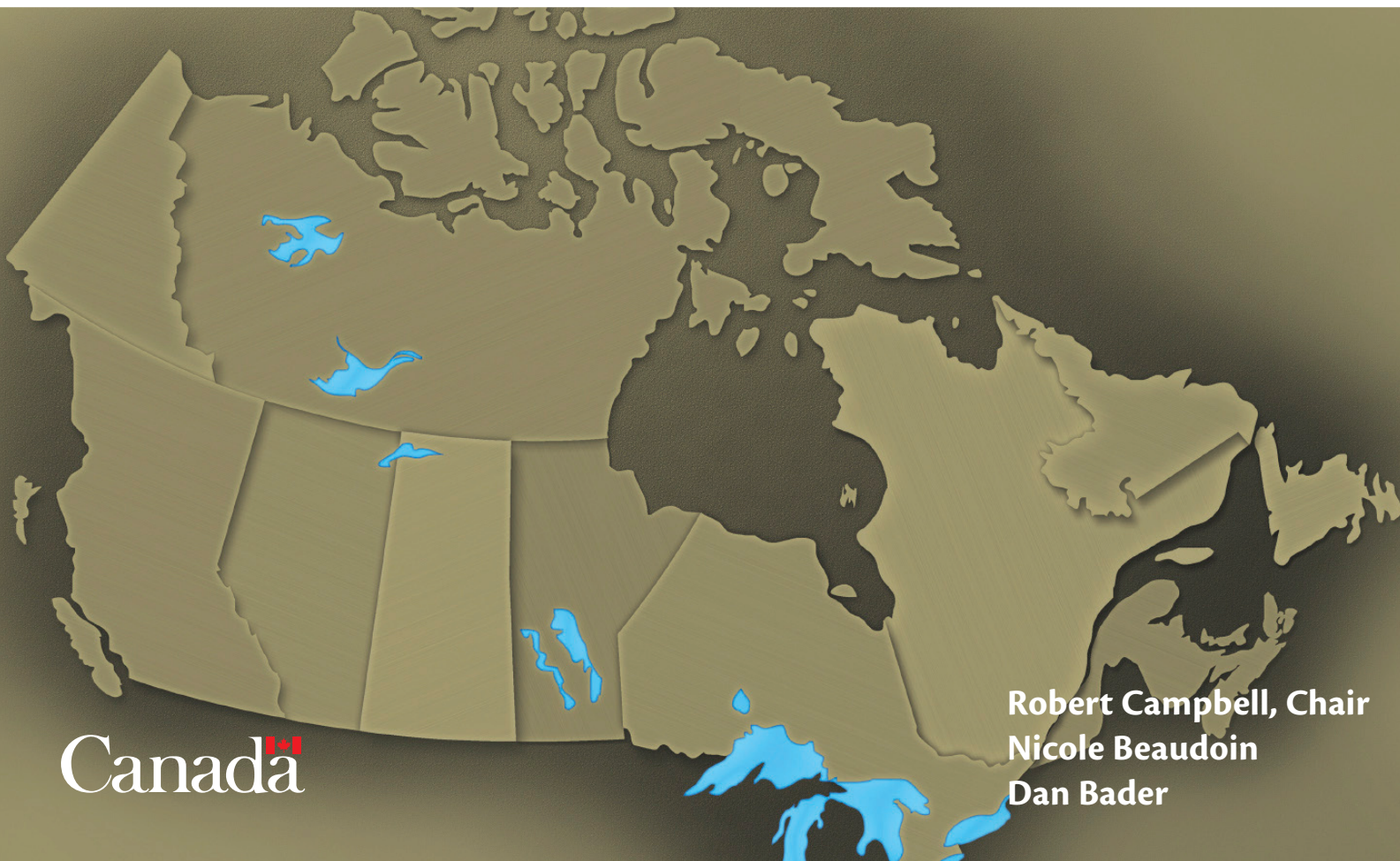


Strategic Review of the Canada Post Corporation

Report of the Advisory Panel to the Minister

December 2008



Canada 

Robert Campbell, Chair
Nicole Beaudoin
Dan Bader

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Canada Post Corporation
Strategic Review

Examen stratégique
de la Société
canadienne des postes

December 2008

TO THE HONOURABLE MINISTER ROB MERRIFIELD,
MINISTER OF STATE (TRANSPORT)

Dear Minister:

The members of the Advisory Panel for the Canada Post Corporation Strategic Review
have the honour to submit our report to you.

Respectfully,

Dr. Robert Campbell
Chair

Nicole Beaudoin O.Q., FCA, MBA
Member

Dan Bader, P. Eng., ICD.D
Member

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On April 21, 2008, the Minister responsible for Canada Post announced the initiation of a strategic review of Canada Post Corporation and the creation of an independent Advisory Panel to conduct this review on his behalf.

Dr. Robert Campbell, President and Vice-Chancellor of Mount Allison University, was named to chair the Advisory Panel. He is an international postal expert who has studied postal systems in Canada and around the world. Dr. Campbell is currently completing a study on the Universal Post Union.

Dr. Campbell was joined on the Advisory Panel by Mrs. Nicole Beaudoin, President and Chief Executive Officer of the Québec Business Women's Network Inc. and of the Women Entrepreneurial Center of Québec, and Mr. Dan Bader, a professional engineer who has had a distinguished career with the Government of Alberta, serving as Deputy Minister in the areas of infrastructure, information management, science and technology, and municipal affairs. The Panel members' biographies can be found in Appendix A.

The Advisory Panel was composed and assembled to ensure a balanced team, with complementary skill sets and experiences, in order that they could successfully pursue the task assigned to them. A small supporting secretariat, made up of public servants with a range of skill sets and experiences, provided support to the Panel in administration, communications, research, planning and liaison. The Advisory Panel was asked by the Minister responsible for Canada Post Corporation to submit a report by December 2008.

The strategic review process unfolded with Canadians very much first in mind, given that it is Canadians who 'own' Canada Post. To this end, the Advisory Panel was asked by the Minister to consult with major stakeholders inside and outside government and to invite written submissions from the Canadian public. The Advisory Panel made every effort to encourage Canadian individuals and groups to engage in the strategic review process, and they responded in great numbers and with great interest.

A website (www.cpcstrategicreview.gc.ca) was launched on the day the review was announced, in order to facilitate information-sharing and to gather input and comment from Canadians. The website information includes the Terms of Reference, the Advisory Panel members' biographies, a consultation guidance document, submissions from Canadians and a list of the Panel's consultation meetings and submissions.

Canadians were invited to make submissions to the Advisory Panel by September 2, 2008. A wide range of interested parties was asked to submit their views, either by e-mail, facsimile or telephone. The Minister responsible for Canada Post wrote to all Members of Parliament, providing them with information on the strategic review. The Advisory Panel wrote to the caucus chair of each political party, inviting them to share this information with caucus members and their constituents. The Panel also wrote to over 350 other stakeholders seeking their input. Copies of all the submissions received by the Advisory Panel were posted on the website on an ongoing

basis, once permission had been granted by the person or group who had made the submission.

At first glance, the Terms of Reference (Appendix B) for the strategic review could be considered to be quite broad. However, the Minister established several guiding principles that have shaped and focused the strategic review, and which enabled the Advisory Panel to move decisively and to quickly zero in on key strategic areas of inquiry. These guiding principles were as follows:

- Canada Post will not be privatized and will remain a Crown corporation;
- Canada Post must maintain a universal, effective and economically viable postal service;
- Canada Post is to continue to act as an instrument of public policy through the provision of postal services to Canadians; and
- Canada Post is to continue to operate in a commercial environment and is expected to attain a reasonable rate of return on equity.

Over and above the input provided by Canadians through the strategic review's website, the Advisory Panel undertook an extensive and ambitious consultation schedule over the first six months of the review.

Given that Canada Post was the focus of its strategic review, the Advisory Panel held numerous sessions with the senior leadership and administration of Canada Post, meeting with senior executives from across all its major business lines and portfolios. The Advisory Panel also had discussions with a number of past and present members of the Board of Directors. Canada Post was generously cooperative with the Advisory Panel as it sought to understand the context, challenges and changes confronting Canada Post and the postal world.

The Advisory Panel also held over 70 consultation meetings with a variety of stakeholders both inside and outside government. The former included government departments and agencies with programs that intersect with Canada Post's operations. The latter included postal customers, competitors and various associations and interest groups that interact or do business with Canada Post. The Advisory Panel also had individual meetings with each of Canada Post's union groups. A list of all of the Panel's consultations can be found under Appendix C.

One indication of the success of the Advisory Panel's consultation efforts can be seen in the number and in the quality of the submissions received. In total, the Panel received 1437 submissions from the general public and various stakeholders. These are listed in Appendix D. In addition, over 23 500 postcards and documents were received from members of the public from across the country as a result of a campaign by the Canadian Union of Postal Workers (CUPW), Canada Post's largest union.

The following table provides a breakdown by type:

Table 1: Summary of submissions received

General public	586
Companies & organizations	88
Unions & labour organizations	116
Municipalities	647
Total submissions	1437
Write-in campaigns/postcards	23 527
Grand total	24 964
Excludes:	
1) documents received after the deadline of September 2, 2008:	
- 61 submissions	
- 794 postcards	
2) 31 documents not considered as submissions	

The Advisory Panel also commissioned a number of research studies in areas where it felt that it needed in-depth, professional, independent or expert analysis. These areas included public policy and universal service obligations, as well as financial analysis. These studies were commissioned to complement the information received from consultations and submissions, and to ensure that all critical areas of the strategic review were addressed and covered by the Advisory Panel.

The Advisory Panel's work proceeded in three stages

First, it took a number of months to carefully listen to and learn from individual Canadians, businesses, unions and interest groups; from government departments and agencies; from postal and industry experts; from Canada Post and from posts around the world; and from stakeholders and interested parties. This inquiry-based approach allowed the Panel to establish its independence and its own capacity, and to remain open to, and able to reflect on, without prejudice, the opinions and facts being presented.

Second, the Panel took a number of weeks following the consultation period to review, analyze and digest the information that it had gathered from its consultations, submissions and research, and to reflect on and discuss this input in order to reach its own consensus about the areas it was being asked to investigate.

Then the Panel took time to formulate its recommendations and to write its report.

This work has culminated in 60 recommendations. These are being submitted to the Minister responsible for Canada Post for the government's consideration. The report is structured around these recommendations and the Terms of Reference. A summary list of all of the Advisory Panel's recommendations can be found in Appendix E.

We would like to take this opportunity to thank the individuals and organizations who took the time to make submissions to, or to meet with, the Advisory Panel. We would also like to thank Canada Post for its cooperation and patience. And the Panel would like to thank the strategic review Secretariat staff for their tireless work and support.

The Advisory Panel was asked by the Minister and the Government of Canada to offer analysis, recommendations and advice that would ensure Canada Post's long-term capacity to achieve and retain financial self-sustainability and maintain universal postal service – in an evolving postal world that has been made more competitive and challenging as a result of technological change and globalization.

Over the course of the strategic review, the Advisory Panel became concerned that:

1. Canadians are generally of the opinion that Canada Post is profitable and financially sound, whereas it is apparent to the Advisory Panel that Canada Post's financial sustainability is uncertain at best;
2. Canada Post's plants and facilities are in urgent need of upgrading and modernization as a result of inadequate capital investment over the past several years;
3. There is misunderstanding and misconception at Canada Post and in the government about Canada Post's core responsibilities and the government's concrete postal expectations, particularly in key areas like the universal service obligation and rural mail services; and
4. The roles, responsibilities and authority of the Government of Canada, as shareholder, the corporation's Board of Directors, and Canada Post management need clarification and must be better understood by all involved.

These realities present a pressing need for postal policy action, as they combine to limit Canada Post's capacity to continue to deliver a universal postal service of a quality and at price levels that Canadians expect and deserve. This is a situation made more urgent by the recent economic and financial downturn.

The Advisory Panel aims to contribute constructively to the ongoing evolution of Canada Post by making recommendations and by providing advice to ensure that Canada Post has the corporate and commercial capacity it needs to maintain its financial self-sustainability, while presenting new ways and approaches for the shareholder (the government) to articulate and communicate its public policy expectations of Canada Post.

This report is constructed as follows:

Part I: The Postal World in the 21st Century

Developments in the modern postal market

The postal market is undergoing far-reaching changes under the influences of changing technology, globalization and liberalization. There are three parts to the modern postal condition. First, the traditional lettermail market is a mature industry, one that has likely peaked. The prospects for this sector are steady-state at best; a slow but

steady decline is likely. The pace at which electronic substitution is taking place has varied from country to country and sector to sector, and has not, perhaps, evolved at as fast a pace as had been predicted. But the fact is that electronic substitution has taken away a significant part of the mail sector and promises to continue to do so in the future. Second, the new economy and the rise of the service sector offer a kind of counter-balance to the stagnating letter market. E-commerce presents growth opportunities for packets and small parcels, and the service economy presents similar opportunities in the courier and express markets. Third, our society is increasingly a communications society, and physical communication will continue to play a role even as electronic communication expands. The lettermail market – the traditional protected market for Canada Post – is not doomed to oblivion but is changing and becoming more challenging.

What we heard from Canadians

Canadians remain deeply interested in postal matters and intensely committed to the maintenance of a viable and effective universal postal service. There appears to be little public support for the privatization or deregulation of Canada Post, and considerable if not unanimous support for maintaining a quality, affordable universal service for all Canadians and communities. Most of the submissions we received do not support deregulation of the postal service – that is, they do not support removing Canada Post's monopoly over letters (the exclusive privilege).

Many individual Canadians generally feel that postal rates are moderate. Businesses that use Canada Post generally look to lower prices and fewer price increases. But some firms report that they feel that the price level is reasonable for the service received. The postal service is particularly important to small- and medium-sized enterprises (SMEs)¹, which see the postal service as a cost-effective way to enter new markets. That said, the Advisory Panel heard a number of concerns about Canada Post's lack of attention to the needs of SMEs relative to the attention given to large users. Some larger firms also noted that price increases give incentives to e-substitution and looked for volume discounts, particularly in emerging e-sectors. They also expressed a desire for better partnerships, volume discounts and work-sharing incentives.

While some business clients expressed concern that Canada Post has too much independent authority to set prices for everything other than the basic lettermail rate, there were mixed sentiments about creating a third-party regulator.

Nowhere does the postal service evoke more public discussion and emotion than in rural Canada. Rural Canadians are deeply anxious about any weakening of Canada Post, which they equate with the reduction or loss of viable postal service in rural areas. Indeed, the Advisory Panel heard that rural Canadians maintain that the post is their only consistent and reliable means of communication. The Advisory Panel also heard that rural Canada's confidence in Canada Post as a federal institution has been shaken by the perceived reduction in its rural services and by post office closures despite the moratorium, and what are seen by some to be unreasonably strict applications of labour and safety codes.

¹ Please refer to Appendix F for a glossary of acronyms

What we learned from other posts

The Advisory Panel examined the experiences of a number of posts around the world. Like Canada Post, they have struggled with the challenge of declining revenues and increasing costs.

On the revenue front, all national posts reviewed have experienced weakening or flattening of mail growth (and some actual declines) as a result of electronic and product substitution, as well as from increasing competition, particularly where postal markets have been deregulated. On the cost front, all national posts experienced a general trend of costs increasing faster than revenues, whether in the form of rising labour costs or in the struggle to deal with all the costs of providing the various dimensions of the universal service. To counter these trends, national posts have leveraged their networks, introduced complementary products and services, established new networks and extended ones through subsidiaries and acquisitions, and generally integrated their operations vertically and horizontally in order to generate more revenues to support their universal service obligations.

Moreover, posts that have modernized their plants and operations have been able to reduce costs and generate new revenue sources by offering an increased variety of innovative products and services to their customers.

Successful national posts operate in well-constructed governance arrangements that simultaneously encourage modern business practices and attention to public needs. They have a clear, transparent and accountable governance arrangement that encourages the simultaneous and balanced attainment of commercial and social goals, without too much government control inhibiting the attainment of one or the other objective.

The view from Canada Post

Notwithstanding the fact that it has made a profit in 13 consecutive years, the Canada Post segment of Canada Post Corporation – the post office – is in a financially precarious position. Canada Post Corporation's existing level of profits is derived primarily from its Purolator subsidiary. The Canada Post segment itself is barely breaking even.

The revenues from Canada Post's reserved market (the exclusive privilege) are under significant pressure from a number of sources. As is widely appreciated, lettermail volumes are flat or in decline – Canada Post anticipates at least a 1% annual decline in volumes over the next five years. The costs of delivering the mail are rising at an accelerating pace. Over and above the impact of rising transportation and labour costs, demographic changes produce approximately 200 000 new postal addresses a year, with the net result that, on average, there are fewer pieces of mail going into each mailbox.

CPC identifies three further structural constraints on its capacity to be financially self-sustainable: obsolescence and inadequate modernization as evidenced by aging plants and equipment, delivery and retail networks that do not reflect the demographic changes of the last two decades, and an inhibiting internal culture, including rigid

collective agreements with CUPW and the governance arrangements within which Canada Post operates.

In its submission to the Advisory Panel, Canada Post suggests a variety of measures to help keep it financially self-sustaining, including:

- Compensation at market levels and on commercial terms for any postal-related public policy services it undertakes;
- The adoption of a proximity-based standard of service and a clear definition of rural and urban communities;
- Pricing flexibilities and increased borrowing limits to meet its current and ongoing investment and operational needs;
- Third-party review of the CUPW agreement and a public report on its competitiveness; and
- Clarification of the role of the corporation's Board of Directors.

Part II: Critical Issues For Canada Post

Five overarching themes commanded the Advisory Panel's attention through the strategic review.

Universal service obligation (USO)

When the Post Office Department was transformed into a Crown corporation in 1981, the definition of the USO was left vague. Canada Post was expected to provide a basic and customary service that would meet the needs of the people of Canada, and provide comparable levels of service in communities of the same size. Today, the lack of clarity around what is, should be, might be, or could be included in Canada Post's USO is creating confusion for Canada Post, its shareholders and its customers.

To clarify the USO – which lies at the heart of Canada Post's purpose – the Advisory Panel suggests that it should be defined in a 'contract' or 'service charter' between the Government of Canada and Canada Post, and made public. This service charter would become one part of a new financial and service framework that would clearly set out the government's expectations of Canada Post.

As a general principle, the Advisory Panel would suggest that as a commercial Crown corporation, Canada Post should expect to be reasonably compensated by the government for any public policy obligations the government assigns to it beyond its universal service obligation.

Modernization (physical capacity and capability)

Canada Post must have adequate tools and processes to carry out its required functions and responsibilities, in terms of efficiency, cost, and timeliness and accuracy of service. In the view of the Advisory Panel, it appears that Canada Post has significantly under-invested in its infrastructure, both in terms of dealing with obsolescence issues and keeping its plant and equipment current. This will take a significant level of investment to address. One could reasonably expect that investment to be in the order of

\$3 billion over the next seven years in addition to the \$200 million annually, on average, that it is currently spending for ongoing maintenance and normal infrastructure programs.

A principled approach to implementing Canada Post's multi-billion dollar modernization plan requires a significant commitment to productivity improvement through infrastructure modernization. This will inevitably impact the nature of jobs at Canada Post – and this must be made clear, and communicated to all parties as part of the approval requirements to proceed with modernization programs. The Advisory Panel finds merit in Canada Post's suggestion for a third-party review of current labour arrangements from the perspective of their possible impediments to, or benefits contributing to, the long-term sustainability of Canada Post.

Financial sustainability

If Canada Post is unable to generate and access the necessary funds over the long term, its ability to consistently deliver on its universal service obligations will be increasingly threatened. It has recently been underperforming against the financial targets set for it in the 1998 Multi-Year Financial and Policy Framework. This reflects a divergence in the recent growth rates in its operating costs on the one hand (up 3.2% in 2007) and its revenues on the other (up 2.5% in 2007). Canada Post's future financial sustainability is directly linked to the extent to which Canada Post can access capital to finance its modernization plans, successfully leverage modernization to reduce operating expenditures through productivity improvements and grow its revenues.

The government should set new financial self-sustainability targets for Canada Post that are appropriate to changing circumstances. It should also construct a revised Financial Framework with updated target ratios for its capital structure, profitability and dividends. This Framework should provide financial targets which, when achieved and coupled with the appropriate price-setting regime, will enable Canada Post to operate on a financially self-sustaining basis. Management of the Financial Framework should be part of the annual budget and strategic corporate planning process.

Postal services in rural Canada

It is the Advisory Panel's view that the maintenance of an effective postal service in rural Canada is part of Canada Post's universal service obligation and should not be conceptualized as a public policy objective beyond the USO. Neither Canada Post nor the Government of Canada has agreed on a thorough operational and mutual understanding of the rural services dimension of Canada Post's USO. The Advisory Panel believes that the formulation, articulation and communication of a clear and transparent understanding of Canada Post's roles and responsibilities in rural Canada through a re-defined USO would remove a considerable amount of friction and potential for future misunderstandings between all parties concerned.

Post offices in rural areas are important for a community's economic viability and social identity. However, many of the existing rural corporate post offices were established in conditions very different from the present. A review of the moratorium on rural post office closures is overdue. A new and more explicit mechanism should be

developed to replace the moratorium with a clear set of rules and procedural guidelines that would both safeguard and respect the postal service needs of rural Canada but also allow Canada Post a degree of flexibility to deal with emergent issues in providing postal services in rural areas while respecting the service needs and expectations of rural Canadians.

Mail delivery to the end-of-lane – basically to a roadside box at the end of a property owner's lane or driveway – has its origins at the turn of the 20th century. In many areas, these houses were once on quiet country roads. Now, these same residences are directly adjacent to relatively busy streets and highways, where there is a serious and likely potential for accidents and injury both to the people delivering the mail and to passing motorists. The Advisory Panel believes that the safety reviews undertaken by Canada Post were necessary and likely overdue, given the changes in traffic speed and road usage that have evolved over time. The government should permit Canada Post the latitude to give serious consideration to the efficacy and viability of maintaining this mode of mail delivery. Canada Post's community engagement process should be enhanced to review current services and consider whether alternative and acceptable approaches could be devised for the communities involved.

A clarified governance environment

Canada Post suggests that government oversight is out of proportion to requirements, with the result that approvals of corporate plans, certain commercial transactions and borrowing can be very lengthy, and market opportunities can be lost while these oversight processes unfold. On the other hand, the Advisory Panel notes that the government has a duty to ensure that Crown institutions, such as Canada Post, are well-managed and fulfill their public policy purposes in a fiscally responsible manner. Given Canada Post's evolution the Advisory Panel believes it would be timely to stand back and clarify again the various roles, responsibilities and authority of the key agents in the Canadian postal governance environment. The ingredients of an ideal governance regime would include:

- Making specific, clear and transparent the roles, responsibilities and authority of Canada Post's management, its Board of Directors and the Government of Canada;
- Vesting authority for primary due diligence, financial/commercial responsibility and recruitment of senior management with an autonomous board, separate and at arm's length from government. This board would predominantly be composed of individuals with extensive and intensive commercial expertise and experience, as well as experience in the public sector environment;
- Enable the shareholder to exert a practical degree of financial oversight through a number of actions, including issuing a clear policy statement about what it wants and expects; appointing the Board Chair and (with the assistance of recommendations from the Board) of Board members; having a shareholder representative of some sort on the Board; establishing a clear and concrete relationship between the shareholder and the Board, including scheduling regular meetings between the Board and the Minister

and outlining a clear articulation of expectations; and conducting an annual review of multi-year corporate plans and financial targets;

- Stating clearly and publicly the quality, service and USO expectations. This would be done within a contract arrangement, to be overseen by the Board of Directors; and
- Canada Post would be compensated by the government for any non-commercial activities outside the USO contract it was required by the government to undertake.

Part III: Summary of the Recommendations

The Advisory Panel's recommendations, which are fully detailed in Part III of this report, are clustered around the five major themes:

Universal service obligation

The USO principles should be set out in a Service Charter – a contract between the Government of Canada and Canada Post, to be monitored by the Board of Directors of Canada Post and implemented by its management.

Public policy objectives that are not part of the USO should not be paid for by Canada Post out of its general revenues.

Modernization

Canada Post must have a modern postal network and up-to-date technology and competitive processes and products if it is to fulfill its USO commitments in a financially self-sustaining way.

Canada Post's Board of Directors should fully develop and present its multi-year modernization plan to the government for approval along with its 2010-2014 corporate plan, and update the plan in each subsequent corporate plan.

The government should proactively support Canada Post's pursuit of the modernization plan, with respect to the opportunities provided to improve productivity and to reduce costs occasioned by retirements and other attrition over the period of the modernization plan and beyond.

Canada Post should have access to levels of capital borrowing appropriate to the financial plan and its modernization plan.

Financial sustainability

The 1998 Policy and Financial Framework should be reformulated in light of contemporary conditions and requirements. The revised Framework would have two elements – a Service Charter as previously noted and financial targets discussed below.

The Financial Framework should set targets that are appropriate to present and future conditions and challenges and that establish Canada Post's long-term financial self-sustainability. The targets in the Financial Framework should be determined to allow Canada Post to access capital and debt markets to the level required to finance the modernization plan.

The Financial Framework should establish a pricing regime for Canada Post's regulated products that reflects their costs and ensures the revenue flow and level of profitability required to support self-sustainability, while ensuring reasonable postal rates for Canadians. The requirement for Canada Post to pay dividends should be relaxed during the intensive investment phase of the modernization plan. The government should clarify Canada Post's pension solvency requirements to ensure that this does not impede the capital cash flows required to finance modernization.

Canada Post should continue to function commercially in those competitive markets in which it currently operates, and the government should clarify and communicate its expectations involving any new commercial initiatives.

Deregulation of the postal market or exclusive privilege should not be pursued, save in the area of outbound international mail.

Postal services in rural Canada

The government should replace the moratorium on rural post office closings with a new approach founded on a more realistic and practical definition of 'rural' and in the context of an updated and more operational rural policy.

The government should declare that the rural post is part of the USO, and service expectations for rural Canada should be incorporated into the new Service Charter.

A clarified governance environment

The respective roles, responsibilities and authority of the Board of Directors, management and the government should be updated, clarified, communicated, made transparent, and regular and improved communication should be established:

- As a guiding principle, and given Canada Post's unique character and its largely commercial operating environment, the Advisory Panel strongly believes that oversight of the corporation's business should rest primarily with the Board of Directors;
- The Board of Directors' responsibility for the corporate viability of Canada Post should be clarified and operationalized through an improved appointments process including the appointment of a current or former deputy minister or associate deputy minister to the Board;

- The process for approving regulated prices should be enhanced and made more transparent;
- A greater symmetry of postal intelligence and knowledge should be established between Canada Post and the government department with portfolio responsibility for Canada Post; and
- A strategic review of Canada Post should be carried out every five years.

In the longer term, to further enhance clarity of responsibilities, the government's financial and regulatory oversight responsibilities should be separated with an appropriate governance structure and process put into place that attends to both functions.

The task presented to the Advisory Panel by the Minister and the Government of Canada was to offer analysis, recommendations and advice that would ensure Canada Post's long-term capacity to achieve and retain financial self-sustainability and maintain universal postal service in an evolving postal world that has been made more competitive and challenging as a result of technological change and globalization.

Over the course of its strategic review, the Advisory Panel became concerned that:

1. Canadians are generally of the opinion that Canada Post is profitable and financially sound, whereas it is apparent to the Panel that Canada Post's financial sustainability is uncertain at best;
2. Canada Post's plants and facilities are in urgent need of modernization, as a result of inadequate capital investment;
3. There is misunderstanding and misconception at Canada Post and in the government about Canada Post's core responsibilities, and the government's concrete postal expectations, particularly in the key areas of the universal service obligation and rural mail services;
4. The roles, responsibilities and authority of the government, as shareholder, the corporation's Board of Directors, and Canada Post management need clarification and better mutual understanding; and
5. There is an immediate need for postal policy action given these realities, a situation made more urgent by the recent economic and financial downturn.

Each of these realities – financial uncertainty, lack of modern infrastructure, uncertain policy expectations and unclear roles and responsibilities – combine to limit and threaten Canada Post's capacity to continue to deliver universal postal service of a quality and at a price that Canadians expect and deserve. The Advisory Panel believes that the formal reporting of Canada Post's profitable condition is accurate but could be misinterpreted. The fact is that the Canada Post Group of Companies is marginally profitable at best, while the Canada Post segment – the post office – is barely breaking even.

The Advisory Panel's report will seek to address each of these realities in a manner that respects the four principles set forth by the Minister responsible for Canada Post in our Terms of Reference:

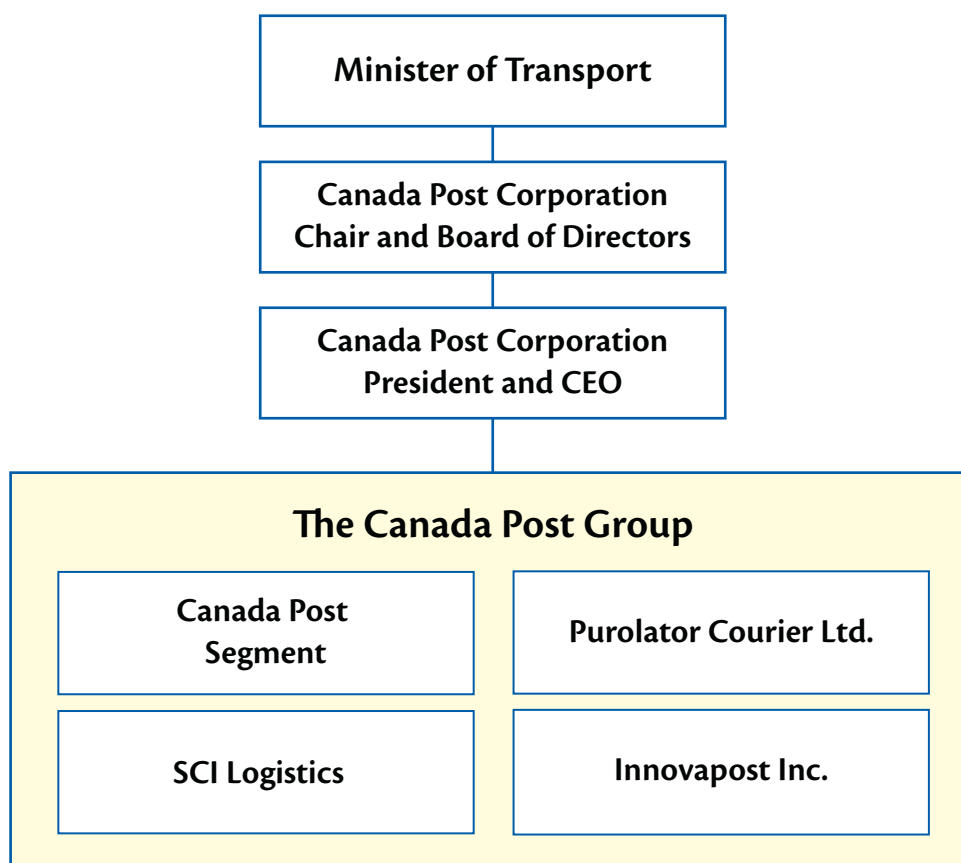
- Canada Post will not be privatized and will remain a Crown corporation;
- Canada Post must maintain a universal, effective and economically viable postal service;
- Canada Post is to continue to act as an instrument of public policy through the provision of postal services to Canadians; and
- Canada Post is to continue to operate in a commercial environment and is expected to attain a reasonable rate of return on equity.

At the heart of the challenging task presented to the Advisory Panel for this strategic review is the fact that Canada Post is, for all intents and purposes, a unique institution.

There are really no comparable Canadian institutions for the Advisory Panel to examine. And, as will be seen in the following section, there are limits to what can be learned from other countries.

Canada Post was created in 1981 as a Crown corporation – and this categorization is particularly apt. The Government of Canada deliberately and consciously transformed the postal service from a department of government to a corporate form. Indeed, the history of Canada Post is, in one sense, the evolution of the Canadian post office from a departmental, bureaucratic organization into an increasingly corporate and commercial one. This evolution includes organizational, corporate, cultural and governance features. This change has been actively and openly encouraged by successive governments, a pattern followed in most postal organizations in the industrialized world. It has made enormous sense, given: the complexity of the postal operation; the scale of the service provided by Canada Post Corporation (CPC), which handles literally *billions* of items a year; the size of its work force (among the largest in Canada); its character (a highly capital-intensive infrastructure operation); the nature of its activities in the transportation and communications markets; and the fact that it performs and functions in an increasingly commercial and competitive environment. This is hardly the context for a typical department/governmental form of organization and operation. Canada Post Corporation's corporate structure today is displayed in Figure 1.

Figure 1: Canada Post Corporation



At the same time, Canada Post is a Crown corporation – one that is 100% owned by the Government of Canada. So, while Canada Post is a corporation, its shareholder is not a typical shareholder. Its shareholder is the Government of Canada, which has specific public policy obligations to Canadians to provide a postal service. The Government of Canada deliberately and consciously retained ownership of the postal organization, even in the move from a department of government to a corporate form. This has followed a pattern established in most postal organizations in the industrialized world, where – with few exceptions (e.g. partial privatization in The Netherlands and Germany) – posts remain government owned, even as transportation, communications, utilities and other state enterprises were privatized. Indeed, notwithstanding the corporatization and commercialization of the posts, and notwithstanding the advent of electronic communication alternatives, postal activity remains a highly sensitive service, and retains a public policy character for large parts of the population. This has been the case in New World countries – in particular Canada, New Zealand, Australia and the United States – where the posts played a historic nation-building role. And it has also been the case in Canada's ancestral nations – England and France – where the post has continued to retain a highly public character. In this context, one can well understand why successive governments, here and abroad, have decided to retain public ownership of the postal service.

Canada Post's evolution has been, at times, eventful and even awkward, as there is an inherent tension between commercial and public policy objectives and underlying values, organization and operation. But overall, this evolution has followed a relatively purposeful and coherent path. In simple terms, Canada Post has been encouraged by its shareholder to develop an increasingly commercial orientation and financial capacity, and has also been given increased autonomy to allow it to do so. The government has expected Canada Post to increase its financial and economic performance (e.g. by setting targets and requiring the payment of taxes and dividends) and has given it increasing autonomy and tools to do so (e.g. by increasing its ability to perform in commercial activities such as the courier business).

However, this increased corporate autonomy has been matched at each stage by ongoing, albeit different, forms of shareholder (government) declarations or expectations about service and public policy objectives. As will be described in this report, this 'two-step' march – increased corporate autonomy matched with enhanced public policy expectations – culminated in the creation of the 1998 Multi-Year Policy and Financial Framework for Canada Post. This framework combined financial and social expectations with some increased corporate and commercial capacity for Canada Post to meet these expectations. One critical issue for the Advisory Panel to address is whether the 1998 Framework remains appropriate a decade later.

What the Advisory Panel would like to accomplish is to contribute positively and constructively to the ongoing evolution of Canada Post. The Advisory Panel will propose recommendations and advice with the aim to ensure that Canada Post has adequate corporate and commercial capacity to maintain its financial self-sustainability, while presenting new ways and processes for the shareholder (the government) to articulate and communicate its public policy expectations of Canada Post.

Highlights of the evolution of Canada Post

The following brief overview of the evolution of CPC will explain and delineate the ‘two-step’ process that governments have followed – encouraging and increasing CPC’s autonomy and corporatization, while making increasingly specific and concrete policy determinations about CPC’s social obligations and requirements. As noted, the Advisory Panel will make recommendations that it believes will extend this process in a positive fashion.

1981: Bill C-42 creates Canada Post

In 1981, the Post Office Department was transformed into Canada Post Corporation, taking postal operations out of the hands of day-to-day government and placing them in a corporate organization as a Crown corporation financially independent of government. This initiative was widely supported in Canada as a way of making the postal operation more efficient, more effective and less costly to government, given the high deficits incurred by the Post Office throughout the 1970s.

Bill C-42 directed Canada Post to provide a basic and customary service, the universal service obligation (USO), although this was not well-defined. Bill C-42 also directed Canada Post to “conduct its operations on a self-sustaining financial basis, while providing a standard of service that will meet the needs of the people of Canada and that is similar with respect to communities of the same size.”

This economic versus social juggling act saw corporate autonomy (an 11-person independent Board, including the Chair and the CEO, which would devise corporate strategies and plans) contend with continuing high levels of direct government control (Governor in Council appointment of the Board and the CEO, and a minister with directive power and authority over borrowing and debt, property and prices, and regulations and corporate plans). Despite a substantial increase in postal rates in 1981 (from 17 to 30 cents), postal deficits totalled \$1.3 billion between the 1982 and 1985 fiscal years, suggesting that this balance was not successful.

1986-92: Corporatizing Canada Post

The previous process concluded with the federal government rejecting CPC’s 1984 corporate plan as unrealistic and not moving Canada Post toward corporate and financial viability. The government created a panel – similar to the present Advisory Panel and composed primarily of private sector people – to review CPC’s mandate. The Marchmont Report proposed a bold and aggressive strategy of commercializing Canada Post – from cost-cutting and rationalization measures, which would diminish or limit postal services, to balancing the books and strengthening the Board of Directors.

The government accepted the recommendations and moved them along by appointing a new corporate leader (CEO) and an exclusively business-oriented Board. It also made its policy intentions clear in the 1986 Corporate Plan, a document as important as Bill C-42, which the government itself prepared. Canada Post was instructed to balance

its budget by 1987-88, to create a surplus by 1989, and to generate \$300 million in dividends and a 14-15% return on equity by 1994. This instruction was extended when Canada Post was scheduled under the *Financial Administration Act* (FAA) as a Schedule III (2) Crown operation functioning in a competitive market environment.

Canada Post began making profits in fiscal year 1988-89. Delivery standards were also set (two days locally, three days regionally, four days nationally). Once the government made its policy objectives clear, Canada Post was given the corporate autonomy to re-align the financial objectives set by the government. This autonomy was used, among other things, to extend the use of community mailboxes (limiting home delivery); to contract out sorting and delivery of parcels; to close or transform 30% of the rural network; to franchise urban post offices; to increase postal mechanization and reduce full-time employment by 10 000; to move to market-based pricing of its competitive products; to limit financial support to public postal services like publications mail; and to purchase Purolator in order to enter the courier market.

1993-99: Re-introducing social and political limits

The previous period saw the government communicate its objectives to Canada Post and assign Canada Post requisite corporate autonomy to attain those (mainly) financial objectives. The effect was to neutralize the need for the corporation to pay attention to the social side of the postal juggling act.

A new government in 1993 acted to re-balance the economic and social goals of CPC, albeit without reducing the corporatization accomplishments of the previous six years. For example, it almost immediately introduced a 30-day moratorium on rural postal closings. This moratorium was extended in 1994 indefinitely. The new government also disallowed a price increase. (An increase was later approved, but a price freeze was later imposed until 2000.) The government further corporatized the CPC environment by making it a prescribed Crown corporation under the *Income Tax Act*. This required Canada Post to pay income taxes, like any private sector company. This pattern of balancing commercialization with social controls was extended after the conclusion of another mandate review (the Radwanski Report) in 1995-96. On the one hand, the government extended the moratorium on rural closings and increased service standards. On the other hand, the government made clear that CPC could remain active in competitive and commercial areas (beyond the narrow confines of lettermail) and could retain ownership of Purolator. Moreover, the government did not require CPC to undo the corporatization accomplishments of earlier years, such as postal closings, franchising and rationalization.

This process culminated in 1998, when the government created the Multi-Year Policy and Financial Framework (see Appendix B, page 119). The Framework, through a series of quantitative targets, articulated the government's expectations for financial return and for some service elements as well as establishing a price cap formula for the basic lettermail rate. At the same time, it also confirmed CPC's ability to compete in the wider competitive environment. Generally, the idea was that once the Framework was in place, CPC would have the autonomy to pursue its commercial agenda within the parameters of the Framework. Moreover, the fact that the Framework was announced

quietly and without public fanfare gave CPC some degree of protection and increased its autonomy. The Advisory Panel will analyze and comment on the Framework in Part II of this report and make some recommendations in Part III about a framework appropriate for Canada Post's future.

Recent developments

The two-step pattern of increasing corporatization matched with government issued objectives continues to the present.

On the one hand, in 2007 the government introduced Bill C-14 to deregulate outgoing international mail, which would have intensified Canada Post's competitive environment. The Bill died on the order paper when Parliament was dissolved in September 2008.

On the other hand, in 2006, the government used its directive power to set out and clarify to CPC its policy objectives in two areas. First, in the context of addressing concerns about safety issues associated with the delivery of rural mail, the government directed Canada Post to continue to deliver mail at individual rural roadside mailboxes and to draw up an operational plan to address this issue. Second, the government directed Canada Post to continue to provide financial support to the Publications Assistance Program, until March 31, 2009.

The strategic review process offers the possibility of creating the next stage in the evolution of Canada Post, as it confronts new market conditions, globalization and technological change. The objective of the strategic review is to improve Canada Post's capacity through appropriate tools and policies – to allow it to confront these new conditions – while also devising new ways for the shareholder (the government) to articulate and communicate its financial and social goals and expectations about the postal system to Canada Post.

Structure of this report

This report will be presented in three parts. Part I is made up of what the Panel learned through its consultations with, and submissions from, Canadians. Part II presents the Panel's analysis of the major themes and issues that envelop the postal world and Canada Post's place in it. Part III will present the Advisory Panel's recommendations to the Minister, based on what we have learned.

In Part I, the report will:

- Analyze broadly what is happening in the postal market;
- Present and explain what Canadians have told us (individual postal users, small and large customers, competitors, social groups, unions and so on);
- Present and analyze the major trends among a number of posts abroad; and
- Present what we learned from Canada Post, both with respect to its analysis of the conditions it faces and with regard to what it perceives it needs in

order to attain the financial self-sustainability that is required if it is to pursue the universal service obligation and meet Canadians' postal needs.

In Part II, the report will present and analyze our understanding of the five major themes and issues that envelop the postal world and Canada Post's place in it:

- The need to establish a clear and transparent understanding of the universal service obligation, which lies at the heart of Canada Post's existence;
- The urgent need for Canada Post to modernize its network and to keep it current and up-to-date on an ongoing basis;
- The tools that Canada Post needs to become financially self-sustaining;
- The need to create a clear and transparent understanding of Canada Post's roles and responsibilities in rural Canada; and
- The need to clarify, make transparent and operationalize the respective roles, responsibilities, and authority of the Government of Canada, Canada Post's Board of Directors and the corporation's management.

The analysis presented in Part II will lay the foundation for the presentation and explanation in Part III of the Advisory Panel's recommendations, including a Revised Financial and Service Framework for Canada Post. This Framework and these recommendations are aimed at devising a new and improved way for the government to clarify, articulate and communicate its objectives to CPC, while establishing an appropriate degree of corporate autonomy and capacity for Canada Post so that it has the tools to successfully address new and rapidly changing market conditions.

The Postal World in the 21st Century

In this section, the Advisory Panel reviews and analyzes the modern postal world in which Canada Post functions. The Terms of Reference of the strategic review asked the Advisory Panel to:

- Analyze how changes in technology, competition and customer demographics have shaped the postal market;
- Analyze the evolution of the markets for lettermail, parcels, advertising mail and international mail;
- Present the emerging needs of postal service customers; and
- Present what can be learned from these same developments in the postal services markets in other countries.

This section contains five parts. In the first part, the Advisory Panel presents a brief sketch of its understanding of the latest developments in the postal markets in Canada and around the world. The second part presents what we heard from Canadians about postal matters. In the third part, the Advisory Panel presents and analyzes a number of interesting postal developments in Austria, Australia, New Zealand, Sweden, the United States and the United Kingdom. The fourth section presents our understanding of Canada Post's analysis of the postal world and its views of what it requires to be successful and effective in that world. In the fifth and concluding part, the Advisory Panel draws its conclusions and presents five critical themes or issues that it feels should shape its further analysis and recommendations.

