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Is the Cheque Still in the Mail?

The Internet, e-commerce, and the future of Canada Post Corporation

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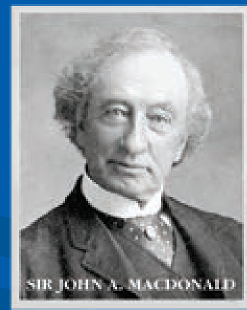
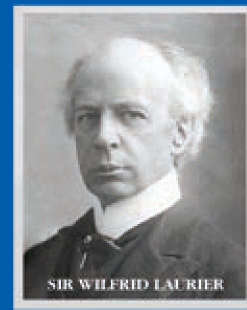
True North in Canadian Public Policy



SIR JOHN A. MACDONALD



SIR WILFRID LAURIER

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Executive Summary

In the past, "neither snow nor rain nor heat nor gloom of night" could keep postal workers from their appointed rounds. So goes the famous quote carved on the main post office in New York City. But it is the Internet, not the elements, that will force dramatic changes to Canada Post Corporation (CPC), and soon. The end is in sight for a form of communication that dates back to the system of horses and riders that crossed the Persian Empire in a week and evolved into the mighty Crown corporation that spans this nation.

CPC has gone through reviews and reforms, but this time incremental change isn't going to save it. The federal government must face the realities forced on CPC: plummeting use of letter mail fuelled by adoption of the Internet, which will soon reach universality in Canada. Between 2006–2013, the volume of mail per address declined 30 percent, but the number of addresses serviced grew by 1.2 million, resulting in an unsustainable business model. By 2025, all transactional and advertising mail in every part of the country is almost certain to disappear.

In 2013, the government announced the phasing out of door-to-door delivery for the 32 percent of households that still receive it. The move to community mailboxes met with significant backlash from union groups. Both the NDP and the Liberal Party of Canada have promised to reverse it, making it an issue for the 2015 election.

The government's reforms of 2013 had some success in reducing costs, and indeed CPC returned to profitability in 2014. But Canada is not a leader in grappling with these changes. A review of European postal administrations reveals they are much further advanced in liberalizing their postal services.

This paper proposes policy changes that will allow a "bridge to the future" to facilitate CPC's transformation from a highly regulated mail delivery entity with prices set by government to a competitive parcel delivery entity with prices and service determined by market conditions.

Recommendations

DO NOT PRIVATIZE CANADA POST

Privatization will not fix the structural changes needed to address declining demand for delivery of letters and flyers; and no private sector actor would want to take on the current business model anyway. The reforms recommended below will be more effective in managing CPC's decline in the medium term, perhaps leading to privatization of the remaining parcel service.

ELIMINATE THE POSTAL MONOPOLY OR EXCLUSIVE PRIVILEGE TO DELIVER LETTERS

The Internet is already cherry-picking the lucrative parts of CPC's business. Maintaining the monopoly is like closing the barn door after the horse has bolted.

REPLACE ALL DOOR-TO-DOOR MAIL DELIVERY WITH COMMUNITY MAILBOXES

Community mailboxes cost less than half the price of door-to-door delivery. They service a quarter of Canadians already, and all future residential developments.

REDUCE DAILY DELIVERY TO RESIDENTIAL (NOT BUSINESS) CUSTOMERS

Delivery is very labour-intensive. Declining volume reduces the need for daily delivery. However, businesses need to respond to customers who still use the physical post.

FRANCHISE ALL CORPORATELY-OWNED POST OFFICES

In 1994, the Chrétien government imposed a moratorium on closing and/or converting corporately operated post offices in rural Canada. Many of the remaining post offices, especially those in rural areas, could be franchised, providing greater service and longer opening hours to residents.

CONSOLIDATE PROCESSING FACILITIES

With a projected further 25 percent decline in postal volumes by 2020, in conjunction with much more efficient mail sorting technologies, we do not need to maintain the 21 processing plants currently working across the country.

IMPLEMENT THE CANADA RURAL BROADBAND STRATEGY BY 2020

The federal government has pledged to help the 20 percent of Canadians without high-speed Internet, mostly in rural areas, to gain access within five years. This would facilitate the transition away from letter mail.

DEREGULATE CPC POST PRICING FOR LETTER MAIL

Wage and price controls are widely recognized to be a failure. Several European countries have deregulated their postal services. It is time Canadians paid the true cost of their mail service; and CPC needs the flexibility to set its own prices.

REVISE THE CANADIAN POSTAL SERVICE CHARTER AND THE UNIVERSAL SERVICE OBLIGATION

This is necessary to reduce the frequency of residential delivery and to support franchising and outsourcing. However, within five years, CPC should be given the discretion to determine the frequency of delivery based on its own assessment of demand.

While the government has implemented some effective changes, the rapidly changing market forces affecting mail delivery require even more dramatic reforms. If all the reforms proposed in this paper are implemented, the restructured CPC will be a quasi-virtual corporation with a government-owned head office to manage and supervise franchised outlets.

Sommaire

Autrefois, « ni la neige, ni la pluie, ni la chaleur, ni la tombée de la nuit, » n'auraient pu détourner les postiers de leur route, pour reprendre la fameuse citation inspirée du bureau de poste central de la ville de New York. Or, c'est l'Internet, et non les forces de la nature, qui va imposer des changements radicaux à la Société canadienne des postes (SCP), et ce, incessamment. La fin est en vue pour une forme de communication qui remonte au temps où les chevaux et les cavaliers traversaient l'Empire perse en une semaine. Au Canada, l'institution est devenue une puissante société d'État dont les racines s'étendent à la grandeur du Canada.

La SCP a connu son lot d'examens et de réformes, mais cette fois l'approche graduelle ne suffira pas. Le gouvernement fédéral doit agir devant les nouvelles réalités que la SCP doit affronter. L'envoi de courrier postal est en chute libre sous l'influence de l'Internet, dont l'adoption deviendra bientôt universelle au Canada. Entre 2006 et 2013, le volume du courrier livré a baissé de 30 pour cent par adresse alors même que le nombre d'adresses a augmenté de 1,2 million, situation qui ne permet pas de bâtir un modèle d'affaires viable. Il paraît presque certain que tout le courrier transactionnel et publicitaire disparaîtra d'ici 2025 dans toutes les régions du pays.

En 2013, le gouvernement a annoncé l'élimination progressive de la livraison à domicile aux 32 pour cent des ménages qui bénéficient toujours de ce service. Le passage aux boîtes aux lettres communautaires s'est heurté à l'opposition des syndicats. Tant le Nouveau Parti démocratique que le Parti libéral du Canada ont promis de l'annuler, ce qui en fait un enjeu de l'élection de 2015.

Les réformes entreprises par le gouvernement en 2013 ont obtenu un certain succès pour réduire les coûts, ce qui a effectivement permis à la SCP de redevenir rentable en 2014. Mais le Canada n'est pas un chef de file dans son traitement des problèmes actuels. Un examen des administrations postales européennes révèle que ces dernières sont beaucoup plus avancées dans la libéralisation de leurs services postaux.

Ce document propose à l'intention de la SCP des changements de politiques dont l'objectif est d'ériger un « pont vers l'avenir » pour transformer cette entité de distribution du courrier fortement réglementée et soumise à un régime étatique de fixation des prix, en entité concurrentielle offrant des services de livraison des colis et des prix déterminés par les forces du marché.

Recommandations:

NE PAS PRIVATISER LA SOCIÉTÉ CANADIENNE DES POSTES

La privatisation ne peut donner lieu aux changements structurels exigés par la baisse de la demande pour la livraison des lettres et des circulaires; le présent modèle d'affaires ne fera l'envie d'aucun acteur du secteur privé de toute façon. Les réformes recommandées ci-dessous seront plus efficaces pour gérer le déclin de la SCP à moyen terme, ce qui mènera peut-être à la privatisation du service restant de livraison de colis.

ÉLIMINER LE MONOPOLE POSTAL ET LES DROITS EXCLUSIFS EN MATIÈRE DE LIVRAISON DU COURRIER

L'Internet attire déjà les segments les plus lucratifs exploités par la SCP. Maintenir le monopole reviendrait, pour ainsi dire, à fermer la cage après que les oiseaux se sont envolés.

