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Mr. Tom Lukiwski

Standing Committee on Government Operations and Estimates

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● (1000)

[*English*]

The Chair (Mr. Tom Lukiwski (Moose Jaw—Lake Centre—Lanigan, CPC)): Colleagues, we'll start. It's 10 a.m. We're missing a couple of our committee members, but I'm sure they will be here in just a few moments.

Ms. Stairs, welcome to the committee. I think you know how things work around here, but very briefly, we'll ask you for an opening statement of five minutes or less, followed by a round of questions from all of our committee members.

Thank you for being here. You're on for five minutes.

Ms. Andrea Stairs (Managing Director, eBay Canada Limited): Good morning, and thank you for the opportunity to present today. On behalf of eBay Canada, I appreciate the committee's focus on ways to improve Canada Post, something in which we also have a keen interest. Indeed, eBay participated in phase one of the task force hearings, and I've also written and spoken on this topic in various forums.

We care about Canada Post for the same reason that this committee and all Canadians should; there are more than one million small and medium-sized businesses, or SMBs, in Canada that rely on Canada Post as an essential part of doing business. It's not overstating the case to say that Canada Post provides critical enabling infrastructure to the Canadian economy.

Let me begin with some background on eBay. Launched more than 20 years ago, eBay has become one of the world's largest online marketplaces, with approximately one billion listings and 165 million active buyers globally. Here in Canada, eBay is a top e-commerce destination, with more than eight million unique visitors each month who trade more than $1 billion each year.

In addition to changing how consumers buy, e-commerce has changed the way we sell. eBay has created a platform where anyone can become an entrepreneur, starting with a single listing, and e-commerce is levelling the playing field for rural versus urban retailers. You no longer need to live in a city to access enough buyers to make your business viable.

Canadian entrepreneurs have been able to make impressive gains through e-commerce, and we should be very clear that Canada Post is a critical partner in driving that success. At present, there's much talk about the innovation agenda, but the reality is that SMB innovation is facilitated by a 200-year-old corporation.

Canada Post allows small and medium-sized Canadian businesses to participate in the global economy by offering relatively cost-effective access to the world in what could be described as a 21st-century trading route. In terms of significance, this is meaningful trade. Canadian commercial sellers on eBay export at a rate of 99.9%, reaching 20 markets annually, much stronger results than those of traditional SMBs. As a result of their ability to effectively serve foreign markets, these companies find that, on average, more than half of their sales come from international customers.

Canada Post has more than a 90% share of eBay Canada transactions. There can be no doubt that the micro-multinationals I've just described depend on Canada Post to drive their businesses both domestically and internationally.

Canada Post is an enabler of small and medium-sized businesses, but it also creates significant challenges for them. For example, this summer's uncertainty around a possible disruption created major business obstacles for Canadian SMBs. While a work stoppage didn't occur, Canadian businesses were forced to prepare for the possibility of a strike or lockout. They had to invest time and effort in adopting alternative, and in many cases, more expensive shipping arrangements. Given what we heard from our sellers, we were not surprised when, on July 8, Canada Post announced that its parcel volume had declined by more than 80%.

Unlike their larger competitors, smaller businesses were not able to leverage their scale to negotiate favourable rates with private couriers, and as a result, many SMBs were forced to create patchwork solutions to ensure they could meet buyer expectations. As Winnipeg-based small business owner Maureen Lyons described to this committee, she had to "offer local pickup for regional sales, courier service for domestic orders, and day trips south to utilize USPS for international sales." Maureen was one of thousands of sellers dealing with this uncertainty.

As the risk of a work stoppage extended into August, eBay drafted a letter to the Prime Minister asking for a return to consistent postal services. Within 24 hours, more than 2,000 concerned eBay sellers had signed the letter. Everyone was gratified to see that a negotiated settlement was reached shortly thereafter, but given that it's a two-year agreement, SMBs worry that they'll be facing a return to uncertainty in a matter of months.

Going forward, we believe that Canada Post should focus on accelerating the growth in its parcel division by expanding its e-commerce services, including affordable tracking and aggressive rate tiering. Further, Canada Post should invest in improved marketing of the e-commerce services it has already created, such as flex delivery, to drive wider awareness and adoption.

Modernization of customs rules would also drive volume for Canada Post. As the task force noted, Canada's de minimis threshold, the value of goods that can be shipped into Canada before duty and taxes are assessed, is out of line with international standards. Increasing it could accelerate parcel volume growth. eBay Canada concurs and asks that the committee recommend increasing Canada's de minimis threshold.

As a platform for small and medium-sized Canadian businesses, eBay appreciates the time to appear before you today, and I look forward to your questions.

● (1005)

The Chair: Thank you very much.

We'll get into questions, right now.

Monsieur Drouin, for seven minutes, please.

Mr. Francis Drouin (Glengarry—Prescott—Russell, Lib.): Thank you, Mr. Chair.

It's great to be back at the Canada Post study. I've missed you guys for a while.

I want to thank Ms. Stairs for being here. I appreciate your testimony. You have mentioned how important Canada Post is to some of the SMEs operating on an eBay platform. You said 90% of the transactions on eBay in Canada are delivered by Canada Post. Is that correct?

Ms. Andrea Stairs: Yes.

Mr. Francis Drouin: I've read your op-ed in *The Walrus*. You have talked about slower services, and you have also mentioned that in your testimony.

What do you mean by slower services as a potential revenue stream for Canada Post?

Ms. Andrea Stairs: What we hear from our small sellers and our large e-commerce retailers, as well, is that they would love to be able to offer free shipping to their buyers. It's table stakes in Canada and around the world in e-commerce to offer tracking when you deliver something. The current service offering from Canada Post really only has expensive, fast-tracking services. What would be great would be to complement those with slower services that also offer tracking.

What we find when we do studies is that there are a certain number of transactions or occasions when people engage in e-commerce. They are looking to have the goods very quickly—the same day, the next day, within two or three days—but there are also a number of occasions when consumers are buying something on e-commerce when they want their item next week or two weeks from now. If I'm buying a Halloween costume in September, I don't need it there the next day. In that case, I might as a buyer, trade off time in order to have free shipping from my seller.

The challenge right now is that Canadian sellers find it really difficult to offer free shipping with tracking because of the service offering from Canada Post. Complementing the fast, expensive services with slower, less-expensive services that also have tracking would give a better spectrum of services that buyers and sellers could use in e-commerce.

Mr. Francis Drouin: Have you had a conversation with Canada Post with regard to tracking? Do you know if they have the infrastructure in place or the software in place to do that?

Ms. Andrea Stairs: My understanding is—and I'm going to preface my remarks by saying that I'm not an expert on Canada Post and Canada Post infrastructure—that they have been moving more of their volume to planes and faster modes of transport, and off trucks. There would have to be some rebalancing there in having some volume go by ground as opposed to air.

The tracking infrastructure exists. I think there's another issue around the tracking of packet services that go through the letter mail channel. I think the infrastructure is a real challenge.

When we talk to our sellers, there's another key pain point for them. When they compete against American sellers—in most cases you have a Canadian seller competing with an American seller for an American buyer, and that's our most traditional use case in Canada—if the Canadian seller is shipping something very small, then it qualifies for packet, but they are in a catch-22. Either they can send it for not very much money in a packet, but give up tracking, or they can spend significantly more, often the same amount of money as the item price itself, to provide tracking to their customer. That's a really difficult position for a seller to be in.

In an e-commerce environment, particularly in a marketplace where you're a small business, you don't have a brand reputation, so buyers certainly do want to see tracking. On a platform like eBay, feedback is incredibly important. On one hand, in not having tracking, you risk feedback issues, such as, "Where's my package? It hasn't arrived by the time I expected". On the other hand, you want to offer value services, so I think there is a real infrastructure issue around tracking on lighter, smaller packet-qualifying items. But on the slower service, that should be something that is relatively doable.

Mr. Francis Drouin: I'm reading your article. You mentioned that 99.9% of transactions on eBay are exported in Canada.

Ms. Andrea Stairs: When we look at our commercial sellers, those are sellers who do more than $10,000 a year on the platform, and eBay may be all of their business or it may be a small fraction of their business. When we look at that cohort of sellers, we find that almost all, 99.9% of them, export. When they export, we find they do more than 50% on average of their volume outside of Canada.

This is a great success story in the Canadian economy, where you have small businesses that can reach demand beyond their local market. They can tap into the benefits of exports, and they can be insulated from local market shocks.

In Toronto, for example, we were hearing about small retailers who lost their business as a result of road construction. If you have the ability to tap into demand beyond your local area, then you can weather those storms and diversify your sales base. Canada Post is key to that, with a 90% share of the volume traded on eBay. They are very much implicated in what we call these micro-multinationals. These are very small businesses who are trading internationally.

● (1010)

Mr. Francis Drouin: How would you see Canada Post increasing its parcel business while at the same time increasing your export opportunities?

Ms. Andrea Stairs: When we had a round table with Minister Chagger last year, and we invited a number of small businesses to come to talk to her, they raised only two issues. These are entrepreneurs. They're not looking for handouts, but they are looking for the removal of obstacles.

Postal rates at Canada Post was a key area of concern. The other area of concern was border frictions, specifically Canada's de minimis threshold, which is that threshold above which duties and taxes are assessed. It currently stands at $20, a rate set in the early 1980s. For that reason alone, it should be reviewed, but the task force noted that an increase in the de minimis threshold would likely increase the parcel volume to Canada Post.

We see millions of transactions every year, purchases by Canadians that are delivered south of the border or to locations outside of Canada. In some cases, right along the border there are businesses that exist only for this, to receive parcels essentially for Canadians. They then drive them across the border. That's lost revenue to Canada Post.

Were the de minimis threshold higher, the vast majority of those parcels would be delivered within Canada, and Canada Post would get some of that revenue.

The Chair: Thank you very much.

Mr. McCauley, you have seven minutes.

Mr. Kelly McCauley (Edmonton West, CPC): Thanks for joining us today. We appreciate that.

You made a comment that you do transactions of about $1 billion in Canada. Is that correct?

Ms. Andrea Stairs: Yes, it's more than that.

Mr. Kelly McCauley: How much more, exactly, and the names...?

Ms. Andrea Stairs: I can't tell you.

Mr. Kelly McCauley: You mentioned the urban-rural divide. Do you have stats on how much of that $1 billion is through urban and how much is through rural businesses?

Ms. Andrea Stairs: We see the businesses across the country, and we've done a heat map where we looked at commercial activity per capita across the country. We found that the hotbed of e-commerce is Perth, Ontario, perhaps not known to be the e-commerce—

Mr. Kelly McCauley: Wow.

Ms. Andrea Stairs: Yes, exactly.

We also saw significant hot spots in northern B.C., the southern part of the Northwest Territories, and down the east coast. What we see is that on a per capita basis, these little businesses that are in small towns, by relying primarily on Canada Post, are able to access demand across the country and around the world.

Last year—

Mr. Kelly McCauley: Do you have any stats that break it out between those hot spots and the big cities?

Ms. Andrea Stairs: I don't have the stats, but I'm happy to share the heat map with you. It's on a population basis, so you can get a sense of where the....

Mr. Kelly McCauley: If you're able to, that would be great.

Ms. Andrea Stairs: Yes, we can send it to the clerk.

You see urban areas pop, but the fact that you have sellers across the country in rural areas that are able to do business is something that I'm personally very proud of. Every year we have our entrepreneur of the year awards, and last year's winner was a woman who runs a shop that sells skating gear and dance gear in a small town called Blezard Valley, which is outside of North Bay, Ontario. She is tapping into an international demand.

Mr. Kelly McCauley: I going to have to interrupt you because I have a couple of other questions.

You mentioned aggressive tiering of pricing. Could you explain what you mean by that?

Ms. Andrea Stairs: Yes. It's having pricing based on speed and making real differences between those different services, and also pricing based on volume, so making Canada Post a partner with small and medium-sized businesses. As those small and medium-sized businesses expand and scale, there is a reason for those businesses to stay with Canada Post and volume discounts would occur.

Mr. Kelly McCauley: You mentioned that 90% of eBay transactions are Canada Post. Is the other 10% just a smattering of the other competitors?

Ms. Andrea Stairs: Yes.

Mr. Kelly McCauley: Generally, in the States is it the same, and 90% is with USPS?

Ms. Andrea Stairs: I don't have the numbers, but I think, ballparkish, it's the same. I would say it's potentially slightly lower, but it's significant.

● (1015)

Mr. Kelly McCauley: The threshold you were discussing, I know is at $20. It came up recently in the *National Post*. I think it's $800 the other way.

I understand how it will help Canada Post, but how do you think it would help eBay Canadian suppliers? Would it not be just like a huge influx of competition?

Ms. Andrea Stairs: No, in fact our sellers find it a huge pain point both because it makes their inputs more expensive relative to their U.S. competition, and also because on returns they're often having to pay duties and taxes on inbound returns from foreign customers.

Mr. Kelly McCauley: Okay.

Regarding the possible labour disruption you were talking about, I can understand what everyone went through. My wife at the time had a small business and she was getting the constant letters from her bank and everyone else to say, “Make sure you're paying.” How do you think it would be best addressed?

We have to follow collective agreements and the bargaining, so we can't have a no-strike position. How would you have handled it differently besides what Canada Post did, which was to warn their customers that they needed to find someone else just in case?

Ms. Andrea Stairs: I'm not an expert in collective bargaining. I am only really representing the impact.

Again, I do think the two-year agreement is a real challenge, because the odds of us getting back into the same situation—

Mr. Kelly McCauley: We will be.

Ms. Andrea Stairs: Yes. I think that's a real challenge, particularly as we all want Canada Post to maintain its leading share in parcel delivery. If this happens every two years, it's basically an impossibility.

Mr. Kelly McCauley: Is the U.S. the number one customer for eBay merchants in Canada?

Ms. Andrea Stairs: Yes. The U.S., the U.K., Germany, China, and Australia would be our top markets.

Mr. Kelly McCauley: Do you get any feedback on what USPS does that might be of value to copy up here?

Ms. Andrea Stairs: Yes. If you talk to one of our sellers, they know the USPS postal rates backwards and forwards and how they compare to Canada. They are much more affordable relative to Canadian rates. As I mentioned earlier, tracking on packet services is a key point of differentiation that our sellers find particularly difficult. It hampers our ability to compete with U.S. sellers. I think those would be the key things.

They also have purpose-built products. Media Mail, which I think still exists, is a purpose-built product for a certain segment. They have flat-rate boxes, which sellers in the U.S. really appreciate.

Mr. Kelly McCauley: Yes, we've heard of that before. Do you think something like that would be of value up here?

Ms. Andrea Stairs: eBay and Canada Post have been working together for more than 10 years. We've had various partnerships. They're on our platform providing label printing services, and we tried to do a flat-rate box test. It was okay; it wasn't amazing. I think, frankly, investing in the products that they have already and complementing them with some slower products and just making the pricing a bit more aggressive would be the things that our sellers would most appreciate.

Mr. Kelly McCauley: You would like to see a slow service option and better tracking.

Ms. Andrea Stairs: It's not so much better tracking. For a long time, tracking was a problem because the points of tracking—

Mr. Kelly McCauley: My understanding is that they are developing stronger tracking.