I – Developments in the modern postal market

The postal market, like all sectors of the economy, is undergoing far-reaching changes under the influences of changing technology, globalization and liberalization. There are three parts to the modern postal condition. First, the traditional lettermail market is a mature industry, one that has likely peaked. The prospects for this sector are steady-state at best and likely, a slow but steady decline. Second, the new economy and the rise of the service sector offer a kind of counter-balance to the stagnating letter market. E-commerce presents growth opportunities for packets and small parcels, and the service economy presents similar opportunities in the courier and express markets. Third, our society is increasingly a communications society, and physical communication will continue to play a role even as electronic communication expands. There are opportunities in the admail market and physical communication in areas where the physical has a comparative advantage over electronic communication, such as in the delivery of promotional material. The modern postal market, then, presents a shifting product mix.

The experience of the past decade suggests that the market for traditional mail is weakening if not stagnating. This has enormous consequences for posts, as lettermail has traditionally been the bread and butter of postal revenues, underpinning posts'

financial capacity to deliver their universal service obligation. To the extent that lettermail volumes weaken, posts have to find alternate sources of revenue; if not, service levels, quality and the nature of the USO itself will likely decline as a result of the posts' diminishing capacity to pay the costs of existing service levels.

From the telegraph and the telephone to fax machines, e-mail and the Internet, lettermail has sequentially confronted waves of new technological and communications developments that have threatened its existence. The contemporary communications market offers a variety of possibilities: the cellphone and text messaging; the fax machine and electronic scanning; e-mail, ATM machines and direct debit; and various forms of electronic document transfer.

The advent of electronic communication is particularly consequential in view of the fact that most mail now is business mail. Personal mail (consumer-to-consumer mail) typically represents 10% or less of most mail markets across the industrial world. Typically, 80-90% of mail either originates with, or is destined for, business. Canada Post reports that business mailers account for more than 90% of its lettermail and admail volumes. Much of this takes the form of massive volumes of bill presentment and payment, which is easily transferable to electronic form. The pace at which electronic substitution is taking place has varied from country to country and sector to sector, and has not, perhaps, evolved at as fast a pace as had been predicted. But the fact is that electronic substitution has eaten away at large parts of the mail sector and promises to continue to do so in the future. There are parallel developments – such as bundling of bills across services into one bill – that diminish volumes as well.

According to a Nanos Poll commissioned by Canada Post, 60% of Canadians believe that they will be sending about the same amount of mail as at present five years from now, and 56% expect they will be receiving the same amount of mail. Young Canadians were much more likely to say that they would be receiving more mail (33%) in the next five years. However, 46% of those polled believed that the Internet was a major threat to Canada Post, while 33% saw it as a minor threat. The Canadian Federation of Independent Business (CFIB) reports that overall its members anticipate that they will be generating lower volumes in the next five years, a view expressed in consultations with larger customers as well. In interviews with the Advisory Panel, national bank representatives anticipated a 2-3% annual decline in mail. The National Association of Major Mail Users (NAMMU) estimates that mail volumes will stagnate or erode.

These developments appear to have longevity and depth in their impact, so one would not over-generalize in suggesting that lettermail is a mature industry, one that has peaked in its development and that is unlikely to grow at any pace in the future.

Part of the challenge in assessing the impact of electronic substitution is the fact that there is a second factor that has impacted domestic mail volumes. The postal world is part of the larger physical communications world, which has been internationalized and globalized to a tremendous extent. This reflects the postwar liberalization of trade and the growing importance of trade in services. As national barriers disappeared and internal markets were deregulated and liberalized, there was a rapid growth in cross-border trade and communications. Large international firms developed and entered

into almost every domestic market in the world. This development has included private multinational corporations like UPS and FedEx, which function in every market in the world. But this development also includes a more recent phenomenon – the growth of international posts themselves. Most major industrial posts function and compete in each other's markets, and a number of them are quite large and imposing. The German post has transformed itself into DHL, and the Dutch post has transformed itself into TNT – major players that compete and rival FedEx and UPS in every market in the world, including Canada. The liberalization and internationalization of the postal world has had a serious impact on domestic postal markets by encouraging the development and extension of serious rivals.

That said, recent trends are uneven. The Universal Postal Union (UPU) – the United Nations international agency for the postal sector – reports that over 430 billion pieces of mail are sent around the world each year. This represents the delivery of well over one billion pieces of mail a day, and the figure does not include parcels, courier and express deliveries and so on. This is a formidable volume. At the same time, the world trend in the first half-decade of the 21st century saw volumes decrease by 0.3% per year. Within this world trend, there are differing trends, even within the industrial world. There has been some volume growth in Europe, although this slowed to negative 0.7% in 2006, and there has been slow to stagnating growth in Luxembourg, Sweden, The Netherlands and the U.K., which anticipates volume losses of up to 3% in the near future. Recently, letter growth has stagnated, stopped, or even declined slightly in Australia, New Zealand, the United States and Canada.

The posts themselves have been aware of these trends and have tried to mitigate them by expanding their efforts into related postal or physical communications markets – markets where they do not enjoy the monopoly status that they had with lettermail. These areas have included parcels, express and courier products, direct marketing and admail and financial services. E-commerce has generated tremendous demand for parcel delivery. Physical admail may benefit and grow as a result of the recent limit on telemarketing (the Do Not Call Registry). Indeed, many posts in the world have evolved such that lettermail revenue accounts for less than half of total revenues (Germany 21%; Switzerland 39%; The Netherlands 40%; Norway 42%). Transaction mail represented 54% of Canada Post's unconsolidated revenue in 2007.

It must be reiterated, though, that these alternate postal activities take place in a highly competitive environment, where posts do not dominate the market and where economic activity will weaken significantly in the wake of the financial and economic downturn. For example, direct marketing has been a good growth area for posts, particularly given the steady growth of advertising budgets. But physical communication is but one tactic or tool open to advertisers and marketers, and direct mail competes with newspapers and other delivery modes in the physical side of this market. The express delivery and courier market is lucrative and expands quickly along with economic development and growth – but it is also a very highly competitive sector. The parcel industry had demonstrated a steady revival, particularly as a result of the lively development of e-commerce over the Internet, which requires products to be delivered. But again, the parcel delivery industry is highly competitive. The provision of financial services accounts for a substantial economic line of business, but this activity is often off-

limits to posts that have no historical tradition in this market and/or where there is a fully developed financial sector.

In general, these efforts at diversification see national postal companies competing both with private companies in non-reserve markets and against other national posts as the larger and more ambitious posts work to establish an international network and brand in the globalized economy. In order to be competitive and successful, the posts have to respond quickly and effectively to consumers' needs and expectations. This has required posts to become more commercial, more nimble, more responsive and more competitive if they are to be successful in these markets and generate additional revenues to neutralize the decline in lettermail income.

Is the lettermail market in Canada doomed to oblivion? It is highly unlikely that a sector that at present handles almost 5.5 billion units a year is going to soon disappear. A recent study sponsored by the Envelope Manufacturers Association's Institute for Postal Studies (IPS) estimated that the value of Canada's mailing industry was \$74 billion in 2005. Indeed, there is some sense that lettermail has a reasonable if not vital future. The impact of electronic substitution has been uneven, which reflects consumer preferences and product availability. For example, in areas where broadband access is limited – rural areas, for example – electronic substitution is moderate. Moreover, a recent survey by BrandTrust found that 85% of Canadians with access to e-mail preferred to receive their bills, bank statements and financial reports through regular mail. This in turn reflects, in part, that consumers trust the mail and value its security and protection against fraud and identity theft. The study found that 81% of Canadians believed that regular mail was more secure than e-mail. (The comparable figures in the United States were 86% and 76%.) Surveys indicate that posts have an enormous 'brand identity,' one based both on familiarity and reliability as well as on the trust and loyalty generated by long-term relations.

The posts and lettermail remain attractive to customers for a variety of reasons. These include the fact that they offer an effective universal coverage and accessibility, the postal network having a presence in all communities and neighbourhoods and delivering to each door and address in a country. The 'physical' dimension of the mail is another potential comparative advantage. Mail is mobile and can be read anywhere and at any time. It has the capacity to be used in conjunction with the new technologies in a complementary way, and parcel delivery is an accelerating offshoot of the development of Internet commerce. And, its very physical dimension offers possibilities in direct mail and other markets, given its potential for shape, tactile features, mode of response and flexibility.

To sum up this discussion: The postal market is changing. The lettermail market – the traditional protected markets for posts – has matured, possibly stabilized, and is likely stagnating or declining slowly. This is counterbalanced to some extent by growth possibilities in small parcels, courier and express, and admail – all highly competitive markets. The postal market, therefore, presents a changing mix and a changing range of competitive opportunities for posts.

II – What we heard from Canadians

Notwithstanding assertions about the dominance of electronic media and communications, Canadians remain deeply interested in postal matters and intensely committed to the maintenance of a viable and effective universal postal service. The Advisory Panel heard from Canadians in many formats – through formal written submissions and e-mails, through organized resolutions from municipal councils, and through interviews, meetings and consultations with various groups and organizations. As appendices C and D indicate, the Advisory Panel connected directly with thousands of Canadians and dozens of organizations and groups. The latter included trade associations and social groups, charities and publishers, postal competitors and rural groups, interest groups and unions, and small, medium and large customers of Canada Post.

As an introductory generalization, there appears to be little to no public support for the privatization or deregulation of Canada Post at this time, and considerable if not unanimous support for the maintenance of a quality, affordable universal service for all Canadians and communities. Indeed, the two public positions seem to be inextricably linked.

“I am opposed to deregulation of postal services. The distribution services were built with taxpayers’ dollars and provide a fair, consistent and guaranteed public service to all Canadians, both urban and rural.”
Member of the public

However, the Advisory Panel noted that there is little knowledge about, or public understanding of, the realities facing Canada Post. Most Canadians do not have a deep appreciation of the complexities involved in providing this universal service. Nor do they have a sure grasp of the compelling operational and financial challenges that make Canada Post’s future capacity and viability so precarious. Indeed, the Advisory Panel was struck by the extent to which Canadians felt that Canada Post was a prosperous company, with ample capacity to expand services and increase quality without consequence for the financial viability of the corporation. This likely reflects the fact that the Canada Post Group of Companies (which includes Canada Post Corporation) has annually declared itself to be profitable over the last 13 consecutive years and has been issuing dividends to the government. The Advisory Panel’s assessment is that this has contributed to Canadians’ lack of full awareness about the true financial condition and capacity of Canada Post Corporation.

What follows in this section is a report of what we heard from Canadians over the course of the strategic review. This report is not based on a scientific sample, but rather, reflects a snapshot of Canadian opinions provided by those Canadians who chose to participate in the strategic review process. In our review of submissions from individual Canadians, the top themes or issues are starred (*).

*** Public opinion: Maintain Canada Post as a Crown corporation, with exclusive privilege**

Our experience throughout the review suggests support for Canada Post and for the universal postal service. Some of the survey results cited below were part of submissions made to the Advisory Panel, while other observations are based on our analysis of Canadians' input to the Advisory Panel.

In their submissions to the Advisory Panel, the vast proportion of individual Canadians maintained that postal services remain an important public service. This view was especially prevalent in submissions from rural Canada.

"Canada Post helps make Canada what it is. It provides a valuable service, a reliable and secure one, to every person in Canada! No matter where one lives in Canada, we all get mail." *Member of the public*

This view extended to whether Canada Post should retain its monopoly over letters (the exclusive privilege), where it was widely felt that only a single national company can provide universal service at a universal price to all Canadians. The Canadian Federation of Independent Business (CFIB) canvassed its membership on this point in 1996 and in 2008 – and support for Canada Post retaining the exclusive privilege rose from 32% to 52%.

An Ipsos-Reid poll (cited in the CUPW submission) demonstrated that 69% of Canadians oppose allowing private companies to deliver mail. And 44% of those who did support allowing competition would change their mind if this resulted in the elimination of a one-price system for letters anywhere in Canada. The vast proportion of submissions to the strategic review demonstrated strong support for the view that Canada Post should retain the exclusive privilege, a point raised in 46% of individual submissions to the Advisory Panel. There is a widespread public view that a universal service at a universal price is one of the best things about Canada Post.

Bill C-14 was raising controversy at the outset of the strategic review process. This Bill proposed to deregulate outgoing international mail – that is, it would have allowed private companies to continue to compete with Canada Post to collect and deliver mail that was destined for international points. This Bill died on the Order Paper when Parliament was dissolved in September 2008. A number of groups opposed Bill C-14 and insisted that Canada Post should maintain its monopoly in this area. They were apprehensive that this Bill would weaken Canada Post financially, thereby threatening its capacity to provide universal service. However, a number of groups supported Bill C-14, not surprisingly led by 'remailers' in the Canadian International Mail Association (CIMA) and elements of the printing sector including CPIA (Canadian Printing Industries Association). NAMMU reported to the Advisory Panel that its membership was divided on this issue.

Canada Post enjoys strong and positive brand recognition. A Nanos poll (commissioned by Canada Post) reported that nearly nine out of 10 Canadians had a favourable or somewhat favourable impression of Canada Post, and seven out of 10 were satisfied overall with Canada Post. This survey result confirms a number of external evaluations of Canada Post, which is recognized as a top 100 employer in Canada by Maclean's magazine and which is the most trusted federal institution in Canada, ranking ahead of the military, the Supreme Court, the RCMP and the CBC¹. Léger Marketing reports that Canada Post ranks third among the 150 most-admired businesses in Quebec. Finally, the Nanos poll also reports that Canada Post has a higher favourability rating among Canadians than UPS, FedEx or Bell Canada Enterprises (BCE).

During the strategic review process, the Advisory Panel heard a general refrain emanating from individual Canadians: "Do not fix what is not broken." The view was expressed that privatization and deregulation of postal services in other countries has not been successful and that Canada should not experiment with other options or alternatives when the present approach is working.

"I like my secure, trusted, affordable and universal postal service and think the federal government is trying to fix something that isn't broken." Member of the public

* Reliability, security and privacy

One of the strongest reasons why Canadians support Canada Post and the existing postal regime is because they trust Canada Post to be reliable and to guarantee security and privacy in their communications, a point that was raised in many submissions. The financial institutions are particularly interested in the security of their communications, as are companies that send out invoices, statements, accounts and so on. There has also been considerable backlash over intrusive e-technologies, which has culminated in the advent of the national Do Not Call Registry in Canada and in other countries.

According to studies by BrandTrust, the majority of Canadians consider physical mail more secure and reliable than e-mail, and are more confident in receiving sensitive information and documentation in this way. The BrandTrust studies indicate that 85% of Canadians prefer a physical format for their financial documents (bills, financial reports and bank statements), and 81% believe that regular mail is more secure than e-mail. Furthermore well over half of Canadians (63%) still prefer receiving information from businesses they use via regular mail versus e-mail.

* Pricing

Based on submissions received during the strategic review, individual Canadians generally feel that postal rates are moderate. Not surprisingly, businesses that use Canada Post generally look to lower prices and fewer price increases. But many firms report that they feel that the price level is reasonable for the service received.

¹ Strategic Counsel, 2007

“Canada Post currently provides an invaluable, affordable and consistent service.”

Cavalluzzo Hayes Shilton McIntyre and Cornish LLP

“Mail often can level the playing field between large and small business. It offers a cost-effective entry into new markets for small businesses looking to introduce themselves, their products and their services to local customers.” *Pitney Bowes*

Many submissions from individual Canadians noted that Canada Post has one of the lowest letter rates in the world for lettermail. This reflected the fact that postage rates have risen by only two-thirds the increase in the Consumer Price Index (CPI), a price cap formula adopted when the government established a policy and financial framework for Canada Post in the late 1990s.

The Nanos poll referred to earlier reported that 62% of Canadians were satisfied with the value that they received for the cost of a stamp. Indeed, when asked what CPC should do to maintain a universal service in the face of declining volumes, raising the price of a stamp was individual Canadians' preferred tactic. The least preferred tactics were closing post offices and reducing the number of processing plants. Generally, Canadians feel that Canada Post's exclusive privilege has helped to keep postal rates low. At the same time, the 'one price fits all' pricing for letters is very popular among Canadians, as a key component of the universal service.

Some business clients expressed concern that Canada Post has too much independent authority to set prices for everything other than the basic lettermail rate. Many small- and medium-sized enterprises (SMEs) reported that they feel that CPC should not have unilateral authority to raise prices. They reported various cases and issues where they felt harmed by Canada Post's pricing decisions, which they felt were poorly explained and timed, or not adequately justified, and presented in such a way as to leave no room for negotiation. Some feel that there should be increased and independent oversight and accountability in pricing decisions.

But there are mixed feelings about creating a third-party regulator. Less than half of the CFIB's membership supported this, and NAMMU does not support the approach, because of the costs involved and the fear of creating another level of bureaucracy. NAMMU suggested to the Advisory Panel the use of the existing ombudsman or the creation of new bodies, such as a mailers' advisory committee, to provide mailers with recourse regarding pricing.

Large firms – NAMMU and Magazines Canada, among others – expressed concern about the lack of timeliness and consultation in price setting, the absence of price accountability, the need for price caps even on non-letter products, the need for better

partnerships, volume discounts, work-sharing incentives, and the need for an appeal mechanism.

* Finance

As noted earlier, many Canadians who participated in the strategic review appear to believe that Canada Post is a healthy, financially viable and even lucrative business.

The Panel found that in general, Canadians are not widely supportive of asking Canada Post to provide dividends to the government. According to the Nanos poll cited earlier, using earnings from Canada Post to pay for facility and equipment upgrades was the most-supported option among Canadians (43%). One Canadian in three (31%) supported paying for upgrades with a subsidy from the government, while 21% supported paying for upgrades with private sector financing. Five per cent of Canadians were unsure. CUPW reports that in 2006-07, over 500 municipalities passed a resolution asking the government to stop requiring Canada Post to make profits and issue dividends. Some groups, notably the Canadian Labour Congress, expressed the opinion that Canada Post's focus on financial returns has been detrimental to maintaining and improving postal service, universality and accessibility.

*Rural

Nowhere does the postal service evoke more public discussion and emotion than in rural Canada. There is a widespread view in rural Canada that postal service in rural areas should be comparable to what is available in cities. This issue was raised in almost half of the individual submissions to the Advisory Panel. Indeed, many in rural Canada – the National Farmers Union, for example – see postal services as a right. In fact, the Rural and Cooperatives Secretariats at Agriculture and Agri-Food Canada recommend the creation of a rural advisory committee and a rural postal services report card to provide a rural voice at Canada Post.

The National Anti-Poverty Organization (NAPO) spoke for many rural Canadians when it suggested that any weakening of Canada Post would result in the reduction or loss of viable postal service in rural areas. Indeed, rural Canadians maintain that the only consistent and reliable means of communication is Canada Post, particularly among rural Canadians.

“Postage services are one of the few services which are truly universal throughout Canada. To communicate within rural remote and northern communities across such a large country is no small feat. Often the only consistent and reliable means of communication is Canada Post.” Rural Voices

This is accentuated by the fact that Internet use and high-speed access in rural areas are far below the national average. Rural Canadians prefer Canada Post as the primary provider of information, a view expressed by the Rural and Cooperatives Secretariats. Moreover, the postal service in rural areas is seen as an important supporter and

promoter of competitive business activity and an employment provider, particularly for rural women. And the post office is often the only remaining government or organizational presence in some communities.

The Advisory Panel is of the opinion that rural Canada's confidence in Canada Post as a federal institution, has been shaken by the perceived reduction in its rural services, and post office closures, despite the moratorium, and what are seen by some to be unreasonably strict application of labour and safety codes.

Economic, cultural and national development

Many Canadians suggest that Canada Post and the universal service obligation play an important role in fostering Canada's social and economic network and development. This is seen as being particularly true for small companies and the self-employed in smaller and remote communities. Canada Post serves to tie together vast areas of Canada, providing communications to those with disabilities or without access to high-tech communications and helping maintain Canada's cultural identity by supporting specialized publications². As noted by CUPW, Canada Post continues to be an economic and cultural lifeline for citizens and businesses that continue to depend on postal services for information, financial transactions and the delivery of supplies and products.

"...as part of their work, postal employees help transport the multitude of specialized publications, such as magazines, which help to preserve the many cultural identities that comprise our nation."
Canadian Labour Congress

In a broader sense, the Conference Board of Canada estimates that Canada Post's expenditures and investments create some 45 000 indirect jobs.

CUPW and the Public Service Alliance of Canada (PSAC) stated that there appeared to be some public support for Canada Post to continue providing postal support for publications mail, community newspapers, the Food Mail Program and so on, and perhaps expanding this support generally to non-profit organizations, as well as door-to-door service for the disabled and seniors. However, some observers, such as NAMMU, expressed the view that the costs of these public policies should be borne not by general postal users through stamp prices, but by the taxpayer through direct government support.

Small and medium-sized enterprises (SMEs)

The Advisory Panel interviewed a number of small and medium-sized business customers. The postal service is particularly important to SMEs, which see the postal service as a cost-effective way to enter and access new markets. This is especially true in the emerging e-commerce sector as well as in rural Canada, where a high proportion of Canada's self-employed live.

² Among those expressing these views were the CLC, NAPO and the Council of Canadians with Disabilities.

Many of the SMEs interviewed have long relationships with Canada Post and are, for the most part, satisfied with the service it provides. In many cases, Canada Post is critical to their business, as only CPC guarantees universal delivery and offers particularly good delivery and service in rural areas. Indeed, many postal observers and studies suggest that the future of posts lies in nurturing relationships and generating business with SMEs.

That said, the Advisory Panel heard a number of concerns about Canada Post's lack of attention to the needs of SMEs. SMEs are very price-sensitive and they reported concern about relentless, non-negotiable, and sometimes inexplicable price increases, which their customers complain about when passed on to them. SMEs also report that they are receiving 'enhanced' service at higher prices, when they actually do not need the enhancements and would far prefer lower prices. A persistent refrain was that Canada Post paid insufficient attention to their needs, relative to the attention given to large users (which were seen to get better service and lower prices). Some had concluded that Canada Post did not actually want their business. The view was that Canada Post needed to be less bureaucratic and to have greater continuity of personnel and service, including a key contact with authority to make arrangements. Some observers proposed the creation of some sort of SME office at Canada Post.

Some concern was also expressed that Canada Post might be competing unfairly in competitive markets outside of the core postal business, for example in printing ad-mail for delivery. As Canada Post seeks to increase its revenues to pay for its USO obligations, it may look to complementary activities – such as helping companies devise and execute marketing and advertising plans, including the printing and delivery of materials. This was a point raised intensely by the Canadian Community Newspaper Association (CCNA), whose members compete with Canada Post in the delivery of advertising mail.

Large customers

The Advisory Panel interviewed a number of Canada Post's large customers, including financial institutions. The Advisory Panel heard many positive comments about service, reliability, universality (access to rural Canada is important), value, and so on. There is a sense that Canada Post is becoming far more proactive in developing business partnerships with its large customers and that relationships are both positive and improving.

***"The postal distribution system is working well and Canada Post's delivery has improved considerably since the last review in 1996."** NAMMU*

However, a prevalent issue in this sector is the future of physical communication, and the possibility of mass migration of bills and payments to electronic platforms. The message was that if Canada Post is to continue to be present and relevant in this sector, it would have to provide excellent and improved service, for example by reducing the number of lost statements and bills, providing better service standards for

returned mail and making sure that interactions with customers were far less bureaucratic, perhaps by better communication and by giving personnel at the ground level more authority.

While there was an appreciation that CPC's prices provide reasonable value, large customers noted that price increases give incentives to e-substitution. Companies in this sector, as elsewhere, looked for volume discounts, particularly in emerging e-sectors. On the other hand, many customers are not interested in more expensive 'expedited' services but preferred less costly services with fewer bells and whistles. These concerns reflect Canada Post's efforts and initiatives to adopt a business model that will create financial viability – moving to a pricing model that guarantees it a return and moving away from a model where pricing had been out of line with costs.

The small packet service and its pricing are a particular concern, particularly in the e-commerce sector, as Canada's pricing is high (and possibly rising again), particularly relative to the United States (where economies of scale allow for a far lower price for small packets). At some point, this will push customers to use private couriers. That said, many firms look to partner with Canada Post in nurturing and developing this market. There is a mixed reaction to the introduction of distance-based pricing for publications mail, as it benefits some firms and disadvantages others.

There is some concern about the lack of a clear public policy regarding Canada Post's authority to move into competitive markets beyond its core business. This raises concerns where Canada Post can become a client's major supplier and its competitor at the same time, as in the case of admail delivery – a point made by NAMMU. This uncertainty reflects a lack of clarity about what constitutes the USO, which UPS stated should not be self-defined by Canada Post.

Regulation and deregulation

A significant number of the submissions received did not support deregulation of the postal service; that is, they did not support the tactic of removing Canada Post's monopoly over letters (the exclusive privilege). This point was raised in three-quarters of all individual submissions received from the general public. In fact, of all the individual submissions which raised deregulation only one was in favour. This was a theme strongly articulated by CUPW, which saw this strategic review as an exercise in promoting postal deregulation³.

Many Canadians believe that deregulation will inevitably lead to postal price increases, job losses and the deterioration of postal services, as competitors would undermine Canada Post's capacity by exploiting lucrative routes, leaving Canada Post to high-cost responsibilities without the returns from the lucrative routes⁴. Rural Canadians in particular see deregulation as a threat to universal service that will lead to higher prices and poorer service.

There are mixed feelings about the need to regulate Canada Post, as well as its postal monopoly and market dominance. As noted earlier in the section on pricing, some

3 The Advisory Panel received 23 500 postcards against deregulation as a result of a CUPW initiative.

4 A view expressed by the CLC, Coalition for seniors, NAPO and CCPA.

businesses (represented by CFIB) and some large users (represented by NAMMU) are against the establishment of a third-party regulator, which they see as costly and bureaucratic. That said, they do want some sort of user-friendly, independent oversight. A number of customers feel that the present ministerial oversight arrangement – where the government is at arm’s length from Canada Post – is inadequate, particularly in areas such as competitive practices and cases of disputes between CPC and its customers. This was also the view of the CCNA.

On the other hand, some of Canada Post’s direct competitors feel otherwise. UPS has argued for the creation of a national regulatory authority that would separate ownership from regulation, as has been done across Europe and in the United States. The regulator would have authority in areas such as pricing, investment in new services, quality of service, competition, USO definition and issues, and would have authority to access information and impose fines and remedies.

Environment

A number of submissions expressed the view that Canada Post has a responsibility in the environmental agenda.

For example, some feel that admail is a misuse of paper and forest products and that Canada Post needs to confront this issue in an environmental way. CUPW suggests that Canada Post becomes the “last mile” deliverer for parcels, in order to reduce repetitive courier and parcel delivery routes by creating increasing delivery density. PSAC recommends that environmental protection criteria be included in all of Canada Post’s policy objectives. CUPW suggested that the Advisory Panel should frame all of its recommendations to the Minister with the environment in mind.

III – What we learned from others posts

The Advisory Panel examined the experiences of a number of posts around the world, with a particular focus on the United States, the United Kingdom, New Zealand, Australia, Austria and Sweden.

Notwithstanding the successful advent and popularity of new electronic communications, it is clear that posts matter to citizens across the industrial world. For many of them, the posts enjoy a special status and they continue to hold the posts in high esteem. Indeed, in many countries, the post is one of the last sizeable enterprises owned or partially owned by governments. This is particularly true in the New World countries (the U.S., Canada, New Zealand, Australia), where public support of the posts is particularly substantial. But most countries demonstrate an ongoing sense that physical communications – like the post – retain a high value as a national/universal communications provider, particularly for small and medium-sized enterprises, rural and small town communities, social organizations such as charities and for parts of the new economy, for example the delivery of goods purchased online. It is for this reason that the posts have remained public enterprises, notwithstanding the strong move to corporatize and commercialize their operations.

The diversity of national backgrounds, contexts and experiences of the posts make national comparisons difficult, if not dangerous. It is evident that there is no 'one-size-fits-all' model of successful postal operations. Even with commonalities of public purpose and support, different national posts have adopted different tactics to attain their shared goals.

Notwithstanding these differences, the Advisory Panel's comparative study of national posts discovered a number of important shared themes and issues, which have informed its review of Canada Post and helped to determine its recommendations.

Postal challenges are ubiquitous

All the national posts that we have examined have struggled with the challenge of declining revenues and increasing costs. This state of affairs is not unique to Canada Post.

On the revenue front, all national posts have experienced weakening or flattening of mail growth (and some actual declines), as a result of electronic delivery and product substitution, as well as from increasing competition, particularly where postal markets have been deregulated.

On the cost front, all national posts experienced a general trend of costs increasing faster than revenues, whether in the form of inexorable rises in labour costs or in the struggle to deal with all the costs of providing the various dimensions of the universal service. Costs in both cases have risen faster than revenues.

Postal solutions are possible

With varying degrees of success, each of the countries has initiated actions to mitigate costs and increase revenues.

National posts have leveraged their networks, introduced complementary products and services, established new networks and extended existing ones through subsidiaries and acquisitions, and generally integrated their operations vertically and horizontally in order to generate more revenues to support their postal obligations and their USO:

- Australia Post has successfully leveraged its retail network to a remarkable extent, from providing bill payment and identification/authentication services to selling computer peripherals and selected consumer products. It has 25 subsidiary operations whose services range from document production and logistics to warehousing and express freight delivery.
- New Zealand Post has 17 subsidiaries that are related to its postal operations. It established the highly successful and popular Kiwibank and entered a joint venture with DHL in international services.
- Posten (Swedish Post) entered the business-to-business delivery market and has subsidiaries in Norway (distribution network) and Finland (logistics).
- Austrian Post has established subsidiaries and partnerships throughout Central and Eastern Europe.

- Moreover, posts that have modernized their plants and operations have been able to generate new revenue sources by offering more innovative products and services to their customers.

The international posts sampled by the Advisory Panel have invested persistently and substantially in new technologies to increase their productivity and contain their costs. This has also allowed them to become more competitive and innovative, by adopting new tools, instruments and technologies for collecting, sorting and delivering their products in order to contain costs. New technology also allows posts to introduce new products and services customers demand.

- Australia Post has made persistent and substantial capital expenditures to modernize its plants (\$1.2 billion AU over the last five years); its retail network is made up of 23 private firms licensed to provide postal services; labour costs have declined to 43% of revenues.
- While New Zealand's capital expenditures have been reasonably moderate, it has diminished its labour costs to 39% of revenues.
- Capital transformation has been a regular, ongoing process at Posten (the Swedish post), to such an extent that labour costs have declined to 46% of revenues.
- Austria's post initiated a massive modernization effort to attain automated, state-of-the-art facilities and processes. This saw a reduction in the number of sorting centres from 39 to six and of delivery stations from 1900 to 300, as well as the reduction of labour costs to 48% of revenues.
- USPS has invested substantially and regularly to upgrade and modernize its plants and equipment and to introduce efficiencies and productivity, as well as new products and services.

Viable posts have clarified and adjusted their retail and delivery networks to contain costs, by withdrawing from some services (e.g. the Swedish post and financial services), by devising appropriate mechanisms to adjust networks to changing conditions, and by considering the use of new instruments to attain ongoing goals such as licensed postal outlets.

Financial self-sustainability is crucial for postal success

Successful posts experience a 'virtuous cycle', to the extent to which they attain financial self-sustainability. On the one hand, financial health allows posts to have the internal earnings and the access to private capital allowed by their financial health that will finance the ongoing modernization and innovation that keeps costs in check while offering continuous improvements in products and service. On the other hand, by constantly containing costs and expanding revenue possibilities, posts can maintain the financial health that enable them to finance their competitive modernization efforts. For example, representatives of the posts in Australia and New Zealand have reported that they have not had to undertake borrowing to finance capital infrastructure expenses.

What has allowed some posts to be financially self-sustainable? The Advisory Panel cannot point to any one single factor, but feels that there is a matrix of conditions that have allowed this. These include:

- The encouragement of a commercial, corporate culture within a post's management and on its board, and a clear focus on the customer, service and quality;
- A flexible managerial and governance environment, to allow posts to be nimble and adaptable as markets change and competition develops;
- Light-handed regulation by the shareholder (government) within a clear and concise accountability regime;
- An open and informed dialogue between management and employees on challenges to posts and appropriate strategies for success;
- Reasonable access to capital markets and borrowing within an appropriate accountability regime;
- The extensive modernization of posts as a precondition to the development of their financial viability and competitiveness and capacity to maintain their USO obligations; and
- The ability to adjust workforce size and character to meet changing demands.

Posts have corporatized

Most national posts have taken on a corporate form – independent of government to varying degrees – to allow them to act in a commercial and economically effective manner, while carrying out their universal service obligations. Indeed, these posts have been required to adopt sound commercial practices precisely to generate the kind of corporate success that will generate the financial capacity to maintain the USO. Injecting a modern business culture into the posts has encouraged flexibility, efficiency, innovation and a focus on service and the customer. This has often been accomplished through mergers and acquisitions, which have brought corporate culture, talent and experience to the posts. Moreover, the independent boards of directors of the posts now boast considerable business acumen, talent and appropriate expertise, which offer both sound strategic guidance and heightened commercial due diligence. This talent has been attracted to the boards of the posts to the extent that the boards and management can operate in an independent and commercial manner.

This 'corporatization' accelerated qualitatively in recent years, as national posts have adopted new strategies and techniques:

- Following the lead set by mega-posts DHL (the German post) and TNT (the Dutch post), the Austrian post initiated an IPO in 2006, which saw 49% of shares go into private hands. The post is now listed on the Vienna stock exchange.
- Posten (Sweden) and Post Danmark are in the process of merging, in order to create a scale of operation that will be competitive after European liberalization in 2011.
- Post Danmark itself partially owns La Poste (Belgium), which has sold shares to a holding company, CVC Capital Partners.

- The report of the Independent Review of Royal Mail – commonly referred to as the Hooper Report – has recommended that Royal Mail be partially privatized through a partnership arrangement and TNT has indicated that it would be interested in a stake in Royal Mail.
- New Zealand Post has entered into a joint venture partnership with DHL for international mail.
- Australia Post has entered a partnership with China Post and created Express Courier International (with other posts) for international parcels and courier.

It is the Advisory Panel's view that these initiatives have been practically, not ideologically, driven. They have been used as a tool to enhance the ability of national posts to fulfill their mandates, by injecting market and corporate sensibilities and disciplines into the posts by:

- Bringing talent and expertise into the posts;
- Strengthening the national posts to face competition; and
- Helping with investment plans and modernization by providing capital to the posts or freeing them from costs.

The Advisory Panel notes that the United States Postal Service is the least corporatized post it has examined. It remains very much embedded within the executive branch of American government. This is executed via a politically appointed and politically informed board and a substantial third-party regulator (also politically appointed), whose authority has been recently enhanced. The possible range of USPS activity is thereby highly circumscribed through legislation and regulation.

Successful posts have corporatized to become financially viable, competitive and capable

With very few exceptions, the evolution of viable and capable posts has followed a particular sequence of developments.

First, all posts have been transformed from departments of government and established as state-owned enterprises or Crown corporations, with a certain degree of autonomy.

Second, the posts were 'corporatized' by injecting commercial principles and values into their operations (through recruiting of managers and board members), while their public or social obligations were regulated or maintained through mechanisms particular to their national environments and settings.

Third, these posts were encouraged to be competitive through the gradual introduction of a degree of liberalization (market opening) and the prospect of eventual market opening to full competition.

Fourth, the posts underwent an intense period of modernization to increase their productivity and efficiency and to ready themselves for increasing competition, as in Europe, where the EU has scheduled full liberalization for 2011.

Fifth, posts increased their corporatization through partnerships or share offerings with private sector operators in order to inject further capital and managerial/market expertise and value into their operations.

Sixth, as posts became competitive and modernized, their domestic markets have been opened up to increasing degrees of competition and, in some cases, full competition.

The German and Dutch posts have proceeded farthest through this cycle. Their shareholders encouraged them to become world postal and communications leaders, and they adopted an aggressive growth strategy through acquisitions and mergers across Europe and the world. They used their market dominance to access capital and investment funds to finance acquisitions and to modernize their operations. As formidable international players, they then issued shares to obtain capital and expertise and to impose the disciplines of the market through listing on stock exchanges. They eventually re-branded themselves and look and act like private sector operators, as DHL and TNT respectively. While a certain degree of deregulation was taking place throughout this cycle, it was then and only then that their governments considered full market liberalization, which is coming across Europe in 2011. Germany liberalized its own market in January 2008.

In short, these posts have enjoyed a strategy of modernization and corporatization in anticipation of the full opening of the postal market.

In contrast, the U.K.'s Royal Mail appears to have experienced the opposite cycle, as reported by the Hooper review in its interim report of May 2008. Before 2006, British governments successively took away Royal Mail's profits and resources and maintained low postal prices, with the result that Royal Mail was historically capital-poor and unable to match the modernization that was occurring in continental Europe. In a daring but ill-fated move in 2006, the United Kingdom adopted a market-shock approach, fully deregulating the postal market and placing Royal Mail in a fully competitive market environment, for which it was ill-prepared. The third-party regulator, Postcomm, further complicated matters by forcing and accelerating competitive developments, by giving away Royal Mail's market share and by constraining price adjustments. Predictably, Royal Mail has been unable to compete and is capital-starved to make the modernizing investments that would allow it to compete with modernized and efficient posts like TNT.

Successful posts have appropriate governance and regulatory arrangements

The Advisory Panel notes that effective national posts operate in well-constructed governance arrangements that simultaneously encourage modern business practices and attention to public purposes. These governance arrangements assign clear and transparent responsibilities and authority to management, boards and shareholders, in order to make the operation of the posts accountable and effective. These arrangements aim at ensuring that neither commercial considerations nor public policy objectives dominate to the neglect of the other. To the extent that the governance arrangements (and postal performances) are successful, these arrangements function with little friction.

There are numerous postal governance and accountability regimes around the world. Some include an independent third-party regulator. Some offer extensive autonomy and independence to their boards and management, while others see more direct government control on either the financial or regulatory side or both. Some set regulatory or service targets in law, some in licences, others in contracts. Some set financial targets. But these are basically tactics to attain common goals.

The one feature that they do have in common is that they all provide for clear, transparent and separate lines of accountability for ownership/shareholder (financial) and regulatory (social) issues. This is at the heart of the governance issue: how to set out a clear, transparent accountability arrangement that encourages commercial performance and the attainment of social goals simultaneously and in some sort of balance – without too much government control (or neglect) inhibiting the attainment of one or the other objective.

A sampling of national postal governance regimes

Australia

There is a dual department regime postal oversight in Australia. The Minister for Finance and Regulation is the shareholder minister, focusing on financial matters and interested in dividends. The Minister for Broadband, Communications and the Digital Economy – in effect, the minister of communications – is responsible for all non-financial matters, particularly governance, USO and service matters. This model works openly, deliberately, regularly and predictably.

The communications ministry appoints the Board of Directors, and its members are all commercially oriented and experienced, with a high and substantial degree and range of expertise – typical of all the boards considered in this section. It receives, reviews, and approves management's budgets and corporate plans, which are discussed informally with the ministry before being finalized and submitted for formal review. The Board is reasonably autonomous in all business and capital investment areas, save for extraordinary initiatives such as the acquisition or formation of a company or a major international initiative. Again, this is typical of the governance regimes examined in this section. The Board determines major investments, and capital plans are typically accepted by the minister after review and discussion. There is a longstanding understanding that the post should not enter markets that are already serviced by the private sector, and that the post should engage internationally only to the extent that it leverages its domestic activities from its reserve area. Financial targets are set internally in the plan and are publicly declared. The minister could challenge these targets and ask that they be set higher. Price issues are reviewed by the Australian Competition and Consumer Commission and approved ultimately by the communications ministry.

The communications ministry oversees USO and non-financial matters. Social or USO targets are established and expressed in community service obligations. These standards revolve around the basic USO – basic letter and parcel service and scope; uniform pricing for letters; accessibility regardless of location; reasonable service performance. These are all quantified and expressed in public targets, from the number of

street boxes and outlets in rural and urban areas to delivery frequency and standards. The Auditor General monitors these targets and performance results for the communications ministry.

New Zealand

The New Zealand model is similar to Australia, and has been as effective, partially reflecting the consistency of this approach over the last two decades and the openness and trust that have been engendered among the players involved. The dual department model includes the Minister of Finance and the Minister of State-Owned Enterprises on shareholder/financial matters, and the Ministry of Communications for regulatory/social matters. This duality requires periodic and regular debate about postal matters in cabinet, to resolve the trade-off between shareholder and regulator.

The shareholding ministries collaborate to appoint an independent board of directors. The Board is commercially competent and experienced. Management prepares an annual three-year statement of corporate intent (SCI), which the Board reviews and approves and presents to the shareholding ministers. The SCI is a public document, contains financial targets, and is set annually. It has increasingly been made up of non-financial social metrics (corporate social responsibility). There is a very open relationship between the New Zealand Post and the shareholding ministries, with ongoing anticipatory and interactive dialogue to avoid surprises and to build up trust. If an initiative is particularly ambitious or transformative – for example the DHL partnership or the creation of the Kiwibank – the Board will seek the active support of the shareholding ministries. The Board manages capital expenditures and can go to the market to borrow capital. To the extent that the post delivers on value and dividends, there is not much actual interface with the Ministry of Finance.

The Ministry of Communications administers the regulatory environment, advised by the Ministry of Economic Development on competition issues. The New Zealand Post operates under a public performance requirement that resembles a contractual rather than a legislative approach. This is called the deed of understanding (DOU – 1998), which includes a set of requirements on frequency of delivery, number of delivery points, service standards and (until recently) price limits. It can be updated or renewed. The DOU is a public document and has been stable for a number of years while there is no longer any price cap in place. The DOU establishes a matrix of service and policy goals in public, to ensure that services will not decline under the pressure of commercialization and making profits.

Austria

Austria's post operates in a dual-department environment as well, but the parameters are somewhat different, given that the government owns only 51% of the shares. The shareholding function operates indirectly through the government agency *Österreichische Industrieholding AG* (OIAG), which is the state holding company that administers the government's stake in all of its state-owned enterprises. It acts to protect the government's financial interests and to increase share value. Austria's post has a 12-member supervisory board, which includes a strong independent, business

presence, four union representatives and the Chair of the OIAG, which provides the link to the shareholding interest. The supervisory board has a strong business orientation and considerable autonomy on business and investment decisions. But these are in effect vetted via the OIAG, which processes board targets and performance comparatively against market performers like DHL and TNT. The government can also express its interests through the annual general meeting and the Department of Finance, which anticipates profit-making and receiving a dividend. A business-oriented four-person management team plans budgets and three-year plans, which are approved by the supervisory board. No specific financial targets are set other than the expectation to show a profit.

The regulatory department has been the Ministry of Transportation, Innovation and Technology, which has overseen service criteria and approval of pricing. It has defined the USO and quantified targets in postal scope, quality, access, price, service delivery and access (the network), which are set out in a postal law. However, given EU requirements, a new regulatory approach has come into effect in 2008 which will see this environment shifted to the regulatory body for telecommunications.

Sweden

The Swedish approach sees a ministry responsible for the shareholding function (the Minister for Enterprise and Energy) and a third-party agency – the Swedish Post and Telecom Agency (PTS) – responsible for the regulatory function. The former implements the broad state-ownership policy and appoints a board, which in turn appoints the executive management. The Board includes four union representatives and a government representative. The Board has corporate autonomy similar to typical private sector companies. It receives, reviews and approves management's capital and investment plans without ministry involvement, save for major acquisitions.