REMPLACER TOUS LES SERVICES DE LIVRAISON DU COURRIER À DOMICILE AVEC DES BOÎTES AUX LETTRES COMMUNAUTAIRES

Les boîtes aux lettres communautaires coûtent moins de la moitié du prix de la livraison à domicile. Elles desservent déjà 25 pour cent des Canadiens et sont prévues pour tous les futurs développements résidentiels.

RÉDUIRE LA FRÉQUENCE DES LIVRAISONS QUOTIDIENNES EN MILIEU RÉSIDENTIEL (ET NON D'AFFAIRES)

La livraison est un secteur à forte intensité de main-d'œuvre. La baisse du volume réduit le besoin de recourir à la livraison quotidienne. Toutefois, les entreprises doivent répondre aux clients qui continuent d'utiliser le courrier postal.

FRANCHISER TOUS LES BUREAUX DE POSTE DE LA SOCIÉTÉ D'ÉTAT

En 1994, le gouvernement Chrétien a imposé un moratoire sur la fermeture et la conversion du mode d'exploitation des bureaux de poste dans les localités rurales du Canada. En particulier dans les régions rurales, nombreux sont les bureaux de poste qui restent à franchiser pour pouvoir fournir davantage de services et des heures d'ouverture plus longues aux résidents.

REGROUPER LES INSTALLATIONS DE TRAITEMENT

Compte tenu de la baisse additionnelle de 25 pour cent dans les volumes projetés du courrier postal d'ici 2020 et de l'efficacité considérable des technologies de tri, il n'est plus nécessaire de conserver les 21 usines de traitement du courrier actuellement exploitées au pays.

METTRE EN ŒUVRE D'ICI 2020 LA STRATÉGIE POUR L'ACCÈS À LARGE BANDE DANS LES RÉGIONS RURALES DU CANADA

Le gouvernement fédéral s'est engagé à étendre dans un délai de cinq ans les services Internet haute vitesse aux 20 pour cent des Canadiens qui en sont privés, principalement dans les régions rurales. Cette expansion faciliterait le retrait du secteur du courrier postal.

DÉRÉGLEMENTER LES PRIX APPLIQUÉS PAR LA SCP POUR LES ENVOIS DE LETTRES

On reconnaît en général que les contrôles sur les prix et les salaires ont largement échoué. Plusieurs pays européens ont déréglementé leurs services postaux. Il est temps que les Canadiens assument les véritables frais liés à leur service postal, et la SCP a besoin de souplesse pour fixer ses propres prix.

RÉVISER LE PROTOCOLE DU SERVICE POSTAL CANADIEN ET L'OBLIGATION D'ASSURER UN SERVICE UNIVERSEL

Il faut procéder à une révision pour réduire la fréquence des livraisons à des fins résidentielles et appuyer le franchisage et le recours à l'impartition. Toutefois, dans un délai de cinq ans, la SCP devrait se voir accorder le pouvoir discrétionnaire de déterminer la fréquence de livraison du courrier en fonction de sa propre évaluation de la demande.

Bien que le gouvernement a déjà mis en œuvre certains changements utiles, la rapide évolution du marché de la livraison du courrier exige des réformes encore plus radicales. Si toutes les réformes proposées dans le présent document sont mises en œuvre, la SCP sera restructurée de manière à devenir une société quasi virtuelle dont le siège social, sous contrôle public, gère et supervise des franchises.

Neither snow nor rain nor heat nor gloom of night stays these couriers from the swift completion of their appointed rounds.[1] *– Herodotus,* Histories

The change from atoms to bits is irrevocable and unstoppable. Why now? Because the change is also exponential — small differences of yesterday can have suddenly shocking consequences tomorrow. – Nicolas Negroponte, Being Digital

Introduction

The post office is one of humankind's oldest government communications technologies, dating back to the ancient Persian Empire. At its height, the Empire maintained a series of horses and riders at stations every 14 miles, ensuring that a letter could travel the 1500-mile wide territory in a mere seven days.

The Roman Empire developed a similar system – *cursus publicus* – that was even more efficient due to Roman engineering and a network of roads that allowed horse and rider to travel faster. The relay stations were called *positi* (tr: places), which is the root of our word *post*.

The modern postal system dates from England in the 16th and 17th centuries. Before then, messengers carried communications exclusively for the royal household. However, over time, the Royal Mail started to accept private correspondence, which placed it in competition with two private for-profit mail services. It was not until 1591 that a monopoly was adopted, not to protect the Royal Mail from competition but to monitor (that is, spy on) conspiracies against the queen. In other words, the monopoly was established for reasons of national security – a forerunner, perhaps, of the Communications and Security Establishment of Canada.

Most studies of postal services in the United States, Canada, and Europe, including this author's doctoral thesis (Lee 1989), found a very close relationship between the state and the postal system throughout human history, for it was the only effective way to communicate over long distances until the emergence of the telegraph and the railroad in the 1850s. Thus, as the only formal communications system in existence until the latter half of the 19th century, the postal system became even more important to the emerging nation-states in the western world.

A comparative analysis reveals that every postal system studied in OECD countries developed its respective organization on a triad or three-legged stool comprised of:

- monopoly or a reserved area of exclusivity (typically over letters) that prohibited competition (but did not extend to all documents or parcels mailed, as some are treated as private goods);
- a universal service obligation (USO) that mandated a uniform price for "reserved" postal services, required delivery to all citizens, including those in remote regions, and established service standards such as delivery every weekday; and
- state ownership.

While each postal system developed the same triad, it also varied in regard to which services were protected, and the service standard established by that country's USO.

These distinctions are critical when discussing postal reform, for one or more or all elements of the triad can be liberalized or reformed. For example, a country can retain the state ownership of the postal service but remove its monopoly over letters. Or it can reform the USO by changing the service standard and/or the goods to which the standard applies.

As this paper will demonstrate, the need for reform in Canada is undeniable.

In Part I, we examine the development of Canada Post from the time it became a Crown corporation in 1981 to the present. The review reveals the attempts by government and the management of Canada Post Corporation (CPC) to deal with rapidly changing technologies and changing consumer and business use of postal services.

In Part II, we analyse major threats to the sustainability of postal services in Canada. The review illustrates precipitous declines in the volume of mail driven by the increasing reliance on electronic substitutes ranging from email to direct payroll deposit and electronic banking, including sending and remittance of bill payments. We examine data from studies that document the remarkably rapid adoption of electronic substitutes. "Neither snow nor rain nor heat nor gloom of night" could keep postal workers from their rounds, but it seems the Internet will.

As this paper will demonstrate, the need for reform in Canada is undeniable.

In Part III, we look at the record of postal liberalization in OECD countries since 1995. European countries have embraced liberalization far more aggressively than their North American counterparts. Indeed, Canada Post and the US Postal Service are the least liberalized systems of all the major OECD countries.

In Part IV, we will consider policy options and recommendations to reform and transform Canada Post in light of the cataclysmic decline of postal volumes as customers desert the post office for the plethora of electronic substitutes.

In Part V, we propose recommendations that will help make CPC financially sustainable.

Part I: Origins and Development of Canada Post Corporation

Before 1981, postal services in Canada were delivered by the Post Office Department of the federal government with back-office support from other departments such as payroll, procurement, and pension administration. However, discontent with the postal service festered due to poor service, frequent labour disruptions, and financial deficits (Osborne and Pike 1988).

Indeed, twice-daily mail service was eliminated in the 1950s. Throughout the 1970s, labour disruptions revealed increasing union-management conflict, which in turn led to dissatisfaction among citizens and elected officials. Strikes concerning wages and job losses due to automation occurred on a regular basis (Chorniawy and Levine 2006). Increasing financial deficits attracted scrutiny and discontent from Parliament. In particular, when previously "off-book" costs were included in the Post Office Department's budget, deficits skyrocketed to "a record-breaking loss of $578.8 million in 1977" (Osborne and Pike 1988, 10).

These events culminated in the passage of the *Canada Post Corporation Act* in 1981, which transformed the Post Office Department into a Crown corporation. As outlined in the *Act*, the new Canada Post Corporation (CPC) now had a dual mandate: "the need 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" (section 5 (2) (b)). In other words, delivering a public good and achieving financial self-sustainability.