Ms. Andrea Stairs: Yes. The tracking capabilities are going in the right direction, but it's the pricing of the tracking capabilities. The pricing of services and tracking on letter mail, the packets, the things that are light parcels, are the challenge as well.

The Chair: Thank you very much.

Mr. Weir, you have seven minutes.

Mr. Erin Weir (Regina—Lewvan, NDP): Thanks very much. I really appreciate your testimony.

I'll start off with a point of clarification. When you talk about eBay Canada having about 90% of its shipping with Canada Post, does that include Purolator, or is Purolator part of the other 10%?

Ms. Andrea Stairs: It's simply Canada Post. It doesn't include Purolator.

Mr. Erin Weir: Okay, thanks very much.

I'm going to almost repeat a question that Mr. Drouin asked, because I think it's a very important one. It seems that your key concern here is about the pricing of tracking and wanting to have maybe a slower and less expensive option. I just wonder what Canada Post has said in response to that concern.

Ms. Andrea Stairs: I raised it at a very high level just in passing, and I got the response that it was interesting and something they would take back. I don't know, where our organizations are more closely linked, what the response has been.

It isn't where they have been going. They've been going to faster delivery to compete with couriers, which I think is appropriate. They should be offering those services. I think this is more an idea of extending the spectrum and adding a complementary service.

● (1020)

Mr. Erin Weir: Okay. It sounds as though it's a big priority for your organization, so I wonder what engagement you've had with Canada Post on it.

Ms. Andrea Stairs: Yes, we've brought it up. I haven't gotten anything definitive from them.

Mr. Erin Weir: Fair enough. I guess we can try maybe to help put that question to the corporation directly and get an answer to it, because it seems to be an interesting and important point.

You've talked a lot about the situation where a Canadian and an American supplier might be competing for an American customer, and I take the point that it's probably a common situation. I want to ask about the situation where a Canadian seller and a foreign seller are competing for a Canadian customer, because we've heard in other meetings that there's a real problem with differential rates for parcel shipping within Canada. Canada Post is able to discriminate based on the size of the different markets and those sorts of variables, whereas international postal treaties oblige Canada Post to provide flat-rate shipping to foreign sellers coming into the Canadian market. Is that an issue that eBay Canada also has?

Ms. Andrea Stairs: Honestly, that is not an issue that I'm up to speed on. I think that our small and medium-sized businesses, while they are very much focused on international markets, are seeing significant growth in the domestic market, and increasingly they will be concerned about their competitive niche in Canada relative to foreign retailers and small businesses. Again, I couldn't comment beyond that.

Mr. Erin Weir: It is something we've heard quite strongly from small shippers that they're not really able to offer flat or guaranteed shipping rates within Canada, because Canada Post will charge them different amounts, depending on where they're shipping, whereas their foreign competitors have this right to almost a flat rate within the country. It seems like that's something that has been a relatively big deal to other small shippers.

Ms. Andrea Stairs: I think the problem has gotten better. We used to do a survey, and we found that it was less expensive for a Canadian seller to drive something across the border, put it in the mail in the U.S., and then have it sent back into Canada. In 2013, USPS increased its rates significantly on international shipments, and that problem seems to be less of a problem now.

When you heard from Maureen, she wasn't driving her Canadian inventory across the border to induct it into USPS in order to send it back into Canada. I would say that was probably less of an issue, particularly relative to the U.S., than it had been previously. But on the specifics right now, again, I don't have that information.

Mr. Erin Weir: Overall, would you say that Canada Post's services are critically important to your business?

Ms. Andrea Stairs: Absolutely.

Mr. Erin Weir: You're happy with the quality of the service. It seems to be improving, and the main questions are about pricing and the availability of low-cost tracking. Would those really be your concerns?

Ms. Andrea Stairs: I think more broadly, yes, absolutely. As we talk about innovation, Canada Post does not get brought up in the innovation conversation as enabling infrastructure for Canadian innovation, but when we talk about the productivity gains and the long tale of Canadian SMBs, having Canada Post be an effective partner is critical to that, particularly as we talk about e-commerce and using the Internet to tap into customers around the world. Having a strong Canada Post is critical.

Mr. Erin Weir: Okay. Are there any other specific changes you'd like to see to their services or to their operations to facilitate that support of e-commerce?

Ms. Andrea Stairs: We would very much encourage Canada Post to focus on its core lines of business and not enter into new lines of business that could be distracting to management. They need to continue to focus on their shift from a letter-centric business to a parcel-centric business, and we would be supportive of that.

Mr. Erin Weir: I guess one of the challenges Canada Post faces is that there's also a lot of competition in the parcel business, and that just expanding in that area alone might not be enough to compensate for the decline in letter mail. That's where our committee has had some interest in exploring other lines of business. If those other lines of business help to sustain Canada Post and help to allow it to continue offering the services that you rely on, then might that not be reasonable?

● (1025)

Ms. Andrea Stairs: I think that the competition in the parcel business.... Certainly, there is competition there, but Canada Post has a 90% share on eBay and that is an indication of orders of magnitude.

We see that the private couriers are cherry-picking the most lucrative weights and dimensions services, but there is a vast set of other businesses and services that need to be serviced. When we talk to our sellers, couriers are often not an option for them. Their economics would not permit them to have that service level.

Yes, there's competition, but I think we need to not lose track of the huge numbers that Canada Post services and that there are very high switching costs for small businesses in moving off Canada Post.

The Chair: Thank you very much.

[*Translation*]

Mr. Ayoub, the floor is yours for seven minutes.

Mr. Ramez Ayoub (Thérèse-De Blainville, Lib.): Thank you, Mr. Chair.

Thank you for being with us, Ms. Stairs.

I am going to continue along the same lines. You are saying that Canada Post has to stick with its main activity. What is your idea behind that? What are you afraid of? I sense that you do not want Canada Post to open other lines of business because you are afraid of something.

Can you explain your recommendation to me a little more?

[*English*]

Ms. Andrea Stairs: I think it comes from two places. One is that in running a business you know that when you open a new line of business you have to allocate resources and executive mindshare to that new business in order to build it. The other thing is in reading the report it seems like there's a fairly definitive statement that banking, for example, is unlikely to be profitable in Canada.

As someone who has read the report, that's where I come out on that. I think that distracting—

[*Translation*]

Mr. Ramez Ayoub: Does that recommendation for Canada Post come from a discussion with your board of directors or is it your personal view?

[*English*]

Ms. Andrea Stairs: No, I think that eBay is very much supportive of Canada Post staying with its core services.

[*Translation*]

Mr. Ramez Ayoub: Okay.

In the last few years, with the five-point action plan in place, what communication have you had with Canada Post and its senior management? How have your business and your area of activity been treated? Was your company consulted? Was information shared?

[*English*]

Ms. Andrea Stairs: In terms of moving to the community mailboxes and...?

[*Translation*]

Mr. Ramez Ayoub: I am talking in general terms about e-commerce, which is your business' main activity. Have you had discussions with Canada Post about the projections for you area of activity? What are your concerns in terms of Canada Post's service and the new direction it intends to go in? Residential service is one thing. But business service is what you are all about. Was your company consulted? Have you been able to get into Canada Post to discuss it?

[*English*]

Ms. Andrea Stairs: We have access to them, so we have fairly ongoing...and I'm not part of this. It's someone on my team who is engaged with Canada Post. We're working on our label printing and bringing different rates to our members. They will consult us on new programs that they're developing and get our input. I would say there's a fairly continuous back and forth with them in terms of, not just us asking for things, but being more of a consultant in terms of what our sellers are looking for, pain points, that kind of thing.

[*Translation*]

Mr. Ramez Ayoub: Which of your recommendations did Canada Post accept?

[*English*]

Ms. Andrea Stairs: In the past, we've worked on a flat-rate box, which was a pilot we ran that was exclusive to eBay. We've gone as far as that in terms of the creation of a new service. Then we were engaged fairly early on with the whole concept of flex delivery, allowing Canadian consumers to reroute packages to a postal outlet that was more favourable to them. I'm sure you guys are aware of the flex delivery program, but we were involved in discussions such as “Would that be a service that your customers would like?”, those kinds of conversations.

● (1030)

[*Translation*]

Mr. Ramez Ayoub: I am sensing, not so much a confrontation, but a degree of interaction between the commercial side and the residential side, between the access to a residential market, a small one, and access to a clientele.

Are you suggesting that Canada Post should, through its rates and its flexibility, subsidize in some way the small and medium-sized businesses working in e-commerce? It would allow them to offer better rates. You mentioned free delivery. Is that possible in today's world?

[*English*]

Ms. Andrea Stairs: Regarding the internal workings of Canada Post, how the different lines of business fund or don't fund each other, and how they use the same infrastructure, again, I'm not an expert on that. I'm here representing the end-users, the customers, both on the business side and the consumer side. How we get there, how we make the sausage, I'm not sure. This is what the committee is tasked with.

However, I think the outcome is that we need to have a broader range of services so that businesses can pick the ones that make the most sense and deliver value to the customers in a way that makes sense for those customers. Again, the utilization of infrastructure and whether there are subsidies, I think is something that is beyond my expertise certainly.

[*Translation*]

Mr. Ramez Ayoub: Okay.

Along the same lines, when we went across the country, chamber of commerce officials told us that they actually were ready to pay more if delivery was quicker and the service was of a higher quality.

Is that something you are suggesting? Would that work for your area?

[*English*]

Ms. Andrea Stairs: Rather than all the services being priced relatively the same, rate-tiering should be offered so that very expensive services, like same-day delivery or one-day delivery, would have a premium. However, you need to have the flip side, where slower services are your economy service. The challenge there is to also have tracking, but I think that creating those tiers and pricing things in that way makes sense.

[*Translation*]

Mr. Ramez Ayoub: There is talk about the potential for strikes and bargaining.

What impact does that have on you? Have you been able to quantify the highs and the lows created by the uncertainties of bargaining?

[*English*]

Ms. Andrea Stairs: We saw a huge impact four years ago in the business. I think the impact, particularly on the buyer side this year, was more muted. Canadian buyers just seemed to carry on buying. What we did see, though, was that our sellers had to scramble, particularly the small sellers. Their cost of doing business really increased significantly over the summer.

It wasn't that they had to have these alternative solutions in their back pockets; they actually had to be using them because—and there were a couple of points there—at any moment there could have been a strike or a lockout. They would have had to have already shifted their business to these alternatives, which were very expensive and costly to manage. That's what we saw and heard from our sellers, particularly over the duration of the entire summer, that managing these alternatives was very expensive.

The Chair: Thank you very much.

We'll go to our final two interventions.

They will be five minutes each.

[*Translation*]

Mr. Clarke, the floor is yours for five minutes.

Mr. Alupa Clarke (Beauport—Limoilou, CPC): Thank you, Mr. Chair.

Good morning, Ms. Stairs. I am pleased to see you here this morning.

You deal with Canada Post directly, in a business sense, of course. When Canadians order things on eBay and their parcels arrive late, to whom do they complain? Do they complain to eBay or to Canada Post?

[*English*]

Ms. Andrea Stairs: eBay has a money-back guarantee, so if your item doesn't show up, then you come to eBay and we will make you whole. Then we will go and sort it out with the seller. This is why tracking is so important, so the seller is able to justify that they inducted their package, that it went through, and that it was or wasn't delivered. If there's an actual issue with something being lost in the mail, and you can prove that with tracking, then we would go to Canada Post. It rarely happens that things actually get lost. Usually you have a bad actor, so tracking allows you to sort that out very quickly. That's what usually ends up happening. The first line of interaction is the buyer and seller, and then eBay steps in the middle and will use the tracking data to sort things out.

● (1035)

[*Translation*]

Mr. Alupa Clarke: Okay.

I imagine that it happens very rarely, as you said. However, after the tracking process, when people find out that the delay is due to an error on Canada Post's part, what happens? Are databases turned over to Canada Post? Have you set up a relationship with Canada Post to deal with that?

[*English*]

Ms. Andrea Stairs: We have delivery estimates on the website. As a buyer, when you're buying something you can see the window in which the parcel is supposed to be delivered. As long as there's tracking on that parcel, if the parcel is delivered outside of that, then the seller is not in any way affected. On a platform like eBay, feedback is obviously incredibly important, and the ratings that sellers receive from their buyers is very important. We will protect sellers from bad ratings in the case that the parcel took longer through no fault of the sellers. That's why tracking becomes very important, because if the sellers put something into the mail and they don't have tracking, there's no way to prove that it wasn't their fault and that they didn't just take a really long time getting it to the post office.

In this setting, particularly a marketplace setting, where you have feedback, and seller ratings are driving economic value because they impact where you rank on search results and they impact the fees that you pay, affordable tracking becomes critical to being able to conduct your business well.

[*Translation*]

Mr. Alupa Clarke: Has Canada Post ever had to reimburse either you, or the companies that go to your website, because of any delays?

[*English*]

Ms. Andrea Stairs: I don't think that happens.

[*Translation*]

Mr. Alupa Clarke: Ms. Stairs, I am sure you are aware of the five-point action plan.

[*English*]

Ms. Andrea Stairs: I know it more or less, yes.

[*Translation*]

Mr. Alupa Clarke: Could you tell me what you think about the plan, especially in terms of the way it has been implemented, that is, between 2013 and the moratorium that has been in effect for a year?

After the five-point plan was implemented, what consequences, if any, have there been for your business?

[*English*]

Ms. Andrea Stairs: There weren't that many.

I think the major component of that plan was the move to community mailboxes. I don't think that has had a significant impact on our buyers, outside of their reactions in general. I don't think the reaction on eBay was any kind of differential.

[*Translation*]

Mr. Alupa Clarke: Okay.

In recent weeks, our committee has heard a lot of proposals to add services to Canada Post, especially government services. They affect the employees and the offices alike.

What is eBay's opinion about those additional services? Do you believe that Canada Post will be able to meet your needs as effectively, as quickly and as efficiently if all kinds of services are added? How do you see that?

[*English*]

Ms. Andrea Stairs: Again I come back to the distraction of the entire corporation with additional unrelated services. I think if there's a positive revenue stream to them, then it might be something worth looking at, but I really am concerned about pulling resources away from the core business.

The Chair: Thank you very much.

For our final intervention, we have Mr. Grewal, for five minutes please.

Mr. Raj Grewal (Brampton East, Lib.): Thank you very much, Mr. Chair. I will be splitting my time with the parliamentary secretary.

Thank you, Andrea. It's good to see you again. We saw each other just last week at the pre-budget consultation in the finance committee, and you were advocating for an increase to the de minimis there. I like to see your consistency, that you're advocating for an increase of the de minimis here.

It's encouraging to know that Canada Post offers such great service in the parcel business and that 90% of your parcel business is with Canada Post, which is promising. Having said that, it doesn't tell the whole story, because you're just one customer from the Canada Post perspective. I am interested to know how much impact there is on your margins when there is a disruption like the one that was about to occur this previous summer and your guys go to private companies.

