Financial Situation of Canada Post Corporation

Introduction

The Union believes it is very important for the Standing Committee to fully understand the current financial situation of Canada Post Corporation (CPC) and the prospects for the future.

Recent Performance

It is important to note, that had it not been for one-time events in 2011 and the introduction of an accounting change in 2013, CPC would be currently enjoying its twenty –second straight year of profitability.

The Corporation has remained financially self-sustaining because it has been able to compensate for reduced letter mail volumes by improving productivity and reducing staff and also adjusting its prices in response to inflationary pressures in line with international norms.

Reported profits (loss) from operations for the Canada Post segment are as follows:

2011 ($329M)*

2012 + 77M

2013 ($269M)*

2014 +$204M

2015 +$92M

2016 Q1 and Q2 +$45M

*Note comments below about one-time events in 2011 and IAS 19 in 2013.

Source: Canada Post Annual Reports

2016: Off to a Very Good Start

The $44 million profit from operations of the Canada Post segment for the first quarter of 2016 was the best first quarter operating profit result since the first quarter of 2009. It also marked a historic turning point where, for the first time in the absence of a rate increase for transaction mail, the increase in revenues from parcels exceeded the decline in revenues from transaction mail. The explanation of this very successful financial result is provided by Canada Post management in the Q1 Report (page 18) as being due to: “parcels revenue growth, cost savings initiatives and a decrease in employee benefits expense”.

Indeed these factors, the increase in parcel volumes and revenues, cost savings due to productivity improvements and staff reductions, and changes in employee benefits due to discount rate changes, together with the impact of the rate increase in 2014, have been, and remain the dominate influences explaining the financial success of Canada Post in recent years.

The Q2 Report indicates that 2016 is very likely to be another profitable year for Canada Post. Consider the following:

* CPC reported $45 million profits before tax in the first six months of 2016. This represents the highest profits in the same period since 2010. Plus, this was achieved despite CPC instructing large volume mailers not to mail during June 2016.

* The rate of parcel volume growth continued to increase in the first half of 2016. Parcel volumes in the first six months of 2016 increased 11.4% over the first six months of 2015.

* The going concern surplus in the Canada Post Pension Plan increased from $1.2 billion to $1.6 billion, a 25% increase.

The Impact of One Time Events in 2011

Several one-time events had a very significant impact on CPC's financial results in 2011. These included:

- The payment resulting from the 2011 Supreme Court decision on pay equity, estimated by the Public Service Alliance of Canada as costing $250 million. The payments were for service performed for the Corporation during 1983 to 2002.
- A one-time increase of $63 million in pension benefit costs resulting from regulatory changes.
- The impact of the 2011 full-scale lock-out and rotating strikes estimated at $50-70 million (2011)

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

The Impact of IAS 19 in 2013

Without the adoption of IAS 19 Canada Post would have reported very strong profits in 2013.

Beginning in 2013 Canada Post adopted IAS 19 which introduced a new approach to calculating the employee benefit expense. CPC was no longer able to recognize the long term expected return on the plan asset actually held. Instead the long term return is capped at the value of the discount rate used to value the liability. In both 2011 (page 68) and 2012 (page 67) annual reports, the Corporation predicted that adoption of IAS 19 would have a very significant impact on 2013 profitability. In fact, in the 2012 Annual Report, CPC stated that if introduced in 2012, IAS 19 would reduce net profit for 2012 by $178 million.

The 2013 CPC Annual Report (page 95) reveals that in the absence of adopting IAS 19, CPC would have reported a net profit of $321 million instead of a net loss of $29 million. The impact of the adoption of IAS 19 is also seen by comparing the benefit costs reported for 2013 with that reported in the 2012 Annual Report. The 2013 Annual Report (page 59) cites employee benefit costs of $1257 million whereas the 2012 Annual Report (page 60) had employee benefit costs at $841 million.

Declining Discount Rates

It must be recognized that the positive financial performance of Canada Post has occurred during a time of declining discount rates. Indeed the long, steady decline in discount rates has added over $100 million in benefit costs over the past five years. Furthermore using financial results to explain operational performance is made impossible because of the enormous impact that changes in the discount rate have in determining profitability.

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

Source: CPC Annual Reports and 2016 Q1 Report

Productivity Improvement and Cost Reduction Measures

In contrast to the volatility of one-time events and ever changing discount rates, the one constant at Canada Post has been regular productivity increases and a steady reduction in staffing which has matched the overall decline in transaction mail volumes.

	2005	2015	Change
Hours Paid: Inside Workers	34.6M	26.2M	-24.3%
Hours Paid: Delivery Workers	50.8M	41.8M	-17.7%
Hours Paid: Maintenance Workers	1.6M	1.6M	0
Total Hours Paid: Urban CUPW	87.0M	69.6M	-20.0%
Total Mail Volume	11.1B	8.8B	-20.7%

Source : CPC Annual Reports, Staffing Information provided by CPC

It is important to consider the reduction in staffing levels at Canada Post in the context of the explosive increase in parcel volumes which has occurred since 2011. Between 2011 and 2015 parcel deliveries by the Canada Post segment have increased by 27%. The processing and especially the delivery of parcels is much more labour intensive than the processing and delivery of letters. This, in part, explains why the hours of delivery workers have not matched that of overall mail volumes.

Revenue Generating Services are the Way Forward

Despite the efforts of Canada Post management to create an atmosphere of desperation and hopelessness, there is every reason to believe that there can be a bright future for Canada Post. It is not too late for Canada Post Corporation to follow the example of almost every other postal administration in the world and take action to diversify its services.

It can follow the example of many postal administrations which are greatly expanding their offerings of banking and financial services. It can work with its unions and civil society organizations to explore the possibilities of leveraging its great assets, the largest retail and delivery networks in the country.

As always, the Canadian Union of Postal Workers remains committed to support all efforts to expand and improve services to the people of Canada.

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