Notwithstanding that it operates in a completely liberalized competitive market, Posten (the Swedish post) is regulated by PTS, which actually licenses Posten to perform the functions and activities established as the USO in the postal act and ordinances. The USO is well-defined in Posten's legislation, and sets out quantified targets in postal scope, timing, delivery standards, uniform price, and so on. Interestingly, there are no regulatory requirements on the number of mailboxes or postal offices and what used to be a requirement (the provision of financial services) ended in 2008. Any changes to these quantified targets are negotiated between Posten and PTS in a contractual and reasonable way. Any public policy obligations or functions carried out by Posten – e.g. mail services for the blind – are purchased (compensated for) by PTS.

This governance environment will likely change if the planned merger of Posten and Post Danmark takes place (See page 24).

IV – Postal conditions and postal needs: The view from Canada Post

The Advisory Panel examined Canada Post reports, plans and other documents, met with Canada Post officials and managers on numerous occasions, and visited a number of CPC plants and outlets, to gain an understanding of the corporation's analysis

of the changing nature of the postal market, operations, and customer needs, as well as to gain an insight into what Canada Post considers to be the challenges and requirements facing the corporation.

Notwithstanding that it has made a profit in 13 consecutive years – and has delivered \$1 billion to the government in taxes, dividends and return on capital in that period – the Canada Post segment of the CPC Group maintains that it is in a financially precarious and uncertain financial position, and will remain so unless a number of substantial issues are confronted and resolved. Indeed, as the Advisory Panel understands it, Canada Post Group's existing level of profits is derived primarily from its Purolator operation. The Canada Post segment itself is barely breaking even.

In 2007, performance improved in all segments when compared to 2006, except the Canada Post segment where income before income taxes fell by \$21 million as reflected below:

Table 2: Results by segment – Income before income taxes

(in millions of dollars)	2007	2006	Change
Canada Post	78*	99	(21)
Purolator	84**	69	15
Logistics	6	(1)	7
All Other	8	2	6
Intersegment and unallocated	(16)	(3)	(13)
The Canada Post Group	160	166	(6)

Source: 2007 Annual Report

* Canada Post segment produces \$78 million in income from \$5 955 million in total revenue.

** Purolator segment produces \$84 million in income from \$1 448 million in total revenue

While the Canada Post segment's total revenue is over four times that of Purolator it produces \$6 million less in income as compared to Purolator.

(i) Canada Post's view of the world

The following section presents Canada Post's understanding of the nature of the postal environment and its assessment of what it requires if it is to develop the financial capacity required to be competitive, commercially successful, and capable of delivering its USO commitments in an effective and affordable way.

The postal environment has changed

Historically, posts were given an exclusive privilege on lettermail (the reserved market or monopoly) to finance the costs of the universal service obligation. According to Canada Post, the changing postal environment is undermining the financial value of its exclusive privilege and threatening its capacity to finance and maintain its universal service obligations.

To begin with, the revenues from the reserved market are under significant pressure from a number of sources. As is widely appreciated, lettermail volumes are flat or in decline – CPC anticipates at least a 1% annual decline in volumes over the next five years. This reflects two developments. First, there has been a substantial loss of business and transaction mail, for example bill presentment and payment, which can now be executed electronically. Second, there is increased direct competition from foreign and domestic firms in the broad postal sector, a tendency that would be accelerated if Bill C-14 (please refer to page 80) were to be reintroduced and passed, liberalizing outgoing international mail. Generally, CPC feels that much of the lettermail sector has been de facto deregulated, if not de jure.

On the other hand, the costs of delivering the mail are rising at an accelerating pace. Over and above the impact of rising transportation and labour costs, demographic growth produces approximately 200 000 new postal addresses a year. Canada Post notes that in conjunction with weakening volume growth, the number of pieces of mail delivered to each address has declined, from 395 pieces a year per address in 2003 to 373 in 2007.

It could be anticipated that increasing revenues in the non-reserved markets, such as parcels and direct mail, could mitigate this loss of revenues in the traditional sector. However, there is increasing and fierce domestic and foreign competition in these sectors that limits potential revenue growth.

CPC characterizes the postal market as a declining one but, ironically, it is also an increasingly competitive one. For this reason, it recommends that any initiative to deregulate the postal market should proceed very carefully and in a paced and moderated way. If done rashly or without proper preparation, CPC's financial capacity to maintain the USO would likely be so weakened that service quality would decline. Canada Post points to the United Kingdom as an example of what could happen if deregulation is poorly managed – that is, where a postal market is deregulated before a post is capable of competing with new entrants. Royal Mail is suffering severe market loss as a result and is increasingly less able to pursue its USO obligations and is relying on government funding to run its operations.

CPC's financial position is at risk

CPC notes a number of other cost and revenue factors that put its financial situation at serious risk.

On the one hand, Canada Post claims that it has insufficient control over its revenues from its reserve area and enjoys insufficient ability to raise capital:

- In 1998, the government set a price cap on the basic lettermail rate, limiting price increases on lettermail to two-thirds the rate of the growth in the Consumer Price Index (CPI), but Canada Post's costs have increased faster than the rate of growth of CPI. The result is that Canada enjoys very low postal prices – the price of a basic lettermail stamp is third-lowest in the industrial world.

- As a result of its low rate of earnings, and government rules that limit its ability to borrow from the private sector, Canada Post has inadequate access to capital markets to finance its capital investment and modernization plans.

Table 3: Basic letter rate (\$CDN) as of June 1, 2008

Italy	0.88
Sweden	0.87
France	0.81
Germany	0.81
Japan	0.73
U.K.	0.73
Canada	0.52
Australia	0.45
U.S.	0.43

On the other hand, Canada Post claims that it has costs beyond its direct control:

- It is not fully or sufficiently compensated for the costs of a number of its public policy objectives (PPOs) above and beyond the USO – e.g. Government Free Mail, Materials for the Use of the Blind, Library Book Rate, and so on, which Canada Post calculates at a net cost of \$40 million annually;
- Like other federally regulated institutions, Canada Post has faced recently unpredictable and potentially significant cash drain as a result of having to meet strict solvency calculations on its pension plan;
- Canada Post declares that the recent rural mailbox delivery (mail safety) directive has imposed enormous costs on the corporation;
- The manner in which the rural moratorium has been devised has made it difficult for it to adjust network costs in response to changing demographics and community needs; and
- The costs associated with two decades of collective agreements have made it difficult for Canada Post to contain its labour costs, which consume a higher proportion of its revenues (64%) than comparable, more successful posts (below 50%).

Table 4: Consolidated labour costs expressed as percentage of revenues

Canada Post	63.8%
USPS	85.9%
Royal Mail	66.1%
Australia Post	43.0%
New Zealand Post	39.3%
Austrian Post	48.4%
Swedish Post	45.6%

CPC presents three further structural constraints on its capacity to attain financial self-sustainability: inadequate postal modernization, a poorly aligned network, and an inhibiting internal culture.

Postal transformation and modernization are needed

Canada Post notes that it is essentially a 'network' company that relies heavily on technological equipment, processes and operations to pursue its responsibilities of receiving, sorting and delivering 40 million postal items each and every day. Other successful posts (see International Posts section above) and competitors have modernized their plants, equipment and processes to new business standards. As a result of the constraints on financial self-sustainability noted above, Canada Post has lacked internal capital resources and has made insufficient investment in plant, technology and equipment over the last two decades. In effect, Canada Post has been borrowing against the future, maintaining budget balances and modest profits and dividends by not investing sufficiently in capital upgrades and modernization. The chicken has now come home to roost.

Most of Canada Post's 21 plants are more than 40 years old. The Advisory Panel has visited a number of Canada Post plants that do not compare favourably with modern postal and delivery plants that the Advisory Panel has visited in the private sector and in the United States. Many Canada Post plants contain equipment so old that replacement components are difficult to find. Much of the CPC network, facilities, sorting equipment and information technology is obsolete and in serious need of upgrading in order to provide an adequate and modern technological platform for their operations. According to Canada Post, the consequences of delay have been significant in a number of areas:

- Deteriorating plants and equipment generate regular equipment failures and present significant health and safety risks (manual handling of outdated containers and equipment generate close to 40% of plant injuries);
- The absence of an adequate technological platform leaves Canada Post vulnerable to service deterioration and periodic complete breakdown of service, which in turn increases costs associated with alternate transportation;
- Relative to its competitors, CPC cannot provide the technologically informed products and services that its customers expect (for example, parcels track-and-trace) and that would enable it to retain relevance in creating future e-offerings and innovations;
- It does not enjoy the technology required to (a) ensure an adequate address management capability that meets the needs of direct marketing firms and (b) update and correct addresses to avoid misdeliveries; and
- CPC cannot generate the increased information, efficiency and productivity required to neutralize and manage cost and revenue pressures without modernized plant and equipment.

In short, CPC feels that it cannot be competitive, reach current business standards and attain financial self-sustainability within the present technological environment without significant investment in new plant and equipment. And without modernization,

there will be an inevitable deterioration in service and financial health. This will have serious consequences for its capacity to pursue its USO commitments and provide quality mail service to Canadians at an affordable price.

Need to better align the network

According to Canada Post, the delivery and retail network is not well or properly aligned with the distribution of the Canadian population and demographic changes over the last two decades.

On the one hand, most postal outlets (60%) are in non-urban areas, where only 20% of Canada's population live. Some of these outlets average as few as five customers a day; modest traffic and sales make them uneconomical to operate (the 60% of outlets produce 33% of total retail revenues). On the other hand, the government moratorium on the closure and/or conversion to private dealer outlets of post offices designated as rural has inhibited a realignment of the network to modern conditions. While asserting that it is committed to providing excellent service everywhere in Canada – and to maintaining the rural mail delivery system in particular – Canada Post notes that the notion of 'rural' is not well defined, with the result that some locations do not fit what most would consider to be a rural situation. This has led to irrationalities in the existing system. Moreover, the distinction between corporate (CPC) versus private dealer outlets has created roadblocks to adjusting the network. After 14 years, CPC suggests that it would be timely to revisit and refresh the government-imposed moratorium on post office closures.

Internal culture needs changing

Canada Post points to two last internal or corporate factors that have, in its view undermined its capacity to maintain financial self-sustainability: its collective agreements with CUPW and the governance arrangements within which Canada Post operates.

Canada Post suggests that its collective agreement with CUPW – and the internal cultural environment that it creates – limits CPC's capacity to create a business or operational culture and environment that could lead to actions to produce financial self-sustainability. These barriers include:

- An over-emphasis on job creation as a postal goal;
- Complex collective agreements that create performance rigidities, inhibit change and deter customer focus;
- Time-consuming and distracting grievances; and
- Creation of an internal culture of risk aversion.

Canada Post also maintains that governance arrangements with its shareholder (the government) inhibit the effective use of the authority and expertise of the Board, thereby making CPC less agile and nimble than it might be, as it seeks to attain commercial and competitive viability and financial self-sustainability. Canada Post suggests that government oversight is out of proportion to requirements, with the following results:

- The process for obtaining approvals of corporate plans, certain commercial transactions, and borrowing can be very lengthy;
- Market opportunities can be lost while lengthy oversight processes unfold; and
- The processes generate an extremely risk-averse environment, thereby inhibiting the corporate and commercial development of CPC.

(ii) Canada Post's assessment of its needs

Canada Post declares that it must become a strong, efficient and financially self-sufficient company if it is to successfully focus on its customers and deliver high-quality and innovative products and services. What follows is its assessment of its needs and the requirements which, if fulfilled, would enable it to become such a company.

Deregulate when appropriate

CPC notes the trend to deregulation in the postal world, particularly in Europe where the EU has mandated postal liberalization by 2011. It accepts the concept and logic of deregulation – at the appropriate time.

Canada Post encourages a 'measured' approach to liberalization, according to an extended timetable, in order to:

- a) Allow CPC to adjust to increased liberalization and competition at each stage of the liberalization; and
- b) Ensure that CPC's revenues remain sufficient to maintain the USO and/or adjust the USO appropriately to the new conditions.

CPC also notes that deregulation now would not be timely or appropriate, for a number of reasons:

- a) The postal sector is a legacy industry, with declining letter volumes and increasing competition – a poor environment for successful deregulation; and
- b) Posts that have successfully survived deregulation went through a postal transformation or modernization first, which allowed them to be competitive in a deregulated environment. This is the process that CPC suggests should be its mission over the next five-10 years.

CPC notes the successful deregulation of postal markets in Germany, The Netherlands, Sweden, Austria, etc., where postal transformation and modernization preceded deregulation. In contrast, it notes the unsuccessful experience in the United Kingdom, where Royal Mail is struggling to modernize after deregulation.

Clarify and fund its public policy objectives (PPOs)

Canada Post maintains that public policy objectives – over and above the USO – should be explicit, transparent and in writing, in a service arrangement or contract between the government and CPC. Underlying any such public policy arrangement, Canada Post should be compensated at commercial rates for delivering these services at levels commensurate with market rates. Increased postal rates should not be the source of financing for non-USO public policy objectives.

Modify the rural moratorium

After 14 years, Canada Post suggests that the government-imposed moratorium on the closure of rural post offices should be revisited – not eliminated – and brought up to date with new circumstances. This would provide it with some increased flexibility in adjusting its retail network to changing market and demographic conditions, while maintaining a quality rural service.

To do this, CPC proposes:

- A clear and updated definition of what constitutes a rural area to provide the basis for constructing an appropriate network and service standard. The Statistics Canada definition might apply;
- The creation of what it terms a proximity-based standard of service, to establish geographic criteria for its obligations to maintain or provide outlets (for example, 80% of rural outlets within 7.5 kilometres of a postal outlet);
- The periodic review of the network in light of these criteria; and
- The maintenance of a clear community consultation process when any change is proposed.

Financial self-sustainability

Canada Post argues that unless it attains financial self-sustainability, its capacity to deliver on its USO obligations and commitments to its shareholder cannot be guaranteed. Financial self-sustainability means more than simply breaking even. It suggests a level of capacity that can (among other things) finance the ongoing modernization that will keep CPC competitive and capable of meeting customer needs and the USO. To attain this end, it maintains that it requires a clear and effective framework for financial sustainability, which would include greater financial flexibility and revenue certainty than it now enjoys. Funding PPOs commercially and allowing network adjustments would be two important components. A third requirement would involve the following changes to postal pricing:

- Removal of the existing price cap formula (price changes at two-thirds of CPI), which has kept the basic lettermail price artificially low and well below the rates of posts in Europe;
- Creation of a pricing regime that would see all postal prices – including regulated postal products in CPC's exclusive privilege – set in line with market conditions;

- Full pricing autonomy would be granted to CPC, with government override only in exceptional circumstances; and
- It is Canada Post's view that increased competition – both directly from competitors and indirectly through product competition and substitution – has effectively deregulated prices in Canada.

In conjunction with this pricing regime, CPC is seeking relief from the financial uncertainty that surrounds its pension plan, uncertainty and unpredictability that can quickly transform into enormous financial demands on its cash and budget, thereby undermining its investment and modernization plans. Canada Post recommends that it should continue to be required to fully fund its pension plan on a 'going concern' basis. However, it asks that;

- a) It be exempted from the pension solvency rules established by OSFI, the pension regulator; or
- b) The Government of Canada declare formally that it would fund any deficit, in the event that CPC is wound up.

Postal transformation and modernization

According to Canada Post, postal transformation is not an option that can be deferred. It is at the heart of CPC's plan to attain financial self-sustainability and maintain the USO and quality service.

The postal modernization plan includes upgrading and replacing buildings; purchasing new sorting equipment to facilitate reduction of manual mail sorting; the adoption of new technology to underpin sorting equipment and better manage delivery standards; developing greater e-service capacity; and training and change management. By modernizing the network and bringing in new technology, Canada Post believes it will be able to provide better service and innovation, attain market competitiveness and reach financial equilibrium.

Canada Post estimates that the new capital investment required will be in the order of \$3 billion over the next seven years, in addition to the \$200 million on average, spent on regular infrastructure maintenance, annually. It estimates that this investment can be recouped through increased productivity within eight years after completion. CPC argues that it has a one-time, conjunctural opportunity to initiate such a transformation, as a large cohort of its employees (27 000) is expected to retire or to leave the corporation over the next decade.

What does Canada Post feel that it needs to pursue this transformation?

First, it needs increased financial capacity to help to finance this plan, as set out in the discussion on pricing, pensions, the rural network, commercial rates for PPOs, and so on.

Second, it requires increased access to capital markets, in conjunction with a raised level of borrowing authority – from the present limit of \$300 million to a revised amount that is appropriate to financing its capital needs over the course of the modernization plan.

Third, it needs to make adjustments to its internal operating culture and practice, as noted in the next section.

Internal culture

According to Canada Post, financial self-sustainability cannot be attained without two important changes to its internal culture and operating practices. One change relates to its employees. The other change refers to the practices of its board and management.

Canada Post declares that it cannot by itself transform the internal employee culture associated with the influence of the CUPW agreements and resulting culture and practice. To this end, it requests:

- A public third-party assessment of what changes would be required in the CUPW agreement to make CPC competitive;
- A commitment by the government to support the objective of the next round of collective bargaining, which would be directed to crafting a collective agreement that would contribute to the creation of financial self-sustainability for CPC; and
- Government action to create an employee share ownership plan.

Canada Post also recommends the creation of a clearer and more effective governance environment, to allow its board to carry out its responsibility in pursuing shareholder objectives in an effective way. This would require clarification and strengthening of the role of the Board, in the following ways:

- The nominating committee of the Board should have a role in making recommendations to the shareholder to appoint top, qualified directors with business, executive and director experience;
- The Board should be given the authority to recruit, appoint and evaluate the performance of the CPC CEO;
- The Board should be given greater authority to pursue transactions up to \$250 million without government approval;
- The Board should have the discretion as to whether to issue dividends, particularly in periods of intensive and extensive re-investment; and
- Corporate plans should continue to require government approval, but they would be considered to be approved by the government after 60 days if the government chose not to respond.

V – Concluding observations of Part I

In the preceding pages, the Advisory Panel has reported what it learned from its analysis of the market, from submissions from and consultations with individual Canadians and organizations, from its analysis of and discussions with international posts, and from its extensive review of and consultation with Canada Post during the strategic review.

Through this process, the Advisory Panel has been impressed by a number of issues:

- Canadians continue to value the post and the universal postal service;

- The operation of a modern postal system is a very complex business;
- The postal market is changing, with traditional lettermail less important and competitive postal products more important in the postal market mix;
- Canadians do not have a realistic understanding of these complexities or of the financial challenges facing Canada Post;
- Canadians have a variety of experiences with Canada Post, and anticipate some policy and process changes; but there is no desire for a radical alteration in the present postal regime;
- There is sufficient talent, expertise and experience on the Board and management of Canada Post, in most areas, to ensure its success, in the right financial and policy environment; and
- The experience of a number of international posts demonstrates that appropriate governance arrangements can contribute substantially to the creation of a viable post.

Given what it has learned, the Advisory Panel feels that there are five issue areas that should command its attention as it formulates recommendations for a new, updated and improved financial and policy environment for Canada Post.

First, the universal service obligation lies at the heart of the postal endeavour by a Crown corporation. The shareholder should make clear to the post what its expectations are of the USO in the 21st century. The Advisory Panel feels that there is an immediate need to establish a clear, concrete, and transparent understanding of the USO.

Second, the Advisory Panel is convinced that it is unrealistic to consider the purpose of the postal system – the provision of the USO – without considering how the USO is to be delivered. In short, the ‘ends’ or objectives of postal policy should not be considered independent of the ‘means’ or instruments to those ends. The Advisory Panel was impressed with modernization developments in certain posts abroad, which stand in stark relief to the situation at Canada Post. The Advisory Panel feels that there is an urgent need to both address obsolescence issues and modernize the postal system and network in Canada, to maintain its competitiveness and to aid in productivity. The Advisory Panel considers this requirement to be integrally linked to fulfilling its USO.

Third, Canada Post cannot modernize its network unless it has the financial capacity to do so. The Advisory Panel was impressed at how some international posts were given and developed the financial self-sustainability that enabled them to continuously update and modernize their operations, so that they had the capacity to pursue their USO. The Advisory Panel feels that it is absolutely imperative to take the steps necessary to assure long-term financial self-sustainability for Canada Post.

Fourth, there is considerable anxiety and concern in postal discussions with regard to the future of postal services in rural Canada. The Advisory Panel does not accept that providing quality service in rural Canada stands in antagonistic relation to the goal of financial self-sustainability and postal modernization. The Advisory Panel feels that there is a need for the shareholder to formulate, articulate and communicate a clear and transparent understanding of Canada Post’s roles and responsibilities in rural Canada.

Fifth, as noted above, the Advisory Panel was struck by the experiences of a number of international posts, which demonstrated that appropriate governance arrangements could contribute substantially to the evolution and development of a viable post. There is some uncertainty in the Canadian system about how much corporate autonomy Canada Post should enjoy and how much control the shareholder should exercise. The Advisory Panel feels that there is a critical and compelling need to clarify, make transparent and operationalize the respective roles, responsibilities and authority of each of the government (shareholder), the Board of Directors and Canada Post's management.

Part II will pursue these five compelling issue areas by way of laying a foundation for the Advisory Panel's recommendations in Part III.

Critical Issues for Canada Post

The Government of Canada mandated the Advisory Panel to examine Canada Post's public policy objectives and its ability to remain financially self-sustaining. The Panel was also asked to consider the continued relevancy for Canada Post of the 1998 Multi-Year Policy and Financial Framework. This strategic review sets the stage for the next steps in Canada Post's evolution. These next steps must be informed by the fact that the postal world has been transformed by new market conditions, globalization and technological change. The objective of the strategic review is to help to improve Canada Post's capacity to pursue its responsibilities through the development or addition of appropriate policies and tools that will allow it to confront these new postal conditions. At the same time, the objective of the strategic review is to devise new ways for the shareholder (the Government of Canada) to articulate and communicate its social goals and expectations about the postal system to Canada Post, even as the corporation matures into a more autonomous corporate entity able to pursue its responsibilities in the new and challenging postal environment.

The Advisory Panel's analysis in Part II will lay the foundation for the Part III presentation and explanation of the recommendations that the Advisory Panel is presenting to the Minister, including a financial and service framework in a clarified governance environment. This framework and these recommendations have two aims: establishing an appropriate degree of corporate autonomy and capacity for Canada Post, so that it has the tools to successfully address new market conditions and its USO responsibilities while at the same time devising a new and improved way for the shareholder (the government) to clarify, articulate and communicate its objectives to CPC. Neither of these aims should trump the other: Both should be pursued in tandem.

The strategic review's Terms of Reference, and indeed what the Advisory Panel heard from Canadians and from Canada Post, have led us to conclude that there are five critical issues that should command attention as we proceed to analyze Canada Post's and its shareholder's needs, and formulate recommendations for action.

First, the universal service obligation lies at the heart of the postal endeavour by a postal Crown corporation. If there were no USO, there would be no need to have a government-owned Crown corporation attending to the postal system. The shareholder must clarify what its expectations are of the USO in the 21st century, and both the Government of Canada and Canada Post must develop a mutual understanding of the USO and what it entails.

Second, how the USO is to be realized in practice cannot realistically be divorced from the principle of the USO itself: The 'ends' or objectives of postal policy cannot realistically be considered independently of the 'means' or the instruments to that end, particularly in a complex environment like the postal world. Modernization efforts and developments in many posts abroad stand in stark relief to the situation at Canada Post,

where there is an urgent need to modernize the postal system and network so that Canada Post can successfully pursue its USO obligations.

Third, it is unrealistic to expect a post to modernize its postal network and processes unless it has the financial capacity to do so. Many posts abroad were given and have developed the financial self-sustainability that has enabled them to update and modernize their operations so that they have the capacity to pursue their USO commitments: Canada Post must have access to the appropriate tools it needs to maintain financial self-sustainability, in order that it can modernize its operations to have the capacity to successfully pursue its USO.

Fourth, the future of postal services in rural Canada requires particular attention. The continuation of a blunt policy instrument like the moratorium on rural postal closings, in effect since 1994, is symbolic of the fact that there has been inadequate conceptual or policy attention paid to this area. What is needed is the formulation, articulation and communication of a clear and transparent understanding of Canada Post's roles and responsibilities in rural Canada.

Fifth, the experience of many posts abroad demonstrates that appropriate governance or institutional arrangements can contribute substantially to the creation of a viable post and effective postal policy. There is some uncertainty in the Canadian system about how much corporate autonomy Canada Post should enjoy, as well as how much control the shareholder should exercise. What is needed at this stage in Canada Post's evolution is to clarify, make transparent and operationalize the respective roles, responsibilities, and authority of each of the government (shareholder), the Board of Directors, and Canada Post's management. This will create a policy and governance environment that will encourage effective and timely decisions about the USO, rural post, modernization and financial sustainability.

I – The universal service obligation

In the Terms of Reference assigned to the Advisory Panel, the Minister presents a number of principles that direct us to consider the universal service obligation as being at the heart of our considerations:

- Canada Post will not be privatized and will remain a Crown corporation;
- Canada Post must maintain a universal, effective and economically viable postal service; and
- Canada Post is to continue to act as an instrument of public policy through the provision of postal services to Canadians.

The USO lies at the heart of the postal endeavour in Canada. This is implicit in the government's ongoing commitment to a postal Crown corporation. If there were no universal service obligation – that is, if there were no postal objectives covering the entire country and all its citizens – then there would be no real need to have a government-owned entity attending to the postal system. The postal system would not be a matter of public policy for the government, which would then not have a responsibility for the postal and mail systems.

When the Post Office Department was transformed into a Crown corporation in 1981, the definition of the USO was left vague. Canada Post was expected to provide a basic and customary service that would meet the needs of the people of Canada, and with levels of service that would be similar in communities of similar size. This lack of specificity gave the corporation a certain amount of flexibility to adapt to its newly commercialized environment. Almost three decades later, the Canadian postal environment has changed significantly. Today it can be argued that the lack of clarity around what is, should be, might be, or could be included in Canada Post's USO is creating challenges and confusion for Canada Post, its shareholders and its customers.

The question is: "What is (or what should be) Canada Post's universal service obligation today and for the foreseeable future?"

This question is particularly important, given the government's continued commitment to operating the postal system through a Crown corporation. The government has chosen an autonomous corporate form for the delivery of its postal expectations, as opposed to a departmental (or private) form. There are sound reasons for this decision, given the complexity and character of modern postal operations – a decision confirmed by similar government decisions throughout the industrial world. It is the Advisory Panel's view that, as Canada Post evolves as a corporate entity, and even as it develops and may some day be granted more corporate autonomy, it is vitally important that the government clarifies and specifies its expectations of what the USO entails. Canada Post's operating framework should reflect both its corporate and its USO goals. If it does not do so, there will be ongoing public and corporate confusion and the real likelihood that commercial considerations will predominate over the USO or social ones.

While 100% certainty is not possible, especially in a changing world, the Advisory Panel believes that the USO should be clarified. This basic position has focused the discussion of the four other critical issues to be reviewed in this section:

- The nature of the USO expectation implies the need for a postal network. Modernization of this network is integral to Canada Post's capacity to realize its USO obligations;
- The character and specificity of the government's USO expectations will, in turn, shape the business model and therefore financial requirements of Canada Post over the long term;
- The government's USO expectations will shape the character of and expectations for postal service in rural Canada; and
- Clarifying USO expectations and communicating them clearly will also help to clarify the respective obligations, rights, privilege, duties and responsibilities of the shareholder (the government), the Board of Directors of Canada Post, Canada Post's management, and of Canadians and postal customers.

(i) The universal service obligation

The Advisory Panel feels that three dimensions of the universal service obligation need clarification: the principles and practices of the USO: its physical or network dimension and its financial consequences.

Notwithstanding the fact that the phrase universal service obligation is commonly used, there is little common agreement in Canada or internationally about precisely what it entails. This partially reflects confusion about the USO's goals and about the mechanisms used to attain them. While there is general agreement about the goals of the USO, there is disagreement about how the USO is to be attained and regional differences as to what should be done. These mechanisms have varied historically and have varied among countries, given different national conditions, priorities and capacities. The principles of the USO need to be supplemented by operational practices and specifications. In the last analysis, it is the government's responsibility to periodically specify, clarify, and update which mechanisms or instruments will be used to attain the objectives of the USO.

The *CPC Act* requires Canada Post to “maintain a basic and customary postal service.” In this context, the particular and essential ingredients of the Canadian USO have evolved to mean that:

- The postal service will be *universal*;
- The postal service will be *affordable*;
- The postal service will be *timely*;
- The postal service will be *accessible* to all Canadians, regardless of their location; and
- The postal service will provide a *quality* service.

While not explicit, it is widely understood that the USO applies as much to businesses and organizations as to individuals living in Canada, given the post's historical mission of allowing Canadians to communicate to each other and allowing business and the market to expand and develop with help provided by the postal system. So, the USO can be inferred to require Canada Post to deliver letters and parcels to and from each and every residential and business address in Canada. Canada Post articulated elements of this responsibility in its submission to the strategic review – when it declared that its role is to provide a basic letter and parcel service to every person and every business, regardless of location, every day.

There may be widespread agreement on the principles of the USO – that the postal system be universal, affordable, timely and accessible in providing the quality delivery of mail and parcels to all Canadians and businesses across the country. What is not clear, or agreed upon, is what exactly each of the ingredients means and how they should be realized. For example, how long should it take for a letter to go from Town A to Town B? Should delivery be to the door, to the address, to the road, to the town, to the area? How much should it cost to mail a letter or parcel? How should mail be delivered? How many days a week should there be delivery?

Pursuing the USO requires that Canada Post develop and maintain a network comprising mechanisms, processes and facilities to pick up, sort and deliver mail and parcels, and to give citizens and businesses access to the postal system. It would seem reasonable to assume that this network will include a range of ingredients from mailboxes and post offices, to letter (delivery) boxes/units and sorting plants. By extension, then, the infrastructure of the postal system is part and parcel of the USO – but this, too, generates considerable uncertainty as to the precise character, ingredients and extent of the postal network. How many mailboxes should there be and how close should they be to Canadians? How many post offices should there be and how should they be distributed?

Finally, it is not clear whether the USO implies a limitless financial commitment to attain it, although it is clear that the financial costs of the USO will vary depending on how the USO is defined and operationalized. When Canada Post was created, Parliament legislated it to function on a financially self-sustaining basis and signalled its intention to no longer fund the postal service from general operating funds. The legislation thus reflected very clearly the user-pay principle. That is, henceforth the postal user, rather than the taxpayer, would pay for the postal service. This point will be addressed below, but one notes that the traditional approach to financing the USO was by providing guaranteed revenues through an exclusive privilege to the post for lettermail (a monopoly). It was understood that, in return for the exclusive privilege, the price of the lettermail service would be made affordable by guaranteeing that the price of the service would be the same – regardless of the distance the letter travelled. What is always open to consideration is what the scope of the exclusive privilege should be: lettermail weighing less than 50 grams? 100 grams? 250 grams? 500 grams? It has varied internationally and over time. In Canada, for example, the exclusive privilege covers lettermail weighing less than 500 grams. Other questions include: How large (or small) should the exclusive privilege be? What is the appropriate price for services under this monopoly condition?

(ii) The USO in practice

In broad, general terms, the USO in Canada today involves the following:

- Any Canadian should, through the postal system, be able to communicate, transact business with any other Canadian, and send or receive a parcel, book, magazine, periodical or newspaper to each and every address;
- There should be a set of national collection, delivery and access networks that allow this to be realized in a timely fashion; and
- This service should be provided at reasonable service standards and at affordable and reasonable prices.

These are the principles upon which the Canadian postal system was founded and to which Canada Post is held responsible. It is the Advisory Panel's view that the USO is the *core business* of Canada Post. Moreover, it also believes that the expectations around this core business must be clear and specific.

The Advisory Panel believes that it is appropriate and timely for the government to specify each of these ingredients in a clear and reasonably concrete way. It believes

this because there is such uncertainty in Canada about what these principles mean operationally, particularly given changing demographic, competitive and technological environments. The Advisory Panel will suggest that the specification of USO goals in practice should be captured in a kind of Service Charter between the Government of Canada and Canada Post – with the explicit requirement that this charter be reviewed from time to time. This Service Charter would essentially become a contractual understanding between the government and Canada Post, setting out their mutual understanding of and expectations for the USO. This would become a public document, posted on the Canada Post website and accessible to all Canadians and postal customers.

What follows is a presentation of some elements that the Panel believes could form the basis of this discussion between Canada Post and the government.

Service: delivery standards

The service dimension of the USO is one area where the government has already specified its expectations for Canada Post's delivery standards. The principle here is both a general one (quality) and a concrete one (service levels should be the same for communities with the same general characteristics). Canadians seem generally satisfied with the two-three-four-day lettermail delivery standard (two days locally, three days regionally, four days nationally). The Advisory Panel believes that it should remain in place and that Canada Post should continue to monitor and report on its performance against the standard in its annual report.

Service: five-day delivery

The conventional practice in Canada is for mail delivery to take place within a five-day delivery environment.

The Advisory Panel is aware that there are practical and/or financial limits to delivering mail to every address five days a week, particularly in remote areas of the country. Some countries have established an approach by which the post guarantees that a certain (very high) percentage of the population receives daily service, and segments of the remaining population receive service a certain number of times a week. The Advisory Panel suggests that Canada Post investigate such an approach for use in Canada for the government's consideration. The Panel further suggests that the list of those areas of the country that do not receive mail delivery five days a week should be approved by the government, made public and reviewed regularly.

Delivery mode

A principle of the USO is that mail and parcels should be delivered to every residential and business address in Canada, regardless of location. In a country Canada's size, this is especially daunting, not only because of geography but also because of the apparent addition of approximately 200 000 new mailing addresses a year. Canada Post uses a variety of different mechanisms to make these deliveries. Servicing this delivery network is a pressing operational matter for Canada Post, notwithstanding that the use of

‘community mailboxes’ rather than door-to-door delivery has been standardized in all new urban and suburban neighbourhoods.

Table 5: Percentage Distribution of Delivery Modes – Points of Call

Type	Number (2007)	%
Door-to-Door	5 321 000	36.7
Centralized Points (e.g. Apartments)	3 167 000	21.9
Community Mailbox	2 983 000	20.6
Postal Boxes	1 770 000	12.2
Rural Mailbox	828 000	5.7
Group Mailbox	241 000	1.7
Kiosks	105 000	0.7
General Delivery	78 000	0.5
Total	14 493 000	100%

Source: Canada Post Corporation

The Advisory Panel believes that the historical service mechanisms for delivery to individual homes – for example, letter carriers going door-to-door or delivery to the end of laneways – should always be open for reconsideration in light of changing demographics and technology. Many countries establish a formula or process by which the post establishes the appropriate delivery mode for different sets of conditions. Canada Post should continue to develop and implement the most appropriate delivery approaches to achieve its USO. If changes to delivery modes are contemplated, the Advisory Panel believes that the list of affected communities/customers along with an implementation plan and a process for discussion of the plan with the affected communities/customers should be discussed with government, before being made public, and that this list should be reviewed and updated regularly.

Price

As is the case today, the basic lettermail rate for letters weighing less than 30 grams should not vary across the country, regardless of the distance travelled. This rate should continue to be determined by a formula set in regulations and approved by the government.

The setting of the price for other products within the exclusive privilege (letters and small packets weighing between 31 and 500 grams) should continue to be determined through the established regulatory process and approved by the government.

Finance

The government has established the principle that the users of the postal service, rather than the taxpayers, should pay for the postal service. Within this framework, Canada Post’s exclusive privilege over lettermail is the financial underpinning of the USO. As part of the new Service Charter that the Panel will propose, the government should examine the precise scope of the exclusive privilege regularly, in light of

changing market conditions and postal costs and productivity, as well as with regard to any changes in its USO definition or practice. The Advisory Panel will recommend the maintenance of the existing level of exclusive privilege with the exception that out-bound international mail should no longer be part of Canada Post's monopoly.

The retail network

A principle of the USO is that all Canadians and all businesses should have access to the postal service, regardless of their location. This requires Canada Post to maintain a network of postal outlets across the country, where Canadians can purchase postal services, drop off and collect parcels, and so on. There are operational challenges to attaining this USO objective and how Canada Post addresses these challenges has been occasionally controversial particularly with regard to the use of privately owned dealer outlets and the closing of traditional post offices owned and operated by Canada Post.

While it would appear that this controversy has more or less played itself out in urban areas, a remaining and pressing concern is the *location* of post offices and dealer outlets, particularly in outlying, rural and remote regions. There will be a separate discussion of the rural postal network in a later section of the report.

(iii) Public policy objectives

Public policy objectives (PPOs) are postal policy objectives that are determined by the government, but which lie outside of the scope of the USO. The Advisory Panel believes that it is important to make a clear distinction between them.

Government Free Mail and Materials for the Use of the Blind

Two programs, Government Free Mail and Materials for the Use of the Blind, are required to be provided by Canada Post under the *Canada Post Corporation Act*. Canada Post currently receives a yearly appropriation of \$22.2 million for providing these services.

With respect to the former, the *Act* recognizes the importance of communications between Canadians and their federal government by providing for free mailing privileges between Canadians and the Governor General, Members of Parliament (MPs), the speakers of the Senate and the House of Commons, the Parliamentary Librarian, the Ethics Commissioner and the Senate Ethics Officer. Members of the House of Commons are also allowed up to four free householder mailings to their constituents in any calendar year. In addition, Canada Post provides MPs with a highly discounted rate for unaddressed mail over and above their four free mailings. This rate has been in effect since 1995.

The practice of offering free mailing privileges for Materials for the Use of the Blind began in 1898. The obligation that literature for the blind be exempt from all postal charges is part of the Universal Postal Union's (UPU) Convention. Conditions for the free mailing privileges are set out in Canada Post's regulations.

Publications Assistance Program (PAP)

The Government of Canada's PAP is administered by the Department of Canadian Heritage, in partnership with Canada Post. The program provides for subsidized postal distribution costs for eligible Canadian publications. Canada Post has been involved in the distribution of Canadian publications since before Confederation. As the policy authority, the Department of Canadian Heritage is reviewing the PAP.

Food Mail Program

Canada Post provides commercial air freight service for food shipped to a number of northern communities under the Food Mail Program, which is administered by the Department of Indian and Northern Affairs. Under this program, shipments of fresh food are sent to designated northern points at rates subsidized by the government, thereby promoting good health and eating habits for northern residents.

Library Book Rate

The Library Book Rate was introduced as part of the Publications Assistance Program in 1939. Canada Post administers the program through the provision of lower-than-cost postal rates for library books sent between authorized senders and receivers, primarily in rural Canada. Since the Library Book Rate is no longer considered part of the Publications Assistance Program, there is currently no federal department identified as the policy authority for this program.

Canada Post has historically been assigned responsibility to deliver on these PPOs, sometimes by custom and convention and sometimes as a result of conscious government decision. There has been a tendency to simply blend these PPOs into the corporation's USO and to anticipate that they would be financed through the post's general revenues. For the most part, the Advisory Panel does not subscribe to this point of view.

First, Canada Post has been directed to undertake its responsibilities in a financially self-sustaining way. The PPOs impose an inappropriate financial burden on CPC. Second, Canada Post was also created within a user-pay paradigm, one in which postal users – not taxpayers – pay for postal services. As a matter of principle, Advisory Panel believes that the cost of PPOs should be borne by the government, that is, by those departments with policy responsibility for the programs these PPOs support, and not by general postal users.

There are a number of PPOs that, according to Canada Post, have not been assigned appropriate financial support. These include Government Free Mail (outlined in the *Canada Post Corporation Act*), and assistance for publications, library books, food mail and parcels to the north. Free mail service for Materials for the Use of the Blind is a separate category, as this is a national postal obligation associated with membership in the Universal Postal Union and is outlined in the *Canada Post Corporation Act*. Canada Post currently receives a yearly appropriation of \$22.2 million for providing Government Free Mail and Materials for the Use of the Blind. Canada Post has indi-

cated that this amount has not been reviewed in many years and does not take into account fluctuations in volumes or changes in the types of mail being sent.

Canada Post notes that Government Free Mail has been at most partially funded, and recent figures indicate that it is a service increasingly used by parliamentarians. In addition to the free mailings, Members of Parliament can send unaddressed mail at a highly discounted rate, which the Advisory Panel understands has not been reviewed since the mid-1990s. In its submission, Canada Post indicated that it had foregone \$12 million in revenue for Government Free Mail and Materials for the Use of the Blind in 2007.

Pursuant to an agreement with the Department of Indian and Northern Affairs, the Government of Canada compensates Canada Post for the difference between the corporation's cost of shipping eligible goods under the Food Mail Program and the applicable postage paid by shippers. The Food Mail Program to the North has been reasonably funded on a user-pay basis and should continue to be fully financed in this way. It is noted, however, that in its submission Canada Post believes it should be entitled to commercial mark-ups and it estimates that it should be entitled to recover an additional \$9 million in revenues based on the 2007 program.

The Publications Assistance Program (PAP) is a public policy objective to which Canada Post provides funding under a directive from the government. While Canada Post as provider of postal services to all Canadians has been delivering publications since before Confederation, it does not have the mandate to promote Canadian culture by subsidizing postal rates for Canadian publications. That is the responsibility of the Department of Canadian Heritage. The Advisory Panel believes that Canada Post's funding to the PAP should end in March, 2009 as indicated in the government's directive to Canada Post.

In its submission, Canada Post indicated that there is no formal requirement for Canada Post to provide the Library Book Rate (LBR), but public pressure to do so has been historically strong. There are ongoing appeals from the library community to keep the rate low and to expand the scope of the LBR to include non-book material. Canada Post estimates foregone revenue for the program for 2007 was \$6 million. The Advisory Panel was not able to discover an obvious department to support this program.

Conclusion

As a matter of principle, Canada Post should not be required to subsidize or otherwise pay for those public policy objectives that are not an explicit part of the USO. If a government department or agency proposes public policy activities like the ones above, the government should open the service to a competitive bidding process on a contract basis where such options exist.

II – The modernization of Canada Post

In the Terms of Reference assigned to the Advisory Panel, the Minister presents a number of principles that direct us to consider Canada Post's physical capability and capacity to deliver as being critical to the strategic review:

- Canada Post must maintain a universal, effective and economically viable postal service; and
- Canada Post is to continue to operate in a commercial environment and is expected to attain a reasonable rate of return on equity.

Moreover, the Terms of Reference (IV. Scope, Part A – Market and Competition) direct the Advisory Panel to ask how technology, competition and customer demographics and needs have shaped the postal market and the various products within it.

When discussing modernization, one should distinguish that formally, Canada Post is one segment of Canada Post Consolidated, which also includes Purolator.

For the Canada Post segment to be effective, it must have adequate tools and processes to allow it to carry out its required functions and responsibilities – including its USO obligations – to some degree of effectiveness in terms of efficiency, cost, timeliness and accuracy of service. Moreover, it needs some substantial capacity to use the available modern technology and techniques to control its major cost drivers and to remain economically viable. Similarly, given that the postal system exists in a competitive communications environment, Canada Post should have a degree of technological capacity and service that will allow it to meet commercial, customer and competitive standards as well as product and service expectations in its market.

A good part of the story of modern postal evolution can be told through a description of the successive applications of technology to deal with urbanization/suburbanization and population growth. These developments have been persistent and relentless, and made the postal system an increasingly complex, costly and technological affair. In the latter part of postwar period, the Post Office Department in Canada nearly collapsed under the weight of the increasing volumes of mail generated by economic and population growth, and by the complexity associated with the expansion in the number of addresses and delivery points. No amount of additional human resources would have been sufficient to contend with these pressures in an economically rational way. The application of new technology to the postal process – the postal code, letter-sorting machinery, optical scanners, and modern sorting plants – allowed the modern post to contend with increasing volumes and complexity. Indeed, it is fair to describe the postal sector as a 'network' or infrastructure industry, which uses a high degree of advanced plant and equipment to run its business.