● (1040)

Ms. Andrea Stairs: The main impact is on whether our sellers can convert. It's whether the listings on eBay have become more expensive and therefore, they're unable to convert. Basically our incentive is aligned with our sellers. We charge fees on successful listings. If the shipping is too expensive, listings won't be successful. It doesn't really impact our margins. It really impacts the top line, whether our sellers are actually creating sales, which we record as gross merchandise volume, which is a key metric in our business.

Mr. Raj Grewal: It's a driver aspect at the end of the day. You guys don't have any cost implications from it, but your revenue would decrease because people would be shipping less, essentially.

Ms. Andrea Stairs: Yes, so what would happen is that somewhere in eBay that sale would happen. It just would be that the Canadian sellers would be less competitive to U.S. sellers, or international sellers. The revenue moves around. eBay Inc. is in the same position; it's just that our Canadian sellers have lost their competitive edge.

Mr. Raj Grewal: That makes sense. When you talk about the de minimis, the counter argument to the de minimis is always that sales in retail, and small and medium enterprises, also use Canada Post to ship their parcels. If you look at it from a macro level, if we increase the de minimis by $20, from $20 to $40, that will be a net positive for online retailers, but it would also be a decrease for regular retailers, or so we've heard. Neither of you have been able to provide a study to say what the economic impact is across the board.

We've heard from the Retail Council of Canada on the finance committee that even raising the de minimis by $20 would really affect small bookstores, small shoe stores, and stuff like that. Do you have any comments on that?

Ms. Andrea Stairs: I think you heard at the finance committee that the retail industry does not speak with one voice on this. We're a member of the Retail Council. The sellers that we're most concerned about are precisely those tiny guys who are penalized in terms of their ability to bring inputs into the country relative to U.S. competition and competition around the world. They have to deal with the exports issue. At the end, this is a threshold that was set in the early eighties, has not been revisited, is a constraint on regional fairness and the ability of Canadians in far-flung places to fill the holes in traditional retail, and is a massive driver of government inefficiency, as the C.D. Howe report pointed out.

Mr. Raj Grewal: This is my last question. How much of eBay's U.S. parcel business is with the U.S. post?

Ms. Andrea Stairs: I don't have the precise number. It is significant. It's in the same ballpark as what we see in Canada.

Mr. Raj Grewal: The second question after that was, after the de minimis was increased, how much did the parcel business increase for the U.S. post?

Ms. Andrea Stairs: I don't know. From the U.S. de minimis increase...?

Mr. Raj Grewal: The U.S. increased the de minimis range.

Ms. Andrea Stairs: Right.

Mr. Raj Grewal: After the U.S. increased the de minimis range, how much did the U.S. parcel business from eBay go up?

You are advocating for a de minimis—

Ms. Andrea Stairs: It was already at $200, and our average selling price is significantly below that, so—

Mr. Raj Grewal: It's still a telling thing. You are advocating for a de minimis based on the fact that an increase in the de minimis will increase the parcel sales of Canada Post, which, in my humble opinion, isn't a terrible assumption. I'm sure that will happen.

To prove that fact or reasonable assumption—not that everything in Canada and the U.S. is the same—when the U.S. increased the de minimis range, what was the increase to eBay parcels in the U.S. post?

The Chair: Unfortunately, even though the question was posed, you are overtime already, so we'll have to wait to get the answer.

We have a few moments left. Normally, we adjourn about 10 minutes to the hour in order to get the new witnesses to the table, but if there are any one-offs here, a question and an answer for a couple of minutes....

The parliamentary secretary, or Mr. Grewal, did you have a brief question?

We'll take two additional questions. We'll have Mr. Grewal for two minutes, and then Mr. Clarke for two minutes.

Mr. Raj Grewal: I'll keep going. Thank you, Mr. Chair.

Madam Stairs, by no means did I expect you to have that answer here. I just thought it was a good.... To sell your case even further, I think it's a really good study, and I'm sure the number is available.

● (1045)

Ms. Andrea Stairs: We know—and this is just eBay data—that there are literally millions of packages that are bought by Canadian customers and shipped to addresses in the U.S.—

Mr. Raj Grewal: Yes, my friends do it all the time, to be honest.

Ms. Andrea Stairs: I think that this is almost a more salient data point.

Mr. Raj Grewal: I don't do it, though.

Ms. Andrea Stairs: Of course not.

Mr. Raj Grewal: Is there a potential for your sellers to increase their volume if there were an economy tier of shipping with tracking?

Ms. Andrea Stairs: Absolutely. They want to be able to offer free shipping. They can absorb a certain amount of shipping costs. Free shipping is a massive competitive advantage for them, particularly if they are competing against U.S. sellers, so if they have a slower, less expensive service—where they can still manage buyer expectations and deliver the goods at a certain time with tracking, but do so in a more cost-effective way—then, absolutely, they can expand their businesses.

[*Translation*]

The Chair: Mr. Clarke, the floor is yours for two minutes.

Mr. Alupa Clarke: Thank you.

Ms. Stairs, I want to go back to our discussion on the addition of new government services to Canada Post. You said that doing so would create a distraction and would move away from Canada Post's mandate and core activity.

The suggestions were to have a postal bank, to process passport applications and a whole series of services that now escape me.

In your opinion, which of those new services would create the greatest distraction that would move Canada Post away from its mandate?

[*English*]

Ms. Andrea Stairs: Honestly, I don't know what the laundry list is, but I think that the more intensive the spinning up of a new line of service is, and the more widespread it is across the country, as opposed to a niche, the more concerned we are about the distraction.

It's really about mindshare in terms of.... I read in the report that there are conversations about community hubs in some places, where the post office is the only representation of the federal government. I think that this idea is probably.... We are talking about a handful of places, relatively speaking, so the level of distraction of that, versus spinning up an entire bank, seems to be quite different. I would be much more concerned about the latter than the former.

[*Translation*]

Mr. Alupa Clarke: Okay. Thank you.

[*English*]

The Chair: Thank you very much.

Thank you, Ms. Stairs.

I have one question, because we have a couple more minutes. You mentioned that, in your opinion, it would be beneficial for your clients to have an economy level of service from Canada Post—slower service—but only if it contained tracking. Based on the fact that Canada Post already has a tracking system for their premium products, it seems to me that this would be a fairly easy fix to employ.

Am I missing something here?

Ms. Andrea Stairs: I am not an expert on this, but I think that the infrastructure has been set up in order to facilitate speedy delivery. Is there supporting infrastructure that can actually do slower delivery, or do you have to put the lower-priced packages into that speedy service and just hold them somewhere? How do you do that on the back end? I think that's the question. How do you match the revenue that you are deriving from the economy service with the cost to deliver?

I think those are the concerns that Canada Post would have, but I would say—to your point—that the tracking piece has been figured out. I would think that these obstacles are not insurmountable.

The Chair: Have you suggested that formally to Canada Post? If so, what has their response been?

Ms. Andrea Stairs: I'm not sure if we've suggested it formally. We've suggested it informally, and they've answered that it's interesting, that they appreciate where it's coming from, and that they'll take it under advisement and look into it.

The Chair: Thank you very much, Ms. Stairs, for participating in our review. I know you probably have a lot of better things to do with your time.

We will suspend for a few moments while our next witnesses approach the table.

● (1045)

(Pause)

● (1055)

The Chair: Thank you, colleagues. I think we'll start again.

Before we commence, I have just a couple of comments to the committee members. We will have opening statements from our witnesses, which will be in public. We've also—if you notice on the agenda—tentatively scheduled one hour for public testimony and one hour in camera. However, we have the ability as a committee to go in camera for as long as we wish. For example, if all of the questions that you have for our witnesses pertain to commercially sensitive information, you can certainly mention that to us. We'll gauge the committee's willingness, and we could go in camera almost immediately after the opening statements, if that's something that the committee members would like. I want you to be aware of that. We're not forced to have one hour public and one hour in camera. We can have as much of the testimony in camera as we would like.

We will have the opening statements on the public record, and for that, Mr. St-Jean, you have five minutes, please. Then we'll go to Mr. Spear.

● (1100)

Mr. Charles-Antoine St-Jean (Partner, Advisory Services, Ernst & Young): Thank you very much.

Good morning, Mr. Chair and members of the committee. Thank you very much for the invitation to testify today. Here with me are partners Uros Karadzic and Pierre Lanctôt. Pierre is here to conduct the financial assessment, and Uros is here to review all of the pension issues.

The mandate that we received from the task force was to review four streams of work.

[*Translation*]

Our analysis focused on four areas. First, to review and validate Canada Post's financial performance in the last five years. Second, to evaluate the financial impact of the resumption of payments on the pension plan solvency deficit. Third, to provide an independent assessment of Canada Post's projections to 2026, including the measures in the five-point action plan. And finally, to validate the annual savings target of $400 million to $500 million from the move to community mailboxes and to assess the possibility of keeping door-to-door delivery.

[*English*]

If I may make this point to the committee, the major findings that we would like to bring to your attention will be dealing with three issues. First is the financial position of the corporation; second is the cost savings associated with the CMB, or community mailbox program; and the final one is the pension situation.

Starting with the financial position of the corporation, as we recall, the one-time strategic price increase of April 2014 and the growth in partial volumes have briefly curtailed the ongoing weakening of Canada Post's financial position. Looking ahead, the financial position projection to 2026 paints an unsustainable future, with over $700 million per year of run rate loss. Drivers for these negative results are multiple, but include the continuing mail erosion driven by electronic communications; inflationary cost pressures; the network growth linked to the Canadian population increase; competition, including new service providers, lower-cost service providers, and disruptive technologies; and the funding requirements of the pension plan. Our analysis leads us to believe that Canada Post's projected loss is at the optimistic end of the acceptable range of estimates. It could be higher.

A major element of the negative financial results is the labour cost structure. When we looked at the productive hours for Canada Post's inside employees, it's approximately 68% more expensive than that of competitors. The cost of delivery agents is approximately 26% higher. Labour accounts for 70% of the cost of Canada Post. Making up such differences is very challenging, especially at a time when the future of the corporation is dependent on its ability to compete in the parcel delivery business.

Maybe I'll say a few words on the

[*Translation*]

community mailbox program.

The initial proposal was to find savings in the order of $450 million per year. We reviewed the hypotheses and tested them. We also reviewed the partial implementation of the program up until it was suspended in the fall of 2015. We believe that the figure of $450 million makes sense.

Making those savings is essential to temporarily stabilizing Canada Post's financial situation. If the program were not relaunched in a form more or less in conformity with the initial proposal, Canada Post would quickly run out of funds, requiring it to borrow an estimated $2.9 billion by 2026.

Now, I would like to say a few words about the pension.

[*English*]

The pension liability of Canada Post is large in relation to its revenue. A number of factors have led to this. Some are challenges common to all pension plans in Canada, and some are unique to Canada Post. All plans in Canada have been negatively impacted by a low and declining interest rate environment, by an improvement in the longevity of Canadians, and by a volatile asset return.

In addition, Canada Post's exemption to make solvency payments in recent years has released some funding pressure in the corporation, but has resulted in fewer assets in the plan and, hence, a larger pension liability.

Most employers in Canada with pension plans have moved to defined contribution plans. While Canada Post has moved in a similar direction in recent years for some of its management and all of its executive employees, the vast majority of employees are covered under a defined benefit plan with indexation. Changing the plan for future employees will only contain the growth of the challenge. It will not yield any meaningful relief to the corporation's financial position in the short or medium term. The current deficit is a problem that will not go away by itself.

Finally, we propose a number of ways to deal with the solvency deficit. They all have pros and cons. Some are easier to implement than others. None are without consequences. The decision to choose one or another solution is an issue of equity between pensioners, employees, taxpayers, and future generations. It's clearly a policy issue.

● (1105)

On this note, we thank you, Mr. Chair, as well as on behalf of our colleagues.

The Chair: Thank you very much.

Mr. Spear, you have five minutes, please.

Mr. Bruce Spear (Partner, Transportation Practice, Oliver Wyman): Good afternoon, Mr. Chairman and committee members. Thank you for inviting us to appear before you today.

Oliver Wyman is a leading global management consulting firm. We're part of Marsh & McLennan, which is a $13-billion global risk management and advisory services firm. We combine deep industry knowledge and specialized expertise in strategy, operations, risk management, and organizational transformation. We help companies optimize and improve their business performance and accelerate organizational effectiveness in the most attractive areas of opportunity. Our firm's credibility is established by more than 40 years of experience serving “Global 1000” clients. We have a staff of more than 4,000 and offices and operations in more than 50 cities in 26 countries.

Specifically, we're organized by industry vertical, which means we bring domain expertise to each project. I'm representing a team of two other partners who were involved. I'm part of our transportation practice. We had a lead from commercial banking, as well as our European global transportation practice leader and three full-time consultants on the project.

Oliver Wyman was engaged by the task force to assess the planned and potential business operations in both traditional and new lines of business. Simply put, my colleagues from EY were focused on the core business and baseline performance, while we were focused on the potential new areas of opportunity for Canada Post.

Based on our international experience, we identified almost 40 initiatives that had potential for CPC, which were included in detail in the report. These included new lines of business, changes to existing services, as well as changes that were leveraged to an existing asset model. We created a filtering methodology for evaluating the long list of ideas and focusing on the highest value areas of opportunity. This iterative assessment of the long list, according to the filtering methodology, resulted in a short list of opportunities with the highest potential. Development of more detailed business cases and analyses of key elements of each of the short list are included in the task force report.

Here are a few key findings in terms of the value drivers, in terms of where we would see these areas of opportunity. The key value drivers are as follows. The first is shifting demand; mail volume continues to decline, while parcel volume is increasing primarily in response to the growth of e-commerce. Next is growing competition; the competition for parcel delivery, as well as adjacent services that replace paper communication is growing fiercely. There's a split business model. Although letter and parcel delivery share assets, they are fundamentally different business models. Further, one has the government exclusivity guarantee, and the other is highly competitive, which is further complicated by the split between Canada Post and the Purolator parcel businesses. Last is the high-cost workforce; labour agreements establish labour cost rates at roughly 20% over private sector rates, which adds further constraints to business flexibility and limits the ability to adapt or change current operations.

The overall findings were that there are no silver bullets. Some of the options have value and have been deemed worth pursuing. There are no credible game-changing initiatives that would stem the demand trends that we're seeing. Of the highest potential initiatives evaluated, the best opportunities focused on improving or optimizing the current CPC operations in response to declining volumes. Most of these opportunities, however, would require flexibility on the part of the government, policy, and labour.

There are a few opportunities to increase profitable revenue. Most are insufficient, even in combination, to compensate for the reduction in volumes. Some of those opportunities are advertising and consolidation with Service Canada centres. Many opportunities also fall short based on their fit with CPC capabilities or its cost to serve, and also due to competitive concerns, such as the government putting a subsidized entity in against what is already established private market competition.

A consistent challenge across many of the areas identified are the labour constraints, especially for initiatives where adjustments to the current labour agreement would be required. Implementation could be as long as five to 10 years in order to match with the schedules for contract negotiations.

Finally, a number of potential initiatives aimed at reducing cost or increasing revenue could actually undermine CPC by driving away customer volume, while strengthening the competition, potentially accelerating CPC's declining financial position despite the relatively positive benefits. Those might include alternate-day delivery or last-mile delivery for third parties, sometimes referred to as “interliner”.

