

CANADA



OVERVIEW

Canada Post is the national postal service of Canada. For nearly thirty years, it has retained a monopoly on all letters weighing less than 500 grams traveling within the country. Canada Post competes against private-sector firms to offer other services, like parcel delivery.

In 2010, mail volume declined for the fourth straight year. Each household received an average of about 320 pieces of mail during the year. While mail volumes are declining, the number of Canadian points of delivery is increasing each year.

In 2010, Canada Post achieved a 96-percent rate of on-time delivery of letters. The “on-time” designation ranges from two to four business days, depending on the distance traveled. There are over 23,000 delivery routes, and that number is projected to grow. Canada Post delivers 45 million pieces of mail each day to about 15 million addresses.

Canada Post maintains a significant presence in express services. In 1993, it bought courier company Purolator. It now maintains a 91 percent stake in the firm. In 2010, Purolator’s revenue increased 4.1 percent, to \$1.5 billion CAN, and was responsible for nearly 19 percent of the Post’s total revenue.

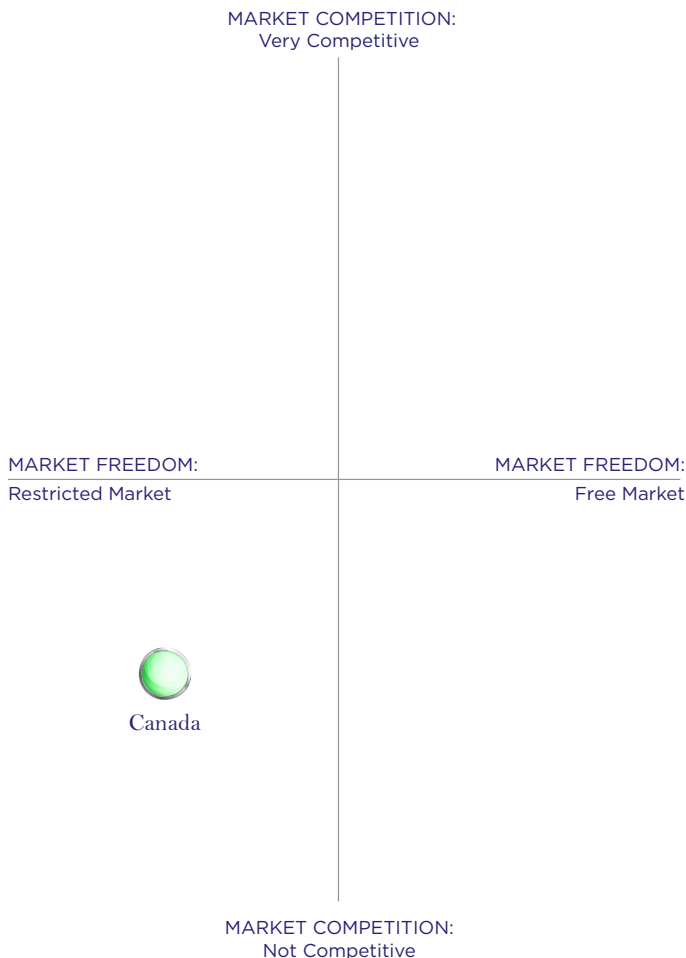
The first mail delivery occurred in 1693 when Pedro da Silva was paid to deliver mail between Montreal and Quebec City. He was later named the “first courier” in

Canada. In 1867, the Dominion of Canada created the Post Office Department, thus giving birth to the modern postal system. Prior to that date, there had been unofficial routes, mainly connecting the eastern cities.

In October 1981, the Canada Post Corporation Act placed the postal service under the auspices of a new, government-owned, semi-autonomous corporation of the same name. The change was welcome, as Canada Post ran deficits every year from 1964 to 1981. In 2008, Canada Post made up 80 percent of the holding company’s revenue.

LIBERALIZATION

Canada Post maintains a broad monopoly on mail service. Letters weighing less than 500 grams are subject to the national post’s monopoly. Magazines and books may be delivered by private firms. Private companies can deliver “letters of an urgent nature” if they charge at least three times Canada Post’s regular rate of postage for a 50-gram package.



