Industrial Inquiry Commission
Written Submissions of Canada Post Corporation

1. Introduction

This Industrial Inquiry Commission (IIC) comes at a critically important time for Canada's postal service. The stakes are extremely high for Canada Post, the Canadian Union of Postal Workers (CUPW), the roughly 68,300 employees of the Corporation and, ultimately, all Canadians who count on Canada Post's ongoing financial sustainability, viability and success. This IIC is therefore a welcomed opportunity to examine the fundamental challenges facing Canada Post and to develop recommendations that enable its path toward becoming a sustainable service provider for Canadians.

Canada Post is part of Canada's critical national infrastructure, with a reach that touches all corners of the country and every community. As Canada's postal service, Canada Post is required to provide basic and customary postal services to *all* Canadians, while conducting its operations on a self-sustaining financial basis through revenue generated by the sale of its postal products and services.

Canada Post has the mandate, network and people to serve all Canadians across our vast, but sparsely populated, country. Canadians trust and depend on Canada Post because it delivers everywhere, not just where it would be most profitable. Its services are vital for many Canadians, such as:

- **For Canadian small- and medium-sized businesses**, Canada Post allows them to compete in a market increasingly dominated by large, multinational ecommerce giants.
- **For Canadians in rural, remote and Northern communities**, Canada Post is often one of their only delivery options, connecting them to the rest of the country. Canada Post services over 140 remote and Northern communities that can only be reached by air year-round, with approximately 282 flights per week.
- **For charities big and small**, the mail service provides an important vehicle to connect directly with supporters and solicit vital donations.
- **For Canadians in urban and suburban communities**, Canada Post provides a trusted delivery service that keeps them connected to government services, friends, family and great businesses right across the country.

Yet Canada Post is at a crossroads in its history. In the past, Canada Post operated in a less competitive environment and generated enough revenue to fulfill its obligations through its limited monopoly over the delivery of letter mail. However, with the emergence and continued growth of digital communications, Canadian households and businesses are mailing significantly fewer letters; Canada Post now delivers 3 billion fewer letters per year than it did two decades ago. At the same time, the parcel delivery market has exploded with online shopping: the share that the ecommerce market occupies of total retail sales is expected to double from 11.5 percent today, to 23 percent by 2033.

Throughout its more than 250 years of existence, Canada's postal service has had to continually adapt to meet the changing needs of Canadians. Operating on a user-pay system means that when Canadians' mailing and shipping needs evolve, Canada Post must adapt or risk losing revenue and relevance. A postal network originally designed to deliver 5.5 billion letters annually (at its peak in 2006) cannot be sustained on the 2.2 billion letters Canada Post delivered in 2023. As a result, and in response to this steep decline in letter mail, Canada Post has been reorienting itself to serve Canada's growing appetite for parcel delivery.

While Canada Post was successful in helping to enable the country's emerging ecommerce market, that advantage and position have quickly eroded in the last few years. With the country emerging from the pandemic and a greater comfort with online shopping, changes in the competitive delivery landscape have rapidly accelerated. Today, the parcel delivery market faces *intense* and *growing* competitive pressures from global corporations and new smaller, nimbler entrants. Canada Post is built to deliver, but not in today's hypercompetitive delivery market. As a result, Canada Post's share of the parcel market has been cut in half over the last five years: from 62 percent in 2019 to just 29 percent in 2023. As the demand for faster deliveries has increased, competitors like FedEx, UPS, DHL and Amazon have capitalized on weekend deliveries, capturing weekday and weekend market share as customers seek carriers that can service their demand for speed and greater convenience seven days a week.

Canada Post's current collective agreements prevent it from responding to the increased demand from Canadians for faster and more flexible delivery services. The rigidity of its collective agreements requires Canada Post, in most cases, to pay employees overtime to deliver any of its current parcel products on the weekend.[1]

The markets in which Canada Post operates have experienced fundamental, long-term, and *irreversible* changes. Canadians' needs have changed such that letter mail volumes alone can no longer sustain the postal network. Meanwhile, competitive pressures in the parcel market mean that, in combination with Canada Post's uncompetitive and inflexible labour costs, elective services (like parcels) cannot pay for essential services (like letter mail). These challenges have accelerated in recent years and show no signs of slowing down. With its legacy delivery and staffing models and an outdated regulatory regime, Canada Post is unable to compete effectively, grow its business or remain financially self-sustainable.

These issues are threatening Canada Post's ability to meet its obligations to Canadians. Canada Post recorded a loss before tax of $748 million in 2023, following a loss before tax of $548 million in 2022. In the third quarter of 2024, Canada Post reported a year-to-date loss from operations of $803 million[2] – *before* the five-week work stoppage in its fourth quarter.

An outdated postal service will affect all Canadians, but will be felt most by those who need it most – small businesses, charities and Canadians in rural, remote and Northern communities. The postal service is a vital national infrastructure built to serve the entire country, but it is at a difficult crossroads that challenges its relevance and its very future. For current and future Governments, the historical imperatives to preserve the post office in its current form no longer exist, making survival through adequate competitive means doubly important.

To address these growing challenges, significant changes are essential: Canada Post cannot rely on its current regulatory regime, collective agreement rules and operating models that were designed in a bygone era of letter mail. In order for Canada Post to continue to be able to fulfill its important mandate for Canadians, Canada Post requires flexibility:

1 Saturday delivery is currently available for certain new services in a very limited number of locations. These operations are conducted under Appendix JJ of the CUPW UPO collective agreement.

2 Loss from operations excludes the non-recurring dividend income from the divestitures of SCI Group Inc. and Innovapost and the timing of the dividend income received from Purolator.

- The flexibility from a regulatory standpoint to be nimble, respond quickly and align its services with the changing needs of Canadians while providing modern checks and balances.
- The flexibility to compete in today's growing, but highly competitive parcel business, including offering weekend and next-day delivery at affordable rates.
- The flexibility to base its delivery routes on up-to-date parcel volumes.
- The flexibility to tailor mail delivery to the current and future expectations of Canadians.
- The flexibility to invest in Canada Post, its network and its people and above all, continuously improve service.

This transition from traditional models to a more flexible, efficient workforce and regulatory regime will allow Canada Post to better meet the diverse needs of Canadians while positioning the Corporation for long-term sustainability. Without these key pillars in place, the future of Canada Post is in jeopardy.

2. IIC Proceedings

In these proceedings, the Commissioner is tasked with examining the following key issues:

1. The current collective bargaining dispute and the positions of the parties – with special attention to the underlying causes of the dispute; and more specifically:
    a. The financial situation of Canada Post;
    b. Canada Post's expressed need to diversify and/or alter its delivery models in the face of current business demands;
    c. The viability of the business as it is currently configured;
    d. The union's negotiated commitments to job security and full-time employment;
    e. The need to protect the health and safety of employees.
2. The Commissioner will engage with the parties and produce recommendations for the Minister of Labour no later than May 15, 2025. These recommendations may include amendments to the collective agreements, and any other changes to be implemented, including the structures, rights and responsibilities of the parties in the collective bargaining process.

From a broader perspective, however, what the IIC recommends will help set the stage for the future of Canada Post as a Canadian institution.

During this first stage of these IIC proceedings, the Commissioner has asked the parties for their submissions regarding their respective visions for Canada Post in the next two, five and ten years. For Canada Post, its current (and urgent) financial situation and its underlying causes were at the heart of this round of bargaining with CUPW. As a result, these submissions provide further context regarding Canada Post's financial situation and the significant pressures on its operating model in order to situate Canada Post's vision – and the current hurdles – for its sustainable future.

In subsequent submissions, Canada Post will provide more detailed information on the current collective bargaining dispute, including the proposals that it advanced and the regulatory relief that it requires, in order to put the Corporation on a path toward a sustainable future for Canadians.

3. The Canada Post Business

Canada Post's regulatory and commercial context is essential for understanding the crossroads at which it currently finds itself.

Canada Post is a Crown corporation that exists at the pleasure and for the service of the Canadian public. Where once its place was well-defined by its letter mail monopoly and corresponding service obligations, this identity is under threat as letter mail volumes continue to decline. To maintain its place as a Canadian institution, Canada Post must reorient and transform itself into a seven-days-a-week parcel business, that continues to deliver mail. This reorientation imperative underpins the current round of collective bargaining between Canada Post and CUPW.

Prior to 1981, postal services in Canada were operated through a department of the federal government (the Post Office Department). Postal employees were members of the federal public service. Since 1981, Canada Post has been a Crown corporation. Its sole "shareholder" is the federal government. Canada Post has an independent board of directors, with its management guided by a broad mandate set by the federal government.

As Canada's postal service, Canada Post is obligated to fulfill Canada's responsibilities under the Universal Postal Convention, an international treaty that requires Canada and the approximately 190 other countries that belong to the Universal Postal Union to maintain a "basic customary postal service." This standard – known as the Universal Service Obligation – is generally accepted to have five core elements:

1. It implies a system of universal service, regardless of location;
2. It means an *affordable system*, with a uniform letter mail price, regardless of location/distance;
3. It requires a *timely*, regular service;
4. It offers an *accessible* service to all citizens, regardless of their location; and
5. It demands that a *quality* of service be maintained.

The Canadian government, Canada Post's shareholder, has articulated its vision of the Universal Service Obligation standard through service standards enshrined in the *Canada Post Corporation Act (CPCA)*[3] and the *Canadian Postal Service Charter*.[4] Taken together, the *CPCA* and the *Canadian Postal Service Charter* set out the expectations for Canada Post to provide basic and customary service to all Canadians while giving it the ability to offer other incidental services.

Among other things, the *Canadian Postal Service Charter* stipulates:

1. Canada Post will maintain a postal system that allows individuals and businesses in Canada to send and receive mail within Canada and between Canada and elsewhere. Canada Post will provide a service for the collection, transmission and delivery of letters, parcels and publications.

2. The provision of postal services to rural regions of the country is an integral part of Canada Post's universal service.

[...]

4. As required by the *Canada Post Corporation Act*, Canada Post will charge postage rates that are fair and reasonable and, together with other revenues, are sufficient to cover the costs incurred in its operations.

[...]

3 *Canada Post Corporation Act*, RSC, 1985, c C-10, s 5.

4 *Canadian Postal Service Charter*.

6. Canada Post will deliver letters, parcels and publications five days a week (except for statutory holidays) to every Canadian address, except in remote areas where less frequent service may be necessary due to limited access to the community.

7. Canada Post will deliver to every address in Canada. This may be delivery to the door, a community mailbox, group mailbox, a rural mailbox, a postal box, general delivery at the post office or delivery to a central point in apartment/office buildings.