Canada was in the vanguard of posts in the 1970s, when the country undertook a postal modernization program. The program, which was not without growing pains, saw Canada invest hundreds of millions of dollars to modernize its plants and sorting equipments. With that wave of modernization in the 1970s, Canada set a high international standard for modern postal operations. One result of this modernization initiative was that labour costs as a proportion of total expenditures fell from 75.4% in 1981

to 68% by 1991¹. Alas, that was the last wave of transformative postal modernization in Canada. Many posts in Europe and around the world – and private firms in the courier and express business – have adopted the latest generation of postal technology, from bar code readers to sophisticated sorting equipment that can sort letters to the postal route, and track-and-trace technology that allows customers to follow their products in real time. These competitor developments have left Canada Post behind, desperately trying to maintain and patch up an aging technological infrastructure while falling behind in competitive, commercial and service terms.

Canada Post's network is large and elaborate, including, among other things:

- 21 mail processing plants;
- 500 depots in over 300 physical locations;
- 1850 mail service carrier routes;
- 16 700 letter carrier routes;
- 33 000 street letter boxes;
- 60 000 relay boxes;
- approximately 120 000 community mailboxes (representing about three million points of call);
- 6600 rural and suburban mail carrier (RSMC) routes; and
- 72 500 Canada Post employees (includes full-time/part-time and subsidiaries).

Canada Post discussed its modernization and financial sustainability needs and aspirations with the Advisory Panel over the course of the strategic review. The Advisory Panel finds Canada Post's case with regard to its obsolescence issues and for modernization to be compelling.

Most of Canada Post's infrastructure investment has focused on maintaining its operations – from replacing and improving minor plant equipment and operating systems, to information systems/information technology infrastructure, to ongoing replenishment and maintenance of materials handling equipment, street furniture and vehicles.

Canada Post reports that much of its infrastructure is well past its useful lifespan and that many of its buildings are over 40 years old and in need of significant upgrading. Independent third-party experts have verified this, and the Advisory Panel would concur, after having visited a number of plants in Montreal, Ottawa, Toronto and Vancouver. The Advisory Panel also viewed modern postal plants in the United States and those of Canada Post's private sector competitors. In the view of the Advisory Panel, there appears to be no doubt that Canada Post has significantly under-invested in its infrastructure, both in terms of dealing with obsolescence issues and in terms of keeping its plants and equipment current. It can be argued that under-investment in infrastructure has been endemic among government-owned enterprises, where scarce resources and the imperative to deliver services as cheaply as possible have trumped investments aimed at future results. Regardless of its causes, under-investment has rendered Canada Post unable to take advantage of the potential benefits of current technologies

¹ Robert M. Campbell, *The Politics of the Post: Canada's Postal System from Public Service to Privatization*, (Peterborough, Ont.: Broadview Press, 1994), p.380

to modernize its operations to the benefit of its employees and to its customers. The Advisory Panel concurs with Canada Post's view that it has significant obsolescence issues that must be addressed in the reasonably near future to bring its infrastructure up to an acceptable standard and allow it to continue to fulfill its mandate.

Canada Post is without a doubt lagging behind most other posts in terms of technology currency. This is in sharp contrast to earlier periods, when Canada was a world leader in the adoption and effective use of innovative technologies. Many, if not all, of the major postal services reviewed by the Advisory Panel have modernized, or are in the process of modernizing, their operations to take advantage of the benefits that current technology has to offer to both the posts and their customers. Based on its reviews of and discussions with other posts abroad, the Advisory Panel believes that Canada Post is significantly lagging behind its national competitors in the adoption and deployment of modern letter and parcel handling and information management technologies. As a result, Canada Post is not able to realize the benefits and opportunities that modern and up-to-date infrastructure would facilitate, including:

- Increased productivity and control of costs;
- Improved worker health and safety;
- Improved customer service;
- Improved ability to respond to customers' evolving needs; and
- Increased ability to be self-sustaining in the future.

It will take a significant level of investment to modernize and standardize Canada Post's plants, equipment and processes; to introduce current technology in the areas of database management, letter and parcel visibility and tracking; and to improve and enable its e-business potential. Current estimates are in the order of \$3 billion over the next seven years, in addition to the \$200 million on average that it is currently spending for ongoing maintenance and normal infrastructure programs annually. Canada Post has begun to implement its modernization plans with the replacement of its Winnipeg facility, at an estimated cost of over \$65 million. Canada Post has also developed plans for the remainder of its network.

The Advisory Panel is of the view that the concepts informing Canada Post's modernization plans are sound, and that the corporation needs to proceed in an expedited manner if it is to attain long-term success. The Advisory Panel agrees with Canada Post that it must address and expeditiously deal with its obsolescence issues and introduce current technologies. This will permit the corporation to meet the expectations placed on it by customers and its shareholder to be competitive and financially self-sustaining.

If the benefits of the modernization program are to be forthcoming, a principled commitment to a multi-billion dollar modernization process brings a number of complementary issues into clear focus. These include:

- The nature and expectations associated with the USO;
- Financing and financial self-sufficiency;
- Governance issues in the relationship between the shareholder and Canada Post; and

- Canada Post's relationship with its labour force.

The ultimate purpose of the modernization program is to maintain and extend Canada Post's capacity to pursue its USO obligations in a satisfactory and effective manner. As discussed in the previous section, the USO in effect requires these infrastructure investments to address obsolescence and to modernize, as it is simply inconceivable that Canada Post can continue to attain the USO without a modern, up-to-date and efficient plant, equipment and electronic infrastructure. Without it, service levels will deteriorate, volumes will be lost, prices will rise, and Canada Post will lose ground to its competitors. In this context, it is imperative that the USO be clarified, well-defined and well-understood by all parties – Canada Post, its board, the government (shareholder) and Canadians. And, in the Advisory Panel's view, a clarified USO must include service standards and rural expectations.

Financial issues will be examined thoroughly in the next section. For now, the Advisory Panel notes that a commitment in principle to a multi-billion dollar postal transformation has numerous financial requirements and implications, if the transformation plan is to be executed successfully and without damaging Canada Post's financial sustainability. As will be discussed, these requirements and implications include increased access to capital; a revamped pricing policy; a revised dividend policy and profit expectations. The Panel also believes that it is imperative that obsolescence and modernization issues must be dealt with separately and apart from the issues related to pension fund requirements.

This capital investment will put intense pressure and expectations on the relationship between the shareholder and the corporation. This issue will be examined thoroughly later in the Governance section of the report. For now, the Advisory Panel notes that for the modernization plan to be successful, there has to be a clear understanding between the government and Canada Post's Board of Directors regarding their respective roles, responsibilities and accountabilities regarding the development, approval, financing, execution and communications needs related to the plan. A key theme of this report is the evolution and position of Canada Post on what might be termed a 'corporate autonomy continuum,' and a multi-billion dollar transformation plan needs clarity on this question.

One other very significant factor that flows from postal modernization and transformation is the response of Canada Post's labour force to the introduction of new technology. This does not only include the reaction of the postal unions. It also includes the impacts of new technology on individual workers themselves. Over and above the possible introduction of new products and services, the basic reasons for introducing new technologies are to do business more efficiently (i.e. improve productivity) and to process large volumes at acceptable costs, while making the working environment healthier, safer and even more environmentally friendly.

If the story of modern postal evolution can be told through a description of the successive applications of technology, then a large chapter in that story has been the strong union reaction to these technological changes. These reactions were predominantly to the reduction and/or redesign of jobs. Indeed, recent modernization in many posts abroad reinforces these outcomes. Canada Post's modernization plan proposes

to minimize the impact on its present work force by anticipating the non-replacement of employees who retire or leave voluntarily. The Advisory Panel suggests that Canada Post should be mandated to further review its modernization plans, both to improve productivity and adjust staff complements where feasible as a result of modernization initiatives. This would be done to improve service levels and general operational efficiencies.

Increased competition from electronic communication and new competitors have combined to weaken postal growth prospects, so that Canada Post must limit its costs and increase its productivity and competitiveness if it is to survive. Government must recognize that Canada Post's survival and prosperity will be heavily determined by the degree to which the corporation can achieve productivity improvements, effect postal price changes, and/or (potentially) alter USO service and quality levels. A principled approach to a multi-billion dollar modernization plan requires a significant commitment to productivity improvement through infrastructure modernization. This will inevitably impact the nature of jobs at Canada Post – and this must be made clear and communicated to all parties as part of the approval requirements to proceed with modernization programs.

The Advisory Panel believes that dealing with these employee impact issues in a proactive manner by all parties is the only practical approach, if the benefits of modernization and the longer term sustainability of Canada Post are to be realized and the impact on individual employees is to be dealt with in a fair and equitable manner.

The Advisory Panel has heard Canada Post's request that a third party be retained by the government to assess whether elements of its existing labour agreements inhibit the modernization plan and thus Canada Post's future self-sustainability. The Advisory Panel has also heard CUPW's request that the Panel not pronounce on the impact of present labour agreements from less than a fully informed position. In this context, and in considering a proactive approach to modernization's impact on labour as well as Canada Post's future self-sustainability, the Advisory Panel will recommend that the government pursue Canada Post's suggestion to review the impact of current labour arrangements from the perspective of their impact, positive and negative, on the long-term sustainability of Canada Post. At the same time, Canada Post should be instructed to undertake an assessment of its modernization plans from the perspective of how these plans will be affected by a clarified USO, if at all.

In a similar spirit, the Panel supports the idea of an employee share ownership plan, as a way to heighten employees' involvement and ownership of the process of modernization.

III – Financial self-sustainability

In the Terms of Reference assigned to the Advisory Panel, the Minister presents principles that direct us to consider Canada Post's financial self-sustainability as a central concern for the strategic review:

- Canada Post must maintain a universal, effective and economically viable postal service; and

- Canada Post is to continue to operate in a commercial environment and is expected to attain a reasonable rate of return on equity.

Moreover, Section D of the Terms of Reference directs the Advisory Panel to examine Canada Post's financial and performance targets, and to evaluate whether the 1998 Multi-Year Policy and Financial Framework remains appropriate, given changed market, commercial, technological and international conditions, and given the USO and modernization issues that have been discussed earlier in this report.

Canadian governments have expected Canada Post to fulfill its operational and USO mandates without any public subsidy. That is, Canada Post has been instructed to be financially self-sufficient and to pay out annual dividends, while fulfilling its USO obligations. Canada Post's operational and financial mandates are embedded in the 1981 *Canada Post Corporation Act*, which sets as an objective for the corporation "the need to conduct its operations on a self-sustaining financial basis while providing a standard of service that meets the needs of the people of Canada and is similar with respect to communities of the same size."

Canada Post does not receive government appropriations to support its USO commitments. It must rely on the net income it generates from its operations, supplemented by money it can borrow at acceptable terms, to support its ongoing operations and to finance necessary investments. If Canada Post is unable to generate and access the necessary funds over the long term, its ability to consistently deliver on its universal service obligations will become increasingly threatened. Changes in the market and society compound this challenge, threatening Canada Post's competitiveness in important, traditionally profitable areas and creating demand for services it can potentially meet in new emerging niche markets. Canada Post must have the financial resources and flexibility to respond to these evolving consumer preferences and technological changes and to maintain its competitiveness.

It is evident, then, that Canada Post must attain a degree of financial self-sustainability if it is to successfully pursue its obligations over the long term. This is a bedevilling question for the Advisory Panel – and for policy-makers: What does financial self-sustainability entail for a Crown corporation, particularly one with numerous social obligations and expectations?

Following the completion of the 1995 review of Canada Post's mandate (Radwanski Review), the federal government entered into a quasi-contractual agreement with Canada Post in 1998 – the Multi-Year Policy and Financial Framework. A key element of that agreement was the establishment of specific financial performance targets that provided benchmarks of what was then considered to represent financial sustainability for the company. Some submissions received by the Advisory Panel have raised concerns that defining financial sustainability in these terms fails to take into account the special nature of a Crown corporation². Some might argue that a Crown corporation like Canada Post does not need to give the same priority to achieving commercial goals, as it is also expected to fulfill significant social policy mandates that a private sector company would normally not pursue.

² See CUPW's submission to the Panel.

The Advisory Panel is of the view that there are numerous reasons why benchmarks of financial performance should be set for Crown corporations:

- They provide a metric for accountability and performance;
- Companies like Canada Post must be able to generate sufficient resources to cover their ongoing operational costs;
- In addition, they also need to generate adequate profit margins on average, to buffer the corporation from periodic financial and economic downturns that could otherwise threaten its ability to fund essential operations;
- The maintenance of adequate profit margins on average is also needed to help cover the costs of necessary acquisitions, investments including infrastructure renewal and upgrades; and
- Adequate profit margins are required to meet demands by the government to help support, via dividend and tax payments, general public expenditure priorities.

(i) The current financial situation

Canada Post, according to its 2007 Annual Report, has attained profitability for the last 13 years. However, it has recently been underperforming against the consolidated financial targets set for it in the 1998 Financial Framework. Appendix G provides more details on the historical financial information.

Canada Post was initially able to make significant progress in meeting the targets mandated in the 1998 framework. By 2004, the corporation had met or exceeded virtually all the financial targets set out in the Framework, with the exception of the debt-to-capital ratio, and began to pay out the equivalent of 40% of its net income to the government in the form of dividends (Table 6).

Table 6: Performance in meeting the Financial Framework targets

Indicators	Target	2007	2006	2005	2004	2003	2002
Consolidated Return on Equity	11%	3.8%	8.4%	15%	12.1%	10.5%	7.9%
Consolidated Cost/Revenues	97%	98.3%	98%	96.2%	96.4%	97.1%	97.5%
Debt/Capital	40%	4.9%	4.9%	5.8%	7.8%	9.6%	12%
Consolidated Earnings before Interest and Taxes	\$175 M	\$128 M	\$148 M	\$263 M	\$238 M	\$182 M	\$156 M
Dividend Rate	25%, 40% once	40%	40%	40%	40%	25%	25%
Dividend Payments (\$ millions)	ROE reaches 11%	\$21.6M	\$47.6M	\$79.6M	\$58.8M	\$63.3M	\$17.8M

Source: Canada Post Annual Reports

Note: Items in bold represent cases where actual performance meets or outperforms the framework target. Consolidated earnings refer to the entire range of the Canada Post Group of Companies.

More recently, however, Canada Post's ability to meet its financial targets has eroded. Its return on equity peaked at 15% in 2005, falling back to 3.8% in 2007, a figure that is substantially below the framework target of 11%. Likewise, the ratio of operating costs to revenues rose from 96.2% in 2005 to 98.3% in 2007, and now stands above the target of 97% set in the Framework. Canada Post's recent inability to meet its Financial Framework targets reflects the growing challenges it faces with both operating costs and revenues:

- Canada Post's consolidated cost of operations grew at an average annual rate of 3.2% over 2006-2007; and
- Consolidated revenues from operations, on the other hand, only grew at an average annual rate 2.5% over the same period.

The divergence in the growth rates between operating costs and revenues is even larger when looked at from the perspective of the Canada Post segment of the corporate group:

- Revenues from operations grew at an average annual rate of only 1.7% over 2006-2007; and
- In contrast, cost of operations grew at an average annual rate of 2.9%.

(ii) Revenue challenges

On the revenue side, one can point to four particular issues that have weakened the capacity of Canada Post's revenue stream to contribute to financial self-sustainability:

- The price cap formula embedded in the 1998 Framework;

- The weakening of the lettermail market in the face of market and competitive challenges;
- The lower revenue associated with compensating volume increases in competitive products; and
- The weakening in the value of the exclusive privilege that pays for the USO and contributes to the PPOs.

The 1998 framework imposed a price cap formula for the basic domestic letter rate, whereby the price of stamps on domestic letters weighing no more than 30 grams could increase by no more than two-thirds the rate of increase in the Consumer Price Index (CPI). Both Canada Post and CUPW have told the Advisory Panel that the formula used in this price cap does not appropriately reflect trends in the real costs that Canada Post must face. Assuming that stamp prices had been allowed to increase at a rate equal to that of the CPI, and assuming this had not had any impact on consumer demand for lettermail services, the present price of a stamp would be 62 cents, not 52 cents, and Canada Post would have generated hundreds of millions in extra revenues over the last decade.

Structural and competitive changes in the market have weakened demand for mail products. In 2003, the volume of transaction mail (or lettermail) delivered by Canada Post accounted for almost 50% of the total volumes in its combined business segments delivered in that year (Table 7). The annual average rate of growth of this segment fell to 0.3% over 2004-2007 and the amount of transaction mail delivered actually fell by 1.6% in 2007. The end result was that transaction mail's share of total volumes fell to just below 46%.

Table 7: Volume by business segment

(Per cent of total corporate volumes)

	2007	2006	2005	2004	2003
Transaction Mail	45.9	47.3	48.9	49.8	49.9
Parcels	1.5	1.5	1.4	1.4	1.5
Purolator	1.2	1.2	1.2	1.2	1.2
Direct Marketing Mail	51.5	50.1	48.5	47.6	47.4

Calculated from 2007 Annual Report

Notwithstanding the lettermail trend, there has been growth in the physical volume of pieces transferred by the corporation in competitive markets. In volume terms, the growth of products delivered peaked in 2006, at a growth rate of 3.7%, and slowed in 2007, when the year-over-year growth rate decelerated to 1.5%. The slowdown in the volume of transaction mail has been offset, to an extent, by acceleration in the growth in other areas, such as direct marketing mail. The number of pieces delivered through direct marketing rose from 47% of the corporation's combined total deliveries in 2003 to almost 52% in 2007. However, these compensating volumes have not translated into adequate or equivalent compensating revenues. As Canada Post notes, it takes almost two pieces of 35-cent addressed advertising mail, or seven pieces of eight-cent unaddressed advertising mail, to replace one piece of 52-cent regular mail. The structural

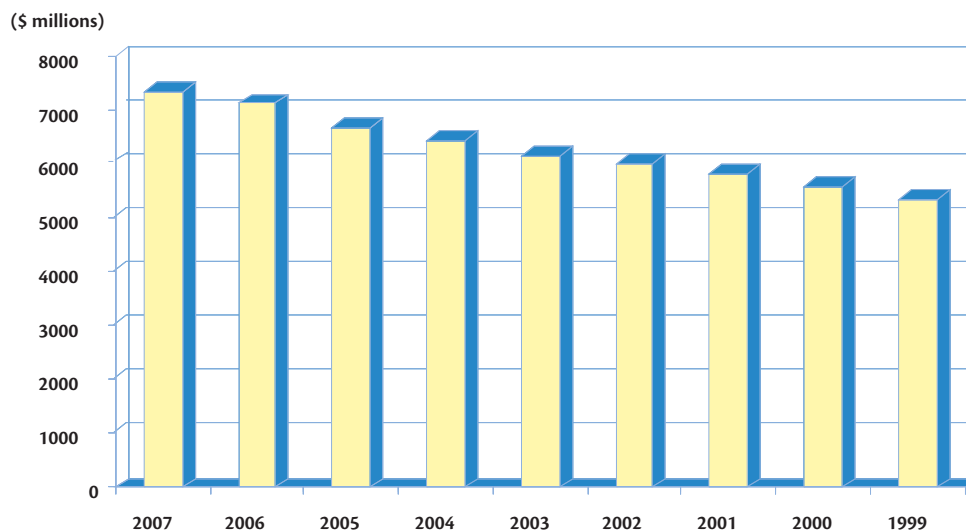
shifts in the composition of pieces delivered by Canada Post have eroded the corporation's revenue generating base.

The universal service obligation and public policy obligations impose considerable costs on Canada Post. Traditionally, Canada Post has relied on its reserve (monopoly) markets to generate the revenues needed for its USO and policy obligations. However, changing market preferences are eroding demand in the traditional reserve areas, so that this support is weakening. Canada Post has reported to the Advisory Panel that a financing gap of \$0.5 billion now exists between the revenues generated in its reserve area and the combined costs of fulfilling its USO and public policy obligations.

(iii) Rising costs

Canada Post also faces the challenge of containing cost pressures. Canada Post's consolidated operating expenses grew at an average annual rate of 4.1% over 2003-2007. The rate of growth in consolidated operating costs has been accelerating over this period, however, rising from a growth rate of 2.7% in 2003 to 6.5% in 2006. Canada Post had some success in reversing this acceleration in 2007, tightening control over administrative and discretionary costs, lowering pension expenses, and containing rural mail delivery costs. As a result of these developments, operating costs in 2007 (at \$7346 million) were \$125 million lower than planned. Much of Canada Post's consolidated expenses are fixed costs, determined by the USO and implementation of its public policy objectives, rapidly growing labour costs, and an aging capital stock. Without underlying structural changes, there are limited opportunities to control costs over the long term though discretionary measures.

Figure 2: Consolidated Costs of Operations



Sources: Canada Post Annual Reports

There are three issues that are of particular note in this regard:

- Constraints on managing USO costs;
- The high cost of labour; and
- Pension costs.

During the strategic review, Canada Post noted that the moratorium on the closing of rural post offices has had the effect of leaving rural services untouched. This puts financial pressure on Canada Post. While 60% of its postal network is located in designated non-urban areas, 80% of Canadians live in urban areas. A large share of the costs incurred by these rural post offices is fixed, and is certainly no lower than if the post office were in an urban area. Limited rural demand, however, means that the revenues generated by the current rural network are often insufficient to cover the costs. This is one example of how the choice of instruments to deliver the USO has financial implications for Canada Post. The corporation often finds itself inhibited from altering these instruments in order to contain costs.

Canada Post's operation is relatively labour intensive, so that its changing labour costs have a significant impact on trends in its overall operating costs. Growing salaries and benefits, combined with contractual provisions that appear to limit labour flexibility, have seen a growth rate in labour costs that has outpaced total operating costs. This provides a formidable challenge for Canada Post's self-sustainability.

Canada Post's pension plan is regulated under the federal *Pension Benefits Standards Act*. The plan is subject to various actuarial valuations, including the need to make determinations of required funding and expenses on both an ongoing and a solvency basis. The plan is more than fully funded on an ongoing concern basis. However, variations in the obligations it faces to make sure that the pension fund is continually funded on a solvency basis can be dramatic. A valuation on a solvency basis considers whether Canada Post has sufficient resources in the pension fund to generate enough income to cover the plan's liabilities should the corporation be wound up. Estimates of the necessary funding level using a solvency basis can fluctuate significantly with changes in discount rates and market valuations. Canada Post argues that it is unnecessary to insist that the pension plan should be funded using a solvency valuation because the corporation cannot be wound up without an Act of Parliament, and the likelihood of this happening is practically non-existent.

(iv) The modernization challenge

Canada Post's current plant and equipment are of pressing concern, particularly in the context of the discussion of financial sustainability. Much of Canada Post's capital stock is old and inefficient. Most of its 21 processing plants are over 40 years old. Moreover, its sorting equipment cannot operate as efficiently as it should or provide the timely parcel tracking services and online mailing tools increasingly demanded by consumers. Failure to update its aging and inefficient buildings and equipment risks compromising employee health and safety, increasingly aggravating operating costs over time, and adversely affecting the environment.

Ensuring financial sustainability for Canada Post over the coming years will require major investments to modernize the corporation's operations. Canada Post has initiated a renewal in its capital stock with a program of building upgrades and replacements that, combined with investments in new sorting equipment, will reduce significantly its reliance on manual mail sorting.

Replacing obsolete capital equipment will generate significant annual cost savings. If successful, the postal modernization program will also increase the corporation's competitiveness and ensure that the USO remains adequately financed. Estimates by Canada Post suggest that the modernization plan could generate annual savings beginning prior to 2015 in an eight-year pay back.

In order to carry out this modernization plan, Canada Post will require increased and substantial access to financial resources. The cost of the planned postal modernization program is estimated to be in the order of \$3 billion, over and above the ongoing investment costs needed to maintain normal operations. The low profit margins and borrowing levels that Canada Post currently experiences will challenge its ability to attain the financing required to carry out the necessary capital investments. It is estimated that there will be a funding gap of around \$1.7 billion unless Canada Post borrows these funds. In order to fill this financial gap, additional flexibility on debt levels will be needed. In-house adjustments and institutional changes will also be needed to enhance Canada Post's profit margins over the short term to help fill the gap and to maximize the corporation's ability to secure additional debt at favourable terms.

(v) Financial targets and the 1998 Financial Framework

After the completion of the Radwanski mandate review, Toronto Dominion Securities Inc. and Dresdner, Kleinwort, Benson (referred to as TDSI) were engaged by the government to assess Canada Post's financial position. In 1997, TDSI proposed a number of financial targets for Canada Post that, if attained, would allow Canada Post to be financially self-sustainable, assuming a rate of increase in stamp prices for basic letter-mail equal to two-thirds of the rate of change in the CPI.

TDSI's report defined financial self-sustainability as that condition in which Canada Post's financial situation would be consistent with that of a private sector firm operating in a similar market. In practical terms, it interpreted this to mean that Canada Post should be able to borrow in public markets under terms consistent with a BBB credit rating without a government guarantee. Moreover, TDSI in turn sought to determine the return on equity and dividend levels that Canada Post would need to maintain, in order to attract equity investors while still fulfilling its public policy mandate.

TDSI's proposed targets provided a starting point for the development of the 1998 Financial Framework Agreement between the Government of Canada and Canada Post. The final version of the Framework was influenced by the TDSI study, but the final targets differed somewhat from those that TDSI had recommended. The Advisory Panel believes that this reflected the government's view that Canada Post's Crown corporation status would make it difficult to institute a framework consistent with TDSI's recommendations. Moreover, there was considerable change and resulting uncertainty about the postal economic environment that led the government to recast TDSI's 1997 proposed targets.

As noted earlier, internal and external factors have made the financial targets laid out in the 1998 Financial Framework difficult to achieve in recent years.

Generally, the Panel believes that the circumstances that motivated the government in 1998 have changed considerably, so that it is appropriate that the 1998 Multi-Year Financial and Policy Framework be re-considered and updated. This would not be an unusual step. Peer postal administrations which operate within similar financial frameworks have a periodic renewal process in place for financial targets. More specifically, such a change is warranted because:

- The business environment has changed considerably over the last decade, and the recent financial crisis has compounded this issue;
- Canada Post functions in increasingly competitive and changing market and operating conditions – from the loss of core market because of electronic substitution to the increasing presence of international competitors in the era of globalization;
- Canada Post has a significant capital investment requirement to address obsolescence and modernization – to replace out-of-date equipment, to remove inefficiencies associated with aged facilities, to sustain service standards, and to retain competitive offerings;
- Canada Post faces escalating cost pressures within a restrictive price-setting regime;
- The current financial market turmoil will likely result in increased pension funding and loss of contribution holiday; and
- The current pricing regime limits revenue generation to recover costs and also to finance capital investment, and third-party financing is required as planned capital expenditures are greater than Canada Post's annual free cash flow.

Moreover, the financial targets in the 1998 Framework have in most cases lost their original value or purpose or have become inappropriate:

Earnings Before Interest and Taxes (EBIT)

- A target like this needs to be reviewed periodically for changes in business mix, financial markets, and the postal market;
- A fixed target does not allow for inflation, growth, or operating/pricing flexibility; and
- Significant changes have occurred in the past 10 years.

Return on Equity (ROE)

- This target needs to be set in the context of capital structure and business risk;
- The ROE needs to be reviewed periodically for changes in Canada Post's business mix and operating/pricing flexibility, financial markets, and the postal market; and
- Significant changes have occurred in the past 10 years.

Dividend Payout Ratio

- At present, this payout ratio is inflexible and tied to ROE exclusively, rather than to the stage in which Canada Post functions in the business cycle;
- A lower dividend payout may be appropriate during periods of growth or significant capital investment; and
- The payout ratio does not consider services provided at off-market rates to the government.

Debt-to-Capital Ratio

- The ratio should require the inclusion of capitalized operating leases as debt; and
- A fixed target does not provide the flexibility needed during an investment cycle.

Productivity Ratio

- This is not a widely recognized financial measure;
- The target does not provide for one-time costs (restructuring or integration), specific investment (modernization), or cost deferrals;
- It encourages short-term fixes over long-term strategic decisions to meet the target;
- The target does not consider the ability to change or to improve the cost structure; and
- Significant changes have occurred in the past 10 years.

Stamp Price Increases

- An inflexible cost structure severely limits Canada Post's ability to drive efficiencies;
- The CPI formula does not reflect the significant labour component of CPC's costs nor the fuel and related transportation costs; and
- The current approach does not reflect capital renewal needs or requirements of the business.

(vi) Creating a Revised Financial Framework

In Part III of the report, the Advisory Panel will present the basic ingredients of a revised Financial Framework for Canada Post, for illustrative purposes. This can be viewed at Annex II. In conjunction with the new Service Charter, this would create a contractual framework between the Government of Canada and Canada Post. The remainder of this section will present the Panel's considerations in creating a revised Financial Framework and the basic components or targets within it.

Background

In considering a revised Financial Framework, the Advisory Panel looked to and reviewed a number of successful peer postal administrations such as Austria, Australia, New Zealand and Sweden. An analysis of these postal regimes confirms the importance of a Financial Framework that guides those postal corporations to financial self-

sustainability and provides an effective framework that includes provisions for renewal, implementation, and valuation. These regimes share a number of key components that were not part of the 1998 Financial Framework:

- The ability to set stamp prices;
- Frequent performance assessments;
- Repercussions for missed targets; and
- An annual review process to ensure that targets account for changing business and economic dynamics.

The Advisory Panel looked to and reviewed sectors and companies with similarities to Canada Post, such as the telecommunications, pipeline and utilities, and courier industries. Canada Post has historically been compared to monopoly-like utilities such as pipeline and gas and electric utilities, as a large infrastructure, low-growth safe monopoly-like company with a social mandate in a regulated environment. However, technology and globalization have created an increasingly competitive environment for Canada Post, making it closer in appearance to a communication's company, as a large infrastructure firm with ongoing capital expenditure requirements functioning in a mature economic sector with competition in certain segments. Moreover, through its ownership of Purolator, Canada Post functions in the competitive courier market.

The Advisory Panel feels that a financial framework must also consider:

- Canada Post's unique business risks and financial characteristics;
- The need to provide incentives to control costs;
- The requirement for periodic intensive capital expenditure programs and to remain technologically current;
- The sensitivity of Canada Post's earnings to the economy and changing market dynamics; and
- The need for a strong investment grade rating from credit rating agencies.

With respect to process, the Panel suggests that this revised financial framework be established within a collaborative process between the government and the Board of Canada Post:

- The negotiation and implementation of the revised financial framework will likely require a significant transition period;
- Canada Post's performance against the Framework's target ranges should be reviewed annually with the government;
- Detailed explanations of performance and a resolution plan for failure to meet targets should be provided; and
- The target ranges proposed should be reviewed annually to determine if they are still appropriate, given the current financial markets, industry and business of Canada Post.

Components of the Revised Financial Framework

After reviewing and analyzing Canada Post's financial situation, the Panel notes two important imperatives:

- Operating within its current conditions, Canada Post needs to generate at least \$1.7 billion in incremental earnings or financing to meet the capital investment requirements of its modernization program. It is the Panel's view that Canada Post will be challenged to generate sufficient cash to fund the modernization process; and
- The modernization program itself is a necessary but not sufficient condition for Canada Post to achieve and to maintain financial self-sustainability. Increases in stamp prices over and above that provided in the revised financial framework may be required.

The need for these incremental earnings provides a kind of 'test' or objective for financial self-sustainability, and gives direction to what a revised financial framework should establish – if the Financial Framework is to be a constructive instrument and not simply an empty, formal one. In this context, in order for Canada Post to be financially self-sustainable, it must be able to generate:

- Sufficient cash flow to fund capital expenditures, working capital, and payment of dividends;
- An EBITDA (Earnings before interest, taxes, depreciation and amortization)/ interest-expense ratio (explained below), such that a government guarantee would not be required to raise capital in the debt markets; and
- A commercially acceptable return on equity rate.

In constructing a proposed revised Financial Framework, the Advisory Panel has focused on the following:

- A set of financial targets focusing on capital structure, profitability and dividend policy, which together provide an accurate and informative assessment of financial performance;
- A productivity target should be included, to demonstrate that there are positive results to the modernization plan; and
- Price-setting ability in the lettermail segment that is linked to Canada Post's costs.

The Panel also considered:

- Creating a framework that reflects the best practices of peer postal administrations;
- Creating a framework that combined/balanced the metrics of similar sectors – telecommunications, pipelines and utilities, and couriers;
- Encouraging efficiency and internal independence while providing flexibility;
- Requiring periodic assessment to ensure that changes in the operating environment and economic conditions are considered; and
- Establishing ranges for individual targets, to reflect the fact that market conditions change and Canada Post's investment and performance needs also change. In Part III, the Panel presents a 'dynamic' framework, which presents different targets or metrics for each of three phases: the investment phase, the transition stage, and the steady state.

The Financial Framework should be reviewed annually to ensure that target ranges are appropriate for the environment at any particular time. The Financial Framework should also be constructed in a way that reflects Canada Post's changing capital investment and modernization needs, over a cycle of long-term investment. Management of the framework should be part of the annual budget and strategic planning process. The framework should be reviewed on an annual basis, with any changes requiring government approval. The operation of the framework will require detailed explanation and a specific action plan for failure to meet targets.

The primary financial targets focus on Canada Post's capital structure, its target profitability, and the dividend policy it should pursue. Together, the Advisory Panel believes that these provide an accurate and informative assessment of financial performance and capacity.

With respect to capital structure (which includes its operating leases), targets must support:

- Canada Post's ability to obtain the required strong investment grade rating so that it will be able to access the debt capital markets; and
- Canada Post's ability to set an appropriate level of recurring cash required to cover its debt and lease costs.

Suggested New Financial Metrics and Indicators

TDSI was engaged as a consultant to the Panel. TDSI has an extensive history and involvement with the Government of Canada and Canada Post regarding financial performance indicators and monitoring.

Three metrics are proposed to assess Canada Post's capital leverage potential and its liquidity. The first metric is the total debt to EBITDAR ratio. EBITDAR refers to 'earnings before interest, taxes, depreciation, amortization and rent'. This metric is a very good indicator of financial performance and a good indicator of profitability. The debt-to-EBITDAR ratio demonstrates debt relative to cash flow. A ratio that is too low would indicate that Canada Post is underleveraged and a ratio that is too high is indicative of too much debt. The "Steady-State" section of the revised Framework presents a ratio in the range of **2.5 and 3.5**. The second metric is total debt to book capital, which also provides an assessment of how the firm is leveraging its capital. The "Steady-State" section of the Revised Framework proposes a **45% to 55% ratio**. When attained, these two ratios will support Canada Post's case to have an investment grade appropriate to access the debt capital market.

Canada Post's liquidity can be assessed by the EBITDAR minus capex/interest ratio, where capex refers to maintenance capital expenditure. This ratio shows the ability of the firm to generate sufficient cash flow to cover interest expense after maintenance capital expenditures are made. The ratio reflects an estimate of the recurring cash generated by the business that can be used to cover debt and lease costs. The "Steady State" section of the revised Framework presents a range between **1.5 and 2.5**.

With respect to profitability, the Advisory Panel suggests that ratios be established in the following areas: an EBITDA margin and a return on equity (ROE) target. As noted

earlier, earnings before interest, taxes, depreciation and amortization is a good indicator of profitability and is a widely used metric to assess the recurring cash generated. The “Steady State” section of the revised Framework presents a figure between **10% and 15%**.

With respect to dividend policy, the Advisory Panel suggests that lower payout ranges would be appropriate while Canada Post is undergoing an extensive modernization program, with the payout ranges rising as Canada Post exits the intensive investment cycle and enters a more normal, steady-state condition. The Framework suggests a **50% to 60%** payout range at steady-state, after modernization (during which time the range could be between **0 and 20%**). The dividend ratio and ROE provide good proxy indicators of what Canada Post would have to demonstrate to the market so that it would be able to attract equity investors. The Revised Framework presents a **12.5% to 17.5% ROE**.

As noted earlier, the ratios or metrics for each of these financial indicators should be presented in a dynamic framework, which would mark appropriate objectives in each of the investment, transition, and steady state phases.

The Panel strongly recommends the establishment of a productivity ratio, which is not strictly speaking a financial ratio. But it is important to track that there has been a pay-off to the modernization plan. One possible productivity ratio would be (*operating expenses plus depreciation*) divided by *revenue*, which would provide a measure of total expenses incurred versus revenue. Another is an EBITDA margin – (*revenue less operating expenses*) divided by revenue, which is an estimate of pre-tax cash earnings versus revenue. This latter revenue focuses on the amount of cash expenses (predominantly labour) required to generate revenue.

With respect to pricing, the Advisory Panel does not feel that a performance-based price cap on stamp prices – as in the 1998 Framework – is appropriate, given the character of Canada Post’s present inflexible cost structure. A new stamp pricing regime should be linked to some national index that reflects those components that drive Canada Post’s costs: labour and transportation. Price increases within that index should be within Canada Post’s control; increases beyond that index would require government approval. A pricing index should:

- Allow Canada Post some business flexibility;
- Allow it to more than recover its costs; and
- Reflect Canada Post’s cost structure, which is dominated by labour and transportation costs.

The Panel has not formulated an index that is appropriate to the last point, but recommends that any index chosen should, at a minimum, be at full CPI.

Assessment and implications

The proposed revised Financial Framework is presented in Part III (Annex II) for illustrative purposes and is based on calculations provided by professional consultants. Will Canada Post achieve financial self-sustainability if it performs to the standards set

in the Revised Financial Framework? This can be tested with a steady state scenario that assumes:

- Lower postal volume growth in the moderate range: 0.9% lettermail decline, 3% parcel growth, 4% addressed and 3.5% unaddressed admail growth;
- Increased operations group expenses relative to the Corporate Plan;
- A pension solvency deficit due to lower-than-expected returns on the pension plan assets in 2008 and 2009; and
- A two-cent stamp increase in 2009 and none thereafter.

Under such a steady state scenario, Canada Post is unlikely to achieve financially self-sustaining levels, even with the successful execution of the modernization program. It should be noted that financial self-sustainability is highly sensitive to volume forecasts, which are difficult to predict. If lettermail volumes decline even slightly more than anticipated (-1.5%), and growth in other areas is weaker (parcels at steady-state and admail at 1% and 2%), then the financial shortfall becomes quite considerable and potentially out of control.

In order for Canada Post to attain the target financial leverage ranges needed to obtain the necessary funding from the debt markets, incremental earnings will be required. On the cost side, this could be partially addressed by limiting the costs of PPOs, and/or by addressing benefits and pension issues, and/or by addressing its high proportion of fixed costs. On the revenue side, this would require further stamp increases in 2010 and beyond, as follows:

- The proposed two-cent increase in 2009, followed by a three-cent increase in 2010, followed by 3% rises annually thereafter; or
- The proposed two-cent increase in 2009, followed by a five-cent increase in 2010, followed by one-cent annual increases thereafter.

In short, pricing and operating flexibility will be required for Canada Post to complete the modernization program and maintain financial self-sufficiency.

IV – Rural post

In the Terms of Reference assigned to the Advisory Panel, the Minister presents a number of principles that direct us to consider the rural post as having special stature in our considerations:

- Canada Post must maintain a universal, effective and economically viable postal service; and
- Canada Post is to continue to act as an instrument of public policy through the provision of postal services to Canadians.

The Advisory Panel believes that the future of postal services in rural Canada requires particular attention. This became clear in our consultations, discussions and deliberations, and in our review of recent postal developments in Canada. The Terms of Reference point the Advisory Panel to consider the delivery of effective postal services to all Canadians, including those in rural areas, small towns, or isolated communities.

That the Government of Canada sees postal services in rural Canada as an important public policy issue is evident through its actions and statements over the last decade, from the 15-year-old moratorium on post office closings in rural areas to the 2006 directive to Canada Post to restore and maintain rural mail delivery to rural roadside mailboxes, where safe to do so.

The continuation of a blunt policy instrument like the moratorium on rural post office closings and the issuing of an equally blunt rural mailbox directive are symbolic of the fact that this is an unsettled policy area. Canada Post and the government have not developed a mutual understanding of the rural services dimension of Canada Post's USO. The Advisory Panel believes that the formulation, articulation and communication of a clear and transparent understanding of Canada Post's roles and responsibilities in rural Canada through a redefined USO would remove a considerable amount of friction and potential for future misunderstandings between all parties concerned.

The Advisory Panel would like to clarify one key point at the start. The maintenance of an effective postal service in rural Canada is part of the universal service obligation, and part of the ultimate objective and core business of Canada Post. In this way, rural postal delivery should not be conceptualized as a public policy objective, as defined earlier. At the same time, how the USO is realized in rural Canada should be as open to discussion as is any other dimension of the USO and the postal system.

(i) The rural postal network

The setting for recent discussions of postal policy in Canada is the moratorium on postal closings in rural areas by the federal government in 1994. This moratorium followed an extended period of post office rationalization in both urban and rural Canada in the late 1980s and early 1990s. This rationalization was part and parcel of Canada Post's efforts to contain its costs during this period, and included other changes in service delivery, such as the introduction of community mailboxes in suburban areas. It is interesting to note that no subsequent government has undone the rationalizations that took place in the late 1980s and early 1990s, in either urban or rural Canada.

With respect to urban post offices, the rationalization initiative involved the closure of corporate post offices and the opening of privately owned dealer outlets within private commercial operations. In rural Canada, this involved the closing of post offices in towns with a dwindling population and/or little or no postal business. By 1992, 30% of the rural network had been changed or was in the process of being changed. Some 1245 post offices had closed, while 1000 others were replaced by retail outlets and 250 by outdoor boxes.³

This brief review of changes to service delivery in the late 1980s and early 1990s serves to demonstrate that Canada Post's initiatives to contain costs were not limited to rural Canada. Corporate post office closings, the introduction of dealer outlets and the advent of the super mailboxes or community boxes were urban initiatives that were

³ Campbell, *The Politics of the Post*, p. 281

controversial and disruptive, but have since settled into normal postal convention. Urban residents continue to receive their mail, but in a mix of delivery modes – including picking up mail at community boxes. Similarly, many corporate post offices have closed and access to postal services is increasingly made through dealer outlets and shops. The goals of delivery and access have remained, but the instruments to attain them have changed.

The situation in rural Canada is similar, albeit of a qualitatively different sort because of the more limited range of alternative options available. Nonetheless, the issue is the same: how to operationalize the goals of the USO via instruments that are appropriate to evolving market and demographic conditions.

There is considerable anxiety in rural communities about any initiatives that appear to weaken or to eliminate rural postal services. This relates not only to post office closures, but also to the processes used in realizing these closures or rationalizations. The Advisory Panel understands how important these post offices in rural areas are to a community's economic viability, identity and sense of social importance. However, many of the existing rural corporate post offices were established in conditions very different from the present and reflected different needs, lifestyles, economic factors, trading patterns, transportation routes and modes, and communications options.

The Advisory Panel heard from Canada Post that, given its commercial obligations and financial realities, the corporation would like to impart a degree of financial and economic rationality on its network in rural Canada, pointing to the following:

- Some (perhaps many) rural post offices are uneconomical to operate, and produce a net loss or cost more to operate than a franchise arrangement;
- There are often a number of significantly under-utilized post offices in one area, where one outlet might service everyone economically;
- In some cases, when operators leave existing post offices, it is difficult to impossible to find replacement postmasters to operate the outlets;
- The current process for closing or replacing a rural post office is cumbersome, expensive and time consuming; and
- A number of the communities that appear on the moratorium list have become more urban than rural in character, and should be removed from the list.