The *Act* was largely silent on exactly how CPC was to achieve financial self-sustainability, which meant the corporation could use whatever means within its power to provide postal services without any specific legislative or policy direction by the government. The *Act* specifically allowed CPC to participate in related competitive markets (such as parcel post) and extend its services to related areas (such as epost). Closing rural outlets was never a legislative restriction, even under the former *Post Office Act* (pre-1981).

However, as Canadians subsequently learned, transforming the post office into a Crown corporation did not eliminate the challenges it faced.

In 1982, in an effort to reduce costs, CPC reduced mail delivery in rural areas from six days a week to five to mirror urban delivery rates that had been changed in 1969. Over time, delivery to business was reduced to once a day (US GAO 1997, 34).

However, by 1986, CPC was still unprofitable. The *Marchment Review* of 1985 recommended that CPC be given another five years to reach profitability. In his Budget Speech of February 26, 1986, the Honourable Michael Wilson stated: "This is not acceptable. Following discussions with the President of Canada Post, the Government has requested a new operating plan to improve productivity at Canada Post so that the Corporation will reduce its operating deficit to zero by the end of fiscal 1987-88."

CPC management responded with the *1986-1990 Corporate Plan*, in which it proposed, among other actions, to close rural post offices with low volumes and revenues and rationalize rural routes. The measures sparked a significant backlash in small-town Canada, and led to the creation of a group calling itself "Rural Dignity," a grass-roots collection of people opposed to these reforms. Their most potent argument was that many small towns across the prairies and Atlantic Canada, for instance, had few remaining services. If the post office were to pull out, the town really was "dead."

Nonetheless, the various measures ensured that CPC finally made a profit in 1989 (US GAO 1997, 54). That same year, Finance Minister Michael Wilson formally moved CPC into Schedule 3, part 2 FAA Crown corporation, which implied that the enterprise needed to operate in a financially self-sufficient manner, not normally depend on appropriations, operate in competitive markets, and should pay a dividend.

After the election of a Liberal federal government, David Dingwall, Minister responsible for CPC, announced on February 17, 1994 an indefinite moratorium on closing rural post offices. He argued that CPC was now a commercially viable Crown corporation, and its mandate was to serve Canadians.

1996: Mandate Review

On November 6, 1995, another review of CPC was initiated to assess the corporation's ability to meet its business and social obligations given the heightened competition. A significant issue was the allegation from private couriers (UPS, Fed Ex, and so on) that CPC was subsidizing the operating costs of Purolator, its subsidiary.

The cross-subsidization issue plagued the Purolator deal since it was acquired from Onex. To explain briefly, CPC "inherited" massive infrastructure paid for by taxpayers from its days as a government department, creating, in some eyes, unfair competition. For example, in the 1980s, the government was obliged to terminate a partnership between CPC and Consumers Distributing, which provided mail-order catalogues to rural post offices, due to a strong backlash from rural MPs who viewed this partnership as unfair competition to small businesses in their ridings.

The overall purpose of the review was to determine if Canadians were receiving the most efficient and cost-effective postal service possible (Marleau 1997). It was led by an independent chair, George Radwanski. The final report with recommendations, titled *The Future of Canada Post Corporation*, was submitted to the government on July 31, 1996.

The Government rejected most of Radwanski's recommendations for reform. There were a few minor ancillary items (recommendations such as creating an Ombudsman position, providing more notice on rate changes) that were eventually adopted to some degree. And Radwanski did make some recommendations that supported the status quo at the time (such as do not liberalize the market, do not privatize Canada Post) that obviously did not change as a result of any government direction. But the most important items in the Radwanski report, such as exiting from activities in competition with private firms, increasing the price of a letter by 10 percent, levying a universal service charge on the courier market, and reducing the service standard for delivery were flatly ignored.

In 1997, Minister Marleau issued another press release in which she reiterated the following four principles for CPC:

- Affordable, universal postal service is essential for Canadians;
- Canada Post is a valuable federal institution. Canadians have invested in it, and the government must protect this value;
- Canada Post will remain a Crown corporation and not be privatized as long as it continues to fill a public policy role; and
- Canadians should not be asked to return to an environment in which the government must subsidize letter mail.

Minister Marleau confirmed that CPC would not be required to sell Purolator, notwithstanding the complaints of unfair competition made by private courier firms. She also ruled that the price of stamps would not increase in 1997 or 1998 and, if and when it did, the increase would be below the rate of inflation and Canadians would have six months' notice (1997).

Following the Mandate Review, CPC had a series of profitable years. By 2004, CPC was enjoying its 10th year in the black, with a net after-tax income of $147 million. Nonetheless, then-Minister responsible for CPC, John McCallum, acknowledged emerging threats on the horizon and after the tabling of the 2004 *Annual Report* showing continued strong financial performance, notes that "There are many challenges facing the Corporation in the coming years and now is the time to prepare to meet those challenges" (Le Goff 2005).

2008: Strategic Review

CPC did not propose a major roadmap for the future until 2008 in its submission to the federal government as part of a government-wide strategic review. First, CPC noted its successes: "the Corporation has produced 13 years of consecutive profits, a decade of labour peace, and more than $1 billion paid to the Government in the form of revenue from taxes, dividends and return of capital. As one of the biggest Crown corporations, Canada Post had consolidated revenue of $7.5 billion and contributed $6.6 billion in real Gross Domestic Product in 2007" (2008).

CPC was also forthright in identifying the challenges ahead. It acknowledged that email was replacing the traditional letter, that consumers were increasingly paying their bills online, and that paycheques and government pension and assistance cheques were increasingly being deposited electronically. Given that Canada had one of the highest levels of broadband penetration in the world and that letter mail accounted for 50 percent of CPC's revenues according to the annual report, the corporation acknowledged that this was a real threat.

To compound the problem, more than 200,000 delivery points were being added each year. Increased delivery points with reduced postal volumes reduced revenues but increased costs. Furthermore, revenues from other sources such as addressed and unaddressed direct market mail ("junk mail") that might have replaced those from letter mail were much lower. It would take almost two pieces of addressed advertising mail or seven pieces of unaddressed advertising mail to replace the revenue from one letter (CPC 2014).

Direct marketing had been a growing part of CPC's revenues, increasing at about 6 percent a year and, in 2008, accounting for $1.4 billion. However, even in this growing segment, CPC faced external competition. Advertising was also going digital as big box retailers were offering electronic flyers to customers. Moreover, newspapers were increasingly aggressive in seeking the advertising flyer business to combat their own declining revenues as advertisers moved to digital advertising.

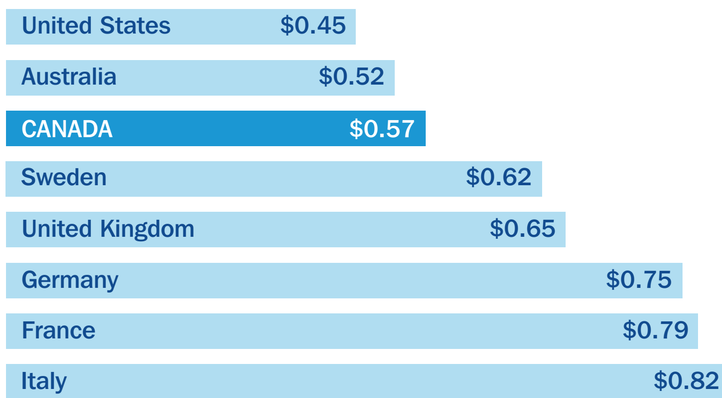
At the end of the Strategic Review, CPC (2008) estimated that it would need about $2.5 billion (including $1.9 billion for capital) to reform the postal system (27). To fund at least a portion of this, CPC recommended that it be allowed to better regulate pricing for its letter mail. Under its regulations, CPC had been allowed to recommend pricing. However, the regulations were amended in 2000 to restrict pricing increases to a maximum of 66 percent of the growth of the Consumer Price Index (28). This had not generated sufficient revenues (the absolute price of a letter in Canada was relatively low compared to its international counterparts) for CPC to fully recognize its costs and reinvest in capital. Therefore, CPC recommended that the pricing cap be removed and that its board of directors be authorized to set pricing rather than have to appeal to the federal cabinet.