8. Canada Post will deliver letter mail:

   - Within a community within two business days;
   - Within a province within three business days; and
   - Between provinces within four business days.

[...]

10. Canada Post will provide retail postal outlets, including both corporate post offices and private dealer operated outlets which are conveniently located and operated, so that:

    - 98 percent of consumers will have a postal outlet within 15 km;
    - 88 percent of consumers will have a postal outlet within 5 km; and
    - 78 percent of consumers will have a postal outlet within 2.5 km.

11. The moratorium on the closure of rural post offices is maintained.[5] Situations affecting Canada Post personnel (e.g., retirement, illness, death, etc.) or Canada Post infrastructure (e.g., fire or termination of lease, etc.) may, nevertheless, affect the ongoing operation of a post office.[6]

The *Canadian Postal Service Charter* is to be reviewed by the government every five years. This was last done in 2018. As the sole shareholder, the federal government can provide legally binding directions to Canada Post.[7] In addition, the federal government can express its expectations and priorities for Canada Post in a variety of ways. By way of example, in 2018, the government expressed its expectation that Canada Post end its program of converting door-to-door delivery to community mailboxes.[8]

The counterpart to Canada Post's Universal Service Obligation is its "exclusive privilege" or limited monopoly to deliver letter mail. Pursuant to the *CPCA*, Canada Post is required to meet its Universal Service Obligation while conducting its operations on a self-sustaining financial basis.[9]

In the past, this exclusive privilege provided postal services, like Canada Post, with monopoly access to huge (and growing) mail volumes. Together with the ability to set consistent, relatively low prices, postal services generated enough revenue to fulfill their Universal Service Obligation: cheaper and high-volume letter mail in dense urban areas supported the more expensive and lower volume letter mail deliveries to small towns and other rural areas.[10] However, with the dramatic decline of letter mail in recent years, this model is not sustainable.

5 In 1994, the Canadian government adopted a moratorium that prevents Canada Post from closing or franchising post offices that were identified as being in rural areas in 1994.

6 *Canadian Postal Service Charter*.

7 *Canada Post Corporation Act*, RSC, 1985, c C-10, s. 22; *Financial Administration Act*, R.S.C., 1985, c. F-11, s. 89.

8 Letter from Minister Carla Qualtrough to Jessica McDonald dated January 24, 2018.

9 *Canada Post Corporation Act*, RSC, 1985, c C-10, ss. 5 and 14(1).

10 It is also notable that Canada Post cannot set regulations to change its postage rates without the approval of the Governor in Council: *Canada Post Corporation Act*, RSC 1985, c C-10, s 19.

Canadian governments have reacted to these challenges by commissioning several major reviews of Canada Post since it became a Crown corporation. These reviews analyzed Canada Post and other national postal systems in light of changing social, economic, and competitive forces, and made recommendations as to how Canada Post could succeed in the changing environment. The 2008 Advisory Panel and the 2016 Task Force Review both reaffirmed the imperative of maintaining the Universal Service Obligation in a financially self-sustainable manner as well as the challenges facing Canada Post in meeting that mandate:

- The 2008 Advisory Panel's Report highlighted that technological developments, such as email and online banking, were resulting in a decline in letter mail and putting pressure on Canada Post's financial position. The Advisory Panel's Report also noted that Canada Post's financial results could be misleading if not considered in context; it emphasized that it is important to also factor in the Corporation's capital underinvestment in modernization.[11]
- The 2016 Task Force Review also highlighted the ongoing decline in letter mail volumes and other pressures on Canada Post's financial position, including the continued growth in Canadian addresses to which it must deliver. The 2016 Task Force Review identified the growing opportunities in parcel delivery but noted that – even back in 2016 – this was already a fiercely competitive sector where success could not be assumed and would require new investment in infrastructure. The 2016 Task Force Review concluded that "the exclusive privilege no longer generates sufficient revenues to finance postal services."[12]

  The 2016 Task Force Review proposed a series of opportunities to position Canada Post to achieve self-sustainability while continuing to provide Canadians with the services they need. However, it ultimately concluded that "[these options] alone are insufficient to bridge Canada Post to a financially sustainable future; other fundamental and transformative changes must be brought to bear over the next number of years to catch up with the changing world."[13]

  The House of Commons Standing Committee on Government Operations and Estimates (Standing Committee) issued a report in December 2016, reiterating the findings of the 2016 Task Force Review that Canada Post "must make significant changes to honour its mandate and provide quality services that meet the needs of Canadians at a reasonable price and on a self-sustaining basis."[14] Ultimately, the Standing Committee did not revisit either the government's halt of Canada Post's initiative to convert door-to-door mail delivery to community mailboxes or its moratorium on the closing or franchising of post offices that were identified as being in rural areas in 1994.

In December 2024, the Standing Committee released its findings and recommendations following its study on Canada Post's current and future position as Canada's postal service for rural and remote communities. As part of its study, the Standing Committee received testimony from Public Service and Procurement Canada, Canada Post and a number of Canada Post's bargaining agents, including CUPW. The Standing Committee's report set out the importance of the postal service as a "public asset that Canadians, especially those living in rural and remote communities, cannot afford to lose" due to those communities' lack of direct access to essential goods and services and the lack of private-sector competitors prepared to serve them.[15]

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11 Strategic Review of the Canada Post Corporation: Report of the Advisory Panel to the Minister," Advisory Panel for the Canada Post Corporation Strategic Review (2008), pp. 9-10 and 52-53.

12 "Canada Post in the Digital Age," Task Force for the Canada Post Corporation Review (2016), p. 25.

13 "Canada Post in the Digital Age," Task Force for the Canada Post Corporation Review (2016), p. 87.

14 "The Way Forward for Canada Post," Report of the Standing Committee on Government Operations and Estimates (2016), p. 1.

15 "Canada's Postal Service: A Lifeline For Rural And Remote Communities," Report of the Standing Committee on Government Operations and Estimates (2024), p. 15.

The Standing Committee concluded that significant changes are needed for Canada Post to adapt, and recommended (among other things):

- That Canada Post ensure that any measures taken to modernize its operations remain financially self-sustainable for the sake of Canadians and aligned with its core purpose of providing high-quality, affordable postal delivery services to all Canadians.
- That common definitions of "urban," "rural," "remote," "isolated" and "northern" communities be adopted and that the federal government update its 1994 moratorium on post office closures to reflect those definitions.
- A review of the *Canadian Postal Service Charter* as soon as possible to better align it with the current realities of rural and remote communities.
- That the Government of Canada work with Canada Post to modernize its regulatory framework with the aim of improving its services to the public and growing its revenue base.

What is now required is not further study, but rather a plan of action to put Canada Post on a path toward sustainability. That plan must include fair and reasonable collective bargaining proposals that start to put Canada Post on a path toward future sustainability. Canada Post calls upon this IIC to make recommendations that reflect these critical considerations.

4. Canada Post Today

4.1 Canada Post's Workforce

Canada Post employs more than 68,000 employees (including temporary, casual and term employees) across the country. The CUPW represents approximately 45,000 of these employees:[16]

- There are approximately 35,800 full-time and part-time active and inactive members in CUPW's Urban bargaining unit (CUPW UPO). These employees are primarily responsible for mail processing, collection and delivery, and retail in urban Canada. The bargaining unit also includes employees responsible for the maintenance of the equipment used to process mail, as well as employees who maintain Canada Post's fleet of vehicles.
- CUPW also represents approximately 8,953 active and inactive employees in the Rural and Suburban Mail Carriers bargaining unit (CUPW RSMC) under a separate collective agreement. These employees are responsible for the transportation and delivery of mail in rural and some suburban areas of Canada.

Canada Post also has collective bargaining agreements with the Canadian Postmasters and Assistants Association (which represents rural post office postmasters and assistants), the Association of Postal Officials of Canada (which represents supervisors as well as supervisory support groups and some Sales personnel), and the Public Service Alliance of Canada/Union of Postal Communications Employees (which represents employees who perform certain administrative, clerical, technical and professional work).

16 Canada Post Corporation 2023 Annual Report, p. 77. This figure includes all full-time and part-time CUPW bargaining unit members, including those on unpaid leave, as at December 31, 2023, but excludes temporary, casual and term employees.

4.2 Canada Post's Operations

Today, Canada Post serves almost 17.4 million addresses across the country, serviced by more than 22,500 urban, rural and mail service courier delivery routes.[17] It has more than 450 depots and 22 processing plants, and almost 5,800 corporate and franchise retail post offices.[18]

Canada Post is built to serve Canada and deliver everywhere, not just where it is most profitable.

Canada Post's operations cover three main lines of business: Transaction Mail, Parcels and Direct Marketing:

- **Transaction Mail:** Transaction mail covers the portfolio of services for the processing and delivery of letters, bills, statements, invoices and other forms of physical communications. It has historically been Canada Post's core business and prior to 2019, generated the most revenue.

  Transaction mail – which includes three product categories: domestic letter mail, outbound letter-post, and inbound letter-post – accounted for **$2.3 billion** (or 33 percent) of Canada Post's 2023 operating revenue of $6.9 billion. Most of Canada Post's transaction mail revenue is derived from traditional physical mail delivery services, with domestic letter mail accounting for 95 percent. As discussed further below, there has been a steady decline in transaction mail which is having profound implications for its business model.[19]

- **Parcels:** Parcels accounted for **$3.5 billion** (or 50 percent) of Canada Post's 2023 operating revenue. The Parcels line of business has grown significantly in recent years; since 2019, parcel revenue has surpassed transaction mail as Canada Post's largest revenue stream. It is notable, however, that even in a growing market, parcel revenues decreased by roughly $91 million (or 2.5 percent) in 2023 as compared to 2022. This was due in large part to increasing competition, shifts in customer and channel mix, and a decline in fuel surcharges, which are closely linked to market rates.[20]

- **Direct Marketing Mail:** The Direct Marketing, Advertising and Publishing line of business includes three primary services: (1) Personalized Mail, which allows customers to personalize mailings and tailor promotional messages to specific customers or prospects; (2) Neighbourhood Mail, which allows customers to reach specific neighbourhoods or regions across Canada; and (3) Publication Mail, which includes the distribution of periodicals such as newspapers, magazines and newsletters.