Canada Post would like to modify the moratorium to reflect demographic and market conditions. It proposes the introduction of a proximity based approach to the issue, as follows:

- 98% of Canadians will be within 15 kilometres of a postal outlet;
- 85% of urban Canadian households will be within 2.5 kilometres of a postal outlet; and
- 80% of rural households will be within 7.5 kilometres of a postal outlet.

The Advisory Panel believes that a review of the rural post office moratorium is overdue, given that much has changed in many parts of rural Canada since the 1998 Framework was established. It is the Advisory Panel's view that a new and more explicit mechanism should be developed to replace the moratorium. It should have a clear set of rules

and procedural guidelines that would both safeguard and respect the postal service needs of rural Canada, while allowing Canada Post a degree of flexibility to deal with emergent issues and still respect the service needs of rural Canadians.

The Panel believes that all parties – rural communities, rural postal outlet users, Canada Post, and the government – would benefit from the government replacing the current approach with a clear policy statement in the USO that delineates what the government expects Canada Post to continue to support, with respect to rural posts, over the long term. Ideally, this would be complemented by specific references in the Service Charter, which would serve to clarify expectations and responsibilities with respect to the number and location of rural postal outlets and the levels of access/service levels to be provided to rural Canadians. These specific obligations would be developed through a consultative process led by Canada Post, with its conclusions and approach clearly explained and approved by government and would subsequently become a public document posted on Canada Post’s website and would be directly reflected in Canada Post’s business and corporate plans.

The Advisory Panel suggests a two-fold approach to establish this new rural postal service obligation. First, Canada Post and the government need to agree on a new definition of what should be considered “rural” for postal purposes, and this definition should reflect current population patterns. The Panel recommends that the new definition be established initially as “communities with a population of 10 000 or less”. Second, a mechanism would be established to set postal services expectations for Canada Post in rural Canada. This mechanism would allow Canada Post some flexibility to deal with emergent issues as well as cases where lower-cost alternatives could be put into place with little or no negative impact to the communities being served.

The first step would be to redefine what constitutes a rural community, using the definition noted above. This would remove from the list certain communities that have grown and can no longer be considered rural. Some examples include Abbotsford, British Columbia; Lethbridge, Alberta; Timmins, Ontario; Boucherville, Quebec; and Moncton, New Brunswick.

The second step – the creation of a mechanism to set rural postal service expectations – would involve the development and adoption of proximity criteria, similar to those proposed by Canada Post in its submission to the Advisory Panel. However, this would specifically consider 100% of Canadians currently served in rural Canada through postal outlets, rather than the 98% reflected in Canada Post’s proposal. This would be the starting point for creating a list of all rural communities currently served. The list would show both the maximum service radius currently in effect, as well as the population or number of addresses served. It is proposed that Canada Post develop the proximity criteria through a consultation process directly involving rural Canadians. As a starting point, the Panel suggests that the rural component of the Federation of Canadian Municipalities be considered as an initial consultation vehicle to aid in establishing the proximity criteria and to further develop and test the acceptability of the concept being proposed.

As communities in rural Canada continue to evolve and their demographics change, it is important that Canada Post have some degree of flexibility to deal with emergent issues such as:

- The catastrophic loss of an existing facility;
- The need to address consistent and significant financial losses where alternate arrangements with adjacent communities to rationalize services would have no significant impact on service or access and would provide acceptable service levels to the communities directly affected;
- Major problems with finding replacement staff for rural locations; or
- Other emergent situations which Canada Post identifies and which the government and community, after consultations, deem to be appropriate.

The Panel also believes that Canada Post should be allowed to consider the use of dealer outlets in any of the scenarios noted, provided that existing services levels are continued or enhanced.

To ensure that CPC respects its ongoing commitments to providing rural services, rural service should be specifically incorporated into the USO requirements and further specified in the Service Charter with the Board of Canada Post being held accountable by the Minister for compliance. In this scenario any postal rationalizations or closures that result would be publicly disclosed and subsequently reviewed as a standing agenda item at the Minister's and the Board's annual meeting. The Advisory Panel is of the view that the Ombudsman should be designated as the party to which the public or directly affected communities can voice concerns with the process and/or approach used by CPC. The Ombudsman would present his/her findings in a public manner to the Board chair along with his/her recommendations for corrective action if deemed appropriate.

To further protect rural postal services, the Service Charter should specify the minimum number of postal outlets in rural Canada that CPC must maintain. As a starting point, that number should be set at 20 fewer outlets than now exist in rural areas. This would give Canada Post some leeway to refine its existing community consultation model and allow the Board, the shareholder and rural communities in general time to develop a comfort level with the process as it unfolds. Annual adjustments to this number could subsequently be considered as part of the criteria put forward in conjunction with Canada Post's corporate plan. The revised number would have to be specifically and independently approved by the Minister during the regular approval process.

(ii) End-of-lane delivery in rural Canada

The previous section focused on rural Canadians' access to a postal network – to postal outlets and shops, where they could purchase postal products, drop off or collect a parcel, and so on. There is a second dimension to discussion about postal services in rural Canada, and that is rural mail delivery. In 2006, in the context of an extensive health and safety review of rural mail delivery to the end-of-lane, the government issued a directive to Canada Post to restore and maintain rural mail delivery to rural

roadside mailboxes while at the same time respecting all Canadian health and safety laws.

Delivery to the end-of-lane – basically to a roadside box at the end of a property owner's lane or driveway – has its origins at the turn of the 20th century in southern Ontario. It has subsequently expanded to include approximately 800 000 individual addresses served by Canada Post, predominantly in Ontario, Quebec and the Maritimes, as well as some cases in the West.

A number of rural mail delivery drivers filed health and safety concerns and complaints about the unsafe conditions associated with delivering to various end-of-lane addresses. After investigation, the Labour Program of Human Resources and Skills Development Canada issued a number of cease-and-desist orders to Canada Post, requiring it to stop delivery to certain end-of-lane mailboxes. These specifically related to situations where delivery vehicles were not able to fully pull off the road to deposit mail into the end-of-lane mailboxes, thereby causing a potential and serious safety hazard with respect to collisions between the delivery vehicles and passing traffic.

Canada Post initiated a traffic safety review in response to these concerns and legal orders, and stopped service to any mailboxes where unsafe conditions were confirmed. Mail service was continued by relocating the individual box or by changing the pickup point to a local post office or community mailbox.

There was also a health or ergonomic issue related to the repetitive nature of the actions required to reach across the passenger seat of the delivery vehicle to insert mail in the end-of-lane boxes. These situations were most frequently addressed by adding a helper to assist the carrier to make the delivery.

On closer scrutiny, it is clear that this issue reflects the evolution over several decades of demographic, transportation and communication trends in Canada. Many of the affected residences are on roads that were once quiet lanes. Now, these same residences sit on high-traffic streets and highways, where there is a serious potential for accidents and injury both to the people delivering the mail and to passing motorists. In this context, and after discussions with Canada Post and the Labour Program of Human Resources and Skills Development Canada, the Advisory Panel believes that the traffic safety reviews undertaken by Canada Post were not only necessary, but were long overdue in some circumstances, particularly given the changes over time in traffic speed and road usage.

The Advisory Panel also believes that in the longer term, it is sensible to reconsider this method of mail delivery. Many of the communities served by this method have changed with the times. Residents generally have motor vehicles and regularly shop and conduct routine business in nearby communities and commercial centres. With the spread of high-speed Internet services throughout Canada including in rural areas, mail volumes are expected to decline over time. Given what the Panel perceives to be legitimate safety concerns associated with this method of delivery, and given the different rhythms of daily life and the increasing availability of electronic communications capability in rural Canada, the Advisory Panel suggests that Canada Post give serious consideration to the longer-term appropriateness and viability of this mode of

mail delivery. The Advisory Panel believes that a proactive community engagement process should be undertaken to review current services and consider whether acceptable alternatives could be implemented for the communities involved that would eliminate personal injury risks to Canada Post personnel and more appropriately reflect current lifestyles.

This discussion of end-of-lane delivery raises a general issue for Canada Post and its communities, and that is how to devise the most appropriate and cost-effective instruments for pursuing the USO obligation in different circumstances. Existing methods – like lot-line delivery and door-to-door delivery – are decidedly convenient for customers and are often seen as a right. Perhaps the time has come to decide whether these considerations outweigh the very real costs involved – costs which are not borne by taxpayers, but rather by all postal users, including the majority who do not receive what they would consider to be a ‘premium’ service. The Advisory Panel believes that it would be timely, in the context of Canada Post’s capacity to be self-sustaining over the long-term, for Canada Post to engage Canadians in a discussion of the trade-off between the costs of providing these services versus the value received.

As a first step in advancing this discussion, the Advisory Panel suggests that Canada Post specifically include in its annual report an overview on the delivery methods it uses, indicating the number of addresses served with each delivery method and the financial costs and environmental impact of each on a per-unit basis. At some point, it is anticipated that hard decisions will need to be made regarding the net value to Canadian postal users of continuing these premium delivery service modes. It is believed that an appropriately informed discussion would produce the most appropriate decisions for both Canadians and for Canada Post.

V – Governance

In the Terms of Reference assigned to the Advisory Panel, the Minister presents a number of principles that direct us to consider the governance of Canada Post as being critical to the strategic review:

- Canada Post will not be privatized and will remain a Crown corporation;
- Canada Post must maintain a universal, effective and economically viable postal service; and
- Canada Post is to continue to operate in a commercial environment and is expected to attain a reasonable rate of return on equity.

Moreover, the Terms of Reference (IV.Scope, Part D – Financial and Performance Targets) direct the Advisory Panel to:

- Assess whether the parameters set out in the 1998 Multi-Year Policy and Financial Framework are still valid and provide appropriate accountability;
- Consider whether there is an appropriate policy and Financial Framework to ensure that Canada Post can compete successfully in the marketplace and meet its public policy obligations;
- Establish appropriate financial and performance targets for Canada Post that will reflect its dual public and commercial objectives, and support its

- efforts to improve the corporation's cost structure and efficiency and meet future infrastructure needs; and
- Consider how service delivery standards should be established.

The governance regime for Canada Post as a federal Crown corporation is set out primarily in the *Financial Administration Act* (FAA) and in the *Canada Post Corporation Act* (CPC Act), and this regime is operationalized through the corporation's relationships with the Minister responsible, the Minister's portfolio department (Transport Canada), and with Treasury Board Secretariat, Department of Finance and the Privy Council Office.

The strategic review's Terms of Reference reflect the importance that the Minister responsible for Canada Post assigned to the challenging questions of the governance and accountability of Canada Post, which is owned by the Government of Canada but operated by an arm's-length Crown corporation. How does one ensure accountability and service standards and expectations – from financial to USO considerations – when one wants the post to perform with autonomy and to be commercially successful and viable?

In her 2005 Status Report on the Governance of Crown Corporations, the Auditor General noted that the “responsibilities and expectations of the government regarding Crown corporations still need to be clarified.” Government officials have indicated to the Advisory Panel that progress has been made since that time and certainly the Panel has neither seen nor heard anything to suggest that there is inadequate oversight of the corporation. Nevertheless, it is the Advisory Panel's view that the current governance model needs improvement.

As reported in Part I, the experience of many posts abroad demonstrates that appropriate governance or institutional arrangements can contribute substantially to the creation of a viable post and effective postal policy. The Advisory Panel believes that there is lack of clarity resulting in uncertainty in the Canadian system about how much corporate autonomy Canada Post should enjoy.

This is not terribly surprising, given that the governance context for Canada Post is essentially unique. There are few, if any, other commercial Crown corporations of Canada Post's scale, financial significance and complexity. This makes it very difficult to create general rules and approaches.

The uncertainty is also not surprising, given that Canada Post evolved from a government department in 1980 into an increasingly corporate and commercial entity functioning in an increasingly competitive market. At each stage, its need for corporate autonomy and authority has changed. At the same time, governments have had to adjust their accountability needs as corporate autonomy has increased. And as governments changed over this period, so did their political, ideological and policy orientations. Hence, there has been a fluid but not necessarily harmonious evolution of Canada Post's quest for autonomy and the governments' need for some degree of accountability and control. It is not surprising that the respective sense of authority, responsibility and duties has not always been in equilibrium.

It is the Advisory Panel's view that what is needed at this stage in Canada Post's evolution is to update, clarify, make transparent and operationalize the respective roles, responsibilities and authority of the government (shareholder), the Board of Directors, and Canada Post's management. This will create a policy and governance environment that will encourage effective and timely thinking to support decisions and action about the USO, the rural post, modernization and financial sustainability.

(i) The historical evolution of governance relations

The relationship between the government's authority as shareholder and Canada Post's autonomy as a Crown corporation has been a dynamic, complex and changing one.

When Bill C-42 transformed the Post Office Department into Canada Post Corporation, it took postal operations out of the sphere of day-to-day government control and placed them in an arm's length Crown corporation, financially independent of government. From the outset the governance relationship between the government and Canada Post was a mixture of autonomy and control. This mix has evolved over time, and has blurred somewhat the players' sense of authority and responsibility in recent years.

Bill C-42 assigned Canada Post a degree of corporate autonomy:

- It created an 11-person independent board of directors, made up of nine directors, the CEO and a board chair responsible for devising corporate strategies and plans for government approval;
- The board was given authority to appoint a professional management team, and its employees were no longer part of the public service;
- Canada Post was allocated some degree of financial independence from government by being granted an exclusive privilege (or monopoly) for lettermail; and
- There would be no third-party independent regulation of Canada Post's activities and there would be no postal department or secretariat to which Canada Post reported.

This corporate autonomy was balanced or made accountable to the shareholder (the government) in many ways:

- A minister responsible for Canada Post was assigned;
- The board chair, the directors and the CEO were appointed by the government;
- The vice-presidents of the corporation were appointed by the board but approved by the government. (This has since been changed);
- The government would approve corporate plans and budgets;
- Parliament would receive Canada Post's annual reports, which would be subject to parliamentary review in committee;
- The Governor in Council would hold ultimate authority for price and regulatory changes;
- Canada Post could not acquire shares or companies without government approval;

- Canada Post could not borrow, take on debt, or sell property without the approval of the Minister of Finance;
- The government would hold a directive power that it could use to compel Canada Post to take actions it would not otherwise perform; and
- The government had the authority to audit Canada Post's books.

Over and above this formal or direct authority, the goals of Bill C-42 set two operational objectives that Canada Post would have to fulfill and to which it was accountable, and which would shape its operations and practices:

- Canada Post's operations had to be conducted on a self-sustaining basis; and
- Canada Post was to provide "a standard of service that will meet the needs of the people of Canada and that is similar with respect to communities of the same size."

So, while Bill C-42 created Canada Post as an autonomous corporate entity – and, indeed, instructed it to act as a commercial operation and be financially self-sustaining, Canada Post's autonomy was counter-balanced by considerable government authority.

The subsequent relationship between government authority and corporate autonomy has been an uneasy one. In the early years of Canada Post – the early and mid-1980s – this partially reflected the fact that Canada Post's objectives were fairly nebulous and many of the process relationships were obscure. With respect to the former, it was not quite clear precisely what self-sustaining meant, or how service standards were to be set and/or evaluated. With respect to the latter, governmental approval processes involved several bodies, including Treasury Board, Finance, PCO and whatever department the Minister was heading. And issues like price changes through the government's regulatory process were always politically sensitive.

The government expressed its authority dramatically after this period, when it rejected Canada Post's 1985 corporate plan and replaced Canada Post's CEO. The government then 'clarified' its sense of many of the abstract or general features of Bill C-42 by creating the corporation's 1986 corporate plan. This plan, and subsequent initiatives, gave more concrete form to Canada Post's objectives:

- The government instructed Canada Post to balance its budget by 1987-88, to create a surplus by 1989, and to generate \$300 million in dividends and a 14-15% return on equity by 1994;
- This instruction was extended when CPC was scheduled under the *Financial Administration Act* (FAA) as a Schedule III (Part II) Crown operation functioning in a competitive market environment; and
- Delivery standards were also set (two days locally, three days regionally, four days nationally).

This was a transformative moment in Canada Post's evolution, for it henceforth functioned in an environment where its shareholder's expectations were made reasonably clear, both in financial and in service terms.

Just as important, though, was the fact that once the government made its policy objectives clear, Canada Post was given the corporate autonomy to realize the financial and service objectives set by the government. From the mid-1980s through the early 1990s, Canada Post introduced a set of initiatives designed to attain the government's objectives. This autonomy was used, among other things, to extend the use of community mailboxes (thereby limiting home delivery); to contract out sorting and delivery of parcels; to close or transform 30% of the rural network; to franchise urban post offices; to increase postal mechanization and reduce full-time employment by 10 000 employees; to move to market-based pricing of its competitive products; to limit financial support to public postal services like publications mail; and to purchase Purolator to enter the courier market.

There was considerable public and political reaction to these measures. The Minister responsible for Canada Post deflected these reactions and defended Canada Post's autonomy, maintaining that these measures were appropriately designed and directed to meet the government's expectations.

In the Panel's opinion, the developments in this period were not accompanied by complementary governance developments within government. Transparency and focus did not improve, and governance remained over-reliant on the authority of the Minister responsible for Canada Post. The government of the day flirted with, but did not pursue, the idea of third-party regulation.

The political landscape shifted in 1993 and the government subsequently communicated objectives to Canada Post in response to what had come to be considered to be the corporation's over-emphasis on achieving financial objectives to the detriment of its social obligations. The government acted to reintroduce a balance between the financial and social goals of Canada Post. For example:

- A moratorium on rural post office closures and conversions was introduced and continues today;
- The government disallowed a price increase. An increase was later approved, but a price freeze was then imposed until 2000;
- It created a mandate review (the Radwanski Review) as a way of re-examining and re-establishing a balance between Canada Post's social and financial goals; and
- The government increased Canada Post's service standards and required their independent scrutiny.

At the same time, the government confirmed that Canada Post could remain active in competitive and commercial areas beyond the narrow confines of lettermail, and that it could retain ownership of Purolator. Moreover, the government did not require Canada Post to undo the corporatization accomplishments of earlier years, such as post office closings, franchising and rationalization, and it continued to cut postal subsidies (e.g. to publishers). It further corporatized the Canada Post environment by making it a prescribed Crown corporation under the *Income Tax Act*, which required it to pay income taxes like any private sector company.

In 1998, the government created the Multi-Year Policy and Financial Framework – an initiative matching the significance of Bill C-42 and the 1996 corporate plan in the evolution of Canada Post’s relationship with its shareholder.

The Framework articulated the government’s financial expectations, basic lettermail rate price cap and some service expectations, in a series of quantitative targets. At the same time, it also confirmed Canada Post’s autonomy in the wider competitive environment. Generally, the idea was that, once the framework was in place, Canada Post would have the autonomy to pursue its commercial agenda within the parameters of the framework. Moreover, the fact that the framework was announced quietly and without public fanfare gave CPC some degree of protection and increased its autonomy.

The Framework was somewhat clearer on what the government’s expectations were, but these remained somewhat general and in some ways evasive. For example, the framework was imposed on top of some other government objectives, like the moratorium on rural postal closings, which created a complex web of government expectations. Once again, these developments were not matched by complementary governance developments within government.

In recent years, the government has articulated and concretized some postal expectations, albeit often in a reactive manner under the pressure of circumstances. Recently, it has used its directive power to set out and clarify to Canada Post its policy objectives in two areas. First, in response to Canada Post’s actions to address the health and safety concerns of some rural mail carriers, the government directed Canada Post to restore and maintain rural mail delivery to rural roadside boxes that were serviced on September 1, 2005 and to draw up an operational plan to address this issue. Second, the government directed Canada Post to continue to provide financial support to the Publications Assistance Program until March 31, 2009. More recently, the government introduced Bill C-14, which proposed to remove outbound international mail from Canada Post’s exclusive privilege, thereby opening that sector of the postal market to private sector competition. The Bill died on the Order Paper when Parliament was dissolved in September 2008.

To sum up, Canada Post’s corporate autonomy has been extended somewhat over its quarter-century experience. How has this been accomplished?

- Appointments to the Board of Directors and of senior management have been based increasingly on corporate and commercial expertise and experience;
- Governments have set increasingly clear and concrete financial objectives and targets that authorized Canada Post’s increasingly commercial and corporate activity and performance;
- The government has made it specific that Canada Post can perform commercially in competitive markets;
- The government has set service standards within which Canada Post can make viable business and operational determinations; and

- Canada Post has been allowed to exercise a certain degree of pricing autonomy in competitive markets.

At the same time, the government has exercised its authority as shareholder and maintained a strong accountability relationship with Canada Post:

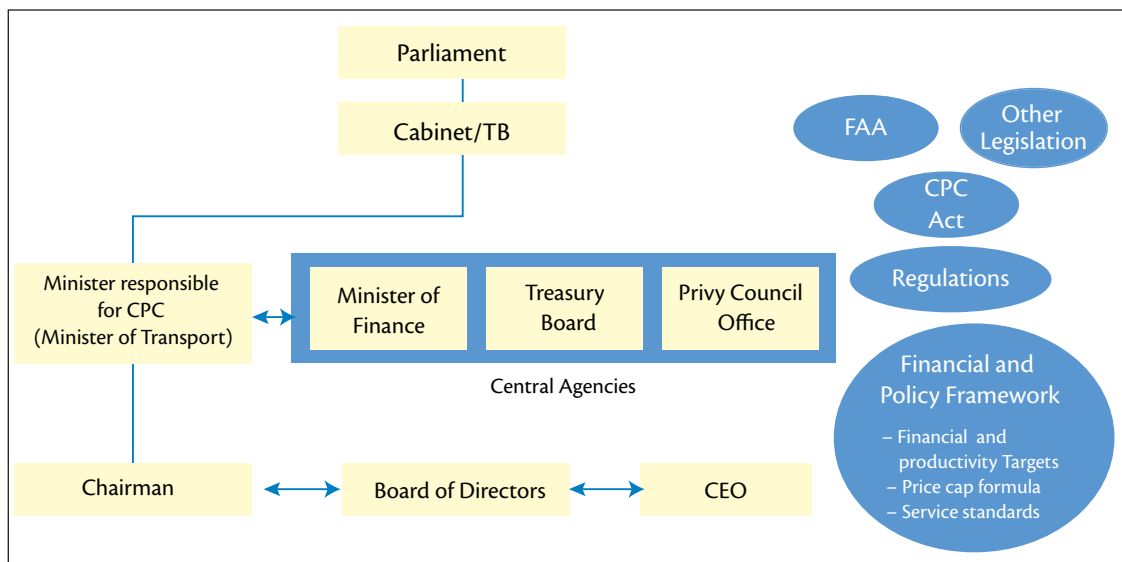
- It has retained and exercised its appointment powers, including for the Board of Directors, the Chair and the CEO;
- It has set increasingly concrete financial and service targets, and has issued directives ordering Canada Post to undertake actions it would not have done on its own; and
- It has retained its authority to approve Canada Post's corporate plans and budgets, and to exercise its authority over reserve area prices, acquisitions, mergers and audits.

(ii) Implications

What has been the cumulative impact of these developments on the postal governance environment in Canada?

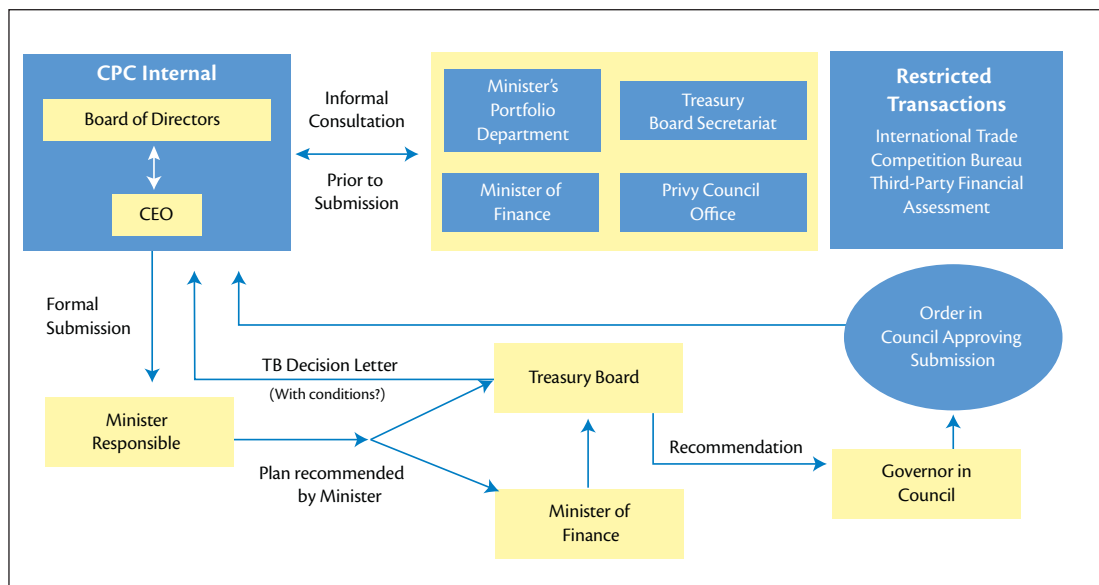
First, the institutional or decision-making web for postal matters is dense and somewhat obscure. There are several government and corporate players. On the corporate side, there are the Board Chair, the directors, the Board committees and the CEO. On the shareholder side, there is the responsible minister, Treasury Board ministers, the Minister of Finance, the Privy Council Office and their collective supporting bureaucracies, the Governor in Council and Parliament. Each of these players has different authority, responsibilities and roles to play in the Canadian postal regime, which also is subject to the *Financial Administration Act*, the *Canada Post Corporation Act*, various regulations and other legislation, as well as the Multi-Year Policy and Financial Framework. The major players and instruments in this institutional web are illustrated below.

Figure 3: Major Regulatory Players and Instruments



A key point in Canada Post's submission to the strategic review relates to its arrangements with its shareholder (the government), which it feels inhibits the effective use of the authority and expertise of the Board, thereby making CPC less nimble than it might be as it seeks to attain commercial and competitive viability and financial self-sustainability. Canada Post suggests that government oversight is out of proportion to requirements, with the result that approvals of corporate plans, certain commercial transactions and borrowing can take a long time, and market opportunities can be lost while lengthy oversight processes unfold. The processes generate a risk-averse environment, thereby inhibiting the corporate and commercial development of CPC.

Figure 4: Current Corporate Plan and Restricted Transactions Approval Process



On the other hand, the government has a duty to ensure that Crown institutions such as Canada Post are well managed and fulfill their public policy purposes in a fiscally responsible manner. Indeed, ministers are ultimately accountable to Parliament for the overall effectiveness of the Crown corporations in their portfolios and are answerable in Parliament for the corporations' activities. The minister's portfolio department, along with the Treasury Board Secretariat, the Department of Finance and the Privy Council Office exercise a challenge function with regard to Crown corporations' corporate plans and other activities requiring government approvals. Canada Post may be an arm's length Crown corporation, but the realities are that the corporation exists as an instrument of public policy and its financial activities and performance have a direct impact on the Government of Canada's bottom line. For these reasons, government officials have legitimate causes for concerning themselves with Canada Post's activities.

After considering both points of view, and more particularly the way they have played out over the last number of years, the Advisory Panel has concluded that it would be timely to stand back and clarify again the various roles, responsibilities and authority of the key agents in the Canadian postal governance environment.

At the risk of oversimplification, there is some misunderstanding or lack of appreciation by the corporation of the extent to which the postal operation functions in an environment bound by public policy objectives and expectations, all of which remain within the authority of the shareholder, notwithstanding the corporation's commercial and financial expectations. Similarly, there is some misunderstanding or lack of appreciation by the shareholder and its various agents of the extent to which the shareholder is articulating public policy expectations in an environment bound by commercial and corporate imperatives. These imperatives are part of the corporation's daily reality.

This state of affairs is likely the result of the intensity of the simultaneous development of Canada Post's corporate autonomy, style and culture and the shareholder's efforts to maintain a rigorous articulation of public postal objectives within this increasingly commercial and competitive environment. The Advisory Panel believes that the corporate and shareholder processes may simply not be connecting.

This is a critical state of affairs for the future of Canada Post and postal services in Canada. Without a mutual understanding and clarification of expectations and objectives, it will not be possible to, on the one hand, specify and clarify the USO expectations that lie at the centre of the postal environment, which means that on the other hand there will be no clear understanding of what is the appropriate network in which to pursue the USO, nor how to go about financing the USO in a stable and self-sustaining way over the long term.

(iii) Lessons from abroad

The Advisory Panel noted earlier that effective national posts operate in governance arrangements that simultaneously encourage modern business practices and attention to public purposes. These governance arrangements assign clear and transparent responsibilities and authority to each of management, boards and shareholders, to make the operation of the posts accountable and effective. These arrangements try to ensure that neither commercial considerations nor public policy objectives dominate to the neglect of the other. To the extent that the governance arrangements (and postal performances) are successful, these arrangements function with little friction.

A common feature of these arrangements is that they all provide for clear, transparent and separate lines of accountability for financial (ownership/shareholder) and social (regulatory) issues. This is at the heart of the governance issue: how to set out a clear, transparent and accountable arrangement that encourages commercial performance and the attainment of social goals simultaneously and in some sort of balance – without too much government control (or neglect) inhibiting the attainment of one or the other objective.

Where posts are 100% government-owned, there is only one shareholder. Even in the context of a government-designed and determined corporate autonomy, the shareholder's interest is established, articulated, communicated to the post, and it is exercised. This is communicated regularly through the board of directors, named exclusively or primarily by the shareholder, as well as to management. The board is directed to act according to sound commercial principles, and to maintain and enhance

shareholder value and financial results. It recruits and oversees the executive management team, which prepares budgets and plans for board review and approval. The board interacts and communicates with a shareholding ministry in the government, according to agreed-upon expectations. The nature of the relationship between the board and the shareholding ministry is made clear and predictable, oversight is “light” to the extent that the government has confidence in the board, and ideally interaction between the shareholder and the board is open and regular. This pattern of open and direct communication is also exercised between the shareholding ministries and postal management.

The government has social or public policy interests to ensure that the post maintains the USO, carries out its obligations, and functions at a satisfactory quality and service level, and attains whatever social goals the government may assign to the post. To an extent, these social goals may stand in some antagonism to the financial goals.

The way many countries manage the sometimes conflicting social and financial objectives of the post is to have the post’s social or regulatory goals safeguarded by a department other than the one with responsibility for overseeing financial matters. Indeed, it has become a principle of the modern postal experience that ownership (i.e. shareholder or financial) functions should be kept separate from the regulatory or social ones. Under this model, the government’s regulatory or social expectations are made clear and quantified, overseen and managed by a regulatory body or department that interacts with the post in setting, reconsidering, and implementing these social (public good) targets and expectations in an open and predictable way. A separate department with the appropriate expertise and mandate has responsibility for the financial oversight of the post and, again, the principles of openness and predictability are applied to the establishment, monitoring and amending of financial expectations. The Advisory Panel believes that it is time to consider introducing such a postal governance model to Canada in the longer term.

(iv) Governance issues requiring attention

The Advisory Panel notes that Canada Post’s Board has established a nominating committee and maintains a skills profile for the Board. The Advisory Panel suggests that the Board’s experience matrix should be regularly reviewed, to ensure that its membership includes the appropriate mix to provide the necessary capacity to undertake due diligence in all areas, including modernization, financial self-sustainability and USO obligations and other public policy obligations. With respect to the latter, the Advisory Board feels that a more direct representative of the shareholder on the corporation’s Board of Directors would be appropriate – a current or former deputy minister or associate deputy minister – to provide public policy sensitivity to the Board mix.

The Panel also suggests that the current practice of having the CEO as a voting board member of the Board of Directors should be reconsidered, given the evolution of Canada Post and presuming the government’s desire to strengthen the roles and responsibilities of the Board. Not having the CEO as a member of the board, which is a fairly common practice in the private sector, would potentially serve to increase board ownership of decisions and provide a higher degree of demonstrable accountability to

the shareholder. It would also permit a more focused discussion between the Board and the Minister regarding issues such as the appointment, performance review and remuneration of the CEO, all of which have been raised as a serious concern by Board members both past and current.

It is the Advisory Panel's view that the current Board of Directors of Canada Post is performing its duties in a competent and reasonable manner as the Board of a 'commercial operation', the task assigned to it under the *Canada Post Corporation Act*. At the same time, the Advisory Panel believes that the corporation's decisions are often not seen as compatible with the public policy objectives and sensitivities of the government and that any resulting misunderstanding is a function of the absence of a common understanding of the government's expectations and requirements of Canada Post in these areas. As the Panel has suggested elsewhere, the creation of a Service Charter would help in creating clarity for everyone.

The Advisory Panel believes that there must be a clear understanding between the Government of Canada and the Canada Post Board regarding the roles, responsibilities and accountabilities of each party related to the USO, the modernization plan, expectations about the rural post, and the basis for developing financial self-sustainability, from development and approval to financing, execution and communication. There must be a clear connection and understanding of the respective responsibilities and accountabilities of the corporation and the government.

In addition to clarifying roles and expectations, it is equally important to clarify what is intended to be 'controlled' by the government through the processes it employs to approve Canada Post's corporate plans and restricted transactions. Moreover, an understanding must be reached as to the amount and timing of the interactions required between the parties and their respective officials during the construction of the corporate plan and capital expenditure plans. Within this approach, there should be a clear and direct relationship between the government and Canada Post management, including a clear articulation of expectations, regular meetings between the Board and the minister, and effective interactions at the working level.

The Advisory Panel recommends that the government build upon the postal oversight expertise already in place at Transport Canada to establish an interdepartmental postal oversight team, or working group, chaired by Transport Canada and made up of senior officials from Transport Canada and central agencies. The purpose of the working group would be to develop governmental consensus on postal matters and to communicate and articulate the government's point of view on these matters. It would be important for the government to ensure the maintenance of sufficient capacity and a degree of postal experience and intelligence on this working group so that interactions with Canada Post unfold in a nimble and informed way.

In the longer term, the Advisory Panel believes that responsibility for financial (shareholder) and social (regulatory) functions and responsibilities should be separate, with different accountability processes and oversight departments. In this regard, the Advisory Panel suggests that the government give consideration to the Australian and New Zealand postal governance models, whereby financial responsibilities and author-

ity are assigned to one department (e.g. Finance), while regulatory or social authority and responsibility are assigned to another (e.g. Transport).

(v) A proposal for future consideration

The *Financial Administration Act* and the *Canada Post Corporation Act* ascribe specific roles and responsibilities to specific government players (e.g. the “appropriate minister,” the Minister of Finance, the Treasury Board and the Governor in Council). The Panel is not suggesting a complete overhaul of this framework; rather it proposes a refinement of the governance model.

The ingredients of this future governance regime would build upon the good governance practices already discussed above and embody the following principles:

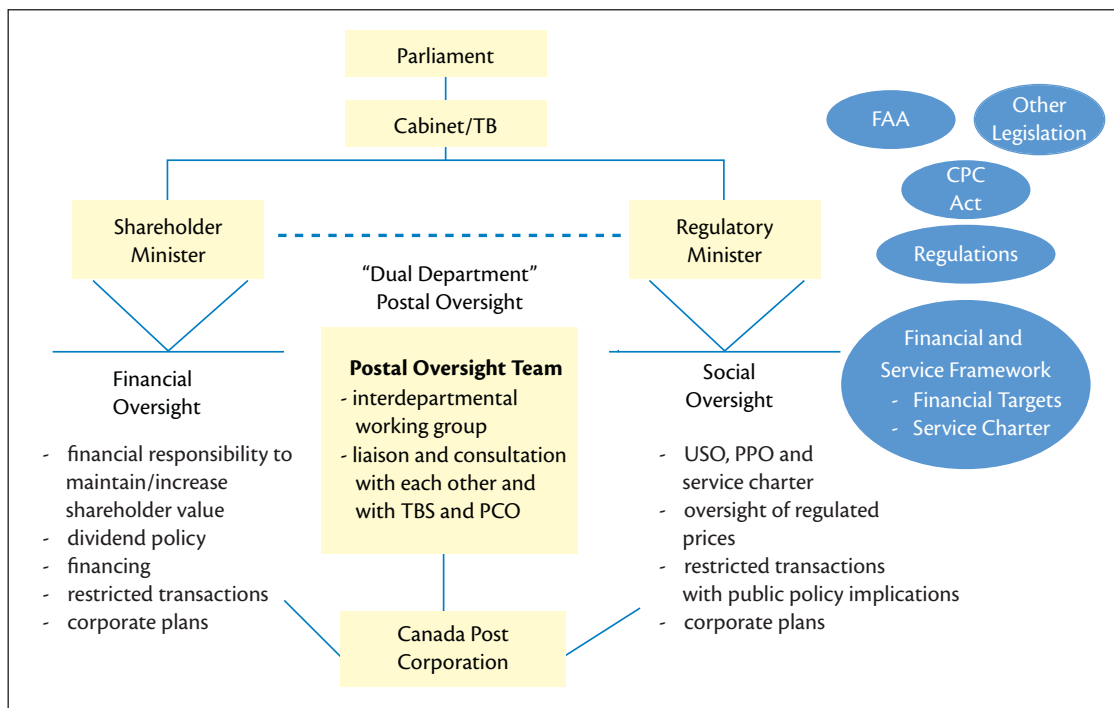
- The roles, responsibilities, and authority of each of Canada Post’s management, the Board of Directors, and oversight departments should be specific, clear and transparent;
- Primary due diligence, financial/commercial responsibility, and recruitment of the CEO and senior management should rest with an autonomous board, separate and distant from government, and this board should be made up of individuals with extensive and intensive commercial expertise and experience;
- The government should exert a practical degree of oversight through clear policy statements about what it wants and expects and through the appointment of the board chair and members, including a shareholder representative of some sort (direct or indirect), and the maintenance of a clear and direct relationship between the government and the corporation;
- To the extent that the government has confidence in the board of directors, responsibility for oversight of the corporation’s business should be left entirely to the board. The board itself should be held accountable to the government for performing this oversight in a diligent manner. Where a specific need for the continued government oversight and control continues to exist, this should be explicitly noted and mutually understood with regard to underlying intent as well as to the requirements expected of the corporation to obtain any approvals so required;
- There should be regular meetings between the board and the minister responsible to facilitate the clear articulation of expectations and the reporting on success against those expectations, as well as government review and approval of annual corporate plans and financial targets; and
- Quality, service and USO expectations should be clearly and publicly stated in quantifiable terms, within a charter or contract type of arrangement, to be developed in consultation with the corporation and overseen by a government department or agency separate from the shareholding ministry.

The Advisory Panel suggests, at least for illustrative purposes, that the regulatory minister for Canada Post be the Minister of Transport and the shareholder minister be the Minister of Finance. As the regulatory minister, the Transport Minister, who

is currently the “minister responsible for Canada Post”, would be responsible for the oversight of the universal service obligation, the Service Charter, and regulated lettermail prices. Under the *Financial Administration Act* the Minister of Finance is already implicated in the financial oversight of Canada Post. As the shareholder minister in the new model, this oversight role would be strengthened and made more transparent. An inter-departmental postal oversight team such as that described earlier would play an integral role in coordinating the government’s interactions with Canada Post.

Appendix H provides further discussion of the practical aspects of such a governance model. Figure 5 illustrates the proposed postal oversight responsibilities for this “dual department” governance model.

Figure 5: Future “Dual Department” Postal Oversight Proposal



The Panel recognizes that changes to established governance practices such as those outlined above could not be expected to be implemented overnight. A multi-year transitional period is envisioned. That said, in the Advisory Panel’s view, this model, if implemented in an environment where the government’s expectations of Canada Post have been clearly specified, will prove to be the most effective and efficient way for the government to ensure that Canadians continue to be well served by Canada Post in the future.

Recommendations

In establishing the Strategic Review, the Minister responsible for Canada Post instructed the Advisory Panel to “examine Canada Post’s public policy objectives, its ability to remain financially self-sustaining, and the continued relevancy of the 1998 Multi-Year Policy and Financial Framework.”

The Strategic Review was guided by four principles enumerated by the Minister:

- Canada Post will not be privatized and will remain a Crown corporation;
- Canada Post must maintain a universal, effective and economically viable postal service;
- Canada Post is to continue to act as an instrument of public policy through the provision of postal services to Canadians; and
- Canada Post is to continue to operate in a commercial environment and is expected to attain a reasonable rate of return on equity.

The Minister instructed the Advisory Panel to focus on a number of areas, including:

- The state of the postal market and postal competition;
- Public policy objectives and responsibilities;
- Commercial activities; and
- Financial and performance targets.

In Part I of this report, the Advisory Panel reviewed and analysed the modern postal world, including the latest developments in the postal market in Canada and around the world; what Canadians think about postal matters; postal developments in a number of countries; and Canada Post’s analysis of the postal world and its views of what it requires to be successful and effective in that world.

Based on its findings in Part I, the Advisory Panel presented and explored in Part II the five critical issues needing further analysis. The subsequent analysis in Part II forms the basis for the Advisory Panel’s recommendations, which are presented in this part of the report. These recommendations are clustered around the five issue areas explored in Part II.

I – Universal Service Obligation

The universal service obligation lies at the heart of the postal endeavour, as the *raison d’être* for Canada Post’s existence as a Crown corporation and as the object of public postal policy. Given that Canada Post exists in an increasingly corporate and commercial environment, the USO must be better defined and communicated more concretely by the government to both Canadians and to Canada Post, in order that everyone understands what the USO represents. The USO principles should be translated into

operational terms in a Service Charter – a contract between Canada Post and the Government of Canada.

Defining the parameters of the USO

1. The government should articulate and communicate to Canada Post its expectations of the USO, to establish a USO that is universal, affordable, timely, accessible and of high quality with respect to both letters and parcels. This should be communicated in the following areas:
 - Universal scope of the USO: delivery to all Canadians, businesses and organizations, five days a week;
 - The content of the USO: letters, parcels, and publications (including newspapers and magazines);
 - Delivery standards: a guaranteed percentage on-time delivery by area;
 - Delivery: five day-a-week delivery service, via instruments of delivery appropriate to community circumstances, with any exceptions to be strictly defined;
 - Accessibility to the postal network: guarantee of access to postal outlets and post office boxes by some sort of proximity formula and minimum number of access points;
 - Affordability: uniform prices for single piece lettermail products in the exclusive privilege area up to an agreed-upon weight;
 - Free mail service for materials for the use of the blind; and
 - A clear confirmation that postal service in rural Canada is by definition an integral part of the USO.

The USO in action – a Service Charter

2. The government's expectations of the USO should be issued and communicated in a Service Charter, which would be made public and would be part of a new financial and service framework for Canada Post. The Service Charter would be part of a contract between the government and Canada Post.

The proposed Service Charter, contained in Annex 1 to this section, will address several components critical to the long-term success of Canada Post:

- Statement of underlying principles
- Universal service obligation
- The reserve area
- Delivery standards
- Retail network
- Rural postal network
- Delivery modes
- Pricing – regulated and non-regulated
- Compliance assurance
- Reviews and amendments

Implementation of the Service Charter

3. The Board of Directors of Canada Post should be held accountable for the monitoring of the Service Charter, which would be implemented by the management of Canada Post. The Board should report annually to the public and to the government on Canada Post's performance against the Service Charter. This should be done in various formats – on Canada Post's website, in the corporation's annual report, in regular communications with the Minister, and in quarterly reports to the Minister when appropriate.
4. The Minister's portfolio department (currently Transport Canada) should adopt appropriate instruments to further develop its expertise in the areas necessary to appropriately evaluate Canada Post's compliance with these objectives.
5. The Service Charter should be reviewed and updated regularly, at a minimum every five years.