By 2009, the problems facing CPC started to become more visible. Although it generated $281 million in profit, the consolidated revenues had decreased in all business segments, while profit was largely due to non-cash reductions in future employee benefit payments and a reduction of operating costs of $540 million (CPC 2010). The latter reduction was also driven by changes to the discount rate for future benefits (pension and post-retirement health care costs) versus the preceding year.

Later that year, the Government of Canada finally released its response to the 2008 Strategic Review and gave the green light for Canada Post to proceed with its restructuring proposals. Canada Post "published a regulatory proposal to increase selected regulated postage rates starting January 17, 2011 . . . The Government granted final approval for the proposed rates on December 3, 2010" (CPC 2011, 24).

Removing the regulatory requirement of 66.6 percent of CPI (in place since 1997) represented a major shift in policy for the government. Since then, rates for letter mail have remained under government regulation but do not have any inflation-related restrictions. This decision was validated by comparing letter mail rates in select OECD countries (see chart 1; letter mail has been underpriced in Canada).

Chart 1: Letter mail rates in eight OECD countries, 2010



(Rates as at July 1, 2010; Canadian $ equivalent; average exchange rate for 2010)

Source: CPC (2011), *Canada Post Corporation Annual Report 2010,* page 24.

After the Government of Canada's response, the Conference Board of Canada released a report in 2013 that addressed most of the issues confronting the corporation. The report's influence is visible in the CPC's Action Plan that followed on December 11, 2013. The Plan would position CPC to return to financial sustainability by 2019. Its five main initiatives are:

- moving from door-to-door delivery to community mailboxes;
- raising prices for letter mail,
- expanding convenience through postal franchises,
- streamlining operations; and
- addressing the high cost of labour.

These initiatives were projected to contribute $700–900 million a year to the corporation's bottom line (CPC 2013). CPC (2013) justified the change in pricing policy: "Bringing the price of stamps in line with the cost of delivering mail across the country, while still offering reasonable rates that reward customer usage, is an important part of Canada Post's future" (12).

Specifically, the pricing policy states that:

- New prices will be launched for the customers who buy stamps in booklets and coils, representing 98 percent of the volume sold in this category. The price (per stamp) will be \$0.85, up from \$0.63 today for letters 0-30 g mailed within Canada.

- Businesses that use postage meters will pay a new discounted postal commercial rate of \$0.75 (per letter 0-30 g).

- Mailers who prepare mail in such a way that reduces processing costs (known as Incentive Lettermail) will continue to benefit from lower prices than the proposed meter rate of \$0.75 for a letter weighing 0-30 g.

- Single stamps will cost \$1 each, up from \$0.63 today. CPC estimates that only 2 percent of all stamps are bought as singles. The vast majority of stamp purchases will be at the rate of \$0.85 (CPC 2013, 8), which is available for a minimum purchase of a booklet or coil. (CPC 2013, 8)

Thus volume, efficiency, and type of customer became important variables in the new pricing model, which represented a significant modernization over the one-price-fits-all model established 150 years ago by the noted 19th century British postal reformer Rowland Hill. At the same time, it retained his fundamental principle of one price regardless of geographical distance.

In addition, the government introduced the *Canadian Postal Service Charter* at this time. The *Charter* outlined the government's expectations of CPC, codified the USO in a more transparent manner and addressed issues such as rates for stamps and standards of delivery. The government also approved CPC to borrow \$1.5 billion to finance its transformation program (motorization of letter carrier services and greater automation in sequencing letter carrier-delivered mail).

To summarize, CPC has been struggling with the evolution of the Internet, technological advances, and competition from electronic alternatives. While prices have increased, the government denied attempts to reform the pricing model until 2013. Unless CPC restructures costs and revenue streams, it will inevitably run out of the cash required to meet its obligations, let alone have cash to reinvest in badly-needed capital equipment. See Part II for a closer review of CPC's challenges.

Part II: Major Threats to the Sustainability of CPC

As this author found in his doctoral research, with the emergence of the telegraph and telephone (and later radio and television with the establishment of the CBC in 1936), the post office became far less important as an instrument of nation-building to the federal government in the latter half of the 19th century. Nonetheless, during this period, the post office increased in commercial importance with the urbanization of Canada and the US and the emergence of the modern large corporation at the very end of the 19th century. Indeed, it became the backbone of the payments system of invoicing. While banks have always been integral to the financial system in accepting and managing deposits and managing the clearing system of cheques to settle accounts, the post office was critical in delivering invoices and payments issued by businesses and individuals. This role was captured in one of the most famous phrases in the English language in the 20th century: "the cheque is in the mail."

The Internet is more appropriate for communicating information

However, as MIT Professor Nicholas Negroponte (1995) has stated, the emergence of the Internet and its subsequent commercialization with the introduction of the first browser in the mid-1990s changed everything. Negroponte argued that electronic "bits" trump atoms every time.

"Bits" are the DNA of the Internet. They have no mass, which means they travel at near the speed of light. Atoms, however, do have mass, and thus are constrained by the laws of physics. Postal trucks, physical letters, and human bodies have atoms and are thus limited to the vastly lower speeds of car, truck, rail, and airplane. Any object that is purely informational, such as a credit card statement, movie, CD, book, advertisement, or the contents of a message or letter can be deconstructed into digital bits and communicated electronically nearly instantaneously. Only products that cannot be deconstructed from atoms to bits, such as food, cameras, or clothing, are immune from electronic transmission. They may be ordered electronically, and increasingly are, but must be delivered physically (at least for now). CPC's vulnerability is demonstrated in table 1.

Table 1: CPC revenue by line of business, 2012–2014

Revenue by line of business	2012	2013	2014
Transaction mail	51%	50%	52%
Parcels	22%	24%	24%
Direct Marketing (ad mail)	22%	21%	19%
Other	5%	5%	5%

Source: CPC (2015), *Canada Post Corporation Annual Report 2014,* page 44;
CPC (2014), *Canada Post Corporation Annual Report 2013,* page 30.

Approximately 71 percent of CPC's total annual revenue is from the two sources that face brutal competition from electronic substitutes. The disruption caused by the Internet has been felt widely around the world. Indeed, its impact on CPC has been growing exponentially. According to the 2014 CPC *Annual Report* (2015), "In 2012-13, the primary activity for the average internet user remains email (89%), followed by banking (69%)" (45).

The critical variable in the loss of transactional mail is the extent of Internet penetration.

As reported in the 2014 *Canadian Internet Registration Authority Factbook*, "Canada continues to be one of the most 'wired' countries in the world. With nearly 87 percent of Canadian households connected to the Internet, Canada ranks 16th globally in terms of Internet penetration in 2013. This is up from 80 percent in 2010. Among its G8 counterparts, Canada ranks second in Internet penetration, behind the United Kingdom."

However, access to the Internet is not equal across Canada. The annual *2014 CRTC Communications Report* states that almost all Canadians have access to basic (that is, 1.5 megabits per second or Mbps) broadband Internet service. Canadians living in large population centres have access to speeds in the 50-99 Mbps range. While rural areas have not yet caught up to urban areas in terms of speed, Industry Canada has a program to subsidize the extension of broadband to all rural communities over the next five years. As stated in the 2014 federal budget, "[t]o keep pace with the needs of Canadians in rural and Northern communities, Economic Action Plan 2014 proposes to provide $305 million over five years to extend and enhance broadband service to a target speed of 5 Mbps for up to an additional 280,000 Canadian households, which represents near universal access" (Finance Canada 2014, 179.)

The increasing ubiquity of broadband will accelerate the decline of postal use in rural or remote communities and significantly undermine the argument for a traditional postal service in these areas.

The volume of mail is trending down

The downward trend in mail volumes is confirmed in table 2.

Table 2: CPC mail volumes by product line, 2008–2014

Transaction mail	2008	2009	2010	2011	2012	2013	2014
Delivered volume % change	(1.6%)	(5.5%)	(3.9%)	(3.7%)	(6.1%)	(4.9%)	(5.0%)
Delivery address % change	1.4%	1.2%	1.0%	1.0%	1.0%	1.0%	1.2%
Mail volume % decline per address	(2.9%)	(6.7%)	(4.9%)	(4.6%)	(7.0%)	(5.9%)	(6.1%)

Source: CPC (2014), *Canada Post Corporation Annual Report 2013,* page 32;
CPC (2015), *Canada Post Corporation Annual Report 2014,* page 45.