  This line of business accounted for **$951 million** (or 14 percent) of Canada Post's 2023 operating revenue. Total Direct Marketing revenues declined by $3 million (or 0.4 percent) in 2023 as compared to 2022, while volumes increased by 17 million pieces (or 0.4 percent). The decline in revenue was driven by economic uncertainty and the continued shift toward digital marketing.[21]

17 Canada Post Corporation 2023 Annual Report, pp. 48 and 49.

18 Canada Post Corporation 2023 Annual Report, p. 48.

19 Canada Post Corporation 2023 Annual Report, p. 57.

20 Canada Post Corporation 2023 Annual Report, pp. 57 and 58.

21 Canada Post Corporation 2023 Annual Report, p. 57.

5. Canada Post's Financial Crisis

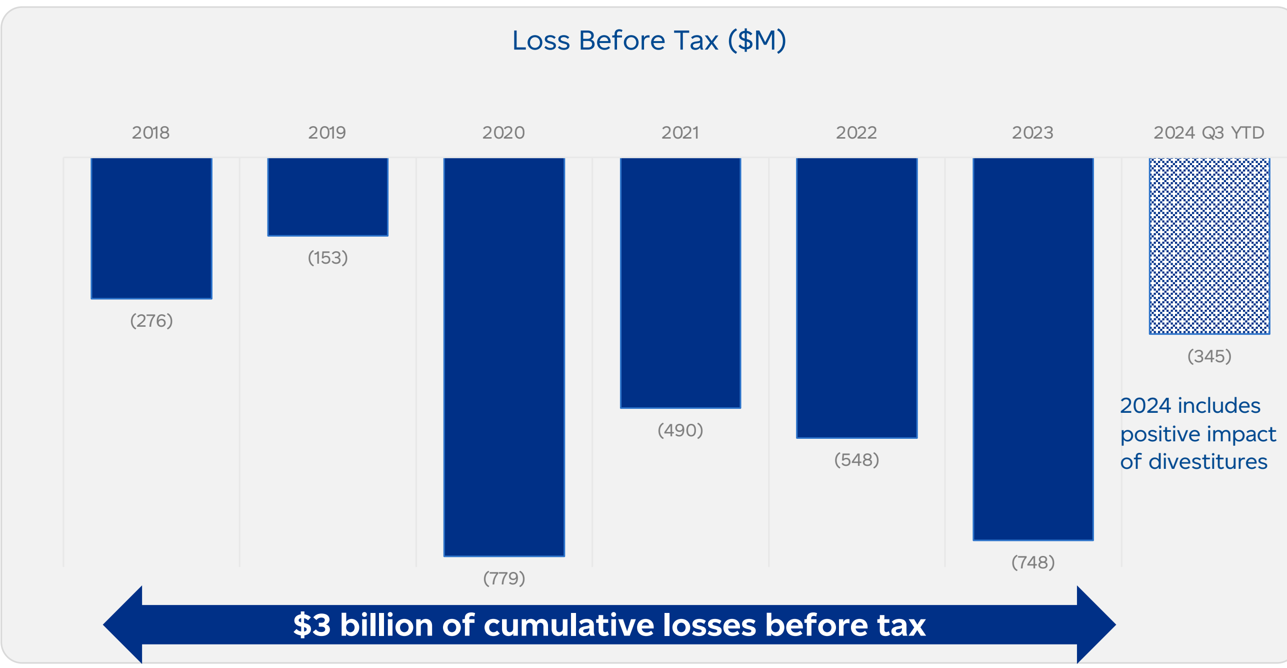
The root causes of the ongoing challenges facing Canada Post's business model are the following:

1. Volume erosion in the core letter mail business;
2. Parcel competition continues to rise;
3. The Universal Service Obligation model;
4. Canada Post's labour agreements are uncompetitive and inflexible; and
5. Canada Post's pension and post-retirement benefits are large and volatile.

These issues are threatening the Corporation's ability to meet its obligations under the *CPCA* and the *Canadian Postal Service Charter*. Over the last six years, Canada Post has experienced cumulative losses before tax of approximately $3 billion. This is due to our total costs increasing at a much higher rate than our revenues.

Loss Before Tax Historical Trend

Our total cost of operations has increased at a much higher rate than our revenues



To address these immediate and ever-growing challenges, significant changes are required. Without modernization and updated operational guidelines, Canada Post anticipates even larger and increasingly unsustainable losses in the coming years.

5.1 Volume Erosion in Canada Post's Core Business: Delivering Less to More Addresses

Transaction mail volumes continue to decline rapidly as Canadians are adopting digital alternatives. By way of example:

- Households across the country were receiving an average of seven letters per week in 2006; today they receive two per week.
- Between 2006 and 2023, total transaction mail declined from 5.5 billion pieces to 2.2 billion pieces.
- Transaction mail experienced its 17th consecutive year of volume decline in 2023 and is projected to continue to decline in 2024; 2024 Q3 results have transaction mail volumes down 3.7 percent, year to date, over 2023.[22]
- Total transaction mail revenue decreased by $126 million, or 5.2 percent, in 2023 as compared to 2022, and volumes declined by 117 million pieces or five percent compared to 2022, primarily due to ongoing volume erosion.[23]
- In Q3 2024, transaction mail revenue was flat as compared to 2023, while volumes were down 33 million pieces or 6.6 percent compared to the same period in 2023.[24]

Canada Post anticipates that the labour disruption at the end of 2024 will have accelerated the pace of transaction mail erosion and declining revenues, as Canadians and Canadian businesses adopted electronic alternatives.

No country is immune to letter mail erosion; digitization has reduced physical correspondence to a fraction of peak mail volumes. The Universal Postal Union estimates revenue from letter-post services globally will decline to about 29 percent of postal service revenue by 2025, from more than 50 percent in 2005.[25] While some countries have experienced less erosion than others, letter mail is steadily eroding across all developed countries. This erosion is persistent and ongoing.

22 Canada Post Corporation 2024 Q3 Report, p. 6.

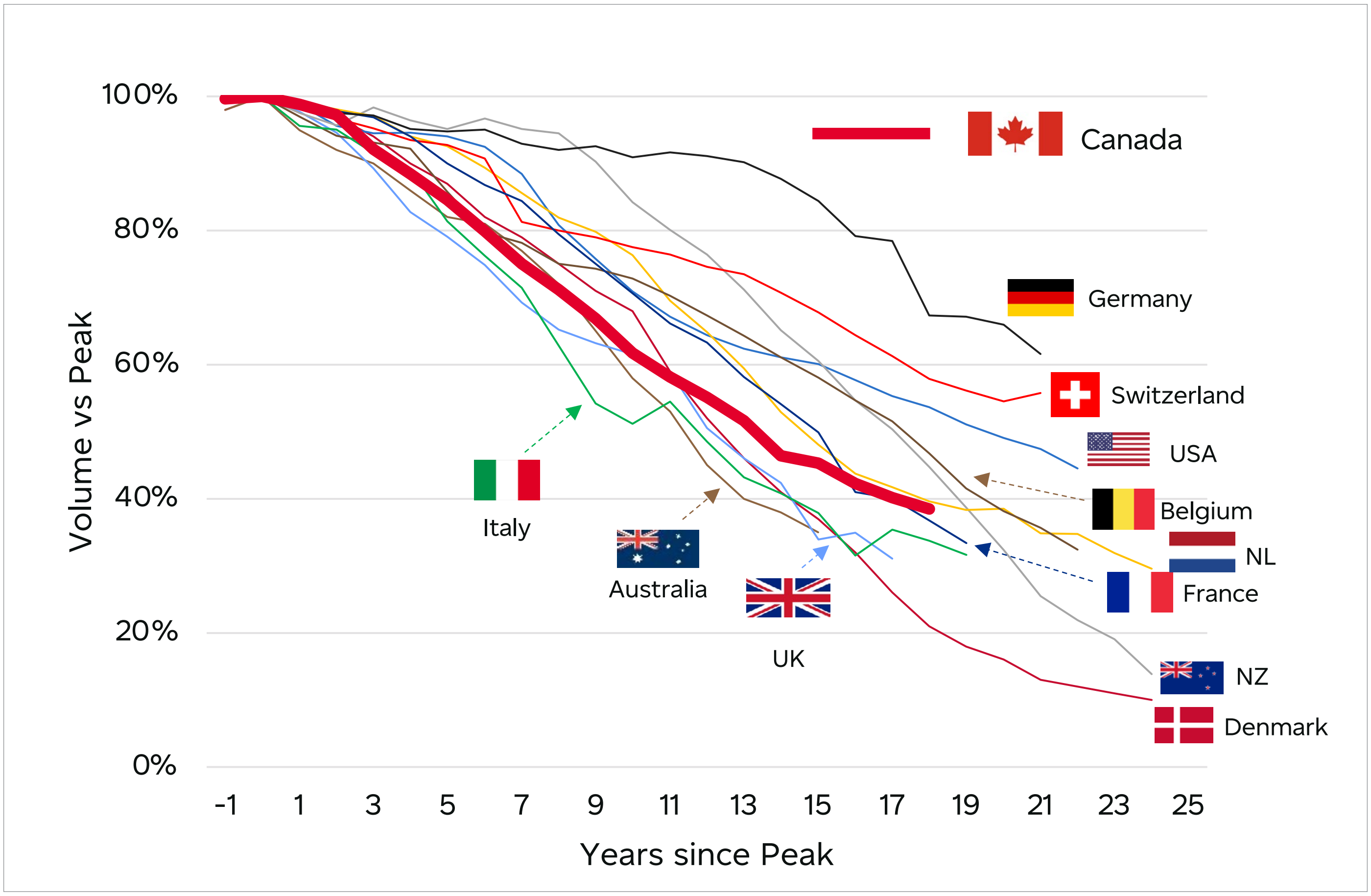
23 Canada Post Corporation 2023 Annual Report, pp. 57 and 58.