● (1110)

The results of the detailed options analysis are as follows. These are proposed opportunities, not specific recommendations, and they need to be balanced against the other priorities. The first is changing mail delivery service to alternate-day delivery, which would save $74 million per year. Another is easing the 1994 moratorium and the CUPW agreement, which would allow CPC to convert more post offices to franchises. That would save $177 million per year. Then there is rationalizing depots and sort centres to adapt the network to changes in volume and product mix, which would save roughly $66 million per year and would likely require capital expenditures.

Next, providing services on behalf of the government, enabling consolidation of some Service Canada centres may save roughly $11.5 million per year. Expanding CPC's interliner offering, providing last-mile delivery service for third parties, is worth roughly $10 million per year. Further pursuing synergies with Purolator beyond the ongoing efforts that have already been identified would generate roughly $16.5 million per year. Finally, selling advertising space in the retail locations and on the delivery fleet would generate almost $20 million per year.

We did do a study of postal banking options and it appears that postal banking is just a marginal opportunity for Canada Post, and when compared to other higher-yielding, lower-risk initiatives explored in the main report, such as adjusting the retail footprint, we did not come down supportive of postal banking as a particularly good opportunity for Canada Post.

Please note that this report and the related review of CPC's strategic business options contain a substantial amount of information deemed commercially sensitive by Canada Post.

I'll be more than happy to answer whatever questions I can now, and further in the in camera session.

The Chair: Thank you very much, Mr. Spear, and thank you very much, Mr. St-Jean.

To the committee members, do the questions you will be posing to our witnesses deal with the commercially sensitive information as contained in the report?

Mr. Weir, I see you shaking your head. Do you have some questions you would like to be in public?

Mr. Erin Weir: Absolutely, and I think we have enough time with these witnesses that it would be reasonable to have a fair bit of discussion in public before we go in camera.

The Chair: Your point is well taken, Mr. Weir.

As I mentioned in my opening remarks, we can determine exactly how much time we wish to spend in camera versus public. If there are committee members who want to have questions on the public record, that will absolutely be how we proceed. If, however, you do have questions of a commercially sensitive nature, we will have to suspend and then go in camera.

I'd like to hear some commentary first, though, if any committee members besides Mr. Weir have other questions you would like to be held in public.

Go ahead, Mr. Whalen.

Mr. Nick Whalen (St. John's East, Lib.): Almost all my questions relate to the documentation, but if Mr. Weir is amenable to doing one seven-minute round in public....

The Chair: Do you mean initially?

Am I getting the sense correctly that, on the government side, you would prefer all of the questions to be in camera?

Ms. Yasmin Ratansi (Don Valley East, Lib.): There are some questions that have appeared because of their presentations, but I think most of our questions—if I speak for all of my members—are on the report itself.

The Chair: Mr. Clarke and Mr. McCauley, what are your preferences?

[*Translation*]

Mr. Alupa Clarke: Personally, I would choose seven minutes in public first and then we would go in camera to discuss the report.

[*English*]

The Chair: If that is the case, may I make a suggestion just to amend the order of questioning, then, since my understanding is that we will have public questioning on one side of the bench and in camera on the other?

Ms. Yasmin Ratansi: I'll have a public question.

The Chair: Madam Ratansi, you will be in public, and you're on for seven minutes.

Once again, I will make sure that we're all aware that, if there is any line of questioning in public that gets into the commercially sensitive information, I will suspend the meeting immediately.

● (1115)

Ms. Yasmin Ratansi: Absolutely, and I'll try not to ask for any commercially sensitive information.

Thank you, all, for coming and thank you for your presentations.

I'm trying to figure out what sort of Canada Post we have for the future, because basically from your quantitative analysis, it appears that Canada Post is doomed for failure. We need to understand that we have to do qualitative analyses as well.

Mr. St-Jean, your mandate was to validate, basically, the financial statements, so how far did you go? You made statements that on the labour cost—if I got it right—there was something around 68%, but then I hear from the task force report that one says 45% higher than the competition, and the other says 41%. I'm a little confused.

Could you explain to me what the real figure is of the labour cost in relation to the competition?

Mr. Charles-Antoine St-Jean: Thank you very much, Mr. Chair and committee members.

Maybe I could ask my colleague, Pierre Lanctôt, who conducted the detailed financial review, to give you the detailed answers to those questions.

Mr. Pierre Lanctôt (Partner, Advisory Services, Ernst & Young): Thank you.

To answer the first question, we did not necessarily audit the financial statements or do a review of the financial statements per se from an accuracy perspective. We relied on the fact that they were audited by two firms: the Auditor General and a private sector firm that does the audit. What we did is assess the financial performance using the financial statements and also using some other information that was provided to us by Canada Post. We did our own analysis of the performance for the last five years.

Ms. Yasmin Ratansi: Okay. Canada Post's financial statements show profits for the past 19 years. When you're projecting, when you're doing the extrapolation, and I know you looked at declining volumes in mail, etc., there is.... As we've been in the field, there's a constant challenge. If Canada Post is making profits in all these years, where is this $700 million coming from?

As Ernst & Young is a very reputable firm, I would like to hear where that disconnect is between what people see as a profitable organization versus a non-profitable organization.

Mr. Pierre Lanctôt: We looked at the financial statements for the last five years. We did assess the profitability, and we did some analysis to satisfy ourselves that we understood the financial situation.

On the last five years, of which three were negative and two were marginal-positive years, if I recall correctly, without adjusting, we did look at the one-time event, but in the report, we presented numbers the way they are stated in the financial statements, because that's the information that is known, public, and has been audited.

When we did the projections, though, we did not project the past.... Essentially, the projections for the future are based on a set of assumptions for the revenues for volume growth—or volume decline, in the case of letter mail—and for increases in costs, some of the measures Canada Post intends to implement, and the general direction of the economy, inflation, and so on and so forth.

It's not a projection where the last five years were such and the future years will be that. We went by type of revenue and by type of cost, and we looked at specific assumptions for each of them.

Ms. Yasmin Ratansi: I'm an accountant by trade, so I understand what you're talking about. When you were projecting it, were you taking into consideration any anomalies that took place in previous years that would guide your discretion or decision to project losses?

Mr. Pierre Lanctôt: Yes and no, in the sense that, very often, one-time information or a one-time event that occurred in the last five years is not necessarily going to be repeating in the future. To understand the past historical performance, we looked at the one-time information, but to project, we try to understand if there is any event that we can foresee. We obviously cannot forecast an unforecastable event. That's why often in financial statements there are differences between projections and the actual, because there are events that are not projectable or cannot be estimated.

Ms. Yasmin Ratansi: Thank you.

Mr. Spear, you talked about different venues that Canada Post could adopt, and postal banking is out. We understand, with regard to the concentration in different parts of the world that have adopted it, that ours is a totally different phenomenon, but we have a rural and urban divide. If we were to have social cohesion, what in your presentation or in some of the recommendations—you said they were not recommendations, but suggestions—would be more profitable for Canada Post, with its wide network at the moment, for it to survive or to offer better services?

● (1120)

Mr. Bruce Spear: We did evaluate several different business models for postal banking, just to be clear, including going it alone, payday lending, going into postal banking as a consortium play, and more of a real estate play with Canada Post retail branches. By and large, what we found with regard to postal banking was that it required too many capabilities that were non-core to Canada Post and would require a significant amount of risk in terms of getting into the lending side of the business.

The one business model that might be worth discussing is as a real estate play, leveraging the footprint of Canada Post in markets where banks are retreating, but where there can be consolidation of branches and they can be served by the post office. We identified this as several hundred branches, not the thousands of post offices that exist, so we don't view that as inconsistent with the post office rationalization or footprint rationalization conversion to franchises, which is one of the more economically significant initiatives for Canada Post.

[*Translation*]

The Chair: Mr. Clarke, you have seven minutes, please.

Mr. Alupa Clarke: Thank you, Mr. Chair.

Good morning, gentlemen. Thank you for joining us today. We appreciate it very much.

I have a series of questions that I can ask in quick succession. Then I will have some more in-depth questions.

I really liked reading your report. On page 13, you say that the Canada Post mission has “a dual mandate”.

[*English*]

The Chair: I have a question. If you're quoting from the report—

Mr. Alupa Clarke: No, I mean the task force.

The Chair: The task force report. Thank you, let's clarify.

Mr. Alupa Clarke: In the task force report,

[*Translation*]

It says that part of Canada Post's mandate is to “provide the same basic and customary service to all Canadians”.

In reality, that has never been the case. Two-thirds of Canadians already pick up their mail at a mailbox and the other third receives it at their doors. So it might be said that the mandate has never truly been observed.

What is your opinion?

Mr. Charles-Antoine St-Jean: Thank you for the question.

Canada Post's services are provided in the entire country, from sea to sea to sea. There are different service levels, depending on population density. That is a business reality: Canada Post has to tailor its service to the demand. That is what we considered in our analysis.

Mr. Alupa Clarke: Okay.

Is it normal that, for a workforce of 50,000 employees, there should be 2,500 senior managers? I’m just asking.

Mr. Charles-Antoine St-Jean: We didn’t really look into that specifically.

Mr. Alupa Clarke: On page 4 of the task force report, there is this comment: “Since 2011, despite having reduced its headcount by about 10% or approximately 5,800 employees, the corporation’s overall labour costs have remained stable at $4.4 billion.”

What would explain that?

Mr. Pierre Lanctôt: Essentially, at Canada Post, salaries increase annually. The number of employees was also reduced. In the five-year period that we assessed, the dollar costs therefore were relatively stable.

Mr. Alupa Clarke: Okay, I understand. Thank you very much.

If I am not mistaken, the study done a few years ago by the Conference Board of Canada forecast a deficit of $1 billion. Three years later, in your most recent study, you forecast a deficit of $700 million, give or take.

Would you say that the five-point plan allowed the forecast deficit to be decreased by $300 million? Is it the five-point plan that has made for savings of that magnitude?

Mr. Pierre Lanctôt: We did not really study that specifically. We did not compare Canada Post’s performance in the last five years to the Conference Board of Canada’s forecasts. That was not part of our mandate.

However, in our report, and in the working group’s report, it can be seen that the savings achieved in recent years brought with them a reduction in costs. Some actions were also taken that brought in additional revenue. That may explain the differences.

Whatever the case, we did not specifically study the difference between the two.

● (1125)

Mr. Alupa Clarke: So you do not know exactly which steps—

Mr. Charles-Antoine St-Jean: May I add something?

Mr. Alupa Clarke: Yes, I am sorry. Go ahead, Mr. St-Jean.

Mr. Charles-Antoine St-Jean: As we mentioned in our presentation, the figure of $700 million is at the optimistic end of the range of estimates. So it could be higher.

Mr. Alupa Clarke: I understand.

I think that Ms. Ratansi partly addressed the topic I would like to talk about now. On what were your quantitative analyses based? Which figures, which sources, do they use? If I recall correctly, you said that you were dealing more with forecasts than with prior data.

Last week, in western Canada, most of Canada Post workers' union representatives said that you used Conference Board of Canada figures. We heard that over and over again.

Are you able to confirm or deny that statement?

Mr. Pierre Lanctôt: We did not use the Conference Board of Canada figures.

We conducted two types of primary analyses. We used historical results from the last five years and 10-year forecasts up to 2026.

For the historical data, we used the corporation's audited financial statements and internal management reports. We also validated some of the information with external public information or with some research that we conducted ourselves.

For the future data, once again, we took information that exists in Canada Post. We created our own information. We validated the figures, such as those dealing with projected revenue and projected volume, and compared them with some existing analyses or with analyses that we conducted ourselves, to confirm that the estimates were reasonable. The result is a mixture of Canada Post's public information.

The Conference Board report was not used in our analysis at all.

Mr. Alupa Clarke: Thank you.

The moratorium on rural Canada Post office closures has been in effect since 1996, if I am not mistaken. Do you think that, if the moratorium were ended, it would cause an erosion of Canada Post's infrastructure and would be the beginning of the end of Canada Post?

Do you believe that the moratorium is a tool being used to preserve the very existence of Canada Post's public service?

Mr. Charles-Antoine St-Jean: Thank you for the question.

No, I do not think that that would be the case. If the moratorium—which dates from 1996 or 1994—were lifted, corrected or amended, Canada Post could continue its presence in a number of areas. Currently, the business model is quite rigid. Lifting or modifying the moratorium could give Canada Post more flexibility, which could work better financially.

Mr. Alupa Clarke: Thank you.

[*English*]

The Chair: Thank you very much.

Mr. Weir, you have seven minutes, please.

Mr. Erin Weir: Thank you.

Mr. Lanctôt, you are a former senior manager with Canada Post. Is that correct?

Mr. Pierre Lanctôt: Yes, that's correct, as my colleague mentioned at the beginning, although it was reported that I was a chief financial officer, which was not the case. I was actually a general manager in finance. I'm glad that people gave me a promotion, but that was not the case.

Voices: Oh, oh!

Mr. Erin Weir: Thanks for clarifying that.

Clearly that background does give you a lot of insight and expertise, which are very much welcomed by the committee. I bring it up because the rationale for having management consultants, of course, is to get an independent and fresh perspective. It's important to be clear that you also have the perspective of Canada Post management, which is certainly an important perspective for this committee. I wanted to make sure that we had it clearly on the record.

Mr. Pierre Lanctôt: I appreciate that.

Mr. Erin Weir: Mr. Spear, your firm, Oliver Wyman, also produced a report entitled "Shipping and Logistics 2016", which I believe projected a huge increase globally in grocery purchases online and presented this as a huge business opportunity. You didn't see it as being an opportunity for Canada Post, and I wonder why that is.

● (1130)

Mr. Bruce Spear: Without referring to the report specifically—I would have to refresh myself on that one—we look at the grocery business as particularly competitive and also more challenging to serve because of the perishability of the goods being shipped. Therefore, the logistics systems required to serve grocery and those required to serve parcel and mail are not necessarily compatible.

Mr. Erin Weir: Okay. Just to clarify, the report in question was called "Transport & Logistics 2016". I think I may have used the word "shipping" a moment ago.

Certainly, the grocery business itself is very competitive, but we're talking about the logistics of delivering groceries. Canada Post does have some very quick delivery, but is it your sense that perhaps it's just not quick enough to get into that business in an effective way?

Mr. Bruce Spear: It's not just a matter of speed, and it's not out of the question, but it is a matter of the needs of perishable goods versus dry goods, retail, parts, industrial products, and apparel, the primary commodity groups that Canada Post is shipping, versus perishable goods.

Mr. Erin Weir: Okay. That's fair enough.

One of the things that I wondered about in reading your report is that often it seemed that you would conclude that Canada Post lacked a capability to do something and therefore shouldn't pursue that option. Whereas at other times you would observe that Canada Post actually had an advantage in a certain area, but you then concluded that it shouldn't use that advantage because it would be unfair to private competitors. It seemed that Canada Post couldn't win. Either they lacked the capability, or if they had the capability, you didn't want them to use it.