The trend suggests that letter mail (sometimes characterized as transactional mail) and ad mail, both of which are informational, are being replaced by a myriad of substitute electronic communications technologies and social media technologies, and will continue to do so.

As reported by the Interactive Advertising Bureau of Canada (2014) *2013 Actual + 2014 Estimated Canadian Internet Advertising Revenue Survey* (see table 3), digital advertising poses a threat to what was a growing segment (direct marketing) for CPC (9).

Table 3: The 10-year growth trend of actual Internet advertising revenues, online and mobile, 2004–2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
TOTAL INTERNET										
Total Canada: Millions ($)	$364	$562	$901	$1243	$1609	$1845	$2279	$2674	$3085	$3525
% growth/yr	--	54%	60%	38%	29%	15%	24%	17%	15%	14%
French Cda: Millions ($)	--	--	--	--	--	--	--	--	--	$670
ONLINE										
Total Canada: Millions ($)	$364	$562	$900	$1241	$1602	$1822	$2232	$2593	$2925	$3082
% growth/yr	--	54%	60%	38%	29%	14%	23%	16%	13%	5%
French Cda: Millions ($)	$66	$124	$189	$260	$317	$352	$428	$490	$559	$595
% growth/yr	--	89%	52%	38%	22%	11%	22%	14%	14%	6%
MOBILE										
Total Canada: Millions ($)	--	--	$1	$2	$7	$23	$47	$81	$160	$443
% growth/yr	--	--	--	137%	182%	248%	105%	74%	97%	177%
French Cda: Millions ($)	--	--	--	--	--	--	--	--	--	$75

INTERNET = Online + Mobile; Mobile includes Tablets and all ad formats including messaging. Revenues exclude agency commission. Reporting of Total Mobile Ad Revenues began in 2006; French Mobile was reported separately from Total Canada starting 2013.

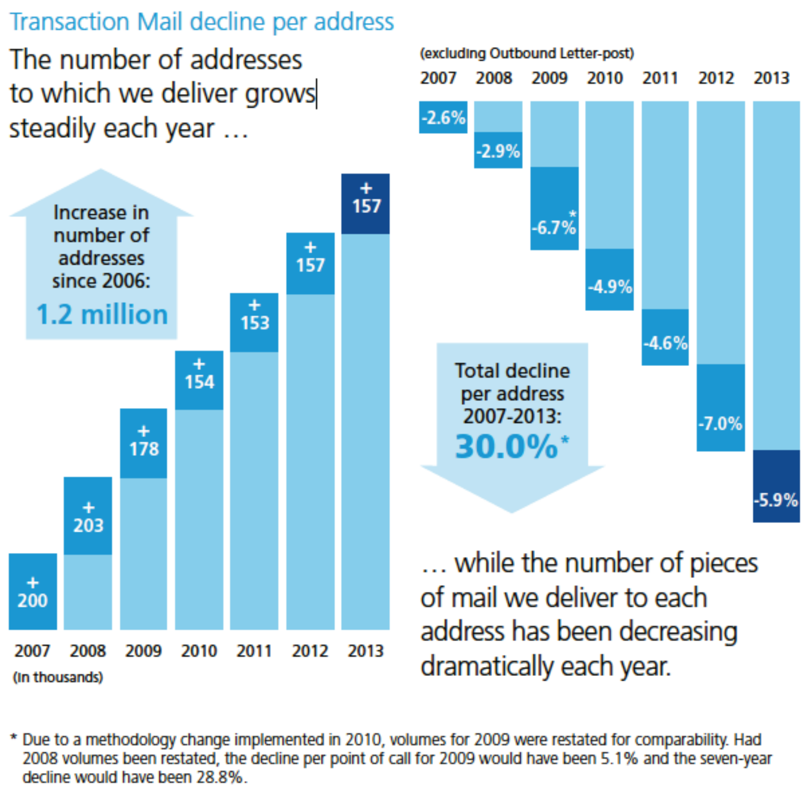
Source: Interactive Advertising Bureau (2014), *2013 Actual + 2014 Estimated Canadian Internet Advertising Revenue Survey,* page 9.

The 10-year trend of Internet advertising has grown tenfold as the volume of physical mail processed has decreased. Therefore, CPC will not be able to rely on letter mail and ad mail revenues much longer. The critical variable in the loss of transactional mail is the extent of Internet penetration, and more specifically broadband, for it offers sufficient speed to transmit information effectively and efficiently.

The number of delivery points is increasing

Paradoxically, although volumes are declining steadily, the number of delivery points added every year to CPC's routes is increasing due to population growth and the USO requirement that CPC must service all people in the country (see chart 2).

Chart 2: Change in number of address in Canada and amount of mail delivered to each address, 2007–2013



Source: CPC (2014), *Canada Post Corporation Annual Report 2013,* page 4.

The growth in postal addresses has occurred in concert with a decline in mail volumes. This means that lower volume and revenues are accompanied by increasing high fixed salary costs due to the increased number of delivery points, which puts a further strain on CPC's ability to remain self-sufficient.

Pricing has not kept pace with cost

Another major structural issue is that the price of a letter stamp has not reflected the true cost of collecting, sorting, and delivering a letter (most of these costs are fixed by their very nature). Moreover, as the volume of letter mail declines, it is not possible to lower the costs of delivery in proportion.

As part of a report by the Conference Board of Canada (2013), Genesis Public Opinion Research determined that speed and reliability of delivery were far more important to small business and residential consumers than cost (27–30).

The price of a letter stamp has not reflected the true cost of collecting, sorting, and delivering a letter.

To summarize, the drastic reduction of volume in transactional mail and ad mail – in every part of the country – is simply a function of time as firms and individuals shift completely to electronic communications for anything informational. Based on recent historical postal volumes and demographic trends, the shift will probably happen within the next decade as the "tail" of traditional postal users (strongly associated with seniors) age and pass away. This is a structural – not a cyclical – transformation in demand for postal services. Consumers and businesses use CPC less and less year by year (see table 4).

Table 4: Projected mail volume, 2012–2020 (in millions)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Domestic transaction mail	4070	3888	3725	3596	3460	3324	3204	3082	2966
Domestic parcels	110	113	117	121	124	128	131	134	139
Addressed ad mail	1229	1186	1148	1108	1065	1023	986	948	912
Unaddressed ad mail	3320	3202	3094	2984	2870	2756	2654	2552	2455
Publications	414	400	387	374	359	345	332	320	307

Source: Stewart-Patterson, Hoganson, and Gill (2013), *The Future of Postal Service in Canada,* page 21.

As the table shows, in a decade, half of CPC's business will have disappeared. As well, nominal revenues are stagnant (see table 5) because the volume of letter mail and ad mail is declining (although partially offset by increasing parcel post volume and revenue).

Table 5: CPC revenue and profits, 2008–2014

	2008	2009	2010	2011	2012	2013	2014
Revenues	7.7 B	7.3B	7.5B	7.5B	7.5B	7.5B	7.9B
Profits	90M	281M	314M	(188M)	94M	(193M)	299M

Source: CPC (2015), *Canada Post Corporation Annual Report 2014,* page 5.

CPC's revenue has declined in real terms. However, this table ignores 14 percent inflation (averaged at 2 percent a year). Restated revenues should be 14 percent or $1 billion *higher* simply to remain standing still on a real, after inflation basis. Moreover, CPC has maintained very tiny profits relative to gross revenues of around $7.5 billion by accrual accounting changes – not through growth. A company that is shrinking in real terms, barely maintaining profitability through accrual accounting changes and with volumes declining 5 percent a year is simply not sustainable.

CPC has an expensive and aging work force

Delivery costs are labour intensive (see table 6).

Table 6: Delivery costs are very labour-intensive

Type	Percentage of Total Cost
Supervisory and ops support	7
Postmasters and assistants	10
Mail processing	26
Mail collection and delivery	36
Rural and suburban delivery	14
Exec., mgmt., and non unionized	5
Clerical, technical, and professional	2

Source: CPC (2015), *Canada Post Corporation Annual Report 2014,* page 55.

About half of CPC's total work force is involved in collecting and/or delivering mail. Labour (including benefits) represents about 70 percent of total costs. The majority of CPC employees are over age 50 (see table 7).