24 Canada Post Corporation 2024 Q3 Report, pp. 7 and 24.

25 Canada Post Corporation 2023 Annual Report, p. 11.

Letter mail Volume by Country

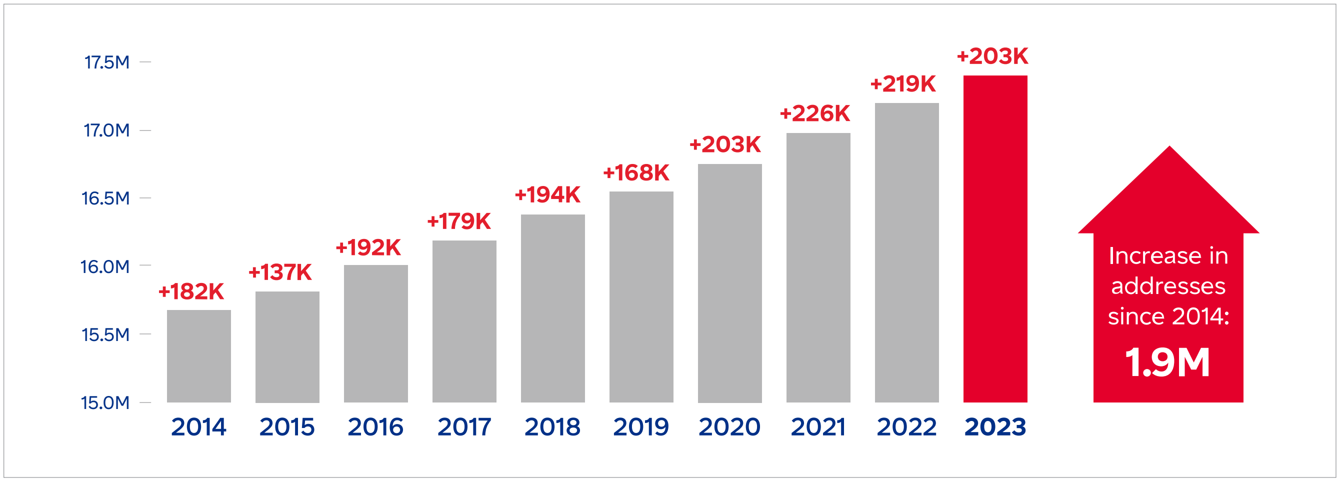
Mail volumes versus peak



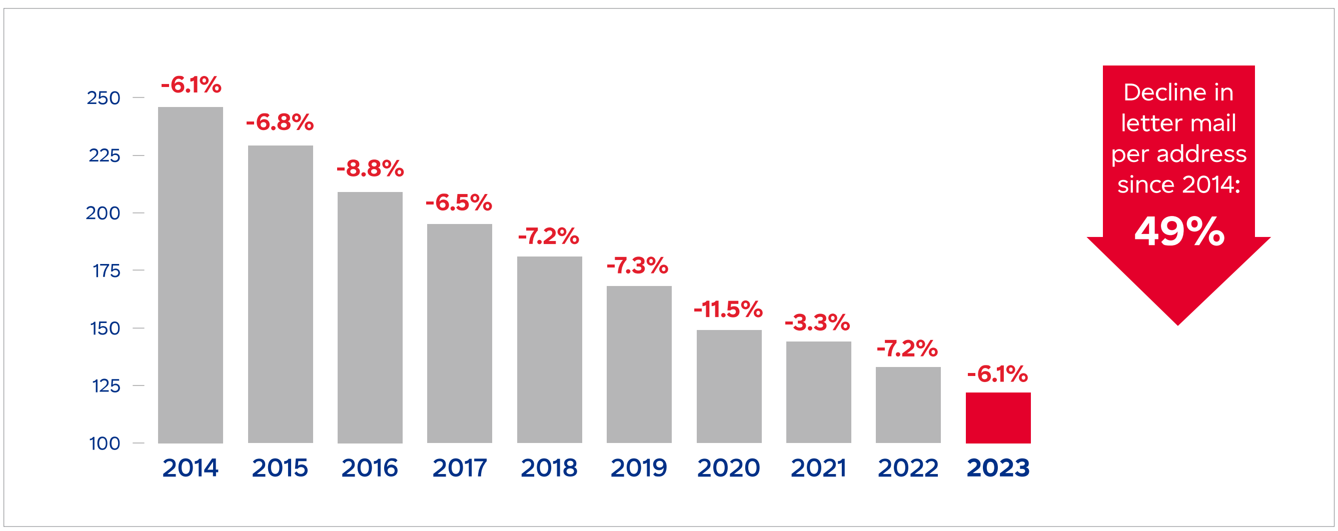
International Post	DEN	NL	NZ	USA	GER	BEL	SWI	ITL	FRA	UK	CAN	AUS
Peak year	1999	1999	1999	2001	2002	2001	2002	2004	2004	2006	2006	2008
2023 volume vs. peak	10%	30%	14%	49%	62%	32%	56%	32%	33%	31%	40%	35%

Simply put, profitable letter mail requires high volume and population density. Canada Post cannot be sustained by delivering low volumes to a large number of addresses. However, the number of addresses to which Canada Post must deliver grows steadily every year: between 2006 and 2023, the number of addresses increased from 14.3 million to 17.4 million.

The number of addresses grows each year...



... as letter mail per address declines



The decline in letter mail is having a profound effect on a business model founded on paper-based communications; it is unclear when this decline in letter mail will bottom out, though it is expected to continue to decline for the foreseeable future.

In this context, Canada Post can no longer rely on letter mail as the foundation for its viability and sustainability.

5.2 Parcel Competition Continues to Rise

5.2.1 Canada Post's Reduced Market Share

Canada Post is built to deliver to Canadians and is therefore constantly evolving to serve their changing needs. As transaction mail volumes declined, Canada Post began to develop its parcel delivery business to serve the growing, competitive ecommerce market.

Canada Post understood that it needed to become more agile and competitive to respond to the demand for reliable and convenient parcel delivery. Following its success as an early enabler for Canadian retailers, Canada Post initiated a comprehensive transformation plan in 2019, with several major projects to increase capacity and improve service across the country.

The move was successful, and parcel revenue grew, making Canada Post the country's ecommerce delivery leader, at one point delivering two thirds of Canadians' online orders. By 2019, parcel revenue surpassed transaction mail revenue, and since 2021 has accounted for about half of Canada Post's total annual revenue.

However, parcels require more manual intervention and are much more costly to deliver than letter mail. Canada Post's letter mail operations are highly automated and benefit from a protected marketplace. Its parcel operations, in contrast, require more technology, equipment scans and customer support service, and take up more space in facilities and vehicles. It also usually takes more time to deliver a parcel than a letter (the employee may require a signature, for example).

Furthermore, while ecommerce is growing in Canada at a strong annual pace, Canada Post must compete on many fronts – including with some of its largest customers – to maintain a healthy share of the Canadian market. Although packages now form the core of Canada Post's business model, its estimated market share in package delivery has quickly eroded by more than half – from 62 percent in 2019 to 29 percent in 2023.[26]

5.2.2 Market Shifts Threatening Canada Post's Business Model

The pandemic was a game changer in other ways, as well. The sudden and lasting boom in demand for ecommerce delivery gave rise to new low cost, private delivery companies. These competitors grew rapidly, leaning on their low-cost-labour business models that rely on contracted drivers to provide lower prices, plus greater speed and convenience with evening and weekend service.

Canadians' needs have simultaneously changed, fuelled by greater access to cheap, convenient delivery options. These changing needs have resulted in four market shifts that are threatening Canada Post's business model:

- **Localization of delivery** – Merchants are storing inventory closer to customers, moving the industry toward localized parcel delivery approaches. This challenges the economics of Canada Post's national delivery model as local delivery companies leverage low-cost labour and asset-light models to offer highly competitive pricing.
- **Price Shopping** – Businesses have shipping contracts with multiple carriers and are selecting the best price for each parcel shipped from various carriers. This means carriers must now compete at the parcel level based on individual shipment costs rather than overall account economics and average revenue per piece.

26 Canada Post Corporation 2023 Annual Report, p. 7.

- **Rise of Third-Party Platforms –** Third-party platforms like ecommerce marketplaces and shipping systems offer negotiated rates from multiple carriers and grant merchants access to heavily discounted competitive rates. These platforms intermediate carriers' relationships with merchants and impact margins.
- **Dynamic Pricing –** Traditional courier competitors are investing in advanced data and technology to better understand market dynamics, their network capacity and cost. This capability allows them to offer optimal pricing for every parcel to maximize profitability and market share.

5.2.3 Competitors Have More Flexibility

To continue to compete with local delivery companies relying on low-cost, contracted labour, traditional courier competitors in the parcel market, like UPS, FedEx, DHL and Purolator have invested heavily in infrastructure and network capacity to capture market share in the ecommerce market. As well, unionized competitors, like UPS, DHL and Purolator, provide lower total compensation to their courier and mail processing workers, and therefore have substantially lower labour costs.

Canada Post's own customers, like Amazon, are also investing in their internal capacity to deliver parcels to their customers. Amazon is constantly innovating its shipping and customer-experience technology. For example, in 2018, Amazon launched "Amazon Logistics," an in-house "last-mile" delivery service that facilitates same-day, next-day and two-day delivery of packages to customers through a network of delivery stations and independent delivery service providers. Amazon Logistics is part of Amazon's broader strategy to reduce reliance on third-party delivery services, including Canada Post.[27] In 2024, Amazon opened five new "last-mile" delivery stations in Canada, now totalling approximately 70 operations and logistics sites across the country.[28]

Importantly, these competitors do not share Canada Post's Universal Service Obligation. As a result, they can be strategic on where and how they operate based on needs and economics:

- **Where to operate –** Canada Post must service every address, whereas competitors can choose to operate in areas that are financially advantageous. For example, they can choose to focus on delivering exclusively in lucrative, high-density urban areas in Canada's largest cities.
- **How to operate –** Competitors can tailor their operations based on the needs and economics of specific locations (*e.g.* volume and density). Canada Post does not have this flexibility.

In addition, many of Canada Post's competitors also have greater access to capital and resources to modernize and innovate, including in respect of which services they are able to offer their customers. For example, DHL reported before tax profits of €6.3 billion and capital investments of €3.4 billion in property, plants and equipment for the 2023 fiscal year.[29] FedEx reported a net income of USD 3.97 billion and capital investments of USD 6.2 billion in aircraft, package handling and sort equipment, vehicles and trailers, technology and facilities.[30] These organizations are able to generate large earnings, which they can then invest in order to modernize and expand relentlessly.

27 About Amazon: "Amazon Has Enabled Hundreds of Small Businesses and Created Over 100,000 Jobs Across Its Last Mile Delivery Network," December 19, 2019.

28 About Amazon: "Amazon Expands Its Delivery Network to Meet the Holidays' Fastest Speeds Ever," October 3, 2024; "Delivering Smiles – How Amazon is Investing in Canada," December 2024, p. 2.

29 DHL Group 2023 Annual Report, pp. 5, 51.

30 FedEx 2023 Annual Report, p. 48.

5.2.4 Canadians' Expectations for Weekend Delivery

The marketplace has changed. Canadians now have legitimately heightened expectations for service performance, delivery speed and flexible delivery options, including weekends, same-day and next-day delivery. Weekend delivery and next-day delivery are expected to grow faster than the broader market in the coming years.

Weekend delivery is being driven by gig-labour carriers who are raising consumer expectations surrounding frequency. Weekend delivery already makes up an important segment of overall deliveries in Canada, and is expected to become an even bigger segment going forward as seven-days-a-week delivery becomes the norm for most Canadians.