Mr. Bruce Spear: You'd have to point to a specific advantage that you're referring to. I do agree that there were a number of potential market opportunities or potential initiatives that would involve subsidizing Canada Post and putting them in competition with private market participants, which we did question as to the fairness, but it's certainly a policy decision and not our decision. If there are specific initiatives you want to refer to, I can try to address them.

Mr. Erin Weir: Sure.

To get into specifics, maybe let's talk about payday lending. It seemed that two objections were that Canada Post wouldn't have a source of funds, which struck me as a very strange objection given that it's a federal crown corporation. The second objection was that it wouldn't have the capacity to make collections, which again seems very strange in view of the fact that it's part of the federal government. Canada student loans has very good collections because it's done by the Canada Revenue Agency.

It seems to me that Canada Post would actually be exceptionally well positioned to engage in payday lending. It's just that you don't think it would be appropriate for it to utilize those advantages.

Mr. Bruce Spear: I have a couple of points of clarification. One, Canada Post today isn't a bank. While it is a government crown corporation, it doesn't have open access to borrow. That could be a change, and that would require a change to the banking regulation for this industry and this country, but that is an option, certainly.

I wouldn't comment on its ability to make collections per se, but it's also true that making loans, assessing consumer credit risk, are not activities that are part of the capabilities that Canada Post has today. There's also some question about the practices of payday lending as an industry and whether that would be of interest to Canada Post as a crown corporation.

Mr. Erin Weir: I guess, by definition, it's true that Canada Post doesn't have that expertise right now because it's not currently in the business.

There are other post offices around the world that have postal banking as a big part of their enterprises. I think in your report you consulted with La Poste and Royal Mail. Is that right?

Mr. Bruce Spear: We're familiar with La Poste and Royal Mail from their own success in the market, or activities in the market.

We've also done work with some of the post offices around the world, and in certain cases, even some of the banks. We certainly have one of the largest banking practices among management consultancies in the world.

However, one of the key observations we made in the report was that in other countries where postal banking had really taken root, we saw a tendency towards either direct subsidization, as in the case of La Poste where it has an exclusive franchise on certain types of bond, or they had established themselves in markets long ago with a physical branch presence, which was much more of a necessity and an underserved need than we see today in Canada. The cost of banking was significantly higher than we see today in Canada. Also, it predated the move to electronic banking, which now negates some of the value of having a significant branch presence.

● (1135)

Mr. Erin Weir: What about—

The Chair: I'm sorry, Mr. Weir, we're out of time, but we will have other opportunities. These gentlemen are with us for the next hour and a half or so.

Mr. Whalen, you're up next on my list. I understand that you'll be asking questions that you prefer to be in camera.

Mr. Nick Whalen: Yes, please.

The Chair: Mr. Grewal, you will get a five-minute round in camera as well.

Mr. McCauley, I understand you'd like yours in public?

Mr. Kelly McCauley: No, in camera.

The Chair: We will suspend then for just a few moments—

Mr. Erin Weir: Mr. Chair, can we go back to public?

The Chair: Absolutely, we can go back to public, but for the next few questions we will be in camera.

We'll suspend for a few minutes to allow that process to take place.

[*Proceedings continue in camera*]

● (1135)

(Pause)

● (1215)

[*Public proceedings resume*]

The Chair: We have resumed.

[*Translation*]

Mr. Clarke, you have seven minutes.

Mr. Alupa Clarke: Thank you, Mr. Chair.

Mr. St-Jean, you said that a $700 million deficit is an optimistic figure. What is the less optimistic view? Is it much higher?

● (1220)

Mr. Charles-Antoine St-Jean: We looked at all the variables. Canada Post put an estimate on the table that looked plausible to us, but our report indicated that the figure could be higher. It would be hard for me to suggest a figure, but that is the optimistic end of the deficit we forecast.

Mr. Alupa Clarke: I would also like to know if your firm has conducted financial analyses on the postal services in other countries or whether this is the first time that you have done so.

Mr. Charles-Antoine St-Jean: Over the years, our office has worked with various postal organizations in Japan, in Germany and in England. My colleague has also worked with postal corporations like Canada Post. Earlier in my career, I worked with Canada Post. I dealt with Canada Post when I was here in Ottawa. So we have a good understanding of the postal business.

Mr. Alupa Clarke: Very good, thank you.

Various suggestions have been made about adding services. In your opinion, which of those services could most likely put Canada Post back on a profitable footing and—at least hopefully—remove its deficit difficulties once and for all?

Mr. Charles-Antoine St-Jean: Perhaps I could ask

[*English*]

my colleague, Bruce, from Oliver Weyman, because they looked at more cities, what the options are to generate more revenue and more bottom line.

Mr. Bruce Spear: Thank you for the question.

We looked at business opportunities along a number of different lines, including ways to leverage the available labour capacity and the assets of Canada Post. By and large, any incremental or adjacent opportunities were marginal improvements, and sometimes they ran into some of the same issues we were discussing earlier, such as potential acquisitions of a subsidized market participant.

That said, a handful of opportunities were potential new business gainers. Advertising was one of them. I think it was around $20 million. Certainly, the largest though was not on the new business opportunity, it was more on changing the business model to meet the public need, which was rationalizing the retail footprint.

[*Translation*]

Mr. Alupa Clarke: In European countries, a postal banking service is currently in operation. Does it work well? What could you tell the committee about it?

[*English*]

Mr. Bruce Spear: They are really country specific. Bear with me. There are success stories and there are failures in postal banking across Europe and in Asia. Those that have been established for many decades are significant aggregators of deposits such as in Japan and Italy, which was an underserved market where the post bank has been in existence for quite some time; in others, a post bank launched in 2007 was closed in 2010.

In Brazil, it's a significant bank, but it's a money-loser. By and large, the post banks that have been most successful have been subsidized where they have been in existence for decades.

[*Translation*]

Mr. Alupa Clarke: Okay.

[*English*]

Mr. Bruce Spear: There are very few unmet needs that would justify a state-sponsored entry into postal banking in Canada today.

[*Translation*]

Mr. Alupa Clarke: We heard testimony from officials of the Canadian Union of Postal Workers, Canada Post’s biggest trade union. They constantly said that your figures were in error or were based on other figures that were in error.

Despite that, are you comfortable that the task force report is reliable and that the Ernst & Young study was independent? Is the union being dishonest? Can Ernst & Young state that the figures really were obtained independently and they are not in error?

● (1225)

Mr. Charles-Antoine St-Jean: We can confirm that our analysis was done independently. We are satisfied with the figures that we have submitted in our report.

We are used to conducting due diligence analyses for major companies, specifically in connection with transactions. Like ourselves, the colleagues with whom we work in this kind of analysis are definite: the figures on the table are valid.

Mr. Alupa Clarke: Thank you.

[*English*]

The Chair: Mr. Weir, we're still in public. Seven minutes, please.

Mr. Erin Weir: Thanks very much.

I'd like to pick up where I left off with Mr. Spear about postal banking options in Europe. Mr. Clarke broached this topic as well.

I want to ask you specifically about Swiss Post. It's been suggested that postal banking only works where the private banking sector is underdeveloped, and that's clearly not the case in Switzerland. I wonder what your thoughts are on the success of Swiss Post as an integrated post office and banking operation.

Mr. Bruce Spear: I can't comment specifically in any detail on Swiss Post, not being an authority on Swiss Post per se. I can apply the broader lessons that we've been talking about across multiple geographies, such as the success of the banks that are serving unmet needs.

Depending on the source you choose to cite, the under-banked population of Canada is either 6% or 1%. In our view, it leaves relatively little opportunity to go after new market space with essentially the same capabilities as an established industry and try to compete for that business.

Mr. Erin Weir: No, fair enough, but I guess my suggestion is that Switzerland didn't suffer from a lack of banking services, and yet Swiss Post has been very successful in that sector. I take your point that perhaps you're not an expert on Swiss Post, so I've sort of put you on the spot, but I just wonder why, in this research for the task force, there was so much focus on La Poste and Royal Mail rather than on Swiss Post, which seems like a really positive example.

Mr. Bruce Spear: If there's an opportunity or lesson to be learned from Swiss Post, we'd be happy to follow up. I'm not in the position to state definitively why it was successful there and not in some of the other markets.

Mr. Erin Weir: Okay.

I'd like to ask Ernst & Young about the pension situation at Canada Post. I think you identified it as one of the major financial challenges facing the corporation.

It really comes down to an accounting choice. If we view the pension in terms of a solvency valuation, then there's this huge unfunded liability, but it's not very realistic that Canada Post would have to shut down its pension tomorrow and pay out all the benefits. A far more relevant accounting metric would be a going concern valuation, which actually shows a surplus.

Do you think it would be reasonable for the federal government to simply exempt Canada Post as a federal crown corporation from solvency valuation? Would that address a lot of the challenge that you identified?

Mr. Uros Karadzic (Partner, People Advisory Services, Ernst & Young): That in fact is one of the alternatives listed as a possible alternative to making the contributions. Essentially, extending the current exemptions or making them permanent would be an alternative.

Again, that changes the cash contributions into the plan, which is what's at issue. It also decreases the contributions to the plan, so from the perspective of benefit security, to the extent that the plan is wound up at some point, then there would be a risk.

Mr. Erin Weir: Do you see that type of exemption as a viable option that would materially improve Canada Post's financial outlook?

Mr. Uros Karadzic: Sure. If the exemption continues or is made permanent, then those large contributions that we're discussing would not have to be made.

Mr. Erin Weir: Okay.

To go back to the topic of postal banking, the case has been made that Canada has a very strong private banking sector, and hence there is maybe not as much need or demand for postal banking. But is it also not the case that in part because of restrictions on foreign ownership of banks, the Canadian banking sector could be characterized as an oligopoly, with five big banks dominating the market earning very good profits, and doesn't that open the opportunity for other Canadian-owned competitors such as, potentially, Canada Post?

● (1230)

Mr. Bruce Spear: It's certainly a fair challenge to ask is Canada the lowest cost to consumers market for banking services? The answer is it is not the lowest cost. It is a very heavily banked country. It isn't the lowest cost, but it's far from the highest.

That said, there's little to say that the banks wouldn't respond to the entry by Canada Post in the market with more aggressive pricing —

Mr. Erin Weir: Wouldn't that be a good outcome?

Mr. Bruce Spear: —or they could do that today. I guess the question is, is that the necessary catalyst? If that's what's deemed good policy, then that is a basis.

Mr. Erin Weir: I take your point that the banks might respond with lower pricing, which might reduce the opportunity for Canada Post to make money off postal banking, but I think, as you also suggest, there's a really strong public policy argument for provoking the banks to lower their fees. To me, that would be one of the strong points for postal banking.

Perhaps it's beyond the scope of the study you did.

Mr. Bruce Spear: It's a very fair question and a challenge to the observations of the report, as opposed to the recommendations.

I would simply point out that doing so would require significant investment on the part of Canada Post and the government in building skills and capabilities that clearly are not present today and in taking a significant amount of risk. If the goal is to lower the cost of banking services to Canadians, then there are other policy measures one might explore.

Mr. Erin Weir: Fair enough. We could let American banks into the Canadian market, but there are other policy reasons we might not choose to do that.

It's true that getting Canada Post into banking would require some big investments and some capabilities that aren't there now. I guess that's one of the reasons that I think it would be very interesting to look a bit more closely at examples like Swiss Post, where you have post offices that have done so, seemingly, with a great deal of success.

The Chair: Thank you very much

We're now going to Monsieur Ayoub.

Monsieur Ayoub, do you wish to be in public or in camera?

In public. You have seven minutes, please.

[*Translation*]

Mr. Ramez Ayoub: Thank you, Mr. Chair.

Thank you for joining us.

I have seven minutes. In that amount of time, it is not always easy to ask questions and get complete answers. I am going to try to make my questions short and more direct, without too much preamble.

Different approaches are possible. Depending on the studies conducted or the vision used to reach a result, Canada Post can be seen as a service or as a commercial enterprise that provides a service using the user-pay principle. You can see it like that.

Would your study have produced a different vision or different recommendations if you had used a different philosophy or approach —an approach not strictly focused on the business aspects, the profitability, the lack of subsidies, the overall viability? Canada Post could instead have been seen as a service like health care, meaning that there are always costs, but there is no deficit because it is an essential service.

Would the approach substantially change the results?

Mr. Pierre Lanctôt: Thank you for the question.

We conducted a relatively independent study. We considered Canada Post's financial situation without looking at its funding formula or at it being a public service. In that sense, our study has no impact on the model chosen. The principle that the review panel used was that Canada Post had to continue to be self-sufficient. In terms of the financial projections and financial analysis, it had very little impact. I am talking about future projections.

● (1235)

Mr. Ramez Ayoub: We talk about economic impacts, but there are also social impacts. We were able to see that when we toured the whole country. We visited urban areas, but also rural ones. Yes, there are immediate financial impacts, but there are also social impacts.

Have you considered those in your analysis?

Mr. Pierre Lanctôt: That was not part of our mandate. We looked strictly at the financial aspect.

Mr. Ramez Ayoub: I'm looking at my notes. You talk about cost centres compared to service centres. There's a difference there. Those are two different visions, philosophies.

Later, when the time comes to make political decisions, we look at the various service options to create new sources of revenue. As I see it, we look at ways to downsize, to streamline processes, and we look for new revenue, whether through marketing strategies or advertising revenue. The idea is to go beyond Canada Post's main activity, which is first and foremost a mail and parcel delivery company. We are even looking at telecommunications possibilities, a postal banking service, and all sorts of other approaches.

Do we not weaken the corporation when your mandate is very focused on finance and we are trying to break out of the main activity?

Mr. Pierre Lanctôt: We studied the financial side.

I'm not sure whether Mr. Spear has any comments on revenue.

[*English*]

Mr. Bruce Spear: On the revenue side, what we found by and large, on any of the incremental...what's called the new lines of business, was that potential game-changers like postal banking were evaluated on the merits of the capabilities of the company and the needs of Canadians and whether or not the competitive environment would be conducive to Canada Post as a market participant.

On other potential new lines of business that were more built around asset leverage or leveraging the existing personnel, we were unable to come up with new activities or new lines of business that generated higher returns than managing the business to its proper scale and its proper network structure to meet the needs of the future, which is declining mail volumes and increasing parcel volumes.

[*Translation*]

Mr. Ramez Ayoub: Should a second phase be added to the study? It is certain that, as consultants, you are happy to hear that, but that's not the goal. The second phase would look at merging some government services. We heard about the prospect of merging services and taking advantage of Canada Post's establishment to save elsewhere.

I see a lot of work is being done in silos. Canada Post is seen vertically, whereas there are government services across Canada.

Have you looked at that in your study? Can you shed a bit more light on that for me?

Mr. Pierre Lanctôt: Yes. Mr. Spear can talk about the study that was done.

[*English*]

Mr. Bruce Spear: It's a fair question. We were focused principally on Canada Post, but we did look at the Service Canada centres, particularly in the more rural areas, as an opportunity to potentially both increase service to Canadians in those areas as well as to reduce costs.

The typical staffing level of a Service Canada centre, given the amount of traffic, was fairly modest, so we were looking to consolidate different government services into one physical entity and with the necessary staff requirement. That, in fact, was one of the savings initiatives that we identified.