Table 7: Number and age of CPC employees by type of pension

Age	<30	30–39	40–49	50–59	60–69	70–79	>79
Members with a defined-benefit pension plan	1263	8755	15,753	21,596	5983	132	0
Members with a defined contribution pension	112	257	206	82	8	0	0

Source: CPC (2014), *Canada Post Pension Plan Report to Members,* page 4.

Nearly 15,000 of approximately 60,000 employees, or 25 percent of the CPC workforce, is expected to leave the corporation by 2020.

As this study has documented, postal volumes are declining dramatically as people and businesses switch to electronic billing, electronic payments, electronic communications, and even electronic flyers. CPC has hired far fewer new employees since 2010, driving up the average age and cost of its already-expensive workforce as a corollary.

Part III: Postal Reform in the EU

The monopoly

Conventional wisdom holds that the concept of a government monopoly emerged in England to ensure the financial viability of the *modern* postal system. It did develop there, but in the 16th century, in response to political intrigue against the Crown. In establishing the monopoly, the Crown attempted to monitor any nascent conspiracies by monitoring the mail.

However, the USO was developed much later, with the two major postal reforms advocated by Rowland Hill. He advocated for 1) a single uniform price regardless of the (domestic) distance between sender and recipient; and 2) that the sender pay the postage, contrary to the practice at the time. Both reforms were adopted by Parliament in 1840 as the Uniform Penny Post. Postal administrations around the world followed suit.

The important point is that the postal monopoly is 400 years old and based on national security, while the USO is much more recent (about 150 years old).

The universal service obligation (USO)

Following these reforms, the Universal Postal Union (UPU) was established in 1874 to represent national postal administrations around the world and to establish rules of cooperation to exchange international mail. It was the UPU that first tried to codify the USO and, through a subsequent treaty, made it obligatory for all countries. However, the UPU grants wide latitude to each country to define the scope and extent of its own USO.

The current *UPU Convention* defines the universal postal service in Article 3, which states:

1. In order to support the concept of the single postal territory of the Union, member countries shall ensure that all users/customers enjoy the right to a universal postal service involving the permanent provision of quality basic postal services at all points in their territory, at affordable prices.

2. With this aim in view, member countries shall set forth, within the framework of their national postal legislation or by other customary means, the scope of the postal services offered and the requirement for quality and affordable prices, taking into account both the needs of the population and their national conditions.

3. Member countries shall ensure that the offers of postal services and quality standards will be achieved by the operators responsible for providing the universal postal service.

4. Member countries shall ensure that the universal postal service is provided on a viable basis, thus guaranteeing its sustainability. (Univeral Postal Union 2013)

Postal reform typically includes one or more of the following components:

- elimination of the monopoly or "reserved areas" exclusive to the post office;

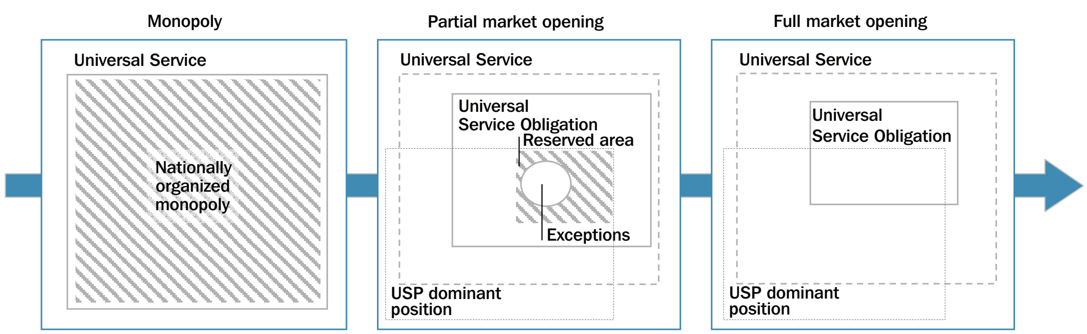
- revisions to the USO delivery standard (for example; five days a week versus three days a week), the method of delivery (for example; to the door versus community mailboxes), and method of service (for example; franchising); and

- privatization of the entire postal administration.

Privatization

Chart 3 suggests a continuum of policy options that ranges from the *status quo* of the traditional public post office monopoly to a middle point of partial market opening to full market opening captured most completely by privatization.

Chart 3: Reform options for the CPC



Source: Accenture (2008).

Applying chart 3 to postal administrations reveals that the US Postal Service is the most traditional post office and the least reformed, while Canada Post lies closer to the European model. The European and Canadian postal administrations operate in greater competitive markets (for example: own Purolator, epost) and use franchises to provide retail services. The European post offices are situated in the right-hand of the continuum of full market opening. The USPS is largely restricted from entering competitive markets directly. We will return to this in our policy recommendations.

A review of European postal administrations reveals they are much farther advanced in postal liberalization in two of the three dimensions – privatization and changes to the USO. In 2008 the EU confirmed that "the sustainable provision of a postal universal service under the quality standards the Member States defined could be secured without the requirement of a reserved area" (European Parliament, Council of the European Union 2008) (in other words, the famous postal monopoly).

This direction has been subject to some debate. The liberalization reforms also included provisions to secure funding for universal services in a competitive market. For example, operators under the USO may be entitled to subsidies from taxpayers or payments from competitors not providing universal service to help offset the cost of servicing uneconomic areas. So far, use of these mechanisms in the European postal market has been limited.

The Dutch (1994) and German (1995) postal administrations were privatized before postal markets were liberalized, while New Zealand (1998) was one of the first to liberalize its letter market even although it remains under public ownership. Sweden abolished the postal monopoly in 1993. Belgium and Austria privatized in the following decade but the government in both countries is the majority shareholder. The United Kingdom privatized the Royal Mail last year. The postal monopoly was eliminated in all EU countries by 2013.

Table 8 summarizes the current state of state ownership of the post office in each European country.

Table 8: Legal status and % government ownership of the post office in European countries

Country	Legal Status	Govt ownership %
Austria Post	PLC	52.8%
Belgian Post	Other	50
Bulgarian Post	SOE	100
Croatian Post	PLC	100
Cyprus Post	Govt	100
Czech Post	SOE	100
Deutsche Post AG	PLC	25.5
Denmark Post	PLC	100
Estonian Post	PLC	100
Finland Post	PLC	100
French Post	Other	100
Greek Post	SOE	90
Hungarian Post	PLC	100
Iceland Post	PLC	100
Ireland Post	PLC	100
Italy Post	PLC	100
Latvia Post	Other	100
Liechtenstein Post	PLC	100
Lithuania Post	PLC	100
Luxembourg Post	Other	100
Malta Post	PLC	0
Netherlands Post	PLC	0
Norway Post	PLC	100
Polish Post	PLC	100
Portugal Post	PLC	100
Romania Post	SOE	75
Slovakia Post	PLC	100
Slovenia Post	PLC	100
Spain Post	PLC	100
Sweden Post	PLC	100
Swiss Post	SOE	100
UK Post	Other	15

SOE = State-owned enterprise PLC = Public limited company

Source: Alex Kalevi Dieke et al. (2013), *Main Developments in the Postal Sector (2010-2013)*, page 21.

In many countries, the state is still the majority shareholder of the postal service. Table 9 summarizes the most recent changes to the USO by European country.

Table 9: Recent and prospective USO changes by European country

Country	Recent Change to USO	Prospective change
Austria	Reduced parcel limit to 10 kg, newspapers included	None
Belgium	None	None
Bulgaria	Removed postal money orders and direct mail	Review planned
Croatia	Changes to scope of existing services and weight limits	None
Czech Republic	Reduce parcel and insured items weight to 10 kg	None
Finland	Redefined coverage of the USO scope	None
France	New single piece product in D+2 added, deletion of 2nd class letter for outbound international mail	None
Germany	None	None
Greece	None	None
Hungary	None	None
Ireland	Specified a minimum set of UPS that meets needs of users while minimizing regulatory burden	None
Italy	6 to 5 day delivery a week, direct mail removed	None
Latvia	Reduced weight to 10 kg for domestic	None
Lithuania	Bulk services and direct mail removed	None
Malta	None	Review planned
Netherlands	6 to 5 days a week delivery except medical mail and obituaries	Review planned
Norway	Changes made but not specified	Review planned
Poland	Bulk mail removed	None
Portugal	Reduced weight to 10 kg for parcels, direct mail removed	None
Romania	Direct mail excluded	None
Serbia	None	None
Slovenia	Reduced parcel weight to 10 kg, new parcel quality provisions	None
Sweden	None	None
UK	Bulk mail removed	None

Source: ERGP (2014), *Discussion Paper on the Implementation of Universal Service in the Postal Sector and the Effects of Recent Changes in Some Countries on the Scope of the USO,* page 8.