Canada Post's competitors already deliver on the weekend:

Carrier	Monday-Friday	Saturday	Sunday
Canada Post	Delivery	No Delivery[31]	No Delivery
FedEx	Delivery	Delivery	No Delivery
UPS	Delivery	Delivery	No Delivery
Purolator	Delivery	Delivery	No Delivery
Intelcom	Delivery	Delivery	Delivery
Amazon Logistics	Delivery	Delivery	Delivery

Yet Canada Post's current collective agreements significantly constrain its ability to meet the demand for affordable weekend delivery. Canada Post provides parcel delivery services from Monday to Friday; Canada Post's collective agreements limit its ability to provide affordable weekend parcel delivery, except in limited situations.[32]

Canada Post is also an outlier on weekend delivery when it is compared to other large postal services around the world. Due to the lack of affordable weekend parcel delivery, Canada Post is losing customers' weekday business, especially on Fridays. Customers are increasingly choosing competitors for their Friday and weekend shipments to avoid the inconvenience of Canada Post not delivering on weekends.

Without a viable and scalable weekend solution, Canada Post will not be able to practically compete on weekends and it will continue to lose customers during the week. Both will further erode its shrinking market share.

31 Canada Post may sometimes deliver on Saturdays during peak season, but this is done to alleviate parcel volumes and avoid a backlog of parcels on Mondays. Canada Post does not have a weekend delivery product due to cost competitiveness. It must pay overtime to letter carriers to deliver on weekends. Customers are increasingly relying on Canada Post only for Monday – Thursday volumes and use competitors for the Friday and weekend volumes; therefore, Canada Post anticipates that avoiding a Monday backlog will become less of an issue going forward.

32 Weekend delivery is performed during the peak season when necessary to manage capacity; however, Canada Post must pay overtime to letter carriers in order to do so. Saturday delivery is currently available for certain new services in a very limited number of locations. These operations are conducted under Appendix JJ of the CUPW UPO collective agreement.

5.3 Challenges Facing the Universal Service Obligation

Canada Post, like many postal services around the world, is facing interrelated forces that have combined to change the postal world.

In Canada Post's case, the result of these forces, taken together, is to upend the competitive advantage that it once enjoyed. The trade-off between the letter mail monopoly and the competitive parcel market are asymmetrical, to Canada Post's disadvantage: it gains less profitable parcel business while losing more profitable mail business.

Postal services around the world have met these challenges in different ways, depending on their own political, social, and economic conditions. Many of the world's major postal services – like the United Kingdom, Germany and the Netherlands – have privatized all or part of their operations as part of an overarching strategy to provide a high-quality postal service in accordance with the Universal Service Obligation in a financially sustainable way.

For example, the United Kingdom began a complete privatization of the Royal Mail in 2013 in order to provide access to private capital and increase its flexibility to respond to changing market conditions.[33] More recently, Deutsche Post, Germany's postal service, announced that it is suspending certain delivery standards for letter mail, increasing postage prices and cancelling flexible delivery services for letter mail in order to expand its parcels network.[34] Other countries, like Denmark, have passed legislation ending their universal postal service for letter mail altogether.[35]

5.4 The High Cost of Labour and Inflexible Work Rules at Canada Post

Canada Post's business is highly labour-intensive. Labour represents Canada Post's largest cost, both as a percentage of revenue from operations and total cost of operations. In 2023, labour and employee benefit costs consumed 70.4 percent of revenue from operations and comprised 62.8 percent of the total cost of operations. Relative to 2022, labour costs in 2023 increased by $242 million (up 6.5 percent) due to wage increases, new leave entitlements and cost of living adjustments.[36]

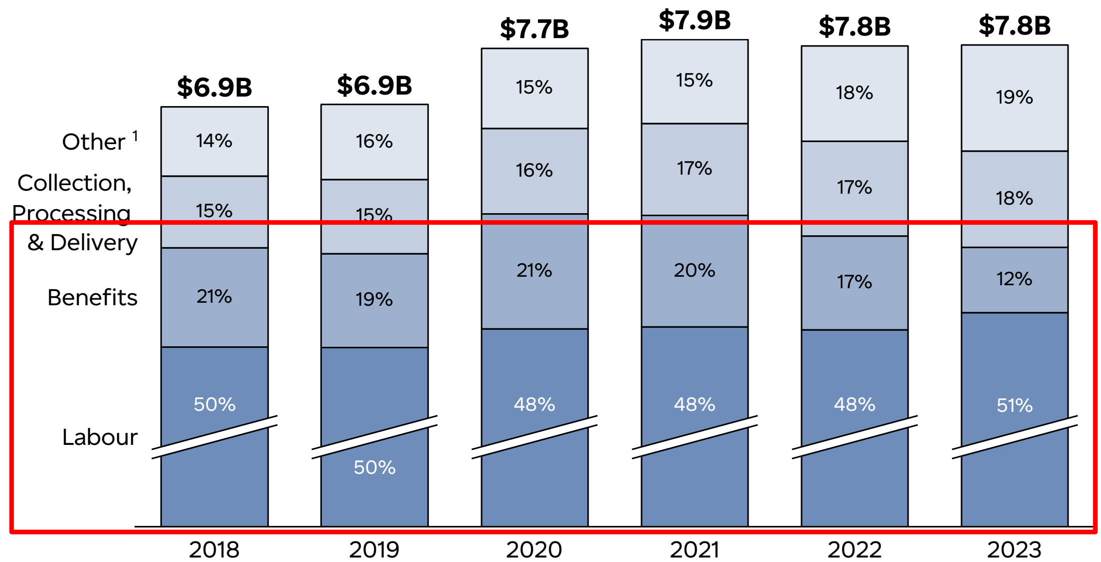
33 UK House of Commons: "Briefing Paper No. 06668," January 15, 2016, at p. 4.

34 Deutsche Post: "Letter Dispatch 2025 – Reliability at a New Pace," January 1, 2025.

35 PostNord Denmark: "New postal law results in changes at PostNord Denmark," November 11, 2023.

36 Canada Post Corporation 2023 Annual Report, pp. 97–98. It is notable that in 2023, benefits were lower than historical averages due to decreased pension expense as a result of an increase in the discount rate used to measure the expense.

Cost of Operations



Note 1: Other includes Selling, Administration & Other, Depreciation and Facilities costs.

The productive hourly rate for CUPW UPO employees – which reflects wages, benefits, leaves and certain premiums – is significantly higher than any of its unionized competitors.[37]

The chart below compares the productive hourly rate of plant workers with 15 years of seniority at Canada Post relative to Canada Post's key unionized competitors Purolator, DHL and UPS.[38] Canada Post's productive hourly rate is a staggering 37–46 percent higher than its traditional competitors.

37 Canada Post's productive hourly rate comparison is based on data sourced primarily from competitors' available collective agreements. Given that CUPW RSMC are not paid on an hourly basis, it is difficult to perform any analysis to determine the productive hourly rate for these employees. In light of this, Canada Post has only compared the CUPW UPO productive hourly rate to competitors.

38 The average years of service for full-time CUPW-represented employees is 15.7 years.

Productive Labour Rate

Employee profile: Full-time indeterminate plant worker (in Ontario)
15 years seniority

Plant workers	CPC	Purolator	DHL	UPS
Wages and benefits				
2023 hourly rate	$30.36	$26.81	$27.48	$28.79
Base salary (based on 2087.04 Hrs)	**$63,363**	**$55,954**	**$57,342**	**$60,086**
Benefit rate (FT rate – average last 5 yrs 2019-2023)	44.4%	26.1%	26.1%	26.1%
Benefit cost	$28,158	$14,618	$14,981	$15,698
Total wages and benefits (per year)	**$91,521**	**$70,571**	**$72,323**	**$75,783**
Time				
Paid hours	2,087	2,087	2,087	2,087
Less paid absences:				
Vacation	200	200	200	160
Statutory holidays	96	88	96	80
Personal days	104	104	104	104
Paid absences	400	392	400	344
Worked hours	**1,687**	**1,695**	**1,687**	**1,743**
Paid breaks, meal time and wash-up	228	53	105	36
Net productive hours (per year)	**1,459**	**1,642**	**1,582**	**1,707**
Productive hourly rate (total wages and benefits / net productive hours)	**$62.75**	**$42.98**	**$45.73**	**$44.40**
CPC difference vs competition	**$ Variance**	**$19.77**	**$17.02**	**$18.34**
	% Variance	**46%**	**37%**	**41%**

For delivery workers, the difference between Canada Post's productive hourly rate and that of Canada Post's competitors is also significantly higher (12–19 percent higher), as reflected in the chart below.

Productive Labour Rate

Employee profile: Full-time indeterminate delivery worker (in Ontario)
15 years seniority

Delivery workers	CPC	Purolator	DHL	UPS
Wages and benefits				
2023 hourly rate	$30.36	$34.26	$31.02	$34.59
Base salary (based on 2087.04 Hrs)	**$63,363**	**$71,502**	**$64,745**	**$72,191**
Benefit rate (FT rate – average last 5 yrs 2019-2023)	44.4%	26.1%	26.1%	26.1%
Benefit cost	$28,158	$18,680	$16,915	$18,860
Total wages and benefits (per year)	**$91,521**	**$90,182**	**$81,660**	**$91,051**
Time				
Paid hours	2,087	2,087	2,087	2,087
Less paid absences:				
Vacation	200	200	200	160
Statutory holidays	96	88	96	80
Personal days	104	104	104	104
Paid absences	400	392	400	344
Worked hours	**1,687**	**1,695**	**1,687**	**1,743**
Paid breaks, meal time and wash-up	193	53	105	36
Net productive hours (per year)	**1,494**	**1,642**	**1,582**	**1,707**
Productive hourly rate (total wages and benefits / net productive hours)	**$61.27**	**$54.92**	**$51.63**	**$53.35**
CPC difference vs competition	**$ Variance**	**$6.35**	**$9.64**	**$7.92**
	% Variance	**12%**	**19%**	**15%**

The difference between the CUPW UPO productive hourly rate relative to other non-unionized competitors is even starker, largely a result of using independent contractors for parcel delivery.

In addition to the high productive hourly rate, the CUPW collective agreements are too rigid to allow Canada Post to serve Canadians in an age of rapid ecommerce. In particular:

- Legacy collective agreement rules, initially created when letter mail was Canada Post's primary business, limit Canada Post's ability to deliver outside the Monday to Friday route paradigm.
- Staffing rules are rigid and do not facilitate the agility necessary to fully maximize Canada Post's productive time and give the flexibility needed to meet competitors' offerings.