LIBERALIZATION (CONTINUED)

Private firms are allowed to handle bulk mail sent by Canadian interests to destinations outside the country. Government authorities have generally held that Canada Post's monopoly only applies to mail sent within the country. In 1988, Canada Post stated that "outbound mail is not protected by exclusive privilege." But in 2004, the Post went to court to try to have the government re-interpret the exclusive privilege to include outbound international mail. Although the court ruled in favor of Canada Post, private firms have continued to operate within the sector. Legislation was introduced in parliament in 2007 to officially exclude outbound international mail from Canada Post's exclusive privilege. In June 2010, outbound international mail was removed from Canada Post's exclusive privilege.

Canada Post and the United States Postal Service (USPS) maintain a bilateral inbound competitive service agreement, which dictates the levels of remuneration for delivering mail originating in one country and destined for the other. Canada Post and USPS negotiate their terminal dues through this agreement rather than through the Universal Postal Union. The bilateral agreement is classified as a market-dominant product under U.S. law because Canada and USPS both maintain letter-mail monopolies.

Mail delivery between the two countries was briefly interrupted in June 2011 when Canadian postal workers struck on a rotating basis for three weeks. For ten days, USPS stopped accepting letters for delivery to Canada.

In response to the strikes, Canada Post locked its workers out, effectively cutting off mail delivery within the country. The Canadian Parliament ordered Canada's postmen back to work on June 26; USPS then announced that it would release the backlog for delivery to Canada in stages.

PRIVATIZATION

An Ipsos Reid poll conducted on behalf of the Canadian Union of Postal Workers (CUPW) determined that about 70 percent of Canadians oppose allowing private companies to deliver mail in Canada.

The opposition to privatization stems from the popularity of the current pricing system. Some Canadians fear that private competitors will force Canada Post to charge different fees depending on the destination of a letter.

The postal unions oppose privatization because they fear job losses. They claim privatization will result in more expensive delivery costs for consumers and fewer service counters.

Between 2010 and 2014, however, Canada Post plans annual stamp-price increases.

The Canadian Union of Postal Workers has launched an official campaign against "closures, privatization, and deregulation of Canada Post." One of the motivating factors for the campaign was the 2008 launch of the Canada Post Corporation Strategic Review (CPCSR). A three-member panel appointed by the Conservative government released its report in mid-2009.

The CPCSR panel did not consider whether Canada Post should be privatized. The report did recommend scrapping a moratorium on the closure of rural post offices in favor of new procedures that could allow post offices to be privately operated. The CPCSR also stated that Canada Post's regulated products should generate enough revenue for the organization to be self-sufficient. The panel raised the possibility that significant one-time rate hikes might be necessary to achieve such an outcome.

PRIVATIZATION (CONTINUED)

Certain functions within Canada Post have already been privatized. Some post offices are privately owned and run as franchises. Some non-core activities are contracted out to private concerns, and Canada Post offers pricing incentives to mailers who presort.

A 2011 study by the Montreal Economic Institute argued that “the burdens for Canada Post of declining mail volumes, costly rural routes and the need for modernisation could be solved by privatising it.” The researchers cited privatization initiatives in Europe as potential models for Canada.

UNIVERSAL SERVICE

The universal service obligation requires Canada Post to deliver mail five days a week to every address in Canada for one uniform price. Mail is defined as letters, parcels, and publications. Standard-sized letters require only one stamp, regardless of destination. The price to send parcels, however, depends on the distance. The Post is obligated to deliver materials for the blind for free. Ultimately, prices and services must meet “reasonable” standards, but the definition of reasonable is not specified.

After passage of the Canada Post Corporation Act in 1981, the Post reduced service in rural areas from six days per week to five and cut multiple deliveries to businesses, eventually to just one delivery per day.

The CPCSRS recommended that Canada Post and the national government draft a Service Charter that lays out explicitly the terms of the universal service obligation. The Charter was drafted in September 2009.

COMPETITION

Private international mail firms are allowed to transfer packages sent by Canadian corporations to destinations outside the country. Materials sent in this manner include checks, invoices, and brochures from large corporations. Despite the 2004 court ruling which determined that outbound international mail was the exclusive privilege of Canada Post, private firms have continued to operate as they did before the decision. The federal government has been trying to pass a law that would solidify the private companies’ right to operate since 2007, but no such law has passed.