[*Translation*]

Mr. Ramez Ayoub: If we want to go a bit further, the socio-economic aspect is still missing. What is the impact of cuts or changes to the services? For instance, we talked about mail being delivered once or twice a week. Your study needs the socio-economic side to know what impact those new options would have. It is a financial report, but the socio-economic side is missing.

At any rate, that answers my questions. Thank you.

[*English*]

The Chair: You have virtually no time left, Mr. Ayoub.

Mr. Ramez Ayoub: Maybe 15 seconds, but it's okay.

The Chair: We'll go to Mr. McCauley, for five minutes, please.

Mr. Kelly McCauley: Gentlemen, I want to bounce back to the pension solvency.

You mentioned that if we just extended the holiday, forever changed the legislation....

How do you view that from competition like the private sector? Would that not be an unfair advantage for Canada Post over FedEx, or other companies that have to follow the solvency rules?

● (1240)

Mr. Uros Karadzic: Thank you for that question. I think it's a fair question and a fair perspective.

Again, it would depend on where the different plans are registered. I talked about, for example, the difference in the level of solvency. If you're a federally registered plan, that might include indexing; whereas, for example, if you were registered in Ontario, indexing would not be included in that solvency deficit. There would be jurisdictional differences as well. It's not all absolutely equal.

I think the other perspective to take is that Canada Post.... Certainly, this plan is a legacy public sector plan, and the private sector competitors do not have plans like this. There is that dimension to it as well. Canada Post has a legacy plan that the private sector competitors did not originate with.

Mr. Kelly McCauley: This is where we're in a current surplus, but I understand that is because Canada Post has poured in a present value of about an added $2.5 billion, or along those lines, for the solvency payments they're required to do. Is that correct?

Mr. Uros Karadzic: The plan is in a solvency deficit.

Mr. Kelly McCauley: The current surplus is a catch-22, because Canada Post has been required to pour money in for the solvency, so the only reason we're in a current surplus is because of that money they've poured in to match the solvency requirements.

Mr. Uros Karadzic: The plan is not in surplus, other than the small surplus—

Mr. Kelly McCauley: Current.

Mr. Uros Karadzic: —on an ongoing concern basis, if that's what you're referring to.

Mr. Kelly McCauley: That's because Canada Post has thrown in a couple of extra billion....

Mr. Uros Karadzic: Canada Post had the exemption from solvency contributions, so it's not the solvency contributions that led it there. I think the biggest difference is the way these valuations are done. We're assuming a much higher discount rate on an ongoing concern basis, which reduces the liability, and we're assuming a very low discount rate on solvency, which inflates the liability. That is the difference that is accounting for a small surplus here and a large deficit there.

Mr. Kelly McCauley: One of the items you mentioned, not on the pension, but just on door to door, on page 98 of your report you talk about—

The Chair: Which report, Mr. McCauley?

Mr. Kelly McCauley: Sorry, the Ernst & Young report, you talked about—

The Chair: Mr. McCauley, I believe we would need to be in camera if we want to discuss any of that.

Mr. Kelly McCauley: All right, I will skip that question, then.

I want to follow up on Mr. Ayoub's question.

Mr. Spear, you've mentioned quite a few items for revenue raising, but in the grand scheme of things, on a $6 billion a year giant company, they're almost like rounding error items. One of the things we heard from a witness this morning from eBay was to stick to your core, and stick to what you know. Do you think that's a valid way to go rather than chasing a panacea, such as postal banking, or a couple of million dollars here and a couple of million there?

Mr. Bruce Spear: I do think there is a lot of merit in the strategy of sticking to your knitting and core focus. I think there was a legitimate risk of misinterpretation of our report, which cast a wide net and evaluated almost 40 potential opportunities, which clearly this group did not misinterpret. We purposefully narrowed down those that we felt would not be in the long-term interest of Canada Post or necessary to Canadians, and we settled on around seven or so ideas for consideration. Even within those, there are a few that are relatively modest. If we thought that postal banking was going to be a billion dollar idea for profit generation, then it would have been one of our strong recommendations. It's simply that we don't think the core capabilities are present today with Canada Post.

Mr. Kelly McCauley: Very quickly, if we went to full postal banking, how many dollars would be required to capitalize us, if we were to go with full services across the country in all 6,000.... What's a ballpark figure, in the billions?

Mr. Bruce Spear: It's a fair question, but it really depends on the line of business that Canada Post gets into. As we've contemplated postal banking, it's more of a storefront services provider and interface to other major banks.

Mr. Kelly McCauley: It's almost like renting out to the other banks.

Mr. Bruce Spear: That's right.

The Chair: We'll have to cut it off there.

Madam Ratansi, you have five minutes. Do you wish to be in public?

Ms. Yasmin Ratansi: In public, please.

Thank you all again.

I'll make some statements, and then you'll all have chance to respond.

We hear from the ground, and we have been consulting widely, that for 19 of the past 20 years Canada Post has been making profit, giving dividends, and paying taxes, and it's billions of dollars. The assumptions you've made are probably a little skewed because you had to take data, which was sometimes consistent and sometimes was not consistent. You have answered that in your previous questions, but what I also understood from the ground was that Canada Post management is not thinking outside the box, and it does not have an integrated approach to thinking. Now that's not your mandate, because your mandate was totally different. We have to find a fine balance. When you say to stick to your knitting, if you stick to your knitting and the wool is going, what the hell do you do then? You have to think creatively and outside the box. My question is, what other strategic areas would you look at?

You're suggesting that Canada Post in its current format might just about disintegrate. Should it?

Mr. Spear, the question I have for you specifically is about Australia. I looked at Australia, and it is in the same ballpark figure as us with a large land mass and a high rural population, but it has very successful postal banking. With a population of 24 million, it seems to be making $6.6 billion in revenue. What can we learn, and have you had the opportunity for lessons learned? We cannot just pooh-pooh it because maybe in 1968 the postal bank was successful, and then the banking lobby came. We need to be balanced. Give me your analysis of it, and then I'll ask the other question.

• (1245)

Mr. Bruce Spear: To your first question, I certainly agree that sticking to your knitting if the wool is running out is not a viable long-term strategy. While we certainly were not mandated to do a managerial assessment of Canada Post, there is certainly no shortage of ideas being explored by Canada Post within the context of that business about how they can leverage it further and make it more profitable. As part of the study, we did get, in some detail, into some of their past investigations of specific business opportunities and where there might be opportunities for both cost reductions and incremental revenue, and we found them to be fairly comprehensive.

Ms. Yasmin Ratansi: Okay. Because it is referred to in the report, perhaps we won't talk about it at the moment.

Therefore, my question is for the accountants here. You are EY. Would you give your business to PwC?

Mr. Pierre Lanctôt: Would we give our business to a competitor? No.

Ms. Yasmin Ratansi: Good. Why is the corporation opening franchise stores next to the corporate stores and passing on retail business to them? Did anybody talk to them about why this is the strategy? They do not charge a franchise fee. Those are the questions we are hearing from the ground, and we need to know.

Mr. Charles-Antoine St-Jean: I think my colleague who is here from Oliver Wyman can answer that very specific question.

Mr. Bruce Spear: I'll do my best. Thank you for the question.

The question is why Canada Post is franchising in areas that might otherwise have a post office to serve the public need. There are a number of reasons. One is that certain areas don't provide as much coverage within a certain distance radius, so there is a strong case for franchising in those areas. The second is that the franchisees' hours are actually longer than those of a particular post office. While I accept your point that they are creating competition, I would also submit that they are improving service to Canadians by increasing their amount of franchising.

Ms. Yasmin Ratansi: The next thing I want to know is, what do we do in rural and remote areas that do not have a franchise post office, if we want social cohesion and economic growth?

Mr. Bruce Spear: I would argue that some of the best opportunities for franchising are in the rural and remote areas, because it doesn't require significant real estate investment and other staffing for thinly used services that Canada Post would offer, and instead allows you to piggyback on investment made by others in that market to provide better service to Canadians.

• (1250)

Ms. Yasmin Ratansi: Thank you.

The Chair: Mr. McCauley, you have five minutes, please.

Mr. Kelly McCauley: I want to follow up on the retail question. My understanding is that, if you have a Canada Post store and a retail next door, and the retail is selling stamps, etc., that's not shared profit. That's not profit going to Shoppers Drug Mart. They are selling Canada Post services. The more retail you have selling your services.... The monies all go into Canada Post anyway for these services and stamps sold, do they not?

Mr. Bruce Spear: There is a split, and Canada Post is earning a profit on the services sold by the franchisees. That's correct.

Mr. Kelly McCauley: I'm short on time, so quickly....

A lot of the issues you brought up, and you mentioned a report, seem to come back to labour and the labour agreement. Going forward, do you see this as a stumbling block, perhaps, for a lot of the ideas that you mentioned, whether it's shared or new services?

Mr. Bruce Spear: Thank you for the question. I'll address it in the context of the two most significant opportunities—the first being alternate-day delivery and the other being the retail footprint—and maybe turn it over to my colleagues.

On alternate-day delivery, there is certainly a significant number of restrictions as to how Canada Post can adjust its service footprint and achieve savings by making a change from daily to alternate-day delivery. I want to point out that we did evaluate alternate-day delivery across the board and alternate-day delivery only for mail services, and the latter was what survived as an option. Parcel delivery would remain daily and might even go to six days a week, given the market demand and the profit motive.

Yes, there are significant constraints, but those constraints are timing issues as to when those savings can be realized, as opposed to whether or not they can be done.

On the retail footprint, there is the CUPW agreement and the moratorium, which materially limits the number of physical branches that can be rationalized or converted to franchises today. That would require policy action in order to achieve those savings.

Mr. Kelly McCauley: Gentlemen, we're really short of time.

I've asked before, but now we're in public. Is switching over to community mailboxes the number one thing that we can do to help rationalize costs and continue services to Canadians at a reasonable price?

Mr. Pierre Lanctôt: When fully implemented, conversion should provide $400 million to $500 million of annual savings. That's certainly an important measure that could be implemented in a relatively short time.

Mr. Kelly McCauley: It's tough to use a crystal ball, but do you see any massive disrupter coming along that could significantly negatively affect Canada Post parcel delivery? We're seeing that in a couple of years it's going to be 50% of the revenue. Uber is talking about getting into parcel drones.

How big a risk is it that in two, three, or five years from now we're going to have a massive problem because of this?

Mr. Pierre Lanctôt: It is a big risk. We're seeing changes in technology: 3-D printing will have a significant impact on parcels as goods are being produced or printed closer to reality, and drones.... It's very hard to assess how fast and how—

Mr. Kelly McCauley: It really underlines just how important it is that we as a group come up with some immediate solutions to address these looming losses.

Mr. Pierre Lanctôt: Yes. It's an important business.

Mr. Kelly McCauley: You're right. The $700 million could be very optimistic. It could be $1 billion if some disrupter comes along and wipes out parcel service delivery.

The Chair: Mr. Whalen, you have five minutes, and we're in public.

Mr. Nick Whalen: Mr. Chair, before I ask questions of the witnesses, I'd like to know whether you would consider it fair game for me to ask them about things that specifically aren't in the report.

The Chair: I would; however, I would also ask the witnesses to comment on whether they think it would be breaching any confidentiality.

Proceed with the question, please.

Mr. Nick Whalen: Mr. Spear, I'll start with you.

In the in camera session, we had some discussions. It appears from my perspective that there was no analysis done on whether or not Canada Post should pursue a digital or a future services-style bank at the higher end of the market, accessing SMEs that are already their customers in packaging.

Are you limited in your ability to assess those aspects of future banking growth by the corporation, or was Oliver Wyman given free rein to assess all possibilities of a profitable bank?

● (1255)

Mr. Bruce Spear: That's a good question.

I would submit to you that we did evaluate all different types of business banking models, as well as retail banking models. Our first filter was the strategic assessment and fit assessment, and the second was the business case. On that basis, it wasn't deemed to be a particularly compelling opportunity or a public necessity, in our view, for Canada Post to get into small and medium-sized banking.

Mr. Nick Whalen: We've heard a lot about the United States subsidizing its postal service to the tune of $5 billion a year. From your assessment as an international postal expert, do you feel that this provides their industry and their digital marketplace with an advantage that Canada does not enjoy because we don't have a similar subsidy?

Mr. Bruce Spear: I really couldn't comment on whether the USPS enjoys a superior level of subsidy and whether that translates directly into market advantage.

Mr. Nick Whalen: Okay, fair enough.

Now I'll turn to the folks from Ernst & Young.

Mr. St-Jean, when we looked at community mailboxes as a delivery model, we heard different numbers in terms of how much cost savings could actually be generated. When we tried to determine whether there would be any net effect on revenues, we didn't see any analysis in that regard. When I think of people in suburban Canada who have community mailboxes, they might have a preference to order packages that would be delivered to their door by FedEx or UPS, whereas Canada Post is only going to send it to the community mailbox.

Did you examine any market differentials between community mailbox delivery versus door-to-door delivery as it relates to future market opportunities and future revenue opportunities for Canada Post?

Mr. Pierre Lanctôt: When we looked at the community mailbox, we focused on the conversion. We didn't assess its impact on the revenue side.

Mr. Nick Whalen: So, you didn't examine the revenue side.

Mr. Pierre Lanctôt: We didn't look at the revenue side because when we looked at the existing population, some are door to door and some are parcel. It was hard to establish any difference between behaviours.

Mr. Nick Whalen: What length of a pilot do you think Canada Post would need to run to determine whether or not there were any negative impacts on their overall revenue, from a service perspective, on these converted homes? Is it something that they could figure out in a year? Would it require two years to figure out whether or not this reduced service level of community mailboxes has caused attrition in other lines of their business to privatized players? How long should we pilot or examine such a scenario?

Mr. Pierre Lanctôt: It's very hard to respond.

I don't necessarily know how long it would take to validate that assumption, but certainly Canada Post has been looking at the impact on the people they have converted from 2014.

However, the take on parcel delivery for community mailboxes is typically positive. People can get their parcels in their mailbox and they see that as a benefit. So it would have to be—

Mr. Nick Whalen: Okay, so we see it as a benefit, and yet in all the analysis we have, it's net neutral on the revenue line.

Was revenue examined, or was revenue simply not examined at all as it pertains to community mailbox conversion?

Mr. Pierre Lanctôt: We didn't look at the revenue.

My comment was more about how people are satisfied with the service delivery, not necessarily from ordering more or quantitative —

Mr. Nick Whalen: But they wouldn't know about the packages delivered by a competitor.

Mr. Pierre Lanctôt: Canada Post?

Mr. Nick Whalen: Yes.

Mr. Pierre Lanctôt: They may know.

Mr. Nick Whalen: They may know. Okay.

The Chair: Thank you very much.

Mr. Weir, you have three minutes. Very quickly, please.

Mr. Erin Weir: I have a question for Ernst & Young.

How much revenue does Canada Post currently earn from the sale of collectors' items or commemorative stamps?

Mr. Pierre Lanctôt: That's a good question.

It's marginal, but I don't have the exact information. It's bundled with the other revenue.

Mr. Erin Weir: Okay.