Financing the USO

6. The Advisory Panel recommends that Canada Post's core responsibility to pursue its USO obligations continue to be primarily financed by its exclusive privilege over lettermail.
7. The Advisory Panel recommends that the USO and the Service Charter should inform financial calculations and discussions between the government and the corporation and effectively be the foundation for the development of Canada Post's business and corporate plans. Engagement between the Board and the government should take place throughout the corporate plan development process to ensure common understandings exist. It is critically important that the government understand both the service and the financial implications of the Service Charter and the way in which the USO and Service Charter underpin the financial plans of Canada Post.
8. The Panel recommends that the costs of the USO be calculated and identified in the corporate plan and in the annual report.

Deregulation

9. The Advisory Panel recommends neither a general deregulation of the postal market nor a reduction in the existing level of Canada Post's exclusive privilege, save for one segment as noted in # 10 below.
10. The Advisory Panel recommends that outbound international mail be open to competition, as has been the practice (if not the law), as a single incremental step towards the liberalization of postal markets that is unfolding internationally.

Public policy objectives

11. The Advisory Panel recommends that Canada Post should not be required to subsidize or otherwise pay for those public policy objectives that are not an explicit part of the USO.

Public policy objectives considered by the panel include:

- The Library Book Rate
- Government Free Mail
- The Food Mail Program
- The Publications Assistance Program

The character of each of these public policy objectives varies considerably and each therefore requires individual attention.

12. With respect to the Library Book Rate, the Advisory Panel was unable to determine which federal government department had clear program responsibility for this activity. This perhaps explains why it has been an obligation historically passed on to Canada Post. In keeping with the principle noted above, the Panel does not believe this should be an obligation that is subsidized by Canada Post on an ongoing basis. Given that the majority of the transactions are intra-provincial, it appears that this is largely a provincial responsibility that may or may not require federal government support on an ongoing basis. In any event, this is clearly a decision that should be made by the federal government.
13. The Advisory Panel recommends that Canada Post deal with the Library Book Rate Program on a “single large-volume customer basis” to ensure that the libraries receive appropriate volume and other commercial discounts as would be available to large-volume commercial customers.
14. With respect to Government Free Mail, the principle of user-pay appears to have been fully applied in that there is a recognition by the government that Canada Post should receive compensation for this category of mail. There is, however, a commercial transaction aspect that needs to be addressed between the parties (i.e. Canada Post and Parliament) to ensure that Canada Post is not subsidizing this program indirectly through the pricing model currently in place.
15. The Food Mail Program also appears to be operating on the user-pay principle, with the only point of contention being the mark-up rate allowed to be charged by Canada Post. The Panel believes this is an issue of a commercial nature, to be resolved between the parties. It further believes that Indian and Northern Affairs Canada should consider the option of putting these services out to public tender on a fee-for-service basis.
16. With respect to the Publications Assistance Program (PAP), the Advisory Panel understands that the current obligation placed upon Canada Post to contribute to the PAP subsidy for publications mailings expires in March 2009

(Canada Post's PAP contribution is equal to approximately seven cents per copy mailed). The Panel believes that Canada Post's PAP obligation should be allowed to expire.

17. The Panel also recommends that distance-based pricing for publications mail be reviewed to ensure that rural Canada is not unduly affected by the consequences of this type of pricing structure for publications mail.

II – Modernization of Canada Post

Canada Post must have a sufficient and modern postal network, with up-to-date technology and competitive processes and products, if it is to fulfill its USO in a competitive market and in a financially self-sustaining way. The Advisory Panel firmly believes that ensuring that Canada Post continues to have the capacity to fulfill its USO is a serious matter, one that must be attended to on a priority basis. In this regard, the Advisory Panel notes that the government accepted the general principle that Canada Post must substantially modernize its network when it accepted the corporation's 2008-2012 Corporate Plan.

Modernization plan

18. In the interest of improving clarity and communication between Canada Post and the Government of Canada, the Advisory Panel recommends that the government require Canada Post's Board of Directors to fully develop and present its multi-year modernization plan to the government as a complementary component of the corporation's 2010-2014 corporate plan submission. The fully developed plan and presentation should include:
 - A statement clearly describing the specific activities to be undertaken over the term of the plan, and the annual capital requirements necessary to carry out the modernization plan;
 - Identification and quantification of financial sources (internal and external) and needs;
 - An analysis of productivity payoffs and expected labour savings; and
 - A schedule or timetable demonstrating the break-even date, net gains from modernization, the potential for the introduction of new products and services, and other results.
19. The Advisory Panel further recommends that an update of Canada Post's modernization plan be included in the corporation's corporate plan each year for the duration of its implementation.
20. The Advisory Panel suggests that the Board of Directors consider establishing a modernization committee for this capital intensive and productivity improvement oriented initiative, composed of Board members with sufficient expertise and experience to ensure appropriate due diligence and risk-management oversight.

Financing and access to capital

21. The Advisory Panel recommends that the modernization plan be considered within the larger context of the new revised Financial Framework and Service Charter and Canada Post's broader Corporate Plan, such that Canada Post would have adequate capacity to finance the modernization plan.
22. The Advisory Panel recommends that the Board of Directors have access to levels of capital borrowing appropriate to the financial plan developed to support the modernization plan and to Canada Post's capacity to generate funding and results. The Advisory Panel considers this capital borrowing level to be \$1.7 billion.

Labour and productivity

A successful modernization plan must eliminate obsolescence and increase productivity, to allow Canada Post to realize its USO commitments in a financially viable manner. This is expected to result in adjustments to the staff complement. Canada Post notes on page 22 of its submission that a significant number of employees will retire from or leave the corporation over the next decade.

23. The Advisory Panel recommends that the government support Canada Post's pursuit of the modernization plan, with respect to the opportunities provided by retirements and other attrition over the period of the modernization plan and beyond.
24. The Advisory Panel recommends 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.
25. The Advisory Panel recommends that the government permit Canada Post to introduce an employee share ownership plan as part of this process, in order to heighten employees' involvement in and ownership of the process.
26. The Advisory Panel recommends that Canada Post be encouraged to continue to intensify its efforts toward productivity improvement. The Panel supports Canada Post's further development of performance and cost-based metrics to facilitate the identification and tracking of key productivity indicators relevant to Canada Post's business improvement practices. It further recommends that key performance indicators be incorporated into Canada Post's financial performance framework and annual reporting process, in order to better show what results are being achieved and to explain trends.

Environmental obligations

27. The Advisory Panel recommends that the planning, approval and implementation of Canada Post's modernization plan be informed by the expectation that it will reduce Canada Post's environmental footprint. This approach should inform existing initiatives, and be formulated as part of the modernization plan. Benchmarks should be set against which the Board should report progress through its annual report.

III – Financial Self-Sustainability

The *Canada Post Corporation Act* and the 1998 Policy and Financial Framework instruct Canada Post to pursue its USO in a financially self-sustaining way. Along with the modernization plan, the government and Canada Post must have a mutual understanding of what this requires by way of financial plans and needs.

Financial Framework

28. The 1998 Policy and Financial Framework should be reformulated, in light of the clarification of USO requirements in the Service Charter, the long-term investments in the modernization plan, and other considerations within this report.
29. The Advisory Panel recommends that the Board of Directors draw up a long-term plan for financial sustainability, for discussion with and approval of the shareholding department of government. This plan should address the costs of the Service Charter and the modernization plan investments, as well as the sources of financing that are available from the exclusive privilege and competitive markets. A proposed revised Financial Framework (Annex II) has been developed to help meet these requirements and stimulate discussion.

Sources of financing

30. Over and above the revenues that Canada Post receives from its exclusive privilege and its commercial products, the Advisory Panel recommends that the Board of Directors work with the government on agreements in the following areas:
 - i) Access to increased capital and borrowing - \$1.7 billion - facilitated under appropriate plans and criteria;
 - ii) The two-thirds of CPI price-cap formula for basic lettermail has resulted in basic lettermail prices that are low relative to other countries examined by the Advisory Panel and low compared to Canada Post's costs. The Advisory Panel recommends that the two-third of CPI price-cap formula for basic lettermail be replaced by a new formula that better reflects the factors that influence Canada Post's expenses, such as labour and transportation costs. At minimum, the price-cap formula should be no less than the full CPI;
 - iii) The development of a multi-year pricing plan, based on Canada Post's five-year corporate plan, for regulated products within the exclusive

- privilege, to create more realistic prices, more certain revenue projections, and increased predictability for postal users (see Governance below for price-setting mechanisms);
- iv) Subject to approval by Governor in Council, a significant one-time stamp price increase for lettermail may be required to ensure ongoing self-sustainability;
- v) A pay-as-you-go approach to public policy objectives that will commercially compensate Canada Post for its costs in these areas, to ensure that unintended subsidies of government programs no longer continue; and
- vi) A relaxation of the corporation's dividend payment obligations for periods of intensive capital investment during the modernization plan.

Pension obligations

Canada Post's pension obligations constitute a very serious threat to the success of its modernization plan. These obligations can deflect considerable financial resources away from modernization. Particular problems include pension solvency payment obligations, pension contributions needs and requirements related to post-retirement benefits. This threat is of particular concern in the current economic climate.

31. The Advisory Panel recommends that the government work with Canada Post to ensure there is a clear understanding among the parties of the urgent nature of Canada Post's pension solvency requirements and their impacts, to ensure that an appropriate course of action can be set to avoid impeding the modernization program and its expected productivity improvements.
32. The Advisory Panel further recommends that subsequent corporate plans continue to fully capture these concerns and that they be addressed within the business plan/pricing models once a course of action is agreed upon between Canada Post and the Government of Canada, on how revenue requirements should be met.

Competitive commercial activities

33. The Advisory Panel, knowing that financing the USO is costly, believes Canada Post should look to leverage its networks to develop complementary activities and potential revenue streams, to the extent that these activities are related to its core business. The corporation's annual cost study can continue to be used to verify that there is no cross-subsidization from the exclusive privilege revenue to the commercial operations.
34. The Advisory Panel recommends that Canada Post be allowed to continue to function commercially in those competitive markets where it is now active.
35. The Advisory Panel also recommends that the government clarify and communicate its expectations in this regard, specifying those situations where Canada Post can and cannot make acquisitions, enter new markets and get involved in international activities.

36. In situations where the government has communicated that it is appropriate for Canada Post to act, and to enable the Board to respond quickly to business opportunities, the government should give the Board the authority to spend up to \$100 million in any single transaction without further approval.

Partnerships

The Advisory Panel notes the extent to which partnership arrangements and joint ventures are emerging in posts abroad. This approach has the merits of bringing into the post new capital, practices, ideas, culture and personnel.

37. As a principle, the Advisory Panel recommends that the Government of Canada encourage Canada Post's initiatives in creating partnerships. These could range from joint ventures to formal partnerships with other companies. These could also include access to the network (sorting, distribution, sales) and pooling or sharing transportation resources and capacity with other firms and/or competitors.

IV – The Post in Rural Canada

The Advisory Panel notes the intensity of interest in postal issues in rural Canada. The Advisory Panel believes that the government needs to clarify its expectations in this area to Canada Post and should subsequently communicate them to all Canadians.

Rural post and the USO

38. In order to eliminate confusion and anxiety, it is recommended that the government explicitly declare that the rural post is part of Canada Post's USO, and not a public policy objective outside the USO.

Definition of rural

39. The Advisory Panel notes that the definition of rural applied by Canada Post in relation to its rural post office and delivery networks is outdated. The Advisory Panel recommends that a more realistic definition of rural be established initially as "communities with a population of 10 000 or less".

Rural moratorium

40. The Advisory Panel believes that a review of the rural post office moratorium is overdue, given that much has changed in many parts of rural Canada since the 1998 Framework was adopted. The Panel recommends that the definition of rural described above be applied to the current rural moratorium list to remove those communities from the list that are clearly urban in nature. Specific examples of those identified include: Abbotsford, British Columbia; Lethbridge, Alberta; Timmins, Ontario; Boucherville, Quebec; and Moncton, New Brunswick. This will allow future discussion and actions to be focused exclusively on truly rural communities and allow Canada Post to provide services in these urban centres as they would in any community of

equivalent size and character in the rest of Canada, as is prescribed in the *Canada Post Corporation Act*.

41. The Advisory Panel recommends that a new and more explicit mechanism be developed to replace the moratorium with a clear set of rules and procedural guidelines that would both safeguard and respect the postal service needs of rural Canada, but also allow Canada Post a degree of flexibility to deal with emergent issues in providing postal services in rural areas.
42. The Panel believes that all parties – rural communities, rural postal outlet users, Canada Post, and the Government of Canada – would benefit from the specific inclusion of rural services in the USO. The Panel recommends that complementary details be included in the Service Charter to further delineate what the government expects Canada Post to continue to support, with respect to rural posts, over the long term. This would include specific reference to the minimum number and location of rural postal outlets, the access/service levels to be provided to rural Canadians and the process to be followed where post office closings, rationalizations or transitions are contemplated.
43. It is further recommended that these specific obligations be developed more fully by Canada Post through a meaningful consultative process involving rural Canadians, with its conclusions and the resulting approach being clearly explained and subsequently made publicly available via Canada Post's website after approval by the government.
44. As well, it is recommended that the rural obligations required through the USO and the proposed Service Charter be subsequently included and fully reflected in Canada Post's business and corporate plans.

The proposed proximity-based approach to rural services discussed in Part II is intended to be considered in conjunction with this recommendation.

Delivery and access modes

The Advisory Panel notes that demographic, transportation, cultural and economic changes have altered and will continue to alter the character and distribution of communities in rural Canada.

45. In the spirit of balancing the USO with financial self-sustainability, and taking into consideration the evolving character of rural communities, lifestyles, and modes of transportation and communication, the Advisory Panel recommends that Canada Post proactively consult with rural communities, where opportunities are identified, with a view to reviewing and identifying alternative modes of delivery and access to the network that would serve community needs equally well and make Canada Post more financially self-sufficient.
46. The Advisory Panel recommends that Canada Post be permitted to use privately owned dealer outlets as a service delivery option in rural Canada,

where established proximity and service criteria are fully met and maintained and where it is cost-effective to do so.

47. The Advisory Panel recommends Canada Post specifically include in its annual report an overview on the delivery methods it uses, indicating the number of addresses served with each delivery method and the financial costs and environmental impact of each on a per-unit basis.
48. The Advisory Panel recommends that the ongoing viability of end-of-lane deliveries (also known as rural roadside mailbox delivery) be reconsidered where potential traffic safety concerns exist as indicated through Canada Post's ongoing rural traffic safety review. These concerns are of particular importance when the deliveries take place on routes served by roads where the posted speed limit is 80 km/h or higher.

V – Governance

The Advisory Panel believes that invigorating the postal governance regime will go a long way in helping to realize the intended outcomes of the recommendations presented in the previous four sections.

Since the transformation of the Post Office Department into Canada Post, there has been a slow but steady transfer of authority and control from government agencies and departments to the Board of Canada Post. The recommendations of the Advisory Panel are a further step in this evolution.

49. As a guiding principle, and given Canada Post's unique character and its largely commercial operating environment, the Advisory Panel strongly believes that oversight of the corporation's business should rest primarily with the Board of Directors. *The Financial Administration Act* and the *Canada Post Corporation Act* clearly assign this function to the Board (FAA s. 109, CPC Act, s. 10). The Board is, and should be, accountable to Parliament through the minister responsible. In this context, the Advisory Panel recommends that the government re-examine its governance relationship with Canada Post, to ensure that the Board is permitted to exercise the authorities and flexibilities necessary to manage the corporation in a responsible and business-like manner, while fully respecting its USO responsibilities.
50. As a general objective, the Advisory Panel recommends that the respective roles, responsibilities and authority of the Board of Directors, Canada Post management and the government be updated, clarified, communicated to all, and made more accountable and transparent.

As a reinforcing observation, the Advisory Panel believes that it is important to simultaneously establish the appropriate level of corporate authority of the Board of Canada Post, while clarifying government oversight of the corporation.

The Board of Directors

51. The Advisory Panel recommends that the Board of Directors should have responsibility for the corporate viability of Canada Post and for Canada Post's attainment of its USO responsibilities. To this end:

- The range of expertise and experience on the Board should extend across all corporate dimensions, from finance, accounting and commercial activity, to labour relations, technology and public policy and government;
- To ensure Board experience and expertise in the realm of public policy and government, the Advisory Panel recommends that the Board of Directors include a current or former deputy minister or associate deputy minister;
- The Board's nominations committee should play a central partnership role in making suggestions for Board appointments to the government for its consideration and approval;
- Board appointments should be for a minimum of five years and staggered to ensure corporate understanding and continuity at the Board level;
- The Board should have the authority to recruit, appoint and evaluate the CEO and senior management team, within parameters specifically agreed upon with the shareholder;
- To ensure the appropriate separation between the Board and the management of Canada Post, and to reinforce the Board's oversight responsibilities, and in keeping with good corporate governance practice, it is recommended that the CEO not continue as a Board member;
- In the context of increased Board responsibilities and accountabilities, Board member compensation should be reviewed to ensure it appropriately reflects the responsibilities and accountabilities placed upon it by the government;
- In the context of ensuring the Board and the shareholder are in agreement, the parameters of CEO compensation, evaluation and any bonus incentives should be established between the Board Chair and the Minister and be in keeping with the general directions set by government;
- The Board should assume ownership of the Corporation's relationship with the shareholder; and
- The Board should proactively review its public disclosure policies regarding corporate plans and annual reports with a view to ensure that Canadians are appropriately and reasonably informed.

The Board of Directors should also be held responsible and accountable for performance and results.

Clarification of power, authority, responsibilities

52. The Advisory Panel recommends that the powers, authority and responsibilities of the Board of Directors and of the government oversight

bodies be formally clarified and communicated in an agreement between the Government of Canada and Canada Post. These would include:

The clarification of Board authority to:

- Borrow funds in the market, up to a certain level;
- Make acquisitions up to a certain level;
- Purchase and dispose of property;
- Set prices in competitive markets and recommend prices for Governor in Council approval in the exclusive privilege area;
- Alter the instruments or means adopted to pursue the USO;
- Pay dividends;
- Exercise its autonomy to invest and to act in new, directly related markets; and
- Formulate the corporate plan and budgets.

The clarification of government authority to:

- Set targets in the Service Charter and the Financial Framework;
- Approve prices in the exclusive privilege area;
- Authorize expenditures and investment above a certain threshold;
- Limit the Board's borrowing authority to a certain level;
- Approve corporate plans and budgets and required dividends; and
- Establish a scorecard for corporate performance.

53. There should also be formal clarification and articulation of the authority, responsibilities and expectations of the Minister's portfolio department in support of the government's postal oversight responsibilities.

Communication between shareholder and corporation

54. The Advisory Panel recommends that there be improved and regular communication between the government and the corporation. At a minimum, this should entail:
- Regular and scheduled Board Chair and Minister interactions and communications;
 - Regular consultation between the Board and the Minister regarding Board appointments and the Board's capacity matrix, to ensure that all appointments to the Board are of the highest quality, based on experience and expertise, and in keeping with board requirements;
 - Regular and proactive contact between Canada Post management and departmental representatives during the preparation of the corporate plan to ensure a full understanding of what is intended and included;
 - Establishing a process for the assessment of corporate performance within the Financial Framework and the Service Charter and to ensure that appropriate and timely feedback and discussion of results achieved occurs; and
 - An annual in-camera meeting of the Minister with the full Board of Directors.

Regulated prices

The Advisory Panel feels that the present process for approving regulated price changes – the ‘Gazette’ process – is neither effective nor functional: it lacks adequate consultation on regulated prices, public awareness of what the process is, and recourse to protest against or influence on the regulated prices. The Advisory Panel has concluded that the communication of regulated price changes should be made more transparent by requiring Canada Post to publicly advertise these price changes in national newspapers, as well as in the *Canada Gazette* and on their website as is the current practice, and to actively conduct a consultation process with customers on proposed price changes (other than those generated by the price cap formula).

55. The Advisory Panel recommends that:

- The use of a price-cap formula to set the basic lettermail rate should continue;
- Forecast increases to regulated prices should be included in the corporate plan over the five-year term of the plan so that proposed changes to regulated prices are linked to and flow from the corporate planning process;
- Regulated prices should balance the needs of customers against the principle that users should pay to cover the costs of postal services, and that pricing should contribute appropriately to Canada Post’s financial sustainability;
- There should be an active customer consultation phase as part of any pricing program; and
- A regulatory mechanism should be established to permit Governor in Council approval of short-term pricing adjustments to regulated prices on an exceptional basis.

Non-regulated prices

The Advisory Panel noted that businesses have expressed concern that increases to non-regulated prices are not well publicized and that customers lack recourse to protest against or influence Canada Post in the setting of those prices.

56. The Advisory Panel recommends that the communication of non-regulated price changes be made more transparent by requiring Canada Post to publicly advertise price changes in national newspapers as well as on their website, and to conduct a price consultation process with customers.

Postal intelligence in the postal governance regime

The Advisory Panel believes that effective postal policy and governance interaction requires that both the Board of Directors and the Government of Canada have good intelligence. There is a natural asymmetry in this regard, as Canada Post will clearly enjoy greater access to information and expertise and experience than government. This asymmetry can be dysfunctional in terms of good shareholder/corporate communications and interaction.

57. The Advisory Panel recommends that a greater symmetry of postal intelligence and knowledge be actively encouraged by both the government and Canada Post through:
- The establishment and support of a standing postal services working group comprised of senior level representatives from Transport Canada and central agencies which would work closely with Canada Post with the specific objective of proactively developing and subsequently maintaining a mutual understanding of the issues, challenges and opportunities arising from the provision of postal services to Canadians on a financially self-sustaining basis;
 - The regular exchange of personnel (job-swapping) between the government and Canada Post to allow each to get a sense of the needs and expectations of the other; and
 - The encouragement of independent postal research and intelligence by creating a university chair in postal studies, and by creating one or several positions of visiting postal research chairs on either the government or corporate side.
58. The Advisory Panel further recommends that postal intelligence within the government be strengthened through a Strategic Review of Canada Post every five years.

Postal councils

59. The Advisory Panel recommends that Canada Post create or maintain advisory postal councils to connect policy and decision-making with the Canadian public. These councils could include:
- A national advisory council for Canada Post (currently in place) to gauge future trends and developments;
 - A major postal users council;
 - A rural postal council; and
 - A small and medium-sized enterprises council.

Dual department oversight

60. In the longer term, and specifically to ensure clarity of responsibilities, roles and expectations, the Advisory Panel recommends the introduction of a “dual department” postal oversight structure in Canada which would separate shareholder/financial issues from regulatory/social ones. This separation of ownership from regulation is standard operating practice in many postal regimes of the industrial world. The posts of Australia and New Zealand have been operating for several years under this model. The Advisory Panel recommends the following structure for Canada:
- The Board of Directors would interact directly on regulatory or social matters with the minister of a program department (currently the Minister of Transport) with respect to the USO and matters dealing with the Service Charter. The pricing of regulated products and related issues would also be dealt with in this relationship;

- The Board of Directors of Canada Post would interact directly on financial matters – dividends, profits, financing - with the Minister of Finance, who would be assigned financial or shareholder responsibilities to maintain and increase shareholder value. Financial targets and expectations would be discussed and determined in this relationship; and
- The interdepartmental working group recommended above would play an integral role in coordinating the government's interactions with Canada Post.

Further discussion of the proposed nature of the dual department oversight model for Canada is presented in Appendix H.

ANNEX I : Proposed Service Charter

Concept Document for Discussion Purposes

Statement of Underlying Principles

- A. The Government of Canada (“the Government”) and Canada Post Corporation (“Canada Post”) are committed to providing a high quality and universal postal service to all Canadians wherever they may live in Canada, as outlined in this proposed Service Charter;
- B. The Government and Canada Post commits to the principle of working together proactively to ensure a mutual understanding of the issues, challenges and opportunities that exist regarding the provision of acceptable postal services to Canadians on a financially self-sustaining basis;
- C. The Government and Canada Post endorse a consultative process with affected groups to establish processes and/or developments that are designed to improve, change or guarantee delivery of the universal postal service;
- D. The Government and Canada Post accept that maintaining a high quality and universal postal system for Canadians is dependent on measures to maintain Canada Post’s financial sustainability (see the proposed revised Financial Framework); and
- E. The Government and Canada Post agree that, to the extent that this is a dynamic agreement, changes will be made by mutual consent and appropriate consultation whenever possible, with each party recognizing and respecting the authority and accountability of the other.

Universal Service Obligation (USO)

1. Canada Post will maintain a universal, effective and economically viable postal service.
2. The universal service obligation includes the following basic ingredients:
 - Any resident of Canada will be able to communicate, transact business, and send or receive letters, parcels or publications (books, magazines, periodicals and newspapers) by mail and from every address in Canada and to and from other countries;
 - There will be national collection, delivery and access (retail) networks that allows this in a timely and convenient manner;
 - Free mail service will be provided for materials for the blind; and
 - The USO will be provided with reasonable service standards and at affordable and reasonable prices, including a single price for basic lettermail.
3. The USO will apply to both individual residents of Canada and to businesses operating in Canada.
4. The Government of Canada and Canada Post agree that the provision of postal services to rural regions of the country is an integral part of Canada Post’s universal service obligation.

Reserve Area

5. The Government of Canada grants to Canada Post the exclusive privilege to collect, transmit and deliver letters in Canada as specified in the *Canada Post Corporation Act* to underpin the financial costs of the universal service obligation. This applies to both domestic and outbound international lettermail unless changed by legislation.

Delivery Standards

6. Canada Post will deliver parcels, lettermail and publications daily (meaning every working day, Monday through Friday, except for holidays).
7. Canada Post agrees to deliver:
 - At least X* per cent of local mail within two working days;
 - At least X* per cent of regional mail within three working days; and
 - At least X* per cent of national mail within four working days.
8. Canada Post agrees to guarantee:
 - Daily service to at least X* per cent of the Canadian population;
 - Service three times per week to at least X* per cent of the Canadian population;
 - Weekly service to 100%* of the Canadian population; and
 - Canada Post will provide a list to the Government of all communities that do not receive daily service, with an appropriate rationale.
9. The formula and the list outlined in Article (8) above will be made public and reviewed regularly. Any changes to this list must follow prescribed procedures.

Retail Network

10. Canada Post will provide a network of postal outlets using a variety of forms – corporate offices, private dealer outlets in commercial shops, and so on. The postal outlet used in any community should be appropriate to the circumstance. There shall be no less than X* number of postal outlets in total in Canada.
11. Canada Post may consider changes to the network of postal outlets, following prescribed procedures.
12. As part of its Annual Report, Canada Post should present an assessment of the cost-effectiveness and financial sustainability of the postal outlet modes and alternatives, so that policy-makers and Canadians can evaluate the ‘value-for-money’ character of each of the delivery instruments.

Rural Postal Network

13. The Government and Canada Post agree to adopt a new definition of “rural” for postal purposes to be established initially “as communities with a population of 10 000 or less.”
14. To ensure that rural service needs of rural Canada are met on an ongoing basis and to provide Canada Post with the operating flexibility necessary to

meet its ongoing obligations to its shareholder, the following provisions will become effective on the date of this Charter:

- 1) All active postal outlets in place on the date the Charter becomes effective shall continue in service unless decreases in service levels are made in full compliance with this Charter;
- 2) For clarity, Canada Post will prepare a list reflecting all active postal outlets and the service levels provided by each as of the effective date;
- 3) For clarity, a change from a corporate post office outlet to a private dealer operated outlet, or vice versa, is not considered to be either a closure or a change in service level;
- 4) To ensure all rural Canadians continue to receive acceptable levels of service in the future, a proximity-based model ****specifying maximum access distances to postal outlets will be adopted;
- 5) The proximity-based distance criteria within the model will be as follows:
 - i) 100% of Canadians shall have access generally equivalent to that available to them as of the effective date of the Charter**, unless changes are made in full accordance with the procedures prescribed herein;
 - ii) 98% of Canadians shall have access to a postal service outlet within 15 kilometres of their residence **, and
 - iii) 80% of rural households shall have access to a postal service outlet within 7.5 kilometres of their residence **;
- 6) To provide further certainty, Canada Post will be required to maintain a minimum of $Z = (Y-20)$ postal service outlets in rural Canada, where Y equals the number of active postal outlets in service as of the effective date of this Charter. (Note: 20 outlets were selected to provide Canada Post sufficient flexibility to deal with emergent issues and to permit the approach to be adequately tested);
- 7) The minimum number of active rural postal outlets, Z, may be decreased only through a separate and specific approval process to be prescribed by the Minister and to be considered in conjunction with, but approved separately from, Canada Post's annual corporate plan;
- 8) Community consultations *** by Canada Post will be required to be an integral part of any local postal outlet closure or rationalization which may proceed only after due consultation with local authorities;
- 9) The Ombudsman is designated as the party to whom directly affected communities or parties can direct complaints regarding the process and/or approach used by Canada Post on a community specific basis. The Ombudsman will provide his conclusions and any recommended course of action to the Board Chair for consideration and action; and
- 10) The Board will be accountable to the Minister responsible for ensuring Canada Post's compliance with the required parameters noted above. The Board Chair will specifically report on all closures, rationalizations and level of community concern with the outcomes to the Minister as

part of the annual meeting between the Minister and the Board or as may be otherwise requested by the Minister.

Delivery Modes

15. Canada Post will deliver mail using a variety of delivery modes – mailbox service at the door, community mailbox, post box in postal outlets, end-of-lane delivery, and so on. The delivery mode used in any community should be appropriate to the circumstance.
16. Canada Post may consider changes to the delivery network and submit proposals to the government for consideration as part of the annual corporate planning process.
17. As part of its annual report, Canada Post should present an assessment of the cost-effectiveness and financial sustainability of the delivery modes and alternatives, so that policy-makers and Canadians can evaluate the ‘value-for-money’ character of each of the delivery instruments.

Regulated Prices

18. Domestic and international postage rates for letters under 500 grams will be set in the Lettermail Regulations and the price will be uniform regardless of the distance travelled.
19. In addition to the requirements outlined in the *Canada Post Corporation Act*, Canada Post agrees to publicly advertise proposed changes to the prices of regulated lettermail products in national newspapers and on the corporation’s website, and to actively conduct a consultation process with customers on proposed changes.

Non-Regulated Prices

20. Canada Post commits to providing affected Canadians with readily available and timely information on planned future increases in the prices of unregulated mail to allow sufficient opportunity for comment and feedback on changes proposed and to permit business customers a reasonable time to adjust their business practices and models.

Compliance Assurance

21. If the Minister receives an allegation that Canada Post is failing to comply with the terms of the Service Charter, the Minister may refer the allegation to Canada Post for investigation and follow-up, as the Minister deems appropriate. Upon referral of any such allegation, Canada Post shall consult in a timely manner with the Minister on the accuracy of the allegation, advise of any measures that it had taken to date to resolve the issue, and of any corrective measures that may still be required. The Minister in the final instance shall decide whether the actions taken are acceptable and appropriate.
22. This Charter is an agreement between the Government and Canada Post. It is not intended to create any right or obligation with any other party.

Reviews and Amendments

23. The Government and Canada Post will review developments under the Service Charter annually to:
 - 1) Assess the extent to which the objectives of the Service Charter are currently being met;
 - 2) Identify and assess factors that could have a material impact on future performance under the Charter; and
 - 3) Identify potential areas where alterations or revisions might be practical or warranted to address both current and expected future challenges to delivery of the service targets.
24. Canada Post will include a Service Charter Performance Report in its annual report.
25. Amendments to this Charter will follow separately prescribed procedures.
26. The Government and Canada Post agree to review, assess and renew the Service Charter every five years.

* Given Canadians reported general satisfaction with postal services, it is recommended that these numbers/percentages be those actually in place and/or publicly reported by Canada Post (subject to auditable verification) on the effective date of the Charter.

** Canada Post should be required to provide current and verifiable metrics, which would form the “benchmark” at the time the Charter is put into effect. It is expected that the proximity-based model may require adjustment if the “actuals” vary substantially from the percentages proposed or the need for modifications are otherwise indicated.

*** Canada Post has a proactive community consultation process in place that should form the basis of future community consultations. It is recommended that a review of the general satisfaction of communities recently engaged through this process be undertaken and adjustments made to the process as deemed appropriate as a result.

**** It is recommended that a consultation with representative rural Canadians be undertaken to verify the suitability/acceptability of the proximity model proposed.

ANNEX II : Proposed Revised Financial Framework

DYNAMIC CASE REFLECTING MODERNIZATION

RATIO	A INVESTMENT PHASE	B TRANSITION PHASE	C STEADY STATE
<u>CAPITAL STRUCTURE</u>			(includes operating leases)
<i>Leverage Ratios</i>			
1. Total Debt/EBITDAR (x)	2.5x – 4.0x	2.5x – 4.0x	2.5x – 3.5x
2. Total Debt/Book Capital (y)	45% - 65%	45% - 65%	45% - 55%
<i>Liquidity Ratio</i>			
3. EBITDAR – Capex / Interest	1.0x – 2.5x	1.0x – 2.5x	1.5x – 2.5x
<u>PROFITABILITY</u>			
4. EBITDA Margin	5.0% - 7.5%	7.5% - 10%	10% - 15%
5. Return on Book Equity (ROE)	0% - 5%	5% - 12.5%	12.5% - 17.5%
<u>DIVIDEND POLICY</u>			
6. Dividend Payout Ratio	0% - 20%	20% - 40%	50% - 60%
7. Credit Rating	–	–	A

NOTES

* This framework was prepared by TDSI for the purposes of the review as an illustration of how a financial framework may change as Canada Post transitions to a steady state both financially and operationally. The ratios were derived after examining the characteristics and financial metrics of companies in the telecommunications, pipeline and utilities, and courier industries as well as those of peer postal administrations.

- A. Investment Phase: The capital-intensive phase of modernization includes one-time operating expenses and increased interest expenses that may temporarily impact profitability. It would be appropriate to suspend dividends to enable reinvestment. This phase would be marked by a wider capital structure range.
 - B. Transition Phase: This phase would be marked by decreasing capital intensity. Targeted savings would start to be realized and dividend payments would be resumed albeit at reduced levels.
 - C. Steady State: Capex intensity returns to maintenance levels as the modernization program concludes. A steady state revised Financial Framework would be appropriate. Cash flow would be available to fund the next investment phase (alterations and renovations and/or the next modernization plan).
1. EBITDAR refers to 'earnings before interest, taxes, depreciation, amortization and rent'. This is an indicator of financial performance and profitability. The debt to EBITDAR ratio demonstrates debt relative to cash flow. A ratio that is below the range may indicate that Canada Post is underleveraged and a ratio that is above that range may indicate that Canada Post has too much debt.

2. Total Debt/Book Capital provides an assessment of how the firm is leveraging its capital. When attained, ratios (1) and (2) will support Canada Post's case to obtain an investment grade rating appropriate to access the debt capital market.
3. Canada Post's liquidity can be assessed by the EBITDAR minus capex divided by Interest ratio, where capex refers to maintenance capital expenditure. This ratio shows the ability of Canada Post to generate sufficient cash flow to cover interest expense after maintenance capital expenditures. The ratio reflects an estimate of the recurring cash generated by the business that can be used to cover debt and lease costs.
4. EBITDA- Earnings before interest, taxes, depreciation and amortization - is a good indicator of profitability and is a widely used metric to assess the recurring cash generated.
5. ROE - Return on book equity provides proxy indicator of the return that Canada Post would have to demonstrate to the market so that it would be able to attract equity investors.
6. Dividend Payout Ratio is another proxy indicator of the level that Canada Post would have to achieve so that it would be able to attract equity investors.
7. Credit Rating will be determined by credit rating agencies taking into account the risks inherent in the businesses of Canada Post, its financial performance, the strength of its monopoly and implicit support provided by its shareholder.

(x) Operating leases capitalized using a multiple of 7.0X

(y) Interest includes lease expense

Biographies of the Advisory Panel Members



Dr. Robert Campbell (Chair) graduated from Trent University in 1974, from the University of Toronto in 1976 and from the London School of Economics, where he received his PhD, in 1980. He taught at Trent University between 1980 and 2000, after which he became Wilfrid Laurier University's first dean of arts. His areas of research, teaching and specialization include Canadian politics, political economy and comparative public policy. He has also been active in Canadian studies and has served in several senior administrative positions at Trent University, including provost and dean of arts and science, and vice-president academic. Since 2006, he has been president and vice-chancellor of Mount Allison University. Dr. Campbell has published numerous books including two postal policy studies, monographs, articles and studies. He has also served as a consultant on various studies, such as the future of the American postal system (Pitney Bowes); legislative reform of the U.S. *Postal Act* for various American postal unions; and, for the Government of Canada, related to the United Parcel Services NAFTA challenge.



Mrs. Nicole Beaudoin received her bachelor of arts degree from the *Université de Montréal* in 1960. She subsequently received a bachelor of business administration in public accounting in 1978 and her master's of business administration in finance in 1985, both from HEC Montreal. She is the president and CEO of the Quebec Business Women's Network Inc. and of the Women Entrepreneurial Center of Québec. Mrs. Beaudoin has held several other high-level executive positions, including vice-president of finance at Shirtmate (Canada) Inc., VIA Rail Canada and Papiers Perkins Ltée, and she was general manager of Scott Paper Ltd.'s eastern division. She also sat on the board of directors of numerous organizations, including the HEC Montreal Alumni Association, the Canadian Race Relations Foundation and the *Fondation de l'entrepreneuriat*. She is a fellow of the Order of Chartered Accountants of Quebec and of the Canadian Institute of Chartered Accountants. In 2006, she was named Officer of the *Ordre national du Québec*, as well as one of Canada's most powerful women, Top 100™, Champions category. In 2007, when honoured at HEC's 100th anniversary, Mrs. Beaudoin received an honorary doctorate from the *Université de Montréal*.



Mr. Daniel H. Bader is a professional engineer and graduated with a bachelor of science in civil engineering from the University of Saskatchewan in 1973 and with a master's of applied science in civil engineering from the University of Waterloo in 1979. He also attended the Banff School of Advanced Management in 1988 and undertook the director's education program at the University of Alberta in 2007. He joined the Government of Alberta in 1979 and served in a variety of positions, including assistant deputy minister for three different divisions within Alberta Public Works, Supply and Services: Property Management, Reservoir Development, and Technical Resources and Property Development. Subsequently, he became deputy minister of Alberta Public Works, Supply and Services, Alberta Innovation and Science, and Alberta Municipal Affairs. He also held the position of corporate chief information officer for the Government of Alberta and sat on the Board of Directors of the Alberta Capital Finance Authority and iCORE.

Strategic Review of Canada Post Corporation – Terms of Reference

I. Background

Canada Post is mandated to provide affordable, universal postal service to Canadians. It contributes to Canada's social cohesion and economic prosperity objectives by giving Canadians the capacity to keep in touch and do business with each other and their governments in a timely, accessible and inexpensive manner.

Canada Post was created as a Crown corporation in 1981 as the successor to the Post Office Department of Canada. Since that time there have been two significant mandate reviews of Canada Post; the first in 1985 and the second in 1995.

In response to the 1995 review, the Government established a set of requirements, including:

- that Canada Post provide an affordable, universal postal service;
- that Canada Post remain a public institution as long as it continued to fulfill its public policy role; and
- that Canadians should not be asked to subsidize lettermail.

The Government also confirmed Canada Post's involvement in the provision of competitive services such as parcels, courier and admail, on the understanding that these services would help to maintain affordable lettermail service.

As part of its response to the 1995 review, the Government also approved a Multi-Year Policy and Financial Framework for Canada Post in December 1998, which set specific service standards and financial goals for the Corporation and established a price cap formula for the basic lettermail rate (see Annex A).

Since the 1998 Multi-Year Policy and Financial Framework was established, the pace of change in information technology, combined with globalization, has greatly accelerated. This includes the continued prominence of the Internet and its increasing popular acceptance for receiving and paying bills as well as its use for advertising purposes. Also, the number of addresses in Canada increases by approximately 200 000 per year, causing letter carriers to deliver to more addresses with fewer pieces of lettermail. This adds pressure to Canada Post's operating costs each year.

Concurrently, the Government has been increasingly looking to Canada Post to contribute to public policy objectives beyond the provision of affordable, universal postal service by:

- placing restrictions on service rationalizations (e.g. moratorium on the closure of rural post offices);

- establishing delivery standards (e.g. delivery to rural mailboxes); and
- requiring Canada Post to support specific programs (e.g. Publications Assistance Program).

Canada Post has been asked to endorse these measures with limited funding or compensation. Despite these pressures, Canada Post has paid out more than \$400 million in dividends to the Government of Canada since the Multi-Year Policy and Financial Framework was put in place in 1998.

II. Purpose of the strategic review

In light of the aforementioned developments, and similar in approach to the federal government's decision to conduct strategic reviews for all departments over the next few years, a strategic review of Canada Post will be conducted to ensure it remains focused and is well positioned to continue to serve Canadians in the future.

The purpose of the strategic review is to examine Canada Post's public policy objectives, its ability to remain financially self-sustaining, and the continued relevancy of the 1998 Multi-Year Policy and Financial Framework.

III. Guiding principles

The strategic review will be guided by the following four principles:

- Canada Post will not be privatized and will remain a Crown corporation.
- Canada Post must maintain a universal, effective and economically viable postal service.
- Canada Post is to continue to act as an instrument of public policy through the provision of postal services to Canadians.
- Canada Post is to continue to operate in a commercial environment and is expected to attain a reasonable rate of return on equity.

IV. Scope

Within the parameters of the guiding principles outlined above, the strategic review will focus on the following areas:

A. Market and competition

- How have changes in technology, competition and customer demographics shaped the postal market?
- What has been the evolution of the markets for lettermail, parcels, advertising mail, and international mail?
- What are the emerging needs of postal service customers?
- What can be learned from these same developments in the postal services markets in other countries?

B. Public policy objectives and responsibilities

- What are the costs of the universal service obligation and to what extent do revenues generated by Canada Post's exclusive mail collection and delivery

privilege offset these costs? How are those costs and revenues expected to evolve in the future?

- What have been the financial impacts of public policy obligations placed on Canada Post? How are the costs of public policy obligations funded?
- What are the social impacts of the universal service obligation?
- To what extent do all of the public policy obligations imposed on Canada Post meet the needs of Canadians?

C. Commercial activities

- What are the internal and external challenges and risks faced by Canada Post in its effort to ensure its activities generate reasonable rates of return and contribute to fund its public service obligations?
- Which activities or services currently provided should be preserved as exclusive privileges, and which ones should be provided in a more competitive environment?
- Does Canada Post have sufficient latitude/flexibility to perform successfully in a competitive market environment?

D. Financial and performance targets

- Are the parameters set out in the 1998 Multi-Year Policy and Financial Framework still valid and do they provide appropriate accountability?
- Is there an appropriate policy and financial framework in place to ensure that Canada Post can compete successfully in the marketplace and meet its public policy obligations?
- What are appropriate financial and performance targets for Canada Post that will reflect its dual public and commercial objectives, and support its efforts to improve the corporation's cost structure and efficiency and meet future infrastructure needs?
- How should service delivery standards be established?

V. Governance and process

The strategic review will be conducted by an Advisory Panel made up of three part-time members selected by the Minister of Transport, Infrastructure and Communities and Minister responsible for the Canada Post Corporation. The Advisory Panel will be supported by a small full-time secretariat staffed by federal employees.

The Panel will work closely with the Chairperson of the Board of Directors as well as senior management of Canada Post. The work to be completed as part of this strategic review will rely extensively on information provided by Canada Post and as such, the successful completion of this strategic review will be dependent on cooperation between all involved parties.