As the table shows, few countries that have already made changes are planning to make more.

European postal administrations are at the forefront of liberalization in eliminating the monopoly and/or making significant changes to their USO. However, it is important not to draw too many parallels between Canada and Europe due to profound differences in geography and population density. In 2013, Canada had only four persons per square kilometre versus 265 in UK (The World Bank 2014). Nonetheless, changes are taking place in all jurisdictions.

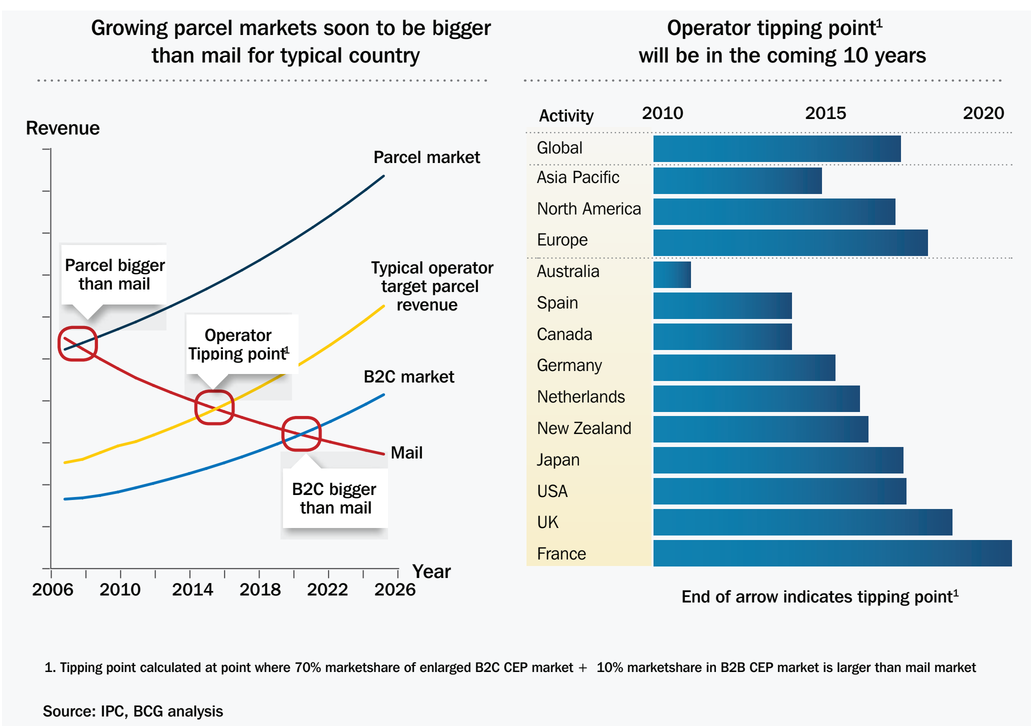
Part IV: Future Directions for Canada Post Corporation

Our review of European postal administrations revealed they are much farther advanced down the road of liberalization than CPC or the US Postal Service. What then is the successful way forward for postal services in 2015? Privatization? Outsourcing? More of the same incremental changes? The Boston Consulting Group (2010) found that the US Postal Services needs a mix of structural changes to ensure long-term sustainability (23).

Our review of CPC since it became a Crown corporation reveals it has struggled since then to address emerging electronic substitutes including electronic messaging, electronic banking, and electronic bill invoicing and payment that caused postal volumes to peak in 2006 and decline from that point. Indeed, since 2010, 25 percent of CPC's business has disappeared as customers desert the post office for the electronic substitutes. In this brave new world, CPC's *de jure* monopoly is of steadily declining relevance.

Various studies predict that most postal administrations will hit a tipping point – by 2020 for each of the postal administrations in chart 4 – due to collapsing volumes pointing to massive deficits unless they adopt major policy changes.

Chart 4: Projected tipping point for parcels, 2006–2026



Source: International Post Corporation and the Boston Consulting Group (2012), *Focus on the Future: Building a new compelling position for posts,* page 39.

Parcel mail is overtaking letter mail. However, there is some good news. The volume of parcel post is growing at an inverse rate to the losses, albeit from a much smaller base.

For these reasons, we do not see privatization as the solution. Given CPC's anticipated structural challenges in addressing this change, the private sector would show very little interest in investing. Royal Mail and other postal administrations were only able to privatize once they had addressed some of the fundamental operating issues that existed under government ownership. The problems facing the post office are not primarily ownership and governance, but a structural transformation caused by the steady reduction in demand for "physical communications." Instead, the post office must restructure to address the emerging reality of declining letter mail and rising parcel volume.

Part V: Policy Recommendations

In making the recommendations below, the author assumes that:

- Transactional mail and ad mail will continue to decline at 5 percent per year indefinitely until physical mail (but not parcels) disappears between 2020 and 2025. Parcel mail will continue to grow at 5 percent per year.
- The number of households (and thus costs) will continue to increase across Canada from more than 15 million delivery points.

The analysis in this paper and these assumptions suggest that delivery of mail and the network of post offices must be restructured as the majority of costs lie within these two areas — while revenues decline.

Do not privatize Canada Post Corporation

The decline in letter mail and ad mail combined with USO obligations make the postal service a terrible business model. Privatizing parcel delivery, which is growing with the popularity of e-commerce, is possible but would remove a stream of revenue badly needed to manage the decline in the rest of CPC's operations.

This review demonstrated that postal administrations in the OECD are experiencing precipitous declines in mail volumes, regardless of their ownership structure. For example, the Dutch and German privatized post offices face very similar declines to the government-owned ones. Privatization will not address the structural changes taking place with respect to the declining demand for delivery of letter or ad mail. The reforms recommended below will be more effective in addressing the issues facing CPC in the medium term, perhaps leading eventually to privatization of the remaining parcel service.

Eliminate the postal monopoly or exclusive privilege to deliver letters

Remove section 15 from the *Canada Post Corporation Act* that grants "the sole and exclusive privilege of collecting, transmitting and delivering letters to the addressee thereof within Canada."

Critics may argue that the postal monopoly needs to be maintained to better allow CPC to serve its USO, even in a declining market. They argue that opening up the remaining lucrative parts of the business amounts to "cherry-picking" from entrants and will make funding the USO even more challenging. However, this critique simply ignores that the USO is already being cherry-picked by the adoption of electronic communications technologies.

The logic of this recommendation is grounded in the secular decline in postal volumes documented in CPC's annual reports. The recommendation will facilitate and enhance structural change by opening the space up to competition.

Replace all door-to-door mail delivery with community mailboxes

Only 32 percent of Canadians experience door-to-door service (CPC 2015) further to the decision in the 1980s to establish community mailboxes in new subdivisions. See table 10.

Table 10: Delivery method and number of addresses, percentage of total addresses, and average annual cost per address

	Number of addresses	Percentage of total addresses	Average annual cost per address in $
Door-to-door	4,980,959	.32	$289
Centralized point	3,957,753	.25	$119
Community mailbox	4,255,859	.27	$111
Delivery facility	1,768,848	.11	$58
Rural mailbox	713,642	.05	$189
Total: all methods	15,677,061	100	$167

Source: CPC (2015), *Canada Post Corporation Annual Report 2014,* page 35.

Nearly 25 percent of CPC's workforce is expected to retire by 2020 (see table 7). This suggests that reducing the delivery schedule and ending door-to-door delivery can be accomplished through attrition without the need for layoffs.

CPC itself decided to end door-to-door delivery in 2013. One can argue that it needed the government's approval for this and, indeed, the government did not direct the corporation otherwise. Community mailboxes were introduced in a similar way in the mid-1980s. No formal approval was required but the government supported CPC's decision as within its operational freedom to manage the postal service. But it is critical to note that CPC is not governed by any formal policy to deliver door-to-door service as part of any USO commitment (including what is defined in the *Canadian Postal Service Charter*).