In 1993, Canada Post purchased Purolator, a competing courier company. In 2010, this branch of Canada Post was the leading overnight courier company in the country and contributed 18.8 percent of Canada Post’s revenue. Canada Post also maintains an agreement with FedEx Ground in which the national post delivers FedEx packages to some of the country’s more rural and isolated addresses.

ORGANIZATION & STRUCTURE

The Minister of Transportation officially oversees Canada Post. Canada Post’s eleven-member board of directors, however, guides overall strategy. The Board includes Canada Post’s President and Chief Executive Officer. Board members also sit on special committees for such topics as pensions, corporate social responsibility, and auditing.

ORGANIZATION & STRUCTURE (CONTINUED)

In 1997, the first Ombudsman was appointed. This person provides an independent avenue through which customers can raise issues that could not be resolved through traditional channels. The Ombudsman does not mediate labor disputes; the office was created with the express purpose of addressing customer satisfaction.

Canada Post has 69,000 employees, including about 15,000 letter carriers. About 60,000 workers — or more than 80 percent of the Post's labor force — are unionized. The most prominent union is the CUPW. In June 2011, workers went on strike for nearly a month.

The contracts between Canada Post and the unions stipulate that labor disputes are to be adjudicated by one of about a dozen arbitrators across the country. The arbitrator's decision on a matter is final. The union involved and Canada Post split the cost associated with the arbitrator.

As has happened in the United States, Canada Post is looking to centralize deliveries around cluster boxes in order to cut costs and head off safety disputes. In 2009, for instance, the Post announced that it would review delivery to 843,000 addresses, particularly in rural areas, because delivering to those addresses may pose safety risks. Postal labor unions see this as cover for potential job cuts.

About 6,500 post offices serve the 15 million addresses in Canada. The services offered by Canada Post can be divided into three categories: Transaction mail (domestic letter mail, international letter-post, and Epost), Parcel (priority next Am, Xpresspost, and Borderfree), and direct marketing (addressed and unaddressed).

While rural post office locations continue to combine retail and delivery functions, increasingly, urban post offices have divided the two functions to different locations.

PRICING

In 2000, a price-cap formula was implemented that holds basic letter rates to two-thirds the rate of inflation. As of 2010, a first class stamp goes for \$0.57 CAN. Two-cent increases are planned annually from 2011 to 2014. That would put the price of a stamp at 65 cents in four years.

In 2010, Canada Post's revenue increased 1.9 percent to \$7.4 billion CAN, thanks largely to the price increases.

Canada Post offers a "Permanent Stamp," which is sold at the going rate but may be used as a first class stamp even after a stamp price increase.

Transaction mail makes up over half of the Post's revenue. Parcel post and direct marketing contribute 21 percent and 23 percent, respectively. Businesses and government are responsible for 90 percent of Canada Post's mail volume.

FUTURE

The increasing popularity of e-mail and digital transactions poses a challenge for Canada Post. In 2000, the national post implemented an electronic alternative called Epost to compensate for the decrease in letter mail. A part of the Transaction Mail line, Epost allows customers to pay bills, view statements, and receive payments through Canada Post.

FUTURE (CONTINUED)

In addition to the stamp-price hikes described above, the organization will raise the rates charged for publication delivery by 3 percent in 2010, despite protests from the magazine industry. Since 2002, magazine delivery rates have gone up 38 percent.

Canada Post is also looking to achieve annual savings of \$250 million by 2017. It hopes to upgrade some services for bulk mail clients, including presorting and permit indicia.

Due to competition from other providers, the national post expects low growth in the parcel sector. To combat this, Canada Post is looking to modernize mail delivery. By implementing new technologies, the organization hopes to ensure parity with peers in efficiency and pricing. Renovations will include new sorting techniques and implementation of a “clean addresses” list, which could result in less undeliverable mail and more efficiency. Officials project that this transformation will cost about \$2.7 billion.

Like many other public-sector entities, Canada Post faces significant pension-funding challenges. Its pension plan has a \$3.2-billion deficit, and much to the CUPW’s chagrin, the Post is refusing to offer new workers a defined-benefit plan.

Each year, Canada Post adds about 200,000 addresses to its delivery list. The number of pieces per delivery point, however, has declined 17.2 percent over the last five years. The combination of decreasing volume and increasing service requirements represents a significant challenge.