For example, the following collective agreement provisions constrain Canada Post's flexibility and ability to optimize its delivery workforce:

- The regular delivery network is established as Monday to Friday, which results in delivery performed on the weekend by letter carriers being paid at overtime rates. Canada Post is not permitted to use a dedicated part-time letter carrier workforce to perform weekend work at straight time pay.[39] This prevents Canada Post from offering customers an affordable, stable and reliable service.
- There is *no* mechanism to assign additional work to a letter carrier to maximize the productive use of their scheduled hours. CUPW UPO full-time letter carrier routes are built to 8 hours/day, based on averages, with route ownership attributed to the employee that holds the route assignment. The fluctuation in volume due to letter mail decline, and variation in parcels and Neighbourhood Mail now cause significant variability in actual workload. If volumes are lower than average and employees work below their 8-hour daily schedule, they are still paid for 8 hours, resulting in "trapped" hours. Because letter carriers do not always work a full 8-hour day, the true productive hourly rate is likely higher than stated in the above chart.

  If a full-time letter carrier has completed their route prior to the end of their 8-hour schedule, they can agree to work the remaining hours on another letter carrier's route. However, they are entitled to be paid overtime when doing so, even though they are still working within their 8-hour schedule.

  Further, employees are entitled to work overtime on their own route (and Canada Post has limited ability to reassign work to other employees at straight time pay). If volumes are higher than average, and employees work beyond their 8-hour daily schedule, they are paid overtime (at a rate of 1.5x for the first 2 hours, and 2x thereafter).[40]
- The CUPW RSMC collective agreement contains no provisions for permanently establishing a weekend parcel delivery service.[41] The expansion of service from Monday to Friday to include Saturday and/or Sunday delivery is treated as "excess work" to the normal workweek. There is no effective or efficient means to offer weekend delivery within the existing RSMC collective agreement.
- Under the CUPW RSMC collective agreement, the activity value compensation system cannot be adjusted based on fluctuating volumes. As a result, RSMC route holders will be paid their full route values, regardless of how long the work takes and/or the volume available to deliver.
- Under the CUPW UPO collective agreement, the only mechanism to allow Canada Post to align its letter carrier workforce with volume is through a depot restructuring process. However, the depot restructuring process is so cumbersome, complex and labour intensive that Canada Post depots (and the associated route design for letter carriers) must often operate based on outdated volume data. This is not workable in the dynamic parcel world where volumes can change significantly year-over-year.[42]
- With respect to inside workers, Appendix P of the CUPW UPO collective agreement limits the number of part-time workers that Canada Post is able to use.

39 Weekend delivery is performed during the peak season when necessary to manage capacity; however, Canada Post must pay overtime to letter carriers in order to do so. Saturday delivery is currently available for certain new services in a very limited number of locations. These operations are conducted under Appendix JJ of the CUPW UPO collective agreement.

40 It is the combined implications of Articles 13, 14, 47, Appendix V and the Letter Carrier Route Measurement System (LCRMS) that constrain Canada Post's ability to expand delivery services from 5 days/week to 6 or 7 days/week.

41 At present, Article 13 and Appendix A permit ad hoc staffing of weekend work with existing regular and relief RSMC employees.

42 Articles 46 and 47 of the CUPW UPO collective agreement describe the restructuring process, along with the Letter Carrier Route Measurement System.

- Under the CUPW UPO collective agreement, Canada Post does not have the fundamental management right to unilaterally lay off surplus employees. Rather, surplus employees always have the choice of accepting a different position or accepting a voluntary layoff.[43] Because layoff is a voluntary choice by the employee, where there are no available positions, Canada Post is required to maintain the employee's employment and salary until a vacancy becomes available in accordance with the processes under the collective agreement. In addition to being administratively complex, the practical effect of these provisions is that Canada Post must continue to pay employees that are rendered surplus even while they are not performing work. These job security provisions make it very challenging for Canada Post to adjust its workforce in the face of a rapidly evolving marketplace, as it is forced to delay organizational changes to rely more heavily on natural attrition.

These rules hinder Canada Post's ability to operate sustainably, let alone introduce affordable weekend delivery or flexible delivery options needed to maintain and grow its market share. Canada Post's competitors are *not* faced with the same level of rigidity and have significantly more flexibility to meet the evolving needs of Canadians. For this reason, part of Canada Post's vision for the future includes gradual changes to its collective agreements to improve its operational flexibility.

5.5 The Challenging Realities of Canada Post's High Pension and Post-Retirement Benefit Costs

5.5.1 Canada Post's Defined Benefit Pension Plan

In 2000, Canada Post assumed responsibility for the defined benefit Pension Plan (DB Plan) after the federal government separated it from the main government-sponsored Superannuation Plan.

While Canada Post has since implemented a defined contribution pension plan for newly hired management and employees represented by its other unions, employees represented by CUPW, including new hires, continue to participate in the DB Plan.

Over 105,000 individuals depend on the continued success of the DB Plan: in 2023 CUPW alone had approximately 45,000 of the DB Plan's 52,071 active members and approximately 40,000 of the DB Plan's 53,474 retired and deferred members, survivors and beneficiaries.

With approximately $30.9 billion in plan assets as of December 31, 2023, the DB Plan is one of the largest single-employer sponsored pension plans in Canada and is significantly larger than Canada Post itself.[44]

The size of the DB Plan as compared to Canada Post increases the impact of the volatility of the DB Plan on the Corporation. Volatility is caused by fluctuations in discount rates, investment returns and other actuarial assumptions, resulting in sizeable financial and long-term liquidity risks to Canada Post. Even small changes in the accounting discount rate can cause significant swings in employee benefit expenses. For example, a 0.5 percent change in discount rate will have a roughly $160 million impact on earnings.

Canada Post has benefited from solvency funding relief over the years as the *Canada Post Corporation Pension Plan Funding Regulations*[45] provided Canada Post with temporary relief from its solvency funding obligations until December 31, 2024. Without this relief, Canada Post would have been required to make special solvency payments of $794 million for 2022 and $354 million for 2023.

As Canada Post's December 31, 2022, going-concern and solvency positions exceeded legislative thresholds, employer current service contributions were not permitted once the valuation was filed in 2023. However, funding relief does not reduce or eliminate Canada Post's obligation to fully fund the DB Plan, and it remains responsible for funding any deficits.

43 Article 53 of the CUPW UPO collective agreement defines the process in which surplus employees can be reassigned, relocated or laid off.

44 Canada Post Corporation 2023 Annual Report, p. 103.

45 *Corporation Pension Plan Funding Regulations,* SOR/2022-79.

5.5.2 Post-Retirement Benefit Costs

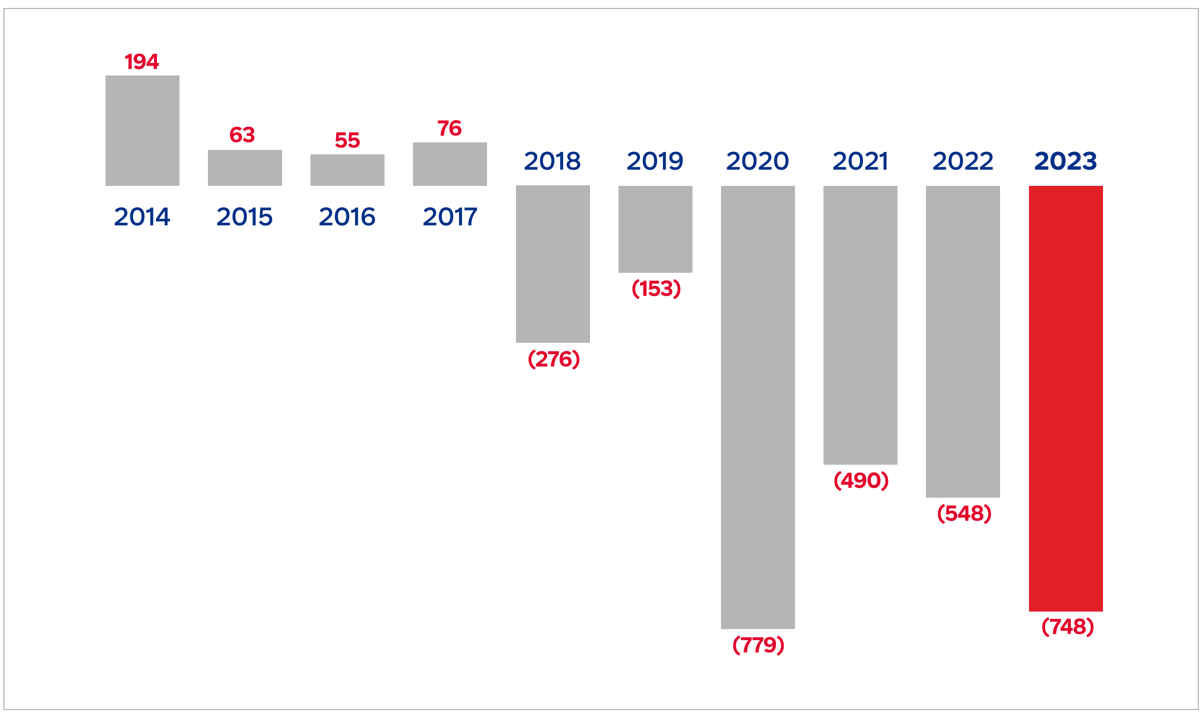
Currently, over 26,000 CUPW retirees are receiving Post-Retirement Extended Health Care Benefits, an increase of 45 percent since 2016. The average age of Canada Post's current active employee population is approaching 50 years old. With the aging of its current workforce, Canada Post expects that the number of employees receiving Post-Retirement Extended Health Care Benefits – and the associated costs to Canada Post – will increase significantly in the coming years. Because health care inflation is traditionally higher than the Consumer Price Index, these cost pressures are further compounded. CUPW retirees currently pay the lowest share of cost for Post-Retirement Extended Health Care Benefits among all Canada Post retirees.

5.6 Financial Results

The ongoing trends of increasing losses, intense competitive pressure in the package delivery market, transaction mail erosion and the Corporation's high labour costs are having a significant effect on Canada Post's financial performance. The total cost of Canada Post's operations has increased at a much higher rate than its revenues, resulting in roughly $3 billion of cumulative losses before tax between 2018 and 2023 alone.[46]

Without changes and new operating parameters to address these challenges, larger and increasingly unsustainable losses are forecasted in future years. The reality of Canada Post's business today is that the Corporation is nowhere close to reaching a level of profitability that allows for financial sustainability.