Consultations with major stakeholders inside and outside of government will be undertaken. Public input will be sought through written submissions.

Under the Advisory Panel's guidance, the secretariat will develop and manage the overall project work plan and undertake studies to be completed internally or contracted out to fully assess matters defined in the scoping section of this document.

VI. Reporting and timing

The Advisory Panel will provide a status update to the Minister of Transport, Infrastructure and Communities and Minister responsible for the Canada Post Corporation no later than September 30, 2008 and a final report in December, 2008. The final report will be prepared in both official languages and, with the exception of the sections that are commercially sensitive, will be made public.

Annex A

MULTI-YEAR POLICY AND FINANCIAL FRAMEWORK (est. 1998)

Financial Performance	Target
• Earnings before interest and taxes (EBIT):	\$175 M
• Return on equity (ROE):	11%
• Dividend policy:	25% (40% once ROE at 11%)
• Debt-to-capital ratio:	40%
• Cost as a percentage of revenue:	97%

Lettermail Service Delivery Standards (Urban and Rural)

- | | |
|---|-----------------|
| • Within same centre: | 2 business days |
| • Between centres in same province: | 3 business days |
| • Between centres in different provinces: | 4 business days |

Rural Retail Service Standards

- CPC to negotiate with local community to better reflect community requirements.
- Rural moratorium continues in place, although amalgamations are allowed.

Price Cap Formula

Price cap formula for determining future increases in the basic postal rate:

- Rate increases to be held below inflation at a rate of two-thirds the annual rate of growth of the Consumer Price Index (CPI);
- Rate increases to be implemented no more than once annually, effective in January if such an increase is warranted; and
- Increases to be announced six months in advance.

The price cap formula forms part of the Lettermail Regulations.

Consultations and Site Visits

Akhurst Machinery Ltd. (Dieppe, New Brunswick)
André, Harvie, former federal cabinet minister
Association of Postal Officials of Canada
Assurances Michel Brosseau (Montreal)
Austrian Post
Australia Post
Bradford Exchange
Bruce Doern, Professor Emeritus, Carleton University
Canada Border Services Agency
Canada Post Corporation (Meetings and visit of various facilities)
Canada Revenue Agency
Canadian Federation of Independent Business
Canadian International Mail Association
Canadian Library Association
Canadian Newspaper Association and Canadian Community Newspapers Association
Canadian Postmasters and Assistants Association
Canadian Union of Postal Workers
Chicoyne, Denyse, CFA, Member of the Board – Canada Post
Claire Fabrics Inc. (Montreal)
Columbia House and Doubleday
Competition Bureau
Cryer, Thomas W., CFA, Member of the Board – Canada Post
Department of Agriculture and Agri-Food Canada
Department of Canadian Heritage
Department of Environment Canada
Department of Finance
Department of Foreign Affairs and International Trade Canada
Department of Human Resources and Skills Development Canada (Service Canada and Labour)
Department of Indian and Northern Affairs Canada
Department of National Defence
Department of Public Works and Government Services Canada
Department of Transport Canada
eBay Canada
Fédération des Caisses Desjardins
Feeney, Gordon, corporate director (former Chairman of the Board of Canada Post Corporation)
House of Commons

Leblanc Nadeau Bujold, Chartered Accountants
London Drugs
Magazines Canada
Nanos Research
National Association of Major Mail Users
New Zealand Post
Office of the Auditor General
Pitney Bowes Canada
Postal Regulatory Commission (U.S.)
Public Service Alliance of Canada and the Union of Postal Communication Employees
Purolator Courier Ltd. (Meeting and visit of the Vancouver and Montreal facilities)
Richard, Guy A., The Hon., former Chief Justice of the Superior Court of New Brunswick
Richard Hooper - Chair, Independent Review of the Postal Services Sector (U.K.)
Rogers - The Shopping Channel
Royal Bank of Canada
Royal Canadian Mint
Royal Mail (U.K.)
Russell, Todd, MP Labrador
Saskatchewan Newspapers Association
Scotia bank
Senate of Canada
Shoppers Drug Mart
Stanwood Associates
Statistics Canada
Swedish Post (Posten)
Toime, Elmar, consultant
Treasury Board Secretariat
Tremblay, Michel, former ombudsman, Canada Post
Turmel, Jacques, President, Perseus Capital Inc.
Ultramar
United Postal Service Inc. (Meeting and visit of Hamilton and Burlington plant facilities)
United States Postal Service (Meeting and visit of Dulles, Virginia, plant facility)
Veseys (York, Prince Edward Island)
World Vision
Yves Rocher

(i) List of submissions from stakeholders

Abbotsford, City of
Action Gardien de Pointe-Saint-Charles
Action Plus de Sherbrooke
Acton Vale, Ville d'
Adelaide Metcalfe, Corporation of the Township of
Admiral's Beach, Town Council of
Agriculture and Agri-Food Canada
Aguanish, Municipalité d'
Aklavik, Hamlet of
Albanel, Municipalité d'
Alberni-Clayoquot Regional District
Alberta Federation of Labour
Alert Bay, Corporation of the Village of
Alexander, Rural Municipality of
Alfred et Plantagenet, Canton d'
Alliance for Equality of Blind Canadians
AmiEs de la Terre de Québec
Amisk, Village of
Ange-Gardien, Municipalité d'
Angliers, Municipalité du Village d'
Annapolis, Municipality of the County of
Archie, Rural Municipality of
Argenteuil, Municipalité régionale de comté d'
Argyle No. 1, Rural Municipality of
Armour, Township of
Armstrong, City of
Armstrong, Rural Municipality of
Arthabaska, Municipalité régionale de comté d'
Atamanenko, Alex, MP for B.C. Southern Interior
Auclair, Municipalité d'
Aumond, Corporation Municipale du Canton d'
Authier-Nord, Municipalité d'
Auvergne No. 76, Rural Municipality of
Ayer's Cliff, Village of
Aylsham, Village of

Baie-Saint-Paul, Ville de
Baine Harbour, Town of
Balcarres, Town of
Barnston-Ouest, Municipalité de
Barrie, City of
Barriere, District of
Barrington, Municipality of the District of
Bashaw, Town of
Basques, Municipalité régionale de comté des
Bay Roberts, Town of
B.C. Federation of Labour
Beauharnois-Salaberry, Municipalité régionale de comté de
Beaumont, Municipalité de
Beauval, Northern Village of
Beaver County
Bedford, Ville de
Bengough No. 40, Rural Municipality of
Beresford, Town of
Bienfait, Town of
Big Lakes, Municipal District of
Bird Cove, Town Council of
Black Diamond, Town of
Blackfalds, Town of
Blakeman, Laurie, MLA, Edmonton Centre
Bonavista, Town of
Bonfield, Corporation of the Township of
Bonne-Espérance, Municipality of
Bouchette, Municipalité de
Boundary District Teachers' Association
Bowman, Municipalité de
Brampton-Mississauga and District Labour Council
Brenda, Rural Municipality of
Breton, Village of
Bristol, Municipality of
British Columbia Printing & Imaging Association
Brokenhead, Rural Municipality of
Buchanan No. 304, Rural Municipality of
Buchanan, Village of
Buffalo Narrows, Northern Village of
Burin, Town of

Burk's Falls, Municipality of the Village of
Calacs Région Côte-Nord
Calder, Village of
Calvin, Corporation of the Municipality of
Cambria, Rural Municipality of
Canada Post Corporation
Canadian Business Press
Canadian Centre for Policy Alternatives
Canadian Community Newspapers Association
Canadian Federation of Nurses Union
Canadian Federation of Students
Canadian International Mail Association
Canadian Labour Congress
Canadian Library Association
Canadian Marketing Association
Canadian Office and Professional Employees Union Local 378
Canadian Postmasters and Assistants Association
- Manitoba
- Newfoundland & Labrador
- Ottawa
- Saskatchewan
Canadian Printing Industries Association
Canadian Union of Postal Workers
- Local 039
- Local 117
- Local 135
- Local 385
- Local 620
- Local 718
- Local 742
- Local 796
- Local 760
- Local 776
- Local 788
- Local 840
- Local 850
- Local 852
- Local 854
- Calgary Local
- Fraser Valley West Local

- Montreal Local
- Nova Local
- Outaouais québécois
- Pacific Region
- Port Hawkesbury Local
- Sherbrooke, Quebec
- Toronto Local
- Trail, B.C. Local
- Union of Postal Communications Employees / Special Needs and Moving on Projects
- Vancouver Local
Canadian Union of Public Employees
- Local 79
- Local 317
- Local 1870
- Nova Scotia
Canora, Town of
Cantley, Municipalité de
Cantons-Unis de Latulipe et Gaboury, Municipalité des
Cap-Santé, Ville de
Carbon Village in the Valley
Cardston County
Cariboo Regional District
Carievale, Village of
Carignan, Ville de
Carrot River, Town of
Cascapédia-St-Jules, Municipalité de
Cavalluzzo Hayes Shilton McIntyre & Cornish
Cavan Monaghan, Township of
Centraide - HCN/Manicouagan
Centraide - Sud-Ouest du Québec
Centre de femmes l'Étincelle
Centre de femmes Marie-Dupuis
Centre ressources pour femmes de Beauport
Champneuf, Corporation municipale de
Channel - Port aux Basques, Town of
Chapel Arm, Town of
Chaplin, Village of
Charlevoix, Municipalité régionale de comté de
Chartierville, Municipalité de
Chester, Municipality of the District of

Chestermere, Town of
Chisholm, Corporation of the Township of
Christopherson, David, MP - Hamilton Centre
Clearwater, District of
Clermont, Municipalité du Canton de
Coalhurst, Town of
Coalition for Seniors and Nursing Home Resident's Rights
Coaticook, Municipalité régionale de comté de
Coderre, Village of
Colchester, Municipality of the County of
Colombier, Municipalité de
Communications, Energy and Paperworkers Union of Canada
- Local 401
- Local 3057
- Ottawa
Compton, Municipalité de
Conception Bay South, Town of
Conception Harbour, Town of
Confédération des organismes de personnes handicapées du Québec
Congress of Union Retirees of Canada
Conmee, Township of
Cormack, Town of
Cornwallis, Rural Municipality of
Corporation de défense des droits sociaux de Lotbinière Inc.
Corporation de développement communautaire du Granit
Corporation de développement communautaire du Kamouraska Rivière-du-Loup Témiscouata et Les Basques
Council of Canadians with Disabilities
Council of Canadians, Saint John New Brunswick Chapter
Council of Senior Citizens' Organizations of B.C.
Cowansville, Ville de
Cowley, Village of
Coyote Country Chipman
Cramahe, Corporation of the Township of
Creighton, Town of
Cumberland, Corporation of the Village of
Cumberland, Municipality of the County of
Cupar, Town of
Dalhousie, Town of
Danville, Ville de

Dauphin, City of
Delta, Corporation of
Deschambault-Grondines, Municipalité de
Digby, Municipality of
DiNovo, Cheri, MPP Parkdale-High Park
DisAbled Women's Network Canada
Dixville, Municipalité de
Dolbeau-Mistassini, Ville de
Donalda, Village of
Donnelly, Village of
Dosquet, Municipalité de
Douglas No. 436, Rural Municipality of
Dryden, City of
Dubreuilville, Corporation of the Township of
Dudswell, Municipalité de
Duncan, City of
Dundum, Town of
Durham Region Labour Council
Eagle Creek No. 376, Rural Municipality of
East Angus, Ville de
East Ferris, Township of
East Hants, Municipality of
East Kootenay, Regional District of
eBay Canada
Éboulements, Municipalité des
Eckville, Town of
Edmonton & District Labour Council
Eel River Crossing, Village of
Elgin, Municipalité d'
Ellice, Rural Municipality of
Emo, Corporation of the Township of
Enniskillen, Township of
Eriksdale, Rural Municipality of
Escuminac, Corporation municipale d'
Estérel, Ville d'
Ethelbert, Rural Municipality of
Eye Brow No. 193, Rural Municipality of
Family Place Resource Centre
Faro, Town of
Fassett, Municipalité de

Fédération des travailleurs et travailleuses du Québec
- Conseil régional Abitibi-Témiscamingue et Nord-du-Québec
- Conseil régional de l'Estrie
- Conseil régional Haute-Côte-Nord / Manicouagan
- Conseil régional Mauricie et Centre-du-Québec
- Conseil régional Montréal métropolitain
- Conseil régional Outaouais
Fédération québécoise des municipalités
Feltmate, Peggy, Councillor - Kanata South, City of Ottawa
Ferland-et-Boilleau, Municipalité de
Fernie, Corporation of the Corporation of the City of
Fillmore No. 96, Rural Municipality of
Fjord-du-Saguenay, Municipalité régionale de comté du
Forteau, Town of
Fortierville, Municipalité de
Fox Valley, Village of
Franklin No. 127, Rural Municipality of
Frobisher, Village of
Front of Yonge, Township of
Gallichan, Municipalité de
Galway-Cavendish & Harvey, Township of
Gibbons, Town of
Gillies, Township of
Gold River, Village of
Goodsoil, Village of
Gore, Municipalité du Canton de
Grand Bank, Town of
Grande Prairie, City of
Grand-Saint-Esprit, Municipalité de
Grandview, Rural Municipality of
Granit, Municipalité régionale de comté du
Gravelbourg, Town of
Great West Newspapers, LP
Greenview No. 16, Municipal District of
Greenwood, City of
Grey, Rural Municipality of
Grimshaw, Town of
Groupe Populaire DÉCLIC
Guelph/Eramosa, Corporation of the Township of
Gull Lake, Town of

Hafford, Town of
Haliburton, County of
Hamilton, City of
Hamilton, Corporation of the Township of
Ham-Nord, Municipalité du Canton de
Hampden, Municipalité du Canton de
Harbour Breton, Town of
Haute-Gaspésie, Municipalité régionale de comté de la
Haut-Saint-Laurent, Municipalité régionale de comté du
Hawkesbury East, Municipality of
Health Sciences Association of British Columbia
Hemmingford, Municipality of the Township of
Herbert, Town of
Hines Creek, Village of
Hr. Main-Chapel's Cove-Lakeview, Town of
Huberdeau, Municipalité de
Huron East, Municipality of
Huron Kinloss, Corporation of the Township of
Ignace, Corporation of the Township of
Insinger No. 275, Rural Municipality of
International Direct Response Services Ltd.
Invermay, Village of
Inverness, Municipality of the County of
Iroquois Falls, Town of
Isle aux Morts, Town of
Johnson, Corporation of the Township of
Kamloops District Labour Council
Kamloops, City of
Kamouraska, Municipalité de
Kapuskasing, Corporation of the Town of
Kenora, City of
Kent, District of
Kersley Community Association
Keys No. 303, Rural Municipality of
Killaly, Village of
Kimmirut, Municipality of
Kirk Integrated Marketing Services Ltd.
Kitimat-Stikine, Regional District of
Kootenay Boundary, Regional District of
L'Ascension de Notre-Seigneur, Municipalité de

La Conception, Municipalité de
La Doré, Municipalité de
La Durantaye, Paroisse de
La Motte, Municipalité de
La Patrie, Municipalité de
La Reine, Municipalité de
La Tuque, Agglomération de
La Vallée des Roseaux
La Vallee, Township of
La Visitation-de-Yamaska, Municipalité
Labrador City, Town of
Lac du Bonnet, Town of
Lac La Biche County
Lac Ste. Anne County
Lac-aux-Sables, Municipalité de la Paroisse de
Lac-des-Aigles, Municipalité de
Lac-du-Cerf, Municipalité de
Lacolle, Municipalité de
Lac-Simon, Municipalité de
Ladysmith, Town of
Laforce, Municipalité de
Lake Alma No. 8, Rural Municipality of
Lake Country, District of
Lake of Bays, Township of
Lakeview No. 337, Rural Municipality of
Lanark Highlands, Corporation of the Township of
Landrienne, Corporation municipale de
Langenburg, Town of
Lanoraie, Municipalité de
Lark Harbour, Town of
Larouche, Corporation municipale de
L'Ascension, Municipalité de
L'Ascension-de-Patapédia, Municipalité de
Latchford, Corporation of the Town of
Laurier No. 38, Rural Municipality of
L'Avenir, Municipalité de
Laverlochère, Municipalité de
Le Goulet, Municipalité de
Leduc County
Leeds and the Thousand Islands, Township of

Les Méchins, Municipalité de
Limerick, Village of
Lingwick, Canton de
L'Isle-Verte, Municipalité de
London and District Labour Council
Longue-Pointe-de-Mingan, Municipalité de
Loreburn No. 254, Rural Municipality of
Lorraine, Ville de
Lumsden, Town of
Lunenburg, Municipality of the District of
Lyster, Municipalité de
Macdonald, Meredith & Aberdeen Add'l., Township of
Machar, Township of
MacNutt, Village of
Macrorie, Village of
Madawaska Valley, Corporation of the Township of
Magazines Canada
Magnetawan, Municipality of Corporation of the
Mail-O-Matic
Malahide, Township of
Manseau, Municipalité de
Maple Creek, Town of
Mariposa No. 350, Rural Municipality of
Markstay-Warren, Corporation of the Municipality of
Maskinongé, Municipalité de
Matane, Municipalité régionale de comté de
Matane, Ville de
Mattawa, Corporation of the Town of
McCraney No. 282, Rural Municipality of
McCreary, Village of
McKellar, Township of
McLeod No. 185, Rural Municipality of
Medstead No. 497, Rural Municipality of
Mékinac, Municipalité régionale de comté de
Memramcook, Village de
Merritt, City of
Miles Cove, Town of
Mille-Isles, Municipalité de
Millet, Town of
Minburn No. 27, County of

Minerve, Municipalité de la
Miniota, Rural Municipality of
Minitonas, Town of
Minna, Maria, The Hon.
Minnedosa, Town of
Moncton and District Labour Council
Montcalm, MCR de
Montcerf-Lytton, Municipalité de
Montebello, Municipalité de
Mont-Joli, Ville de
Montpellier, Municipalité de
Montrose, Corporation of the Village of
Moose Creek No. 33, Rural Municipality of
Morin, Sandra, MLA, Saskatchewan Legislative Assembly
Morris No. 312, Rural Municipality of
Morse, Town of
Mossey River, Rural Municipality of
Mountain, Rural Municipality of
Mouvement d'éducation populaire autonome de Lanaudière
Movement of Popular Education and Action Community Quebec
Myrnam, Village of
Nackawic, Town of
Nairn & Hyman, Corporation of the Township of
Nakusp, Village of
Nantes, Municipalité de
National Anti-Poverty Organization
National Association of Major Mail Users, Inc.
National Farmers Union
National Union of Public and General Employees
Nédélec, Municipalité
Neepawa, Town of
New Brunswick Federation of Labour
New Denver, Corporation of the Village of
New Glasgow, Town of
New Westminster & District Labour Council
Newfoundland and Labrador Federation of Labour
Nigadoo, Village de
Nipigon, Corporation of the Township of
North Alton Wilberforce, Township of
North East Margaree Senior Citizen's & Pensioner's Club

North Frontenac, Township of
Northern Lights No. 22, Municipal District of
Northern Sunrise County
Northern Territories Federation of Labour
Notre-Dame Auxiliatrice de Buckland, Municipalité de
Notre-Dame-de-Lorette, Municipalité de
Notre-Dame-de-Lourdes, Municipalité de
Notre-Dame-de-Lourdes, Municipalité Paroisse de
Notre-Dame-de-Lourdes, Village de
Notre-Dame-du-Laus, Municipalité de
Notre-Dame-de-Ham, Municipalité de
Notre-Dame-du-Rosaire, Municipalité de
Notre-Dame-du-Sacré-Cœur d'Issoudun, Municipalité de
Nouvelle, Municipalité de
Nova Scotia Federation of Labour
Nova Scotia Government & General Employees Union
Oak Lake, Town of
Ochre River, Rural Municipality of
Old Perlican, Town of
Old Post No. 43, Rural Municipality of
Olds, Town of
Ontario Secondary School Teachers' Federation
Opasatika, Township of
Osoyoos, Town of
Oxfam Canada
Packington, Municipalité de
Paddockwood No. 520, Rural Municipality of
Padoue, Municipalité de
Papineauville, Municipalité de
Paradise Hill, Village of
Parkside, Village of
Pays-d'en-Haut, Municipalité régionale de comté de
Peace, Municipal District of
Pelham, Corporation of the Town of
Pembroke, City of
Pennant, Village of
Petite-Rivière-Saint-François, Municipalité de
Pickle Lake, Township of
Pictou County, Municipality of
Pierreville, Municipalité de

Pilot Butte, Town of
Pincher Creek No. 9, Municipal District of
Pinto Creek No. 75, Rural Municipality of
Piopolis, Municipalité de
Pitney Bowes
Plessisville, Municipalité de la Paroisse de
Plum Coulee, Town of
Pohénégamook, Ville de
Point Leamington, Town of
Ponoka, Town of
Ponteix, Town of
Port Alberni, City of
Port Alice, Village of
Port Clements, Village of
Port Edward, District of
Port Hawkesbury, Town of
Port-Daniel-Gascons, Municipalité de
Portneuf-sur-Mer, Municipalité de
Pouch Cove, Town of
Poularies, Municipalité de
Powell River, City of
Preeceville No. 334, Rural Municipality of
Price, Municipalité du Village de
Priddy, Penny, MP Surrey North
Prince Edward Island Federation of Labour
Provost, Town of
Public Service Alliance of Canada
Punnichy, Village of
Quinte West, City of
Radville, Town of
Rainy River, Town of
Rapid City, Town of
Rapide-Danseur, Municipalité de
Rapides-des-Joachims, Municipalité de
Red Lake, Municipality of
Regina & District Labour Council
Regroupement d'éducation populaire d'Abitibi-Témiscamingue
Renfrew, County of
Réseaux d'Entraide Amiante
Resort Municipality

Revelstoke, City of
Rexton, Village of
Richard, Lorraine, députée de Duplessis
Rigaud, Municipalité de
Rimouski-Neigette, Municipalité régionale de comté de
Riverside No. 168, Rural Municipality
Riverview Seniors Citizen Club
Rivière-au-Tonnerre, Municipalité de
Rivière-Éternité, Municipalité de
Rivière-Héva, Municipalité de
Rivière-Ouelle, Corporation municipale de
Roblin, Town of
Roche Percee, Village of
Rochebaucourt, Municipalité de
Rockglen, Town of
Rocky Harbour, Town of
Rogersville, Village de
Roquemaure, Municipalité de
Rosalind, Village of
Rural Dignity of Canada
Rural Voices
Russell, Rural Municipality of
Ryerson, Township of
Sackville, Town of
Sacré-Coeur, Municipalité de
Saint-Adalbert, Municipalité de
Saint-Adelphe, Municipalité de
Saint-Adrien, Municipalité de
Saint-Aimé-du-Lac-des-Iles, Municipalité de
Saint-Aimé, Paroisse de
Saint-Alexandre-de-Kamouraska, Municipalité de
Saint-Ambroise, Municipalité de
Saint-Ambroise-de-Kildare, Municipalité de la Paroisse de
Saint-Anaclet-de-Lessard, Municipalité de
Saint-André-de-Restigouche, Municipalité de
Saint-Apollinaire, Municipalité de
Saint-Arsène, Municipalité de la Paroisse
Saint-Augustin-de-Desmaures, Ville de
Saint-Barnabé, Corporation municipale de la Paroisse de
Saint-Basile, Ville de

Saint-Bernard, Municipalité de
Saint-Bernard-de-Lacolle, Municipalité de
Saint-Bruno, Municipalité de
Saint-Camille, Municipalité du Canton de
Saint-Casimir, Municipalité de
Saint-Charles-de-Bellechasse, Municipalité de
Saint-Chrysostome, Municipalité de
Saint-Claude, Municipalité de
Saint-Cléophas, Municipalité de
Saint-Côme, Paroisse de
Saint-Constant, Ville de
Saint-Cuthbert, Municipalité de
Saint-Cyprien, Municipalité de
Saint-Cyrille-de-Wendover, Municipalité de
Saint-Damien, Municipalité de
Saint-Damien-de-Buckland, Municipalité de
Saint-David, Municipalité de
Saint-Didace, Municipalité de
Saint-Édouard-de-Lotbinière, Municipalité de
Saint-Étienne-des-Grès, Municipalité de
Saint-Eugène, Municipalité de
Saint-Eugène-de-Ladrière, Municipalité de
Saint-Évariste-de-Forsyth, Municipalité de
Saint-Fabien-de Panet, Municipalité de
Saint-Félix-de-Dalquier, Corporation municipale de
Saint-Félix-de-Valois, Municipalité de
Saint-Ferdinand, Municipalité de
Saint-François-Xavier-de Brompton, Municipalité de
Saint-François-Xavier-de-Viger, Municipalité de
Saint-Frédéric, Municipalité de
Saint-Gabriel-Lalemant, Municipalité de
Saint-Hilaire, Village de
Saint-Honoré, Municipalité de
Saint-Honoré-de-Shenley, Municipalité de
Saint-Honoré-de-Temiscouata, Municipalité de
Saint-Hubert-de-Rivière-du-Loup, Municipalité de
Saint-Hugues, Municipalité de
Saint-Ignace-de-Stanbridge, Municipalité de la Paroisse de
Saint-Irénée, Municipalité de
Saint-Isidore, Municipalité de

Saint-Isidore-de-Clifton, Municipalité de
Saint-Jacques, Municipalité de
Saint-Jacques-le-Mineur, Municipalité de la Paroisse de
Saint-Jean-de-Cherbourg, Municipalité de
Saint-Jean-de-Dieu, Municipalité de
Saint-Jean-de-l'Île-d'Orléans, Municipalité de
Saint-John, City of
Saint-Joseph-de-Beauce, Ville de
Saint-Joseph-des-Érables, Municipalité de
Saint-Joseph-de-Sorel, Ville de
Saint-Just-de-Bretenières, Municipalité de
Saint-Juste-du-Lac, Municipalité de
Saint-Justin, Municipalité de
Saint-Léandre, Municipalité de
Saint-Léon-de-Standon, Municipalité de
Saint-Liguori , Municipalité Paroisse
Saint-Lin-Laurentides, Ville de
Saint-Louis-du-Ha!-Ha!, Municipalité de
Saint-Ludger, Municipalité de
Saint-Marcel, Municipalité de
Saint-Mathieu-de-Rioux, Municipalité de
Saint-Maurice, Municipalité de la Paroisse de
Saint-Médard, Municipalité de
Saint-Michel-de-Bellechasse, Municipalité de
Saint-Modeste, Municipalité de
Saint-Narcisse-de-Rimouski, Municipalité de
Saint-Nazaire, Municipalité de
Saint-Nérée, Municipalité de
Saint-Pascal, Ville de
Saint-Patrice-de-Beaurivage, Municipalité de
Saint-Pierre-de-Broughton, Municipalité de
Saint-Pierre-de-la-Rivière-du-Sud, Municipalité de
Saint-Quentin, Ville de
Saint-Roch-de-Richelieu, Municipalité de
Saint-Roch-des-Aulnaies, Municipalité de
Saint-Samuel, Municipalité de
Saint-Sauveur, Ville de
Saint-Siméon, Municipalité de
Saint-Siméon, Municipalité de
Saint-Sixte, Municipalité de

Saint-Thuribe, Municipalité de
Saint-Tite, Ville de
Saint-Urbain, Corporation Municipale de la Paroisse de
Saint-Urbain-Premier, Municipalité de
Saint-Valérien-de-Milton, Municipalité de
Saint-Vallier, Municipalité de
Sainte-Agathe-de-Lotbinière, Municipalité de
Sainte-Anne-de-Beaupré, Ville de
Sainte-Anne-de-la Pérade, Municipalité de
Sainte-Brigide-d'Iberville, Municipalité de
Sainte-Catherine, Ville de
Sainte-Cécile-de-Milton, Municipalité de Canton de
Sainte-Clotilde de Beauce, Municipalité de
Sainte-Edwidge-de-Clifton, Municipalité de
Sainte-Elisabeth, Municipalité de
Sainte-Émélie-de-l'Énergie, Municipalité de
Sainte-Famille, Île d'Orléans, Municipalité de
Sainte-Flavie, Municipalité de
Sainte-Florence, Municipalité de
Sainte-Françoise, Municipalité de
Sainte-Geneviève-de-Berthier, Municipalité de
Sainte-Gertrude-Manneville, Municipalité de
Sainte-Hélène de Mancebourg, Municipalité de
Sainte-Hélène, Municipalité de
Sainte-Jeanne d'Arc, Municipalité de
Sainte-Marguerite, Municipalité de
Sainte-Marie-de-Blandford, Municipalité de
Sainte-Marthe, Municipalité de
Sainte-Mélanie, Municipalité
Sainte-Monique, Municipalité
Sainte-Sabine, Municipalité de la Paroisse de
Sainte-Thècle, Municipalité de
Sainte-Thérèse-de-la-Gatineau, Municipalité de
Sainte-Valère, Municipalité de
Sainte-Victoire-de-Sorel, Municipalité de
Sarnia & District Labour Council
Sarnia No. 221, Rural Municipality of
Saskatchewan Federation of Labour
Saskatchewan Voice of People with Disabilities
Saskatchewan, Rural Municipality of

Saskatoon & District Labour Council
Sasman No. 336, Rural Municipality of
Sedgewick, Town of
Selkirk, City of
Senneterre, Ville de
Sept-Rivières, Municipalité régionale de comté de
Sexsmith, Town of
Shawville, Municipality of
Shelburne, Town of
Shell River, Rural Municipality of
Shoal Lake, Rural Municipality of
Shoal Lake, Town of
Sifton, Rural Municipality of
Silverwood No. 123, Rural Municipality of
Smeaton, Village of
Smoky River No. 130, Municipal District of
Smooth Rock Falls, Corporation of the Town of
Solidarité rurale du Québec
Sources, Municipalité régionale de comté des
South Brook, Town of
South Frontenac, Township of
South Norfolk, Rural Municipality of
South Okanagan-Boundary Labour Council
South-West Oxford, Township of
Spallumcheen, Corporation of the Township of
Spanish, Corporation of the Town of
Sparwood, District of
Speers, Village of
Springdale, Town of
Spy Hill No. 152, Rural Municipality of
Squamish-Lillooet Regional District
St-Alban's, Town of
St-Alexis, Municipalité de la Paroisse de
St-Alexis, Municipalité du Village de
St-Charles-de-Bourget, Municipalité de
St-Jacques-de-Leeds, Municipalité de
St-John's, City of
St-Lazare, Village of
St-Luc-de-Bellechasse, Municipalité de
St-Mathieu-du-Parc, Municipalité de

St-Norbert, Municipalité de la Paroisse de
St. Paul, Town of
St-Pierre-de-l'Île-d'Orléans, Municipalité de
St-Robert, Municipalité de
St-Séverin, Municipalité de la Paroisse de
St-Simon, Municipalité de
St-Télesphore, Municipalité de la Paroisse de
St. Walburg, Town of
Ste-Élizabeth-de-Warwick, Municipalité de
Ste-Madeleine, Corporation municipale du Village de
Ste-Perpétue, Municipalité de
Ste. Rose du Lac, Town of
Stewart Valley, Village of
Stewart, District of
Stirling-Rawdon, Township of
Stonehenge No. 73, Rural Municipality of
Stornoway, Municipalité de
Storthoaks, City of
Stoughton, Town of
Strathcona, Rural Municipality of
Stukely-Sud, Village de
Surprise Valley No. 9, Rural Municipality of
Sussex, Town of
Swan River, Rural Municipality of
Syndicat des employées et employés de l'UQAM
Syndicat des Métallos, Local 7531
Syndicat des Métallos, Local 9291
Table des groupes populaires
Tadoussac, Village de
Tahsis, Village of
Tarbutt & Tarbutt Additional, Corporation of the Township of
Taschereau, Municipalité de
Tecumseh No. 65, Rural Municipality of
Tecumseh, Corporation of the Town of
Telecommunications Workers Union
Temagami, Corporation of the Municipality of
Temelkovski, Lui, MP, Oak Ridges-Markham
Témiscamingue, Municipalité régionale de comté de
Temiskaming Shores, City of
Terrasse-Vaudreuil, Municipalité de

Thessalon, Corporation of the Town of
Thetford Mines, Ville de
Thibault, Louise - Députée de Rimouski- Neigette-Témiscouata-Les Basques
Thompson-Nicola Regional District
Thorne, Municipality of
Tompkins, Village of
Toronto and York Region Labour Council
Torquay, Village of
Très-Saint-Rédempteur, Municipalité de
Tri-City News
Trinity Bay North, Municipality of
Tweed, Corporation of the Municipality of
Twillingate, Town of
Two Hills, Town of
UNI Global Union
UNITE HERE Canada
Upper Island Cove, Town of
UPS Canada Ltd.
Val Marie No. 17, Rural Municipality of
Valemount, Corporation of the Village of
Val-Racine, Municipalité de
Vanguard, Village of
Vermilion River, County of
Vernon, Corporation of the City of
Vilna, Village of
Virden, Town of
Wabush, Town of
Warburg, Village of
West Elgin, Municipality of
Westbury, Canton de
Westlock County
Whitemouth, Rural Municipality of
Whitestone, Municipality of
Wickham, Municipalité de
Williams Lake, City of
Willingdon, Village of
Willow Bunch, Town of
Wilton No. 472, Rural Municipality of
Windsor, City of
Winnipeg Beach, Town of

Winterton, Town of
Woodstock, Town of
Workers' Action Centre
Wotton, Municipalité de
Wynyard, Town of
Yamaska, Municipalité de
Yarmouth, Town of
Yellowknife, City of

* Excludes 32 stakeholders who did not give consent for public posting.

(ii) List of submissions from individuals

Adams, Joan L.
Adamson, Bill
Allard, Monique
Allen, Wendy
Amber
Anderson, Bob
Anderson, Doris E.
Andrews, Pauline
Andy, J.
Arbez, Lynne
Ardiel, Lynda
Arenas, Mauricio
Arenas, Rodolfo
Arnold, Randy
Arsenault, Al
Asselin, Bill
Avison, Tricia
Aylwin, Dominique M.
Ball, Betty
Barron, David
Barth, Gyneth
Beames, Frances
Bell, Lise
Belletrutti, Joelle
Belliveau, Marie
Belmore, Nancy
Billard, Cliff & Ruth
Billowes, Colin
Bloedow, AJ
Bob
Boersma, Gus
Boisvert, André
Boyle, D.
Bradford, JC
Braham, Carl & Yvonne
Breen, Ruth
Breeze, Shelley
Bremner, Florence E.
Brenner, Konrad
Brierley, Emily
Brisson, Olivette
Brockman, Aggie
Brooks, Cornelia
Brown, Barbara
Brown, Bobbi jo
Brown, Pat

Bruce, Peter
Brushey, Tami
Brydon, Robbie
Buckle, Bill
Cain, Bernice M.
Callaghan, Jeffrey
Cameron, Coralie
Cameron, Michael
Cameron, Owen
Campbell, Donna
Canada, Joe
Cann, Jean
Cao, Karen Jia-Yun
Careen, Noreen
Carmichael, Tanya and Judson
Carson, Beverly
Carson, Dorothy
Carter, R.W. (Bill)
Caswell, Jeanne
Chambers, Carole
Christakos, James
Clancy, Douglas E.
Closson, Valerie
Coates, Edith
Colbert
Cooper-Stephenson, Shelley
Cormier, Raymond
Cornish, Sidney
Côté, Sébastien
Couture, Mélanie
Craig, Allan and Mae
Croves, Peter
Crowell, Jim
Daciw, Bill
Dahn, R.C.
Darch, Sarahrose
Davidson, Jessie
Davidson, Philip
Davis, Alan
De Robertis, Roma
De Wagner, Eddy
Derbyshire, Diane
Derbyshire, Don
Devine, C.
Diane et Marc
Dirksen, Jean
Dobson, Barb
Doll, Jim

Doran, Arlyn
Dort, Tonya
Doucette, Joan
Ducasse, Pierre
Duffy, Richard
Dupuis, Adrien
Dupuy, J. & R.
Dyer, Craig
Dyson, Kate
Elkin, Sandra
Engelstoft, Christian
Enger, Brian and Shirley
Enns, Carl
Epstein, Kyla
Evard, Mark
Everts, Lee
Eyes, Kiersten
Eyre, Susan
Fairbrother, Jonagh
Fairless, Benjamin
Falvo, Paul
Farkas, M.
Fecteau, Real
Fedoruk, Elizabeth
Fenech, Kimberly
Findlater, Mary and Ed
Finley, Eric
Fisher, Janet
Fong, Cheryl Ann
Fontaine, Joanne
Forbes, Carolyn
Forbes, Evelyne
Foreman, Don
Foy, Linda
Fraser, Charity
Fraser, Nola R.
Frisch, Thomas
Gabel, Jason
Gallant, Jim
Galt, Jean
Gamble, Vera L.
Garbatt, Tom
Gardezi, Shelia
Gardiner, Chuck
Gardner, Sylvia
Garswood, Sue
Gayton, Judy
Gennoe, Jeremy

Gerdes, Elsie & Derric
Giguere, Bernard
Giles, Angela
Gille, Scott
Giroux, Denise
Glendenning, Ryan
Glenn
Gobeil, Todd
Golding, Mark
Goncalves, Fernando J.B.
Graham-Pole, John & Lander, Dorothy
Graham, Susan
Green, Dixie
Guérette, Daniel
Gunning, Katherine
Guse, William
Hamre, Karen LeGresley
Hansen, Arnold & Margaret
Hansen, Erik
Harrison, Leanne
Hatch, J.
Hawkins, Vi
Hawley, Elaine
Hawley, James E.
Hicks, Tanya
Hidlebaugh, Murray
Holder, Linda E.
Holliday, Yvonne
Howard, Karla
Howard, Terry
Hudgins, Janet
Hughes, Elaine M.
Ivanochko, Bob
Jaffe, Dave
James, Nancy R.
Joe
Johnson, Rebecca
Johnson, Scott K.
Johnston, Wendy
Jones, Doreen M.
Jordan, Matt
Kaminski, Loretta
Keigan, Dorothy
Kennedy, Carolyn
Kennedy, Kevin
Kerr, Yvonne
Khlynine, Vladimir
Kieley, Don

Klaiber, May
Knoetze, Garry
Knoetze, Lise
Knowles, Stephen Richard
Koba, Halyna
Kohnke, Hans-Peter
Koulouras, Jason
Kustudic, Micheale
Lai, Carol Kim Baker
Lamare, Sally and Barry
Landry, Carole Anne
Lanteigne, Louisette
Laslo, Brenda
Lau, Victor
Laurie
Lavallée, Robert
Lawrence
Leachman, Clayton
Leachman, Debbie
LeBlanc, Abel
Leclerc, Alexandre
Lee, Caroline
Lee, Chuck
Lee, Karen E.
Lee, Larry
Legrís, Patricia
Lennox, David
Leslie, Harry
Létourneau, Murielle
Lim, Sylvia
Ling, Shelley
Lister, David
Little, Lois
Lockwood, Lillian
Longford, Shawna
Looy, Quintin C.
Low, Andrew
MacAfee, Toni
MacDonald, Cary
MacDonald, Duncan
MacDonald, Karen
MacEwan, Roberta
Mackey, Jonathan
MacLean, Nolin
Madden, L.S.
Madden, Wayne D.
Mady, Margaret
Maguet, Carolyn

Mahoney, Kelly
Maltin, Elise
Manchester, F.D.
Mandale, Maurice
Mansbridge, Christopher
Markham, Sue
Marshall, Jane and Fred
Martin, Bev
Martin, Lindy
Martin, Margaret
Martin, Murray
Martin, Steeve
Masse, Jamie
Maurice, Marjory
May, Myron
McCormick, Daniel B.
McDonald, James B.
Mcisaac, Ronald
McLaughlin, Debbie
McNeely, Barbara
McPhail, Hilda
Meeker, Hubert
Meggs, Geoff
Merfield, G.H.
Meyerowitz, Sandra R.
Millard, Karen
Miller, Cindy & Joanne
Mindy
Miraldo, Kevin
Mitchell, Frank
Mogensen, Fay
Moir
Moisan, Paul
Monk, Barbara
Moquin, Richard
Morin, Manon
Morningstar, Cory
Morrison, Cherylyn
Morrison, Kari
Mowat, Claire
Moyes, Neil
Mulville, Gladys
Mulvin, Robert R.
Murray, R.
Murray, Rick
Nickerson, George
Niemi, Twila K.
Northcott, Bruce

Orydzuk, Bertha and Metro
Parisis, Nicole
Park, Matthew
Parker, David
Pat
Patterson, Brent
Paula
Pearson, Lynda
Pearson, Margaret
Pedersen, Leo
Percy, Dorothy M.
Peretti, Jean-Philippe
Perreault, Richard
Peters, Grace
Peterson, Bill
Pitblado, Jeff
Raho, Bonnie
Rawls, Don
Rayko, Kim
Rector, Paul
Reed, Timothy
Reibin, Nadia
Reid, Susan
Reimer, Douglas
Rew, Dorene A.
Richardson, Scott
Ringwald, Ursula and Jim
Roberge, Lester
Robillard, Monique
Robinson, Campbell W.
Rochon, Guy
Rogers, Aubrey L.
Ross, Betty L.
Rosser, Micheal
Roy, Marc & Robson, Ali
Rudolph, Gordon
Rutherford, Kristen
Rutkowski, Robert E.
Sauvé, Brigitte
Schultz, James
Sears, Ken
Semmler, Ralf
Shannon, Mike
Shaw, Ivy
Shearer, Eric
Shearer, James
Sheinin, Rachel
Shenton, Brian

Shenton, Margaret
Shephard, Claire
Sheppard, Mike
Shewfelt, Y.
Sinclair, Janice
Sivapalan, Ram
Sjoback, Bertha
Sjoback, Linda
Skerrett, Brian D.
Skinner, Derek
Slater, Bill
Smith, Robert W.
Spilak, Cathi
Spires, Wayne A.
Stafford, Betty
Stafford, C.
Steinhoff, Darren
Stevens, Charles
Stief, Manfred E.
Stotts, B.
Sullivan, Robert W.
Sutmoller, Marty
Switzer, Rick and Elsie
Szijarto, Ken
Tam, Alan
Taylor, Allan S.
Taylor, Dusty May
Therrien, Bruno
Thevenin, Jane
Thomson, Deborah
Tibbles, Jean
Timmons, Evelyn
Toews, Barbara
Tomaszewski, George X.
Towndrow, John
Tracy, Spencer
Trantino, Dany
Tremblay, Karl
Trenholm, Scott
Tripp, Paula
Trottier, Amy
Turner, G
Tutte, Rachel
Twohig, Brian
Tye, Ethel J.
Unrau, Brandy M.
Van, Deb E.
Vanness, Lisa

Venaas, Judith
Vetter, Marj
Vielfaure, René
Virjee, Maria
Wagner, Gloria
Warren, John
Wassayeessic, Tom
Watt, Allan & Linda May
Weather, Linda
Weinberger, Alexandra
Wellner, Cathryn
Wheadon, Amanda
White, Trevor
Whitestone, Frank
Whyte, Jayne
Wiebe, Peter M.
Wilkes, Wally and Mary
Williams, Hugh, Stephanie, Jesse
Winship, Paul
Woods, Marjorie E.
Woodworth, S.
Wright, Dennis
Wright, Margery
Young, Tania
Zdrill, Ryan
Ziegler, Lisa
Zimmer, Darrell
Zimmer, Marcelline
Zuccato, Louis

* Excludes 185 individuals who did not give consent for public posting.