Approximately 27 percent of households have long received delivery to a community mailbox. Another 25 percent get their mail from a lockbox (usually located in an apartment building lobby or common entrance location in a multi-unit building). The remaining 16 percent include rural delivery at the property lot-line or pick-up at a retail postal outlet. By contrast, 32 percent of households receive door-to-door delivery, mostly in urban neighbourhoods such as Rockcliffe (Ottawa), The Annex (Toronto), Outremont (Montreal), or Shaughnessy (Vancouver) with much higher average house prices, which in turn is a proxy for more affluent upper middle-class and wealthy Canadians. The decision to end home delivery merely normalizes the postal service so that upper middle-class neighbourhoods receive the same service as other Canadians.

Community mailboxes cost less than half as much as door-to-door delivery.

The second and more important justification for this move is the enormous cost savings of approximately $500 million annually from transferring all Canadians to community mailboxes.

It is thus passing strange that both the federal NDP and Liberal parties promised in 2015 (Canadian Press 2015; Liberal Party of Canada 2015, 12) to reinstate home delivery for 32 percent of households that receive delivery to the front door. However, neither party disclosed how they would find the $500 million per year to do this.

Reduce daily delivery to residential (not business) customers

Reducing deliveries to community mailboxes to three days a week (for example: Monday, Wednesday, Friday) reflects the declining volumes of mail and reduces the cost of delivery. Labour represents 69 percent of all costs and delivery represents 39 percent.

Delivery is very labour-intensive. Approximately half of CPC's total work force is involved in collecting and delivering mail in urban, suburban, and rural areas. As this study documents, postal volumes are declining dramatically, which reduces the need for five-day-a-week delivery for individuals. However, as the small business community has argued to the authors of the Conference Board report, it still requires daily delivery to respond to those customers who still use the post. This need will wither with time for the reasons stated above.

Franchise all corporately-owned post offices

Presently, 40 percent of retail postal outlets are managed through private-sector dealers. With the franchising model, the private partner acquires a postal franchise — typically to build customer traffic to their store — and absorbs the costs of running the franchise in exchange for a commission. The model has been successful over the decades in European countries and Canada. Franchises provide superior service to users as they are typically open longer hours in many more locations. The benefits to CPC include extending its reach and enhancing the level of customer service while substantially reducing costs.

As noted above, in 1994, the Chrétien government imposed a moratorium on closing and/or converting corporately operated post offices in rural Canada. The Harper government renewed the moratorium as a matter of policy (it is not formalized by way of regulation). It is also specifically mentioned in the *Canadian Postal Service Charter* in 2009. The policy names certain corporately operated post offices (over 3,500 post offices mostly located in rural Canada) that cannot be closed or moved. The moratorium policy does not recognize the role of franchise/dealer operated post offices in providing retail postal services.

The Conference Board report found that franchises cost one-third as much to run as corporate offices in urban areas (Stewart-Patterson, Hoganson, and Gill 2013, 41). Moreover, the average revenue in an urban office is about three times that of a typical rural office according to data CPC submitted to the Strategic Review in 2008 (20). If you can save two-thirds of your average cost per post office, that represents an enormous savings. The cost savings from franchising are profound and will be greater with rural outlets than they have been with urban ones.

CPC's corporately operated post offices are staffed by two bargaining groups (Canadian Postmasters and Assistants Association [CPAA] and Canadian Union of Postal Workers [CUPW]). CPAA staffs about 3200 offices mostly in rural and small-town locations. The vast majority of these offices are on the moratorium list. In addition, CUPW operates 495 post offices. The current moratorium conditions as well as the minimum number of CUPW-staffed outlet provisions (defined in the CUPW collective agreement) would need to change to leverage further franchising opportunities.

CPC addressed the issue of the moratorium on post office closings in its submission to the Strategic Review in 2008. For the most part, the Review agreed with CPC's proposals regarding the provision of retail postal services (Campbell, Beaudoin, and Bader 2008, 73–75). Although the Review did not recommend the full removal of the moratorium, it identified some of the anomalies in its form (for example: cities such as Abbotsford, Lethbridge and Moncton, where offices continue to be designated "rural" for the purposes of the moratorium). Urbanization and the dependence of the rural community on nearby cities/towns suggest that retail postal services could be provided through dealer and franchise alternatives in a significant number of instances. The government did not act on much of this, other than adding Section 10 to the *Canadian Postal Service Charter*, which states that a post office must be located within 15 kilometres of 98 percent of Canadians.

This suggests that the bulk of the opportunity is in rural areas under the moratorium restrictions, but it varies by level of "rurality." For example, probably several hundred moratorium offices are technically in urban areas (that is: >10,000 population). Franchising fits well in those areas.

We recommend terminating the moratorium on franchising post offices across Canada.

Consolidate mail processing plants

CPC should retain the services of a major consulting firm to further study and identify which of the 21 processing plants should be consolidated and closed. The key issue concerns the extent to which we need to maintain current service standards in the face of declining volume. This is a complex technical question that an international consulting firm such as Deloitte, KPMG, Ernst and Young, or PwC should evaluate.

The network is designed to provide two to four-day timelines for mail moving within a region to across the country. Surveys done for the 2013 Conference Board report referred to above suggest Canadians would not be unduly concerned if the standards were relaxed.

Implement the Industry Canada Rural Broadband Strategy by 2020

This will ensure that the approximately 20 percent of Canadians without broadband Internet have access to high speed Internet which will, in turn, reduce the needs of those most dependent on the traditional post office.

The principal objection to reducing delivery standards is the number of people without access to broadband. While this number has declined very rapidly, approximately 15 percent of Canadian households (mostly in remote northern communities) still do not have access to the vastly more efficient communications medium of broadband Internet. For this reason, the government should implement its rural broadband strategy as quickly as possible.

Deregulate CPC pricing for letter mail

As this analysis has shown, the post office faces substantial and increasingly effective electronic alternatives so there is no justification for government price-setting. As with any commercial entity, CPC should set its own prices in response to competitive demand for its services.

Canada and all OECD countries have a long tradition of decentralized liberal market economies. While government price-setting in transportation used to be common, price-controlled industries (including airlines and telecom) across the OECD were deregulated in the 1970s and early 1980s, based on studies demonstrating the failure of this practice. The legacy industry that escaped deregulation was the post office. However, as noted earlier, several European postal systems have recently deregulated. This should be phased in over a five-year period to allow businesses and consumers to adjust.

Revise the Canadian Postal Service Charter and the USO

In the short-to-medium term, this is necessary to reduce five-day delivery to three-day delivery for residential customers and to support franchising and outsourcing. However, within five years, CPC should be given the discretion to determine the frequency of delivery based on its assessment of demand for its services.

Implementing the above changes would mean revising Canada's USO.

Conclusion

Recognized or not, the market demands of customers are slowly transforming the traditional post office into a parcel post firm to facilitate deliveries required by the increasing popularity of e-commerce.

If all the reforms proposed in this paper are implemented, the restructured CPC will be a quasi-virtual corporation with a government-owned head office to manage and supervise franchised outlets. Delivery to community mailboxes would continue at a reduced rate to consumers.

These policy proposals are necessary to provide a "bridge to the future" (likely the relatively near future) in which Canada Post Corporation will transform from a "push mail to the door" system to a pull system that only engages when it has a parcel to deliver.

About the Author

Ian Lee is a tenured Assistant Professor in the Sprott School of Business at Carleton University where he teaches Strategic Management and International Business.

Prior to returning to school, for his Masters and PhD, he was employed for almost 10 years in the financial services sector as a loan and mortgage manager and later commercial credit officer.

After completing his Master's degree in public policy, he was employed in the head office of Canada Post as a financial policy analyst in 1983-84 before he started his PhD in public policy.

He defended his 850 page PhD thesis in spring 1989 entitled: The Canadian Postal System: Origins, growth and decay of the state postal function, 1765-1981.

He is a regular op-ed contributor and commentator in the Canadian media on fiscal policy issues.

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Endnote

1 This famous quote is carved on the main post office in New York City. However, it is a translation of a quote from Herodotus' *Histories* (440 BC) in reference to the mail service of the Persian Empire 25 centuries ago.

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