Canada Post segment profit (loss) before tax
(in millions of dollars)



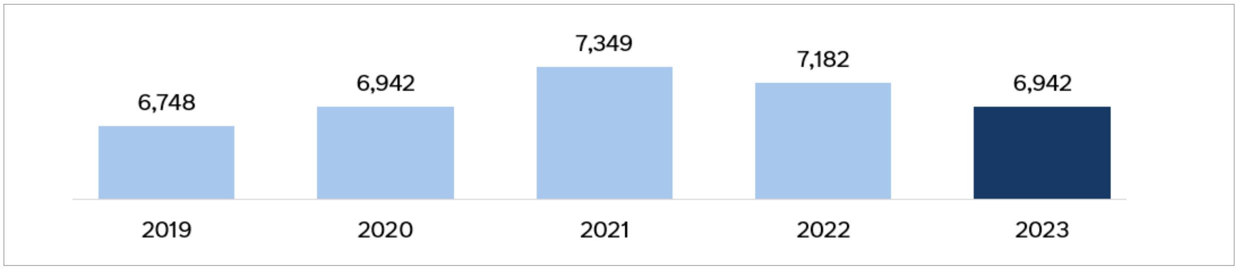
For 2023, the Corporation recorded a loss before tax of $748 million, compared to a loss before tax of $548 million in 2022.[47]

46 Canada Post Corporation 2023 Annual Report, p. 123.

47 Canada Post Corporation 2023 Annual Report, p. 92.

The decrease in revenue from operations between 2022 and 2023 of $240 million (-3.3%) was mainly due to transaction mail erosion, growing competition in the ecommerce parcel delivery sector, combined with declining fuel rates and reduced consumer spending.

Revenue from operations
(in millions of dollars)



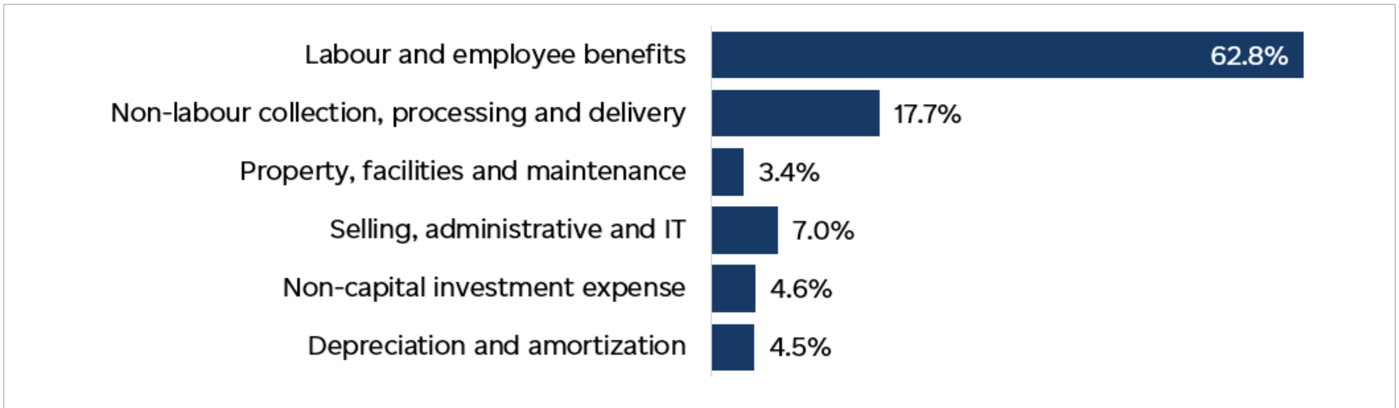
At the same time, the cost of operations increased by $11 million compared to 2022, mainly due to higher labour costs (wage increases, new leave entitlements and cost of living adjustments) and non-capital investment expenses, offset by lower employee benefits mainly due to the increase in the discount rate used to measure the pension expense.[48]

The table and chart below show the breakdown of each cost category as a percentage of revenue and cost of operations.

	For the years ended December 31				Cost as % of revenue from operations	
	2023	**2022**	**$ change**	**% change**	**2023**	**2022**
Labour	3,952	3,710	242	6.5%	56.9%	51.7%
Employee benefits	937	1,341	(404)	(30.2)%	13.5%	18.7%
Total labour and employee benefits	**4,889**	**5,051**	**(162)**	**(3.2)%**	**70.4%**	**70.3%**
Non-labour collection, processing and delivery	1,381	1,360	21	1.6%	19.9%	18.9%
Property, facilities and maintenance	261	259	2	0.5%	3.8%	3.6%
Selling, administrative and IT	544	514	30	5.9%	7.8%	7.2%
Non-capital investment expense	359	269	90	33.4%	5.2%	3.7%
Total other operating costs	**2,545**	**2,402**	**143**	**5.9%**	**36.7%**	**33.4%**
Depreciation and amortization	353	323	30	9.5%	5.1%	4.5%
Total	**7,787**	**7,776**	**11**	**0.1%**	**112.2%**	**108.3%**

48 Canada Post Corporation 2023 Annual Report, pp. 97 and 98.

Components of operating expenses – 2023



5.6.1 Recent Financial Results

Summary of results for Q3 and YTD
(in millions of dollars)

	Q3 2024	Q3 2023	$ change	% change	YTD 2024	YTD 2023	$ change	% change
Revenue from operations	1,572	1,587	(15)	(1.0)%	4,972	5,035	(63)	(1.3)%
Cost of operations	1,885	1,878	7	0.4%	5,775	5,697	78	1.4%
Loss from operations	**(313)**	**(291)**	**(22)**	**(7.7)%**	**(803)**	**(662)**	**(141)**	**(21.3)%**
Investing and financing income (expense), net	(2)	1	(3)	(203.4)%	458	11	447	+
Loss before tax	**(315)**	**(290)**	**(25)**	**(8.8)%**	**(345)**	**(651)**	**306**	**47.0%**

+ Large percentage change.

At Q3 2024, the Corporation recorded a loss before tax of $345 million, compared to a loss before tax of $651 million for the same period in 2023, mainly due to the dividend income from the SCI Group Inc. and Innovapost divestitures and the timing of dividend income received from Purolator.

Excluding these non-recurring impacts, the loss from operations of $803 million was $141 million worse than the same period the previous year.

	Revenue (in millions of dollars)				Volume (in millions of pieces)			
	YTD 2024	YTD 2023	$ change	% change	YTD 2024	YTD 2023	Change	% change
Parcels	2,312	2,445	(133)	(5.5)%	198	210	(12)	(6.0)%
Transaction Mail	1,749	1,749	–	0.0%	1,610	1,673	(63)	(3.7)%
Direct Marketing	748	685	63	9.1%	3,379	2,823	556	19.7%
Consumer products and services	163	156	7	4.8%	–	–	–	–
Total	**4,972**	**5,035**	**(63)**	**(1.3)%**	**5,187**	**4,706**	**481**	**10.2%**

At Q3 2024, total revenues declined by $63 million (or 1.3 percent) over the same period in 2023, with parcel revenue and volume declining by 5.5 percent and 6 percent, respectively. This decrease is attributed to competitive pressures, a decline in fuel surcharges and changes in customer and channel mix.

Higher operating costs partially offset by a reduction in non-capital investment
(in millions of dollars)

	Q3 2024	Q3 2023	$ change	% change	YTD 2024	YTD 2023	$ change	% change
Labour	978	967	11	1.1%	2,913	2,917	(4)	(0.1)%
Employee benefits	280	223	57	26.1%	867	701	166	23.7%
Other operating costs	535	599	(64)	(10.8)%	1,718	1,818	(100)	(5.5)%
Depreciation and amortization	92	89	3	3.0%	277	261	16	6.0%
Total cost of operations	**1,885**	**1,878**	**7**	**0.4%**	**5,775**	**5,697**	**78**	**1.4%**

At Q3 2024, the cost of operations increased overall compared to the same period in 2023. Lower discount rates led to increases to employee benefits expense, while other operating costs decreased as Canada Post refocused in 2024 on non-capital investment priorities and implemented cost reduction initiatives in several areas.[49]

Canada Post's cash has significantly eroded due to these ongoing operating losses, large pension and employee benefit contributions and critical investments to expand capacity and modernize the network. Cash, cash equivalents and marketable securities have depleted by nearly $1.2 billion since 2021.[50]

In fact, Canada Post's Q3 2024 cash balance of approximately $1 billion would have been nearly depleted if not for its divestitures of SCI Group Inc. and Innovapost (which collectively generated roughly $450 million) and for not being permitted to make regular current service pension contributions to the Canada Post Registered Pension Plan over the course 2023-2024 (at a saving of roughly $500 million).

5.6.2 Financial Projections

Canada Post predicts significant and persistent annual losses under its current operating model. Based on Canada Post's situation before the 2024 labour disruption, annual losses were expected to grow from roughly $900 million for 2025 to almost $1.7 billion in 2029 (over $. 6.9 billion cumulatively over five years).

These projections anticipate minimal revenue growth driven by relatively moderate volume and revenue increases in its Parcels business, offset by continued Transaction Mail and Direct Marketing erosion.

These projections also assume a reduction in investments by Canada Post. Canada Post has had to prioritize investment with a focus on only replacing operational assets and areas necessary to remain competitive, improve efficiencies, meet customer service requirements, and address its environment leadership and social purpose mandate.

It is notable that these projections were developed before the 2024 labour disruption. Early indications suggest that the labour disruption accelerated ongoing electronic substitution of both transaction mail and direct marketing, as customers looked to digital alternatives for their utility bills, letters and marketing initiatives, among other things. Customers also turned to other courier providers for their parcel needs. While Canada Post may be able to win back some of this lost business, it anticipates its volume and revenue projections will be materially impacted for the worse.

49 Canada Post Corporation 2024 Q3 Report, p. 8.

50 Canada Post Corporation 2023 Annual Report, p. 10.

Canada Post's weakening financial position limits its ability to adapt the organization to meet the evolving needs of Canadians and threatens its ability to fulfill the mandate set by the Government of Canada. Even with Canada Post's recent stamp price increase of roughly 25 percent, the Corporation is expected to deplete its cash reserves in the first half of 2025.

In addition, $500 million of Series 2 bonds mature in July 2025 and need to be repaid to bondholders. Canada Post is working with the federal government to explore available options, under the *CPCA*, that would help mitigate liquidity pressures. Ultimately however, any short-term solution to Canada Post's liquidity pressures will not address the broader forces described above that are threatening its ongoing financial sustainability, viability and success.

5.7 Scaling back Canada Post's Operational Spending and Investments

Canada Post has undertaken significant initiatives aimed at revenue generation and cost competitiveness over the years. For example,

- In 2010 Canada Post began deploying its Postal Transformation initiative, including investing in mail processing equipment.
- This was followed by Canada Post's Five-Point Action Plan in 2013, including the conversion of door-to-door delivery to community mailboxes[51] and a tiered pricing structure (with volume discounts for customers who used the most mail).
- In 2017, Canada Post began an initiative to separate certain sortation tasks from delivery tasks in an effort to achieve greater efficiencies in its delivery network.