We did hear from a witness in Yellowknife who suggested that Canada Post is not doing enough to support that hobby, and that if it did more, there is the potential for additional revenue. Specifically, he pointed to a recent stamp collecting convention in New York City that drew thousands of people from all over the world. His sense was that if we could attract events like that to Canada, it would be a significant source of new revenue for Canada Post and also a source of tourism and economic development for the country.

I wonder if you have any thoughts on that. I'd also open it up to Mr. Spear.

● (1300)

Mr. Charles-Antoine St-Jean: As my colleague said, those additional revenues are truly marginal, and they are bundled into the other revenue. It would be truly a rounding error.

To put this to rest, that's not a major source of revenue, capital—

Mr. Erin Weir: It's not a major source of revenue right now, but I take it you also don't see it as a significant source of potential revenue.

Mr. Charles-Antoine St-Jean: I agree with that. We don't see it as a major source of revenue.

Mr. Erin Weir: Okay.

We heard there hasn't been one of these big international stamp collecting conventions in Canada for a long time. Is that something we should be pursuing? Is there a significant opportunity there, if not for Canada Post, then for Canadian tourism in general?

Mr. Charles-Antoine St-Jean: I would ask that question more to tourism Canada.

Mr. Erin Weir: Okay, but no particular....

I just note that many options were touched on by the report. This wasn't one of them, so I thought I should put it on the table to see if there were any thoughts.

Mr. Charles-Antoine St-Jean: I would ask tourism Canada to answer that question.

The Chair: Gentlemen, thank you very much for being here. Your testimony has been excellent and very informative, and I think very helpful for our committee.

Should there be additional information that committee members are looking for, would you accept any written questions?

A voice: Of course.

The Chair: Subsequently and conversely, should there be any additional information that you wish to transfer to us, please get hold of our clerk and get that into us as quickly as possible.

Thank you so much.

We will suspend for a few moments while we get our next witnesses.

● (1300)

(Pause)

● (1310)

The Chair: Colleagues, I think we'll start so we can try to get close to completion on time.

Thank you to all our witnesses for being here. I'm quite sure that all of you are familiar with the process that we follow. We'll be asking those making presentations to do so in five minutes or less. Following all opening statements, we will have a round of questions from our committee members.

With that brief introduction, we will start.

I have the Department of Finance up first with a presentation.

Ms. Hemmings, you have five minutes. Please proceed.

Ms. Lynn Hemmings (Senior Chief, Payments and Pensions, Financial Sector Policy Branch, Department of Finance): Thank you very much, Mr. Chair.

Good afternoon. My name is Lynn Hemmings. I'm the senior chief of the pensions team in the financial sector policy branch at the Department of Finance.

I'm here today to answer your questions about the Canada Post pension plan, but let me first provide you with a bit of context on the funding requirements under federal pension legislation, the Pension Benefits Standards Act, or PBSA.

Under the PBSA, the federal government regulates the plans of crown corporations and private sector plans covering areas of employment under federal jurisdiction, such as telecommunications, banking, and interprovincial transportation. At this time, there are over 1,200 federally regulated pension plans, and over 300 of those are defined benefit plans. Canada Post's is the largest defined benefit plan under federal jurisdiction, with almost $22 billion in plan assets as of December 31, 2015.

Under the PBSA, defined benefit pension plans are required to be funded on both a going concern and a solvency basis. “Going concern” assumes the plan operates indefinitely, whereas solvency assumes the plan is terminated and all the promised pension benefits must be paid immediately.

The intent of the solvency funding requirement is to protect the pension benefits of plan members and retirees by ensuring that plan assets are sufficient to meet the plan's full obligation. In cases where a plan does not have a solvency funding deficit, the PBSA provides the flexibility to fund that deficit over a period of five years.

Today, some plan sponsors continue to face funding challenges for their defined benefit plans as a result of a combination of factors, including the ongoing low interest rate environment, volatile market returns, and increasing life expectancy of retirees. Over the last 10 years, the government has implemented a number of reforms to provide funding relief to plans to address these challenges.

In 2006, a sharp decline in long-term interest rates combined with poor investment returns and increasing life expectancies resulted in solvency deficits in many plans. To help alleviate these pressures, the government passed temporary solvency funding relief measures that allowed solvency deficits to be paid over a longer period. Following the implementation of these measures, funding levels in plans began to improve.

In 2009, following the financial crisis, plan funding levels began deteriorating again as a result of the significant decline in global markets and even further reductions in interest rates. To help plans address these challenges, the government once again passed temporary funding relief measures. As it became apparent that low interest rates and uncertain market returns were becoming the new normal, the government moved to put in place permanent relief measures. These measures included allowing the use of letters of credit to cover solvency special payments up to a limit of 15% of the market value of plan assets and moving to a three-year average for the calculation of solvency ratios in order to reduce the volatility of a plan's deficit.

For pension plans facing unique financial challenges, the Minister of Finance has the authority to grant funding relief through the use of special regulations. In the case of Air Canada, for example, in order to provide the company with the time needed to restructure its operations, its pension plan was exempted from solvency funding requirements from 2014 to 2020 in exchange for making payments of at least $150 million per year into the plan. As a result of improving its business operations, changes in plan design, and new investment strategy, Air Canada has been able to eliminate its solvency deficit and announced in May 2015 that it was opting out of the special regulations, with the pension plan now in surplus.

The Minister of Finance has also exempted Canada Post from solvency funding requirements from 2014 to 2018. This funding relief was provided within the context of a continued decline in mail volume and little to no net income generated by the corporation. As with Air Canada, the purpose of the relief was to provide Canada Post with the time to make itself financially sustainable. As this funding relief is set to expire at the end of 2017, we are continuing to monitor the developments in Canada Post's pension plan.

We look forward to hearing the recommendations of this committee on the business operations of Canada Post, which will help to inform our advice to the Minister of Finance on the pension plan going forward.

Thank you.

● (1315)

The Chair: Thank you very much.

Now we have Mr. Skinner, for 10 minutes.

Go ahead, please.

Mr. Cory Skinner (Actuary, Mercer (Canada) Limited): Thank you for inviting us to speak with the committee today regarding the Canada Post pension plan.

I would like to make a few observations about the plan, during which I will make reference to the supplementary document that has been circulated, and then we look forward to taking your questions.

I'm an actuary with Mercer, which has been the plan's actuarial firm since its inception in 2000. In my role as an actuary, I work on the annual valuations of the plan prepared for funding and accounting purposes. Our valuations are performed according to the applicable legislation and regulatory guidance under the federal jurisdiction, and according to the professional standards of the Canadian Institute of Actuaries. The results of the valuation are presented each year to Canada Post's management, the pension committee of the board, and the pension advisory council, which includes representatives from management and the various unions.

Joining me is my colleague Michel St-Germain. Michel brings a broader perspective on trends in the pension landscape across the country and over time. Michel plays or has played various roles within the Canadian Institute of Actuaries and the Association of Canadian Pension Management.

I have a few comments on plan size. The Canada Post pension plan has been growing steadily since plan inception. As shown in figure 1 of the supplementary document, the plan's assets have almost tripled in size between 2001 and 2015. Over that same period, the solvency liability more than quadrupled.

The solvency deficit at the end of 2015 was about $6 billion, which has grown to about $8 billion so far in 2016. The biggest driver of the increased solvency liabilities and deficits has been the decline in interest rates in recent years. Figure 2 shows that the interest rate net of inflation used to value the solvency liability had fallen to 1.2% at the end of 2015 versus 2.25% 10 years earlier. By June 30, 2016, that rate had declined to 0.08%.

As it has grown, the plan has become very large compared to the size of Canada Post itself. We've illustrated this in two ways in figures 3 and 4. Figure 3 shows the size of the pension obligation on a corporate accounting basis as a percentage of corporate revenue. This excludes, by the way, the obligation for other non-pension employee benefits which are worth about another $4 billion. This ratio has grown almost every year in the last 10 from 226% to 390% of revenue. To put these numbers in context, the graph also shows the distribution of the same sort of results for organizations in the TSX Composite with DB, defined benefit, pension plans.

Clearly, the growth of Canada Post's pension plan has far outstripped that of its revenue, which has been consistently around $6 billion per year excluding the subsidiaries over the period shown.

Besides the fairly flat revenue, another reason for these large ratios is the relative generosity of the Canada Post plan benefits, for example, full guaranteed indexation. Given the current size of the active membership, and given that many of Canada Post's new hires continue to join the DB component, the plan is expected to continue to grow for many years to come.

Another way to look at relative size is given in figure 4, which shows the employer pension contributions over time also as a percentage of corporate revenue. Canada Post's contribution requirements in the absence of the CPC special relief measures, which Ms. Hemmings described, varied widely between 1% and over 15% during this period.

In figure 5 we show the historical contributions to the Canada Post plan. The solid blue and red bars show how the employee and employer current service contributions have changed over time to reflect a more balanced sharing of these costs. In addition to current service contributions, Canada Post is responsible for funding any deficits. Going concern deficits must be paid off over 15 years. Solvency payment requirements are more complicated since we are required under federal funding rules to determine the special payments based on a three-year average solvency ratio. There are details on these calculations in figure 8 of my supplementary document, but we won't go through those in detail unless they come up in questions.

The striped red bars show Canada Post's deficit contributions, which are over $1.6 billion in total, mostly for solvency deficits. There are two items worth pointing out on this graph. Since 2011, agent crown corporations like Canada Post have been permitted to reduce their solvency special payments up to a cumulative total reduction of 15% of plan assets. Canada Post used this to reduce its special payment requirements from 2011 through 2013 with a cumulative special payment reduction of $2.4 billion. That cumulative reduction limit of 15% of assets would have been reached in 2014 with the chance that the remaining required payments could exceed Canada Post's ability to pay.

● (1320)

In response to this issue, special regulations were enacted in early 2014—that's the CPC special relief—exempting Canada Post from special payment requirements for 2014 through to the end of 2017. The yellow bars in figure 5 show the special payments that would have been made to the plan if the CPC special relief had not happened.

In figure 6, we show the expected range of projected future employer contributions over the next five years, based on market conditions and valuation results as at year-end 2015. As shown by the small blue squares, the median projected contribution over this period ranges from about $260 million to $540 million. However, the graph shows that there's at least a 25% probability of required contributions exceeding $1 billion in 2019 and 2020, as shown by the top of the light green bar. Since year-end, market interest rates have declined significantly, so our current estimates of future contributions would tend to be higher than the ones shown on this graph.

The task force has proposed some options to modify or eliminate solvency funding requirements for Canada Post. The elimination of mandatory solvency funding would relieve much of the short-term funding pressure the plan places on Canada Post; however, significant risks would still remain in the longer term. Even in the absence of solvency special payments, the size of the plan relative to that of Canada Post would remain at least as large. For instance, the relative size of the accounting obligation in figure 3 is not affected at all by contribution requirements.

Currently, the going concern basis is much less expensive than the solvency basis; however, this is largely due to an assumption that the plan's asset mix—specifically, its allocation to riskier asset classes such as public equities—will yield higher returns than the conservative asset mix required for solvency purposes. While we expect that to be the case on average over the long term, it's not guaranteed to occur over any particular period. It's also worth noting that if members live longer than we have assumed, plan costs could increase.

Canada Post can reduce the risk of volatility in the net position of the plan by decreasing its allocations to risky assets; however, this will decrease the expected return and increase the cost. It's not hard to imagine the current going concern surplus turning into a deficit due to a bad experience. One year of asset returns like we saw in the market crisis of 2008 could result in as much as $2 billion of special payments being made to the plan over a 10-year period, even in the absence of solvency funding requirements. In addition, assumptions may change over time as the asset mix or the actuary's outlook for the future changes.

These types of risks are expected with traditional DB plans. It is the size of this plan relative to the size of Canada Post that makes this of special concern.

It's interesting to note that two of the most well-regarded public sector pension plans, Ontario Teachers' and the Healthcare of Ontario pension plan—HOOPP—are exempt from solvency funding, yet these plans have both taken steps to modify their benefits, particularly the level of guaranteed indexation, to control costs and volatility.

If Canada Post were to become exempt from having to fund on a solvency basis, we would also encourage consideration of additional changes to address the remaining risks.

On changes to investment policy, Canada Post plans to gradually reduce their allocation to riskier assets as the plan's position improves over time. This will make the plan less sensitive to changes in market interest rates, although it does not address the current deficit.

On defined contribution, a defined contribution, or DC, plan like the one offered by Canada Post represents the lowest cost volatility possible for the portion of the plan covered by it. DC designs are increasingly common, particularly in the private sector. Recently, Unifor agreed to a DC plan for new hires at General Motors when it became clear that GM would not be able to afford the DB plan. While extending DC to more members would slow the growth of the DB component of the plan, the problem of funding the existing DB component would remain.

On risk-shared plans, there are some middle-ground options, which aim to retain much of the predictable benefit stream of a traditional DB plan while significantly lowering cost volatility. Such plans share risks between the employer and members or across the members as a group, which is preferable to individual risk-bearing. One such planned design would reduce or eliminate guaranteed pension indexation, indexing pensions only when the plan's financial position permits, according to rules laid out in advance. Canada Post has been looking into designs like this.

Another option is a target benefit plan, or TBP. In a TBP, employer contributions would be predictable and clear rules would be set out in advance regarding the handling of surpluses and deficits, with some benefits at risk of reduction in bad times. The federal government tabled a bill earlier this month to permit the establishment of TBPs in the federal jurisdiction. We have discussed the TBP concept with Canada Post.

● (1325)

While risk-shared plans can work well for the future, benefits already accrued remain in the traditional DB plan, unless members or their unions consent to a conversion to the new plan.

One final option for consideration is joint governance. Some of the most successful large Canadian pension plans are governed on a joint basis with representatives from employers and members making decisions together. Ontario Teachers' and HOOPP are examples of such plans. Under the right conditions, this can work very well, but we believe that joint governance is best accomplished in conjunction with shared responsibility for the funding of any past service benefits.

This concludes our prepared remarks. We thank you and look forward to your questions.

The Chair: Thank you very much.

Ms. Cover, you have 10 minutes.

Ms. Mary Cover (Director, Pension Strategy & Enterprise Risk, Ontario Teachers' Pension Plan Board): Thank you.

I'm also an actuary by profession, and I've been asked to speak to some of the key features of the Ontario Teachers' pension plan that contribute to the sustainability of the arrangement.

The Ontario Teachers' Pension Plan, or OTTP, Board was established as an independent, arm's-length organization in 1990. We are a jointly sponsored pension plan, or JSPP, designed and governed to ensure a balance of stakeholder interest. We have a robust governance structure with clearly articulated roles and responsibilities consisting of an independent, professional, 11-member board. The plan sponsors are the Province of Ontario, more specifically the Minister of Education, and the Ontario Teachers' Federation, which represents the plan members.

The board's responsibilities include managing the investments of the pension fund, setting key accrual assumptions, including the valuation discount rate, and administering the pension benefits for our 385,000 active and former teachers. Plan sponsor responsibilities include determining benefit and contribution levels by determining how deficits are funded and how surpluses are utilized. The JSPP structure ensures that both plan members, through OTF representation and the province have a voice at the table in these critical decisions and are aware of the associated risks. We are a contributory defined benefit pension plan with full inflation protection provided on benefits earned prior to 2010 and with conditional inflation protection for benefits earned after 2009. I'll speak more to how CIP works in a moment.