List of Recommendations

I – Universal Service Obligation

Defining the parameters of the USO

1. The government should articulate and communicate to Canada Post its expectations of the USO, to establish a USO that is universal, affordable, timely, accessible and of high quality with respect to both letters and parcels. This should be communicated in the following areas:
 - Universal scope of the USO: delivery to all Canadians, businesses and organizations, five days a week;
 - The content of the USO: letters, parcels, and publications (including newspapers and magazines);
 - Delivery standards: a guaranteed percentage on-time delivery by area;
 - Delivery: five day-a-week delivery service, via instruments of delivery appropriate to community circumstances, with any exceptions to be strictly defined;
 - Accessibility to the postal network: guarantee of access to postal outlets and post office boxes by some sort of proximity formula and minimum number of access points;
 - Affordability: uniform prices for single piece lettermail products in the exclusive privilege area up to an agreed-upon weight;
 - Free mail service for materials for the use of the blind; and
 - A clear confirmation that postal service in rural Canada is by definition an integral part of the USO.

The USO in action – a Service Charter

2. The government's expectations of the USO should be issued and communicated in a Service Charter, which would be made public and would be part of a new financial and service framework for Canada Post. The Service Charter would be part of a contract between the government and Canada Post.

The proposed Service Charter, contained in Annex 1 to this section, will address several components critical to the long-term success of Canada Post:

- Statement of underlying principles
- Universal service obligation
- The reserve area
- Delivery standards
- Retail network

- Rural postal network
- Delivery modes
- Pricing – regulated and non-regulated
- Compliance assurance
- Reviews and amendments

Implementation of the Service Charter

3. The Board of Directors of Canada Post should be held accountable for the monitoring of the Service Charter, which would be implemented by the management of Canada Post. The Board should report annually to the public and to the Government on Canada Post's performance against the Service Charter. This should be done in various formats – on Canada Post's website, in the corporation's annual report, in regular communications with the Minister, and in quarterly reports to the Minister when appropriate.
4. The Minister's portfolio department (currently Transport Canada) should adopt appropriate instruments to further develop its expertise in the areas necessary to appropriately evaluate Canada Post's compliance with these objectives.
5. The Service Charter should be reviewed and updated regularly, at a minimum every five years.

Financing the USO

6. The Advisory Panel recommends that Canada Post's core responsibility to pursue its USO obligations continue to be primarily financed by its exclusive privilege over lettermail.
7. The Advisory Panel recommends that the USO and the Service Charter should inform financial calculations and discussions between the government and the corporation and effectively be the foundation for the development of Canada Post's business and corporate plans. Engagement between the Board and the government should take place throughout the corporate plan development process to ensure common understandings exist. It is critically important that the government understand both the service and the financial implications of the Service Charter and the way in which the USO and Service Charter underpin the financial plans of Canada Post.
8. The Panel recommends that the costs of the USO be calculated and identified in the corporate plan and in the annual report.

Deregulation

9. The Advisory Panel recommends neither a general deregulation of the postal market nor a reduction in the existing level of Canada Post's exclusive privilege, save for one segment as noted in # 10 below.
10. The Advisory Panel recommends that outbound international mail be open to competition, as has been the practice (if not the law), as a single

incremental step towards the liberalization of postal markets that is unfolding internationally.

Public policy objectives

11. The Advisory Panel recommends that Canada Post should not be required to subsidize or otherwise pay for those public policy objectives that are not an explicit part of the USO.

Public policy objectives considered by the panel include:

- The Library Book Rate
- Government Free Mail
- The Food Mail Program
- The Publications Assistance Program

The character of each of these public policy objectives varies considerably and each therefore requires individual attention.

12. With respect to the Library Book Rate, the Advisory Panel was unable to determine which federal government department had clear program responsibility for this activity. This perhaps explains why it has been an obligation historically passed on to Canada Post. In keeping with the principle noted above, the Panel does not believe this should be an obligation that is subsidized by Canada Post on an ongoing basis. Given that the majority of the transactions are intra-provincial, it appears that this is largely a provincial responsibility that may or may not require federal government support on an ongoing basis. In any event, this is clearly a decision that should be made by the federal government.
13. The Advisory Panel recommends that Canada Post deal with the Library Book Rate Program on a “single large-volume customer basis” to ensure that the libraries receive appropriate volume and other commercial discounts as would be available to large-volume commercial customers.
14. With respect to Government Free Mail, the principle of user-pay appears to have been fully applied in that there is a recognition by the government that Canada Post should receive compensation for this category of mail. There is, however, a commercial transaction aspect that needs to be addressed between the parties (i.e. Canada Post and Parliament) to ensure that Canada Post is not subsidizing this program indirectly through the pricing model currently in place.
15. The Food Mail Program also appears to be operating on the user-pay principle, with the only point of contention being the mark-up rate allowed to be charged by Canada Post. The Panel believes this is an issue of a commercial nature, to be resolved between the parties. It further believes that Indian and Northern Affairs Canada should consider the option of putting these services out to public tender on a fee-for-service basis.
16. With respect to the Publications Assistance Program (PAP), the Advisory Panel understands that the current obligation placed upon Canada Post to

contribute to the PAP subsidy for publications mailings expires in March 2009 (Canada Post's PAP contribution is equal to approximately seven cents per copy mailed). The Panel believes that Canada Post's PAP obligation should be allowed to expire.

17. The Panel also recommends that distance-based pricing for publications mail be reviewed to ensure that rural Canada is not unduly affected by the consequences of this type of pricing structure for publications mail.

II – Modernization of Canada Post

Modernization plan

18. In the interest of improving clarity and communication between Canada Post and the Government of Canada, the Advisory Panel recommends that the government require Canada Post's Board of Directors to fully develop and present its multi-year modernization plan to the government as a complementary component of the corporation's 2010-2014 corporate plan submission. The fully developed plan and presentation should include:
 - A statement clearly describing the specific activities to be undertaken over the term of the plan, and the annual capital requirements necessary to carry out the modernization plan;
 - Identification and quantification of financial sources (internal and external) and needs;
 - An analysis of productivity payoffs and expected labour savings; and
 - A schedule or timetable demonstrating the break-even date, net gains from modernization, the potential for the introduction of new products and services, and other results.
19. The Advisory Panel further recommends that an update of Canada Post's modernization plan be included in the corporation's corporate plan each year for the duration of its implementation.
20. The Advisory Panel suggests that the Board of Directors consider establishing a modernization committee for this capital intensive and productivity improvement oriented initiative, composed of Board members with sufficient expertise and experience to ensure appropriate due diligence and risk-management oversight.

Financing and access to capital

21. The Advisory Panel recommends that the modernization plan be considered within the larger context of the new revised Financial Framework and Service Charter and Canada Post's broader Corporate Plan, such that Canada Post would have adequate capacity to finance the modernization plan.
22. The Advisory Panel recommends that the Board of Directors have access to levels of capital borrowing appropriate to the financial plan developed to support the modernization plan and to Canada Post's capacity to generate funding and results. The Advisory Panel considers this capital borrowing level to be \$1.7 billion.

Labour and productivity

23. The Advisory Panel recommends that the government support Canada Post's pursuit of the modernization plan, with respect to the opportunities provided by retirements and other attrition over the period of the modernization plan and beyond.
24. The Advisory Panel recommends 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.
25. The Advisory Panel recommends that the government permit Canada Post to introduce an employee share ownership plan as part of this process, in order to heighten employees' involvement in and ownership of the process.
26. The Advisory Panel recommends that Canada Post be encouraged to continue to intensify its efforts toward productivity improvement. The Panel supports Canada Post's further development of performance and cost-based metrics to facilitate the identification and tracking of key productivity indicators relevant to Canada Post's business improvement practices. It further recommends that key performance indicators be incorporated into Canada Post's financial performance framework and annual reporting process, in order to better show what results are being achieved and to explain trends.

Environmental obligations

27. The Advisory Panel recommends that the planning, approval and implementation of Canada Post's modernization plan be informed by the expectation that it will reduce Canada Post's environmental footprint. This approach should inform existing initiatives, and be formulated as part of the modernization plan. Benchmarks should be set against which the Board should report progress through its annual report.

III – Financial Self-Sustainability

Financial Framework

28. The 1998 Policy and Financial Framework should be reformulated, in light of the clarification of USO requirements in the Service Charter, the long-term investments in the modernization plan, and other considerations within this report.
29. The Advisory Panel recommends that the Board of Directors draw up a long-term plan for financial sustainability, for discussion with and approval of the shareholding department of government. This plan should address the costs of the Service Charter and the modernization plan investments, as well as the sources of financing that are available from the exclusive privilege and competitive markets. A proposed revised Financial Framework (Annex II) has been developed to help meet these requirements and stimulate discussion.

Sources of financing

30. Over and above the revenues that Canada Post receives from its exclusive privilege and its commercial products, the Advisory Panel recommends that the Board of Directors work with the government on agreements in the following areas:
- i) Access to increased capital and borrowing - \$1.7 billion - facilitated under appropriate plans and criteria;
 - ii) The two-thirds of CPI price-cap formula for basic lettermail has resulted in basic lettermail prices that are low relative to other countries examined by the Advisory Panel and low compared to Canada Post's costs. The Advisory Panel recommends that the two-third of CPI price-cap formula for basic lettermail be replaced by a new formula that better reflects the factors that influence Canada Post's expenses, such as labour and transportation costs. At minimum, the price-cap formula should be no less than the full CPI;
 - iii) The development of a multi-year pricing plan, based on Canada Post's five-year corporate plan, for regulated products within the exclusive privilege, to create more realistic prices, more certain revenue projections, and increased predictability for postal users (see Governance below for price-setting mechanisms);
 - iv) Subject to approval by Governor in Council, a significant one-time stamp price increase for lettermail may be required to ensure ongoing self-sustainability;
 - v) A pay-as-you-go approach to public policy objectives that will commercially compensate Canada Post for its costs in these areas, to ensure that unintended subsidies of government programs no longer continue; and
 - vi) A relaxation of the corporation's dividend payment obligations for periods of intensive capital investment during the modernization plan.

Pension obligations

31. The Advisory Panel recommends that the government work with Canada Post to ensure there is a clear understanding among the parties of the urgent nature of Canada Post's pension solvency requirements and their impacts, to ensure that an appropriate course of action can be set to avoid impeding the modernization program and its expected productivity improvements.
32. The Advisory Panel further recommends that subsequent corporate plans continue to fully capture these concerns and that they be addressed within the business plan/pricing models once a course of action is agreed upon between Canada Post and the Government of Canada, on how revenue requirements should be met.

Competitive commercial activities

33. The Advisory Panel, knowing that financing the USO is costly, believes Canada Post should look to leverage its networks to develop complementary activities and potential revenue streams, to the extent that these activities are related to its core business. The corporation's annual cost study can continue to be used to verify that there is no cross-subsidization from the exclusive privilege revenue to the commercial operations.
34. The Advisory Panel recommends that Canada Post be allowed to continue to function commercially in those competitive markets where it is now active.
35. The Advisory Panel also recommends that the government clarify and communicate its expectations in this regard, specifying those situations where Canada Post can and cannot make acquisitions, enter new markets and get involved in international activities.
36. In situations where the government has communicated that it is appropriate for Canada Post to act, and to enable the Board to respond quickly to business opportunities, the government should give the Board the authority to spend up to \$100 million in any single transaction without further approval.

Partnerships

37. As a principle, the Advisory Panel recommends that the Government of Canada encourage Canada Post's initiatives in creating partnerships. These could range from joint ventures to formal partnerships with other companies. These could also include access to the network (sorting, distribution, sales) and pooling or sharing transportation resources and capacity with other firms and/or competitors.

IV – The Post in Rural Canada

Rural post and the USO

38. In order to eliminate confusion and anxiety, it is recommended that the government explicitly declare that the rural post is part of Canada Post's USO, and not a public policy objective outside the USO.

Definition of rural

39. The Advisory Panel notes that the definition of rural applied by Canada Post in relation to its rural post office and delivery networks is outdated. The Advisory Panel recommends that a more realistic definition of rural be established initially as "communities with a population of 10 000 or less."

Rural moratorium

40. The Advisory Panel believes that a review of the rural post office moratorium is overdue, given that much has changed in many parts of rural Canada since the 1998 Framework was adopted. The Panel recommends that the definition of rural described above be applied to the current rural moratorium list to

remove those communities from the list that are clearly urban in nature. Specific examples of those identified include: Abbotsford, British Columbia; Lethbridge, Alberta; Timmins, Ontario; Boucherville, Quebec; and Moncton, New Brunswick. This will allow future discussion and actions to be focused exclusively on truly rural communities and allow Canada Post to provide services in these urban centres as they would in any community of equivalent size and character in the rest of Canada, as is prescribed in the *Canada Post Corporation Act*.

41. The Advisory Panel recommends that a new and more explicit mechanism be developed to replace the moratorium with a clear set of rules and procedural guidelines that would both safeguard and respect the postal service needs of rural Canada, but also allow Canada Post a degree of flexibility to deal with emergent issues in providing postal services in rural areas.
42. The Panel believes that all parties – rural communities, rural postal outlet users, Canada Post, and the Government of Canada – would benefit from the specific inclusion of rural services in the USO. The Panel recommends that complementary details be included in the Service Charter to further delineate what the government expects Canada Post to continue to support, with respect to rural posts, over the long term. This would include specific reference to the minimum number and location of rural postal outlets, the access/service levels to be provided to rural Canadians and the process to be followed where post office closings, rationalizations or transitions are contemplated.
43. It is further recommended that these specific obligations be developed more fully by Canada Post through a meaningful consultative process involving rural Canadians, with its conclusions and the resulting approach being clearly explained and subsequently made publicly available via Canada Post’s website after approval by the government.
44. As well, it is recommended that the rural obligations required through the USO and the proposed Service Charter be subsequently included and fully reflected in Canada Post’s business and corporate plans.

The proposed proximity-based approach to rural services discussed in Part II is intended to be considered in conjunction with this recommendation.

Delivery and access modes

45. In the spirit of balancing the USO with financial self-sustainability, and taking into consideration the evolving character of rural communities, lifestyles, and modes of transportation and communication, the Advisory Panel recommends that Canada Post proactively consult with rural communities, where opportunities are identified, with a view to reviewing and identifying alternative modes of delivery and access to the network that would serve community needs equally well and make Canada Post more financially self-sufficient.

46. The Advisory Panel recommends that Canada Post be permitted to use privately owned dealer outlets as a service delivery option in rural Canada, where established proximity and service criteria are fully met and maintained and where it is cost-effective to do so.
47. The Advisory Panel recommends Canada Post specifically include in its annual report an overview on the delivery methods it uses, indicating the number of addresses served with each delivery method and the financial costs and environmental impact of each on a per-unit basis.
48. The Advisory Panel recommends that the ongoing viability of end-of-lane deliveries (also known as rural roadside mailbox delivery) be reconsidered where potential traffic safety concerns exist as indicated through Canada Post's ongoing rural traffic safety review. These concerns are of particular importance when the deliveries take place on routes served by roads where the posted speed limit is 80 km/h or higher.

V - Governance

49. As a guiding principle, and given Canada Post's unique character and its largely commercial operating environment, the Advisory Panel strongly believes that oversight of the corporation's business should rest primarily with the Board of Directors. The Financial Administration Act and the Canada Post Corporation Act clearly assign this function to the Board (FAA s. 109, CPC Act, s. 10). The Board is, and should be, accountable to Parliament through the minister responsible. In this context, the Advisory Panel recommends that the government re-examine its governance relationship with Canada Post, to ensure that the Board is permitted to exercise the authorities and flexibilities necessary to manage the corporation in a responsible and business-like manner, while fully respecting its USO responsibilities.
50. As a general objective, the Advisory Panel recommends that the respective roles, responsibilities and authority of the Board of Directors, Canada Post management and the government be updated, clarified, communicated to all, and made more accountable and transparent.

As a reinforcing observation, the Advisory Panel believes that it is important to simultaneously establish the appropriate level of corporate authority of the Board of Canada Post, while clarifying government oversight of the corporation.

The Board of Directors

51. The Advisory Panel recommends that the Board of Directors should have responsibility for the corporate viability of Canada Post and for Canada Post's attainment of its USO responsibilities. To this end:
 - The range of expertise and experience on the Board should extend across all corporate dimensions, from finance, accounting and commercial activity, to labour relations, technology and public policy and government;

- To ensure Board experience and expertise in the realm of public policy and government, the Advisory Panel recommends that the Board of Directors include a current or former deputy minister or associate deputy minister;
- The Board's nominations committee should play a central partnership role in making suggestions for Board appointments to the government for its consideration and approval;
- Board appointments should be for a minimum of five years and staggered to ensure corporate understanding and continuity at the Board level;
- The Board should have the authority to recruit, appoint and evaluate the CEO and senior management team, within parameters specifically agreed upon with the shareholder;
- To ensure the appropriate separation between the Board and the management of Canada Post, and to reinforce the Board's oversight responsibilities, and in keeping with good corporate governance practice it is recommended that the CEO not continue as a Board member;
- In the context of increased Board responsibilities and accountabilities, Board member compensation should be reviewed to ensure it appropriately reflects the responsibilities and accountabilities placed upon it by the government;
- In the context of ensuring the Board and the shareholder are in agreement, the parameters of CEO compensation, evaluation and any bonus incentives should be established between the Board Chair and the Minister and be in keeping with the general directions set by government;
- The Board should assume ownership of the Corporation's relationship with the shareholder; and
- The Board should proactively review its public disclosure policies regarding corporate plans and annual reports with a view to ensure that Canadians are appropriately and reasonably informed.

The Board of Directors should also be held responsible and accountable for performance and results.

Clarification of power, authority, responsibilities

52. The Advisory Panel recommends that the powers, authority and responsibilities of the Board of Directors and of the government oversight bodies be formally clarified and communicated in an agreement between the Government of Canada and Canada Post. These would include:

The clarification of Board authority to:

- Borrow funds in the market, up to a certain level;
- Make acquisitions up to a certain level;
- Purchase and dispose of property;

- Set prices in competitive markets and recommend prices for Governor in Council approval in the exclusive privilege area;
- Alter the instruments or means adopted to pursue the USO;
- Pay dividends;
- Exercise its autonomy to invest and to act in new, directly related markets; and
- Formulate the corporate plan and budgets.

The clarification of government authority to:

- Set targets in the Service Charter and the Financial Framework;
- Approve prices in the exclusive privilege area;
- Authorize expenditures and investment above a certain threshold;
- Limit the Board's borrowing authority to a certain level;
- Approve corporate plans and budgets and required dividends; and
- Establish a scorecard for corporate performance.

53. There should also be formal clarification and articulation of the authority, responsibilities and expectations of the Minister's portfolio department in support of the government's postal oversight responsibilities.

Communication between shareholder and corporation

54. The Advisory Panel recommends that there be improved and regular communication between the government and the corporation. At a minimum, this should entail:
- Regular and scheduled Board Chair and Minister interactions and communications;
 - Regular consultation between the Board and the Minister regarding Board appointments and the Board's capacity matrix, to ensure that all appointments to the Board are of the highest quality, based on experience and expertise, and in keeping with board requirements;
 - Regular and proactive contact between Canada Post management and departmental representatives during the preparation of the corporate plan to ensure a full understanding of what is intended and included;
 - Establishing a process for the assessment of corporate performance within the Financial Framework and the Service Charter and to ensure that appropriate and timely feedback and discussion of results achieved occurs; and
 - An annual in-camera meeting of the Minister with the full Board of Directors.

Regulated prices

55. The Advisory Panel recommends that:
- The use of a price-cap formula to set the basic lettermail rate should continue;

- Forecast increases to regulated prices should be included in the corporate plan over the five-year term of the plan so that proposed changes to regulated prices are linked to and flow from the corporate planning process;
- Regulated prices should balance the needs of customers against the principle that users should pay to cover the costs of postal services, and that pricing should contribute appropriately to Canada Post's financial sustainability;
- There should be an active customer consultation phase as part of any pricing program; and
- A regulatory mechanism should be established to permit Governor in Council approval of short-term pricing adjustments to regulated prices on an exceptional basis.

Non-regulated prices

56. The Advisory Panel recommends that the communication of non-regulated price changes be made more transparent by requiring Canada Post to publicly advertise price changes in national newspapers as well as on their website, and to conduct a price consultation process with customers.

Postal intelligence in the postal governance regime

57. The Advisory Panel recommends that a greater symmetry of postal intelligence and knowledge be actively encouraged by both the government and Canada Post through:
 - The establishment and support of a standing postal services working group comprised of senior level representatives from Transport Canada and central agencies which would work closely with Canada Post with the specific objective of proactively developing and subsequently maintaining a mutual understanding of the issues, challenges and opportunities arising from the provision of postal services to Canadians on a financially self-sustaining basis;
 - The regular exchange of personnel (job-swapping) between the government and Canada Post to allow each to get a sense of the needs and expectations of the other; and
 - The encouragement of independent postal research and intelligence by creating a university chair in postal studies, and by creating one or several positions of visiting postal research chairs on either the government or corporate side.
58. The Advisory Panel further recommends that postal intelligence within the government be strengthened through a Strategic Review of Canada Post every five years.

Postal councils

59. The Advisory Panel recommends that Canada Post create or maintain advisory postal councils to connect policy and decision-making with the Canadian public. These councils could include:
- A national advisory council for Canada Post (currently in place) to gauge future trends and developments;
 - A major postal users council;
 - A rural postal council; and
 - A small and medium-sized enterprises council.

Dual department oversight

60. In the longer term, and specifically to ensure clarity of responsibilities, roles and expectations, the Advisory Panel recommends the introduction of a “dual department” postal oversight structure in Canada which would separate shareholder/financial issues from regulatory/social ones. This separation of ownership from regulation is standard operating practice in many postal regimes of the industrial world. The posts of Australia and New Zealand have been operating for several years under this model. The Advisory Panel recommends the following structure for Canada:
- The Board of Directors would interact directly on regulatory or social matters with the minister of a program department (currently the Minister of Transport) with respect to the USO and matters dealing with the Service Charter. The pricing of regulated products and related issues would also be dealt with in this relationship;
 - The Board of Directors of Canada Post would interact directly on financial matters – dividends, profits, financing - with the Minister of Finance, who would be assigned financial or shareholder responsibilities to maintain and increase shareholder value. Financial targets and expectations would be discussed and determined in this relationship; and
 - The interdepartmental working group recommended above would play an integral role in coordinating the government’s interactions with Canada Post.

Further discussion of the proposed nature of the dual department oversight model for Canada is presented in Appendix H.

ANNEX I : Proposed Service Charter

Concept Document for Discussion Purposes

Statement of Underlying Principles

- A. The Government of Canada (“the Government”) and Canada Post Corporation (“Canada Post”) are committed to providing a high quality and universal postal service to all Canadians wherever they may live in Canada, as outlined in this proposed Service Charter;
- B. The Government and Canada Post commits to the principle of working together proactively to ensure a mutual understanding of the issues, challenges and opportunities that exist regarding the provision of acceptable postal services to Canadians on a financially self-sustaining basis;
- C. The Government and Canada Post endorse a consultative process with affected groups to establish processes and/or developments that are designed to improve, change or guarantee delivery of the universal postal service;
- D. The Government and Canada Post accept that maintaining a high quality and universal postal system for Canadians is dependent on measures to maintain Canada Post’s financial sustainability (see the proposed revised Financial Framework); and
- E. The Government and Canada Post agree that, to the extent that this is a dynamic agreement, changes will be made by mutual consent and appropriate consultation whenever possible, with each party recognizing and respecting the authority and accountability of the other.

Universal Service Obligation (USO)

1. Canada Post will maintain a universal, effective and economically viable postal service.
2. The universal service obligation includes the following basic ingredients:
 - Any resident of Canada will be able to communicate, transact business, and send or receive letters, parcels or publications (books, magazines, periodicals and newspapers) by mail and from every address in Canada and to and from other countries;
 - There will be national collection, delivery and access (retail) networks that allows this in a timely and convenient manner;
 - Free mail service will be provided for materials for the blind; and
 - The USO will be provided with reasonable service standards and at affordable and reasonable prices, including a single price for basic lettermail.
3. The USO will apply to both individual residents of Canada and to businesses operating in Canada.
4. The Government of Canada and Canada Post agree that the provision of postal services to rural regions of the country is an integral part of Canada Post’s universal service obligation.

Reserve Area

5. The Government of Canada grants to Canada Post the exclusive privilege to collect, transmit and deliver letters in Canada as specified in the *Canada Post Corporation Act* to underpin the financial costs of the universal service obligation. This applies to both domestic and outbound international lettermail unless changed by legislation.

Delivery Standards

6. Canada Post will deliver parcels, lettermail and publications daily (meaning every working day, Monday through Friday, except for holidays).
7. Canada Post agrees to deliver:
 - At least X* per cent of local mail within two working days;
 - At least X* per cent of regional mail within three working days; and
 - At least X* per cent of national mail within four working days.
8. Canada Post agrees to guarantee:
 - Daily service to at least X* per cent of the Canadian population;
 - Service three times per week to at least X* per cent of the Canadian population;
 - Weekly service to 100%* of the Canadian population; and
 - Canada Post will provide a list to the Government of all communities that do not receive daily service, with an appropriate rationale.
9. The formula and the list outlined in Article (8) above will be made public and reviewed regularly. Any changes to this list must follow prescribed procedures.

Retail Network

10. Canada Post will provide a network of postal outlets using a variety of forms – corporate offices, private dealer outlets in commercial shops, and so on. The postal outlet used in any community should be appropriate to the circumstance. There shall be no less than X* number of postal outlets in total in Canada.
11. Canada Post may consider changes to the network of postal outlets, following prescribed procedures.
12. As part of its Annual Report, Canada Post should present an assessment of the cost-effectiveness and financial sustainability of the postal outlet modes and alternatives, so that policy-makers and Canadians can evaluate the ‘value-for-money’ character of each of the delivery instruments.

Rural Postal Network

13. The Government and Canada Post agree to adopt a new definition of “rural” for postal purposes to be established initially “as communities with a population of 10 000 or less.”

14. To ensure that rural service needs of rural Canada are met on an ongoing basis and to provide Canada Post with the operating flexibility necessary to meet its ongoing obligations to its shareholder, the following provisions will become effective on the date of this Charter:
- 1) All active postal outlets in place on the date the Charter becomes effective shall continue in service unless decreases in service levels are made in full compliance with this Charter;
 - 2) For clarity, Canada Post will prepare a list reflecting all active postal outlets and the service levels provided by each as of the effective date;
 - 3) For clarity, a change from a corporate post office outlet to a private dealer operated outlet, or vice versa, is not considered to be either a closure or a change in service level;
 - 4) To ensure all rural Canadians continue to receive acceptable levels of service in the future, a proximity-based model ****specifying maximum access distances to postal outlets will be adopted;
 - 5) The proximity-based distance criteria within the model will be as follows:
 - i) 100% of Canadians shall have access generally equivalent to that available to them as of the effective date of the Charter**, unless changes are made in full accordance with the procedures prescribed herein;
 - ii) 98% of Canadians shall have access to a postal service outlet within 15 kilometres of their residence **, and
 - iii) 80% of rural households shall have access to a postal service outlet within 7.5 kilometres of their residence **;
 - 6) To provide further certainty, Canada Post will be required to maintain a minimum of $Z = (Y-20)$ postal service outlets in rural Canada, where Y equals the number of active postal outlets in service as of the effective date of this Charter. (Note: 20 outlets were selected to provide Canada Post sufficient flexibility to deal with emergent issues and to permit the approach to be adequately tested);
 - 7) The minimum number of active rural postal outlets, Z, may be decreased only through a separate and specific approval process to be prescribed by the Minister and to be considered in conjunction with, but approved separately from, Canada Post's annual corporate plan;
 - 8) Community consultations *** by Canada Post will be required to be an integral part of any local postal outlet closure or rationalization which may proceed only after due consultation with local authorities;
 - 9) The Ombudsman is designated as the party to whom directly affected communities or parties can direct complaints regarding the process and/or approach used by Canada Post on a community specific basis. The Ombudsman will provide his conclusions and any recommended course of action to the Board Chair for consideration and action; and
 - 10) The Board will be accountable to the Minister responsible for ensuring Canada Post's compliance with the required parameters noted above. The Board Chair will specifically report on all closures, rationalizations

and level of community concern with the outcomes to the Minister as part of the annual meeting between the Minister and the Board or as may be otherwise requested by the Minister.

Delivery Modes

15. Canada Post will deliver mail using a variety of delivery modes – mailbox service at the door, community mailbox, post box in postal outlets, end-of-lane delivery, and so on. The delivery mode used in any community should be appropriate to the circumstance.
16. Canada Post may consider changes to the delivery network and submit proposals to the government for consideration as part of the annual corporate planning process.
17. As part of its annual report, Canada Post should present an assessment of the cost-effectiveness and financial sustainability of the delivery modes and alternatives, so that policy-makers and Canadians can evaluate the ‘value-for-money’ character of each of the delivery instruments.

Regulated Prices

18. Domestic and international postage rates for letters under 500 grams will be set in the Lettermail Regulations and the price will be uniform regardless of the distance travelled.
19. In addition to the requirements outlined in the *Canada Post Corporation Act*, Canada Post agrees to publicly advertise proposed changes to the prices of regulated lettermail products in national newspapers and on the corporation's website, and to actively conduct a consultation process with customers on proposed changes.

Non-Regulated Prices

20. Canada Post commits to providing affected Canadians with readily available and timely information on planned future increases in the prices of unregulated mail to allow sufficient opportunity for comment and feedback on changes proposed and to permit business customers a reasonable time to adjust their business practices and models.

Compliance Assurance

21. If the Minister receives an allegation that Canada Post is failing to comply with the terms of the Service Charter, the Minister may refer the allegation to Canada Post for investigation and follow-up, as the Minister deems appropriate. Upon referral of any such allegation, Canada Post shall consult in a timely manner with the Minister on the accuracy of the allegation, advise of any measures that it had taken to date to resolve the issue, and of any corrective measures that may still be required. The Minister in the final instance shall decide whether the actions taken are acceptable and appropriate.

22. This Charter is an agreement between the Government and Canada Post. It is not intended to create any right or obligation with any other party.

Reviews and Amendments

23. The Government and Canada Post will review developments under the Service Charter annually to:
- 1) Assess the extent to which the objectives of the Service Charter are currently being met;
 - 2) Identify and assess factors that could have a material impact on future performance under the Charter; and
 - 3) Identify potential areas where alterations or revisions might be practical or warranted to address both current and expected future challenges to delivery of the service targets.
24. Canada Post will include a Service Charter Performance Report in its annual report.
25. Amendments to this Charter will follow separately prescribed procedures.
26. The Government and Canada Post agree to review, assess and renew the Service Charter every five years.

* Given Canadians reported general satisfaction with postal services, it is recommended that these numbers/percentages be those actually in place and/or publicly reported by Canada Post (subject to auditable verification) on the effective date of the Charter.

** Canada Post should be required to provide current and verifiable metrics, which would form the “benchmark” at the time the Charter is put into effect. It is expected that the proximity-based model may require adjustment if the “actuals” vary substantially from the percentages proposed or the need for modifications are otherwise indicated.

*** Canada Post has a proactive community consultation process in place that should form the basis of future community consultations. It is recommended that a review of the general satisfaction of communities recently engaged through this process be undertaken and adjustments made to the process as deemed appropriate as a result.

**** It is recommended that a consultation with representative rural Canadians be undertaken to verify the suitability/acceptability of the proximity model proposed.

ANNEX II : Proposed Revised Financial Framework

DYNAMIC CASE REFLECTING MODERNIZATION

RATIO	A INVESTMENT PHASE	B TRANSITION PHASE	C STEADY STATE
<u>CAPITAL STRUCTURE</u>			(includes operating leases)
<i>Leverage Ratios</i>			
1. Total Debt/EBITDAR (x)	2.5x – 4.0x	2.5x – 4.0x	2.5x – 3.5x
2. Total Debt/Book Capital (y)	45% - 65%	45% - 65%	45% - 55%
<i>Liquidity Ratio</i>			
3. EBITDAR – Capex / Interest	1.0x – 2.5x	1.0x – 2.5x	1.5x – 2.5x
<u>PROFITABILITY</u>			
4. EBITDA Margin	5.0% - 7.5%	7.5% - 10%	10% - 15%
5. Return on Book Equity (ROE)	0% - 5%	5% - 12.5%	12.5% - 17.5%
<u>DIVIDEND POLICY</u>			
6. Dividend Payout Ratio	0% - 20%	20% - 40%	50% - 60%
7. Credit Rating	–	–	A

NOTES

* This framework was prepared by TDSI for the purposes of the review as an illustration of how a financial framework may change as Canada Post transitions to a steady state both financially and operationally. The ratios were derived after examining the characteristics and financial metrics of companies in the telecommunications, pipeline and utilities, and courier industries as well as those of peer postal administrations.

- A. Investment Phase: The capital-intensive phase of modernization includes one-time operating expenses and increased interest expenses that may temporarily impact profitability. It would be appropriate to suspend dividends to enable reinvestment. This phase would be marked by a wider capital structure range.
 - B. Transition Phase: This phase would be marked by decreasing capital intensity. Targeted savings would start to be realized and dividend payments would be resumed albeit at reduced levels.
 - C. Steady State: Capex intensity returns to maintenance levels as the modernization program concludes. A steady state revised Financial Framework would be appropriate. Cash flow would be available to fund the next investment phase (alterations and renovations and/or the next modernization plan).
1. EBITDAR refers to 'earnings before interest, taxes, depreciation, amortization and rent'. This is an indicator of financial performance and profitability. The debt to EBITDAR ratio demonstrates debt relative to cash flow. A ratio that is below the range may indicate that Canada Post is underleveraged and a ratio that is above that range may indicate that Canada Post has too much debt.

2. Total Debt/Book Capital provides an assessment of how the firm is leveraging its capital. When attained, ratios (1) and (2) will support Canada Post's case to obtain an investment grade rating appropriate to access the debt capital market.
3. Canada Post's liquidity can be assessed by the EBITDAR minus capex divided by Interest ratio, where capex refers to maintenance capital expenditure. This ratio shows the ability of Canada Post to generate sufficient cash flow to cover interest expense after maintenance capital expenditures. The ratio reflects an estimate of the recurring cash generated by the business that can be used to cover debt and lease costs.
4. EBITDA- Earnings before interest, taxes, depreciation and amortization - is a good indicator of profitability and is a widely used metric to assess the recurring cash generated.
5. ROE - Return on book equity provides proxy indicator of the return that Canada Post would have to demonstrate to the market so that it would be able to attract equity investors.
6. Dividend Payout Ratio is another proxy indicator of the level that Canada Post would have achieve so that it would be able to attract equity investors.
7. Credit Rating will be determined by credit rating agencies taking into account the risks inherent in the businesses of Canada Post, its financial performance, the strength of its monopoly and implicit support provided by its shareholder.

(x) Operating leases capitalized using a multiple of 7.0X

(y) Interest includes lease expense

Glossary of acronyms

BBB	Financial credit rating
BCE	Bell Canada Enterprises
Capex	Capital Expenditure
CBC	Canadian Broadcasting Corporation
CCD	Council of Canadians with Disabilities
CCNA	Canadian Community Newspapers Association
CCPA	Canadian Centre for Policy Alternatives
CEO	Chief Executive Officer
CFIB	Canadian Federation of Independent Business
CIMA	Canadian International Mailing Association
CLC	Canadian Labour Congress
CMB	Community Mailboxes
CPC	Canada Post Corporation
CPCA	Canada Post Corporation Act
CPI	Consumer Price Index
CPIA	Canadian Printing Industries Association
CUPW	Canadian Union of Postal Workers
DFAIT	Department of Foreign Affairs and International Trade
DHL	Division of Deutsche Post World Net
DOU	Deed of understanding (New Zealand)
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortization
EBITDAR	Earnings before interest, taxes, depreciation, amortization and rent
EU	European Union
FAA	Financial Administration Act
FedEx	Federal Express
FIN	Department of Finance
GIC	Governor in Council
IPO	Initial public offering
IPS	Institute for Postal Studies
LBR	Library Book Rate
MPs	Members of Parliament
MSC	Mail service courier
NAMMU	National Association of Major Mail Users (Canada)
NAPO	National Anti-Poverty Organization

NFU	National Farmers Union
OIC	Order in council
OSFI	Office of the Superintendent of Financial Institutions (Canada)
OIAG	Österreichische Industrie Holding (government agency)
PAP	Publications Assistance Program
PB	Pitney Bowes
PCO	Privy Council Office
PPO	Public policy objective
PSAC	Public Service Alliance of Canada
PTS	Swedish Post and Telecom Agency
RCMP	Royal Canadian Mounted Police
ROE	Return on equity
RSMC	Rural and suburban mail carrier
SCI	Statement of corporate intent (New Zealand)
SME	Small and medium enterprise
TB	Treasury Board
TBS	Treasury Board Secretariat
TC	Transport Canada
TDSI	Toronto Dominion Securities Inc.
TNT	Netherlands-based courier and mail services company
U.K.	United Kingdom
UN	United Nations
UPS	United Postal Service
UPU	Universal Postal Union
U.S.	United States
USO	Universal service obligation
USPS	United States Postal Service

(i) Canada Post Corporation (Consolidated) Fact Sheet

(data from 2007 Annual Report)

Canada Post Corporation (Consolidated) Historical Financial Information (Unaudited, in millions of dollars)					
	2007	2006	2005	2004	2003
Revenue from operations	7474	7264	6944	6651	6344
Cost of operations	7346	7,16	6681	6413	6162
Income from operations	128	148	263	238	182
Per cent of revenue from operations	1.7 %	2.0 %	3.8 %	3.6 %	2.9 %
Non-operating income	32	18	19	3	2
Income before income taxes	160	166	282	241	184
Income tax expense (benefit)	102	44	80	93	(69)
Net income before non-controlling interest	58	122	202	148	253
Non-controlling interest in net income of subsidiaries	4	3	3	1	–
Net income	54	119	199	147	253
Return on equity of Canada *	3.8 %	8.4 %	15.0 %	12.1 %	10.5 %

* For 2003, the return on equity of Canada has been adjusted to take into consideration the income tax benefit of \$142 million resulting from the curtailment of the employee termination benefit plan.

Mail Network (Consolidated)

	2007	% change	2006	% change	2005	% change	2004	% change	2003
Post offices	6614	0.2 %	6602	(1.8%)	6724	(1.0)%	6795	(0.9)%	6860
Points of delivery (in thousands)	14 493	1.4 %	14 293	1.7 %	14 053	1.8 %	13 808	1.9 %	13 548
Pick-up points (in thousands)	1015	(0.3) %	1019	0.1 %	1018	2.1 %	997	(0.7) %	1004

Employment* (Consolidated)

	2007	% change	2006	% change	2005	% change	2004**	% change	2003
Full-time employees	61 557	0.8 %	61 064	1.1 %	60 405	(1.6) %	61 409	10.3 %	55 683
Part-time employees	10 937	1.2 %	10 805	(2.0) %	11 028	(3.8) %	11 465	5.5 %	10 867
Total employees	72 494	0.9 %	71 869	0.6 %	71 433	(2.0)%	72 874	9.5%	66 550

* Includes paid full-time and part-time employees and excludes temporary, casual and term employees.

**Rural and suburban mail contractors became employees of Canada Post in 2004.

(ii) Canada Post Segment Fact Sheet

(data from 2007, 2006, 2005, 2004 and 2003 Annual Reports)

Canada Post Segment Historical Financial Information (unaudited, in millions of dollars)					
	2007	2006	2005	2004	2003
Revenue from operations	5955	5831	5587	5382	5165
Cost of operations	5928	5761	5374	5197	5024
Income from operations	27	70	213	185	140
Non-operating income	51	29	37	12	14
Income before income taxes	78	99	250	197	154

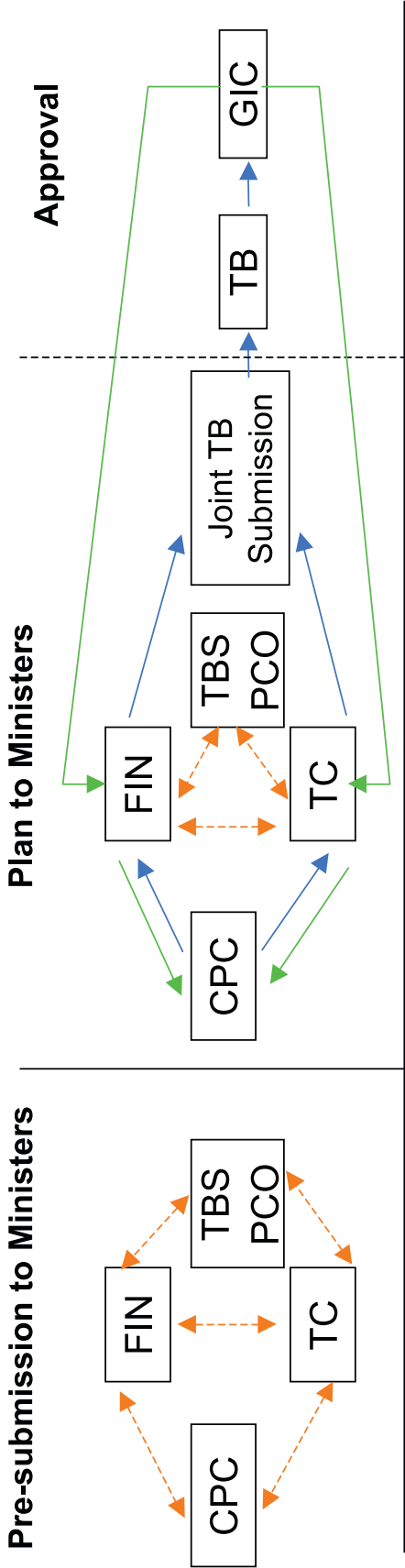
(i) Proposed Dual Department Oversight – Responsibilities

To clarify responsibilities, roles and expectations, the Advisory Panel recommends the creation of a new governmental oversight structure for Canada Post. The dual department approach is designed to separate and clarify oversight of shareholder (financial) issues from the oversight of regulatory (social) ones.

This new oversight structure respects the authority and the role of Cabinet to make policy decisions and Treasury Board's responsibilities under the *Financial Administration Act*.

FINANCIAL OVERSIGHT	SOCIAL OVERSIGHT
Shareholder Minister Minister of Finance	Regulatory Minister Minister of a program department (currently the Minister of Transport)
Shareholder Department Department of Finance	Regulatory Department The portfolio department of the Regulatory Minister (currently Transport Canada)
The shareholder department would be assigned financial or shareholder responsibilities to maintain and increase shareholder value.	The regulatory department would interact directly with Canada Post on regulatory or social matters with respect to the USO and any additional public policy obligations.
The shareholder department would interact directly with Canada Post on financial matters such as dividends, profits and financing.	Matters related to the Service Charter and related issues would be dealt with in this relationship.
Financial targets and expectations would be discussed and determined in this relationship.	Given that pricing of regulated products is directly related to the support of Canada Post's USO, Canada Post would seek Governor in Council approval of regulated prices through the regulatory minister.
The shareholder minister would have primary oversight over restricted transactions, in consultation with the regulatory minister. When those transactions have regulatory implications, both ministers would be required to recommend the restricted transaction for Governor in Council approval.	
Corporate Plans would require the recommendation of both oversight ministers for approval by the Governor in Council. Summaries of Corporate Plans would need to be approved by both Ministers before being tabled in Parliament.	
Either minister could be designated responsible for tabling the Corporation's Annual Report in Parliament.	
POSTAL OVERSIGHT TEAM	
A standing interdepartmental postal oversight team would be established comprising senior officials from both oversight departments and other central agencies to communicate and articulate the oversight departments' respective points of view and concerns and to develop government consensus on postal matters.	

Appendix H (ii) Proposed Dual Department Oversight Corporate Plan Approval Process



Restricted Transaction Approval Process