CUPW has attempted to challenge the operational changes, among others, through litigation.

In response to its more acute financial situation in recent years, Canada Post has tightened operational spending and significantly scaled back planned transformational investments. For example, the Corporation is:

- Cutting costs within its control and operating more prudently. It continues to focus on improving its productivity and adjusting its staffing to volume, where it is permitted to do so by its current collective bargaining agreements. It is also closely monitoring expenses such as travel, consulting and contracted services and has strict limits on external hiring.
- Continuing to focus on increasing revenue wherever possible across all lines of business and exploring new revenue opportunities.
- Delaying important investments in its processing network for strategic projects across the country. For example, it is delaying planned investments in its processing network in Vancouver, Ottawa and elsewhere for the time being, while also pausing investments in some customer experience projects.
- Slowing investments on key social and environmental initiatives. Canada Post has deferred the purchase of additional electric vehicles and the associated infrastructure that is needed. This will impact its service to Canadians and make it more challenging to achieve its environmental targets and timelines.

In addition, as part of the steps to focus on its core mandate of providing a modern postal service, Canada Post divested its interest in SCI Group Inc., a leading Canadian third-party logistics provider, in March 2024, and its interest in Innovapost, its IT shared-service provider, in April 2024. While these one-time sales and the cost-saving measures implemented by Canada Post were important in providing needed cash inflows and cost savings, they do not come close to offsetting its growing financial losses and deteriorating liquidity.

51 As noted above, the government ended Canada Post's program to convert door-to-door delivery to community mailboxes in 2015.

6. Future Vision: Canada Post as a Sustainable Service Provider

Canada Post is at a critical crossroad. Faced with the continued decline of letter mail volumes, heightened competition in the parcel market, an ongoing Universal Service Obligation and high labour and benefit costs, Canada Post must reinvent itself in order to protect its long-standing role as a vital, publicly owned national infrastructure for Canadians and Canadian businesses. Canada Post must embrace a citizen-centric future that leverages its unmatched reach and connectivity.

To become a **sustainable service provider**, Canada Post must fund essential services like letter mail through sufficient commercial activity that aligns with its core competencies and address the needs of underserved communities and Canadian small businesses. In doing so, Canada Post will achieve financial sustainability without burdening taxpayers long-term. However, becoming a sustainable service provider requires significant changes in order to provide Canada Post with increased flexibility:

- Flexibility to compete in today's competitive parcel market;
- Flexibility to base its delivery routes on the parcel volumes that Canada Post must deliver each day;
- Flexibility to offer weekend/evening/next-day delivery service at affordable rates;
- Flexibility from a regulatory standpoint to be nimble, respond quickly and align its services with the changing needs of Canadians while providing modern checks and balances in terms of government oversight; and
- Flexibility to invest in the company, its network and its people and above all, to continuously improve service to Canadians and Canadian businesses.

Achieving this flexibility requires a multi-year, multi-stage vision that includes significant regulatory and collective agreement modernization. This cannot be done overnight or within the current constraints on Canada Post.

Below is Canada Post's vision as a sustainable service provider, shifting from reliance on diminishing legacy services to enabling innovation and growth in the Canadian economy. This vision includes integrating Canada Post's physical assets with its digital capabilities, ensuring seamless connectivity for all Canadians both domestically and globally. It also includes a Canada Post that continues to provide reliable services to underserved areas to ensure equitable access to communication, while fostering economic inclusion by enabling businesses to thrive with powerful and affordable tools while bridging the digital divide. Canada Post will provide more details regarding the regulatory and collective agreement amendments that are required to implement this vision in the next phase of these IIC proceedings.

6.1 Canada Post: Two-Year Vision

In the immediate term, Canada Post urgently requires a delivery model *today* that allows it to (a) reduce its high labour costs; (b) pay employees fairly for the time they work, while minimizing unwanted unproductive time; and (c) offer affordable weekend deliveries, next-day deliveries and other innovative services that Canadians and Canadian small business want, and in some cases, need. These changes are critical to ensure Canada Post's financial viability, to meet the evolving needs of Canadians and to make Canada Post's network more small-business friendly and an easy-to-access growth hub for Canada's budding entrepreneurs.

In order to achieve this vision, Canada Post requires modernization of the CUPW UPO and RSMC collective agreements that provide it with flexibility in its staffing and delivery model and helps it to address its high labour costs (including a compensation model that pays only for time worked), while providing desirable, fair and safe employment for Canadians coast-to-coast. It also requires a refreshed regulatory approach, one that provides Canada Post with more flexibility to act quickly in today's hyper-competitive parcel market – while supplying the appropriate checks and balances in terms of government oversight.

While these changes will bring challenges, Canada Post remains committed to improving labour-management relations by cultivating positive relationships with its bargaining agents, including CUPW, and working together to build a stronger postal service for Canadians. Partnerships with all of Canada Post's bargaining agents will be critical to the long-term success of the postal service.

In the next two years, it will be important to create the conditions for change by collaborating with the government, bargaining agents and Canadians on the necessary scale and scope of change.

6.2 Canada Post: Five-Year Vision

In the medium term, with the regulatory conditions established, Canada Post must be firmly on a path to becoming a flexible, parcel-centric organization that is able to maintain its competitive place in the parcel market, particularly with respect to parcel returns, support for small businesses and parcel services in rural, remote and Northern communities. This includes a Canada Post that:

- Has completed its transition to a seven-days-a-week delivery model with the ability to respond to the evolving competitive pressures in the parcel market that exist both today (*e.g.* weekend delivery, next-day delivery) and which may exist in the future;
- Operates under service and access standards that reflect the reality of letter mail erosion and Canadians' changing delivery priorities;
- Maintains a retail network that is highly accessible to Canadians – not based on the number of corporate post offices but based instead on approaches and partnerships that maximize the availability and ease of use for every community;
- Has the flexibility to use and adjust its workforce to match its operational needs;
- Has productive hourly rates that are more aligned with those of its unionized competitors;
- Remains the best employer in the delivery market with stable and affordable pension and benefit plans for its employees;
- Reinvests in its priority areas – its network, bringing its legacy systems out of the Dark Ages, improving health and safety further for its people and continuing to make it greener – while still maintaining equal service to all Canadians.

This vision requires both regulatory and collective agreement updates so that Canada Post can compete effectively in the parcel market and align its service standards, delivery frequency and access to Canadian's changing needs, while maintaining a high level of service accessibility for Canadians.

6.3 Canada Post: Ten-Year Vision

In the long term, Canada Post aims to become a sustainable service provider, funding essential services for all Canadians through sufficient commercial activity, ensuring financial stability without burdening taxpayers. Canada Post will:

- Have realigned its operations so that all Canadians continue to have access to letter mail and package delivery at a base level of service that is aligned with the changing needs of Canadians and small businesses.
- Maintain nationwide coverage, ensuring affordable service with clear standards for service and frequency – but with flexibility in how the service is provided, and the option to exceed the service standards and delivery frequency where needed.
- Remain the backbone for ecommerce in Canada, including providing critical elective services for rural, remote and Northern communities and small businesses.
- Provide access to essential postal services that meet the needs of every community, while ensuring high service accessibility for all Canadians.
- Continue to provide desirable, fair and safe employment for Canadians, coast-to-coast-to-coast.
- Offer letter mail pricing that is more explicitly tied to the cost of delivery (and reset to an adjusted service standard). This greater transparency will provide Canadian businesses with more predictability for planning purposes.
- Pursue opportunities in related services based on the needs of Canadians, return on investment and growth potential, while leveraging Canada Post's core competencies.
- Reinvest earnings in the company in order to build a Canada Post that can continue to fulfill its important mandate for Canadians.
- Minimize its impact on the environment and continue to be an environmental leader in the logistics industry.
- Adapt to the evolving needs of Canadians and bridge the digital and physical worlds in an era of ecommerce, digitization and innovation.

This vision for a revitalized Canadian institution will enable meaningful connections for Canadians, whether they are at home or abroad. However, it is important to note that this long-term vision is contingent on Canada Post being able to achieve the more immediate changes it is seeking. Without those more immediate changes, Canada Post's long-term vision of becoming a sustainable service provider is out of reach.

7. Canada Post's approach to this round of negotiations

Canada Post entered the current round of bargaining with CUPW with a singular focus of putting the Corporation on a path toward a sustainable future.

Canada Post's current collective agreements with CUPW were designed at a time when letter mail volumes were high and stable. However, today, with declining letter mail volumes and growing competition in the parcel market, these collective agreements impose rigid and costly rules that handcuff Canada Post's ability to meet the evolving needs of Canadians.

To be able to achieve its long-term goals, Canada Post is seeking reasonable and appropriate incremental changes that would help it transition from traditional models to a more flexible, efficient and cost-effective workforce.

At the same time, Canada Post recognizes that the transformational changes it requires will not be achieved overnight. Nor does Canada Post aspire to the "gig-labour" model used by many of the new low cost, private delivery companies. The Corporation remains committed to providing desirable, fair and safe employment for Canadians coast-to-coast-to-coast.

With these factors in mind, Canada Post approached this round of bargaining with proposed changes that represent **first steps** toward strengthening a more customer-focused and financially sustainable organization, while continuing to provide competitive benefit packages to its employees. As will be further described in forthcoming submissions, in this round of bargaining Canada Post is seeking changes that would enable it to approach some of the basic flexibility that its competitors leverage on a day-to-day basis, while remaining an industry leading employer.

8. Conclusion: Preserving a vital national infrastructure

The challenges facing Canada Post have increased over time and were accelerated by the post-pandemic competitive climate. Today, these challenges have put the system at a crossroads. Canada Post needs to change now, or this important national, publicly owned infrastructure will be imperiled. As a result, it will struggle to support and serve the country, particularly those who need it most.

Canada Post has been evolving to increase its competitiveness and better serve Canadians. However, Canada Post's current financial crisis will require a much broader approach, including changes to its collective agreements and regulatory framework, if it is to maintain its relevance as a Canadian institution.

Canada Post is committed to leading this change, with determined focus on ensuring this essential service is there for Canadians, today and in the future. Its goal is to ensure the national postal system is well positioned to serve a rapidly evolving country, and that it can start on a path to financial self-sustainability. To do so, Canada Post must have the flexibility needed to compete in today's ecommerce landscape, while investing in and protecting the service it provides to the entire country.