Our teachers currently contribute 12% of their pay, on average, which is matched by the Province of Ontario. Our strategic destination is to have a fully funded plan with the contribution rate of 11% of pay, on average, which is matched by the province, and 100% inflation protection on all benefits. As of the end of 2015, our market value of assets was $171 billion. We recently filed the January 1, 2016, valuation report disclosing a surplus on a going concern basis of $4.5 billion. Note that our valuations must be balanced, as we cannot file an evaluation with a deficit.

Going back historically to the early 2000s, the plan's funding position and demographic realities have a direct impact on how our assets are managed. We set an asset mix policy by taking into account what the plan needs to deliver its pension obligations. Sustaining benefit levels for future teachers without contribution increases requires consistently meeting our return targets. Today, for a new entrant to the plan, providing a pension fully indexed at an average contribution rate of 11% matched by the province would require a real return of 4% per annum. The plan's demographic circumstances moderate our ability to take risks. The return target and the plan's ability to take risk by managing the impact from potential losses must remain aligned to meet our sustainability objective.

An important factor over the long term that impacts our return target is the expected lifespans of our members. This ultimately led to the adoption, in 2008, of a custom OTPP mortality table and mortality improvement scales. These tables were most recently updated in 2014, including the adoption of a two-dimensional mortality improvement scale.

In 2001, discussions began between OTPP and the plan sponsors related to reserving some gains in the fund to create a cushion to protect against the loss in difficult times and to keep contribution rates stable.

Back in 2003, the sponsors adopted a funding management policy, or FMP, with the objective to provide a guidance framework for decision-making when there is a funding surplus or shortfall. A key component of the creation of the FMP was the concept of funding zones, each defined by a range. The funding zones provide a point of reference for whether action is required by the sponsors, and if so, guidance is provided on how to use any surplus funds or resolve any shortfall, specifically answering the question of when it is prudent to increase or decrease benefits, raise or lower contribution rates, or simply conserve assets for an uncertain time.

While the FMP outlines preferred mechanisms associated with its various funding zones, it is ultimately the sponsors' responsibility to decide what actions to take.

In March 2015, a zone for temporary plan improvements was added to the FMP to allow for temporary contribution decreases, surplus distribution, or benefit improvements, so long as they do not increase the long-term costs of the plan.

● (1330)

Uses of surplus in this zone are paced, and a provision is included such that temporary improvements cease if a significant market event occurs.

Commencing roughly a decade ago, we began experiencing recurring deficits in preliminary funding valuations resulting from a combination of low returns, a low interest rate environment and increasing longevity. It is necessary to take on risk from an investment perspective to achieve the returns necessary to ensure the sustainability of the plan, particularly in a low interest rate environment.

Knowing that we will have losses from time to time, we needed to introduce a mechanism for addressing downturns, which would share losses with our plan members, including retirees.

Our current ratio of active to retired members is 1.4:1, which is expected to continue to decrease and will likely be 1:1 at some point in the future. We have negative net cash outflows of $2.2 billion. We received $3.3 billion in contributions in 2015 and paid $5.5 billion in pensions, which means that strong liquidity management is crucial.

On average, Ontario teachers retire at age 59 after having worked and contributed to the pension plan for 26 years, and they receive benefits for 31 years on average. Additional benefits may be provided to a surviving spouse for a further period of time.

We need to ensure that our asset mix and risk management take the aging of the plan into consideration. As mentioned above, the board has responsibility for managing the pension fund and therefore we are constantly focused on risk management and asset allocation.

It is clear that contribution increases alone will not be sufficient to protect the plan against major investment losses. Along with that is the reality that with an 11% contribution rate, a 4% real return is necessary, a return that is difficult to achieve, particularly in today's environment.

Therefore, in 2008 the concept of conditional inflation protection was introduced. CIP is not only a powerful lever for managing funding volatility, it also promotes intergenerational equity.

Benefits earned after 2009 are conditionally indexed in accordance with the plan's ability to pay. There are three service breaks, with different levels of protection as follows: All benefits earned before 2010 are still fully indexed to inflation. Benefits earned after 2009 but before 2014 are conditionally indexed with a minimum adjustment guarantee of 50% of consumer price index. Benefits earned after 2013 are conditionally indexed with no minimum guarantee.

Consistent with the spirit of a shared risk plan, any inflation payments forgone by plan members are matched by the government via additional contributions to the fund up to the first 50% of inflation protection forgone.

CIP is an extremely powerful funding lever, and the expectation is that by 2025, fully invoked CIP will be powerful enough to absorb an asset loss of $62 billion.

As mentioned by my colleague, OTPP is subject to going concern funding requirements and is exempt from solvency funding on a named plan basis under the regulations of the Pension Benefits Act of Ontario.

In 2010 Bill 120 was passed in response to recommendations by the Arthurs commission to strengthen pension funding rules and to clarify rules for surpluses, contribution holidays, and other funding-related issues. The rationale for the exemption from solvency funding includes that both the province and OTF have a role in selecting the board members that oversee the pension plan, thus promoting good governance.

The JSPP governance model means that both plan sponsors are involved in and responsible for decisions related to benefit design.

Funding on a going concern basis is appropriate for our plan, given the size, maturity, and robust governance structure. Because of this, we can use the aggregate cost method, which allows us to factor in the expected impact of future contributions and benefit accruals, whereas resolution of any solvency deficits could be done only via contribution increases, a mechanism at odds with those proposed by the funding management policy and particularly with the ability to share the risk with retirees through conditional inflation protection.

Solvency-based tests are not a suitable measure for OTPP given our long-term perspective and our joint governance capacity to change future contribution and benefit levels to address funding shortfalls or surpluses.

In the unlikely event of plan windup, given the size of the plan, it would be impossible to settle benefits via annuity purchases given the limited market in Canada. Thus, there would need to be legislative intervention to allow the plan to continue in some capacity.

● (1335)

Finally, we are not subject to, nor a risk to, the pension benefits guarantee fund of Ontario.

In closing, the plan's sustainability is defined as its ability to meet the needs of the present without compromising the ability of future generations to meet their own needs. The strong governance framework of the plan is key to ensuring its long-term sustainability.

The Chair: Thank you very much, all of you, for your presentations.

Colleagues, we'll have time for one complete round of questions.

We will start with Monsieur Drouin, for seven minutes.

Mr. Francis Drouin: I want to thank each of the witnesses for being here today. We certainly appreciate your taking the time.

All of you touched a bit on the governance issue. I know that the Ontario expert commission recommended at some point that jointly sponsored plans and joint governance be exempted from solvency payments. The rationale provided at the time was that it's a superior governing structure that allows for better risk management.

I just want to hear from you on that. Do you agree with that? We have one example here, but do you agree with that statement?

Mr. Michel St-Germain (Actuary, Mercer (Canada) Limited): You're correct on the joint governance. The advantage of joint governance is that you can get a consensus from the various stakeholders on the proper balance between security and affordability. That's the reason for it. You have an example here of a group that was able to attain that consensus.

Having said that, not all joint governance plans are able to achieve this consensus. Reaching a consensus between various stakeholders is a challenge if the number of stakeholders is high, if it includes, for example, non-unionized employees, different unions, and pensioners. But if you can resolve that difficulty of achieving consensus, the plan sponsors or the regulator will get a feel for what is the proper trade-off between affordability and security.

Mr. Francis Drouin: From your experience, if you look at the past 20 or 30 years, is the trend that when there's a low stakeholder environment, joint governance structures tend to work more?

● (1340)

Mr. Michel St-Germain: No, it works when the stakeholders are content to agree among themselves, either because they have a common interest or because the number of stakeholders is low. It doesn't work when the interests of the various stakeholders are not aligned or when the number of stakeholders is too high.

There are very good examples of joint governance and very bad examples of joint governance.

Mr. Francis Drouin: Do you have an example of a bad joint governance model?

Mr. Michel St-Germain: I won't....

Voices: Oh, oh!

The Chair: We are in public.

Mr. Francis Drouin: That's fine.

Mr. Michel St-Germain: No, they've made the name.... I will mention that amongst multi-employer groups—I'll let you find examples of multi-employer groups. There are horror stories within those groups.

Mr. Francis Drouin: Thank you.

Mr. Michel St-Germain: Having said that, I do want to make the point that those multi-employer groups are not JSPP.

Mr. Francis Drouin: Okay.

There was another issue that this committee heard from one of the witnesses. One of the recommendations was about ensuring independence from the sponsor. Do you agree with that? I don't believe Canada Post right now has an independent structure. Do you tend to agree that the investment board should be completely separate from the company?

Mr. Cory Skinner: I would say that's part of the joint governance. That can be one aspect of the joint governance that Michel spoke about. Separating the investment function, let's say, or the benefit policy, etc., from the employer can work. What would the body that oversees it look like instead? It would presumably be some sort of joint body that involves retiree input or member input. That can work, yes.

Mr. Francis Drouin: Okay.

To go back to joint governance, and I don't know if you're willing to answer this, do you see Canada Post being able to operate in that joint governance model?

Mr. Cory Skinner: I don't see why not. I think there's a distance to go to reconcile the members and the corporation to come together to work on something like that, but if the interests are aligned, then I think something like that could be workable, yes.

Mr. Francis Drouin: You both briefly touched on risk management. In the low interest world we now live in, what types of challenges does that present to funds such as the Canada pension plan? You would know the trends in the market right now.

Mr. Cory Skinner: On the investment trends, I'd say we see generally more and more plans moving into what we call liability-driven investing where there is a greater portion of the plan fund allocated to fixed income securities, bonds. In the marketplace, they rise and fall more in sync with the liabilities of the plan than would, say, stock investments, equity investments. That's certainly a trend we've seen for the last couple of decades, and accelerating in recent years.

The biggest problem with that sort of approach at the moment, implementing a de-risking approach like that, is that with interest rates as low as they are, there is sometimes a fear from some plan sponsors that moving it all, or a great deal of it, into bonds now, if rates were to rise, the value of those assets is going to fall. To the extent that there is upward pressure on bonds, that's a risk.

We hope interest rates will rise, but we've been hoping that for many years now. We keep thinking that it can't get any lower, and yet it does. It's very difficult to predict, of course.

Mr. Francis Drouin: Ms. Cover, on the Ontario pension plan, when did you move over to a joint governance model?

Ms. Mary Cover: I am not sure when exactly that happened, but I will look that up for you and let you know.

Mr. Francis Drouin: Okay.

Ms. Mary Cover: I'll call in, but it was quite some time ago

Mr. Francis Drouin: Okay, great.

Ms. Mary Cover: There are several JSPPs within Ontario, or named plans, including OMERS, HOOPP, and OPSEU.

[*Translation*]

The Chair: Mr. Clarke, the floor is yours for seven minutes.

Mr. Alupa Clarke: Thank you very much, Mr. Chair.

Good afternoon, everyone. Thank you very much for being here with us today.

I would like to start with Ms. Hemmings.

You are talking about temporary measures, such as relaxing the solvency funding requirements. Canada Post is relying on this measure right now.

Has Canada Post used this measure before or is it the first time?

● (1345)

[*English*]

Ms. Lynn Hemmings: If I can get some clarification, which measures are you referring to, just solvency relief generally?

Mr. Alupa Clarke: Yes, exactly.

Ms. Lynn Hemmings: Solvency relief, whether it's by the letters of credit...is available to everybody. They've taken solvency reduction for three years, as was mentioned, and we gave them special funding relief, one off. However, the other solvency relief measures are open broadly to every federally regulated pension plan.

Does that answer your question?

[*Translation*]

Mr. Alupa Clarke: In a way, yes. However, the solvency relief granted to Canada Post at this time, which you refer to in your notes, is for five years and will end in 2017. Is it the first time Canada Post has been granted this particular relief?

[*English*]

Ms. Lynn Hemmings: Yes.

[*Translation*]

Mr. Alupa Clarke: Fine, thank you.

Aside from the study on Canada Post our committee is conducting at this time, do you know if your minister Mr. Morneau and the Minister of Public Services and Procurement Canada are holding meetings? As a parallel process to the study by our committee, have the two departments launched cooperative processes to work together to find solutions to Canada Post's current problems?

[*English*]

Ms. Lynn Hemmings: Minister Morneau is responsible for Canada Post, as is the Minister of PSPC responsible for Canada Post business.

We speak at the official level. We are in constant contact with them in terms of keeping everyone up to date on the status of the pension plan, but that's the extent of our conversations.

[*Translation*]

Mr. Alupa Clarke: Fine.

In the last sentence of the next-to-last paragraph in your notes, you say that the purpose of the relief was to provide Canada Post with the time to make itself financially sustainable. In the last paragraph you say that thanks to the recommendations of our committee—and we hope they will be good ones, since the government seems to be counting on them a great deal—you will be able to provide advice by 2017 to the Minister of Finance, following the release of our report.

However, even if our report contains fantastic recommendations and miracle solutions, in a year, in 2017, when the five-year relief measure is set to expire, it will be too soon for our recommendations or the new measures to have been implemented. Moreover, the Canada Post deficit will not have been liquidated.

In short, do you know if the Minister of Finance is already considering extending the funding relief granted under the Canada Pension Plan?

[*English*]

Ms. Lynn Hemmings: I don't really think it would be appropriate for me to speculate about what the minister might be thinking at this time.

Mr. Alupa Clarke: Okay.

Ms. Lynn Hemmings: Obviously he has concerns, but beyond that....

[*Translation*]

Mr. Alupa Clarke: Without necessarily speculating as to what the minister thinks, can you tell me, as a public service professional, if you think he is going to have to extend this relief?

[*English*]

Ms. Lynn Hemmings: I think there are a number of options that are on the table, many of which have been mentioned by the expert panel, but I can't really comment on which direction we're headed in. It's not appropriate.

[*Translation*]

Mr. Alupa Clarke: Thank you, Madam.

Mr. Skinner and Mr. St-Germain, thank you for your presentation. Math has never been my long suit. I do not understand the graphs at all. My area is political philosophy. However, I would like to understand the situation.

You talked about the risks that could occur if the solvency obligation was removed. What would those risks be, exactly?

● (1350)

[*English*]

Mr. Cory Skinner: One of the key risks remains the size of the plan relative to that of the organization. Even if solvency were to disappear, the going concern obligation would still represent a very large percentage of the revenue of Canada Post and we expect that to continue to grow. Fluctuations in that financial position and the contribution requirements that could arise from that could be difficult for Canada Post to bear.

I will say that projections or estimates of Canada Post's future revenue prospects is outside of our area of expertise. I believe others have looked at that, but we know that there are pressures in that regard and, if revenues are not rising, it would be more and more difficult to sustain the plan.

As I mentioned in my remarks as well, the going concern funding that we have in place in addition to solvency is based on a set of assumptions, and they are only that, assumptions.

In particular, two of the largest ones would be the return on investment and how long people live, their life expectancy or longevity. If either of those do not pan out as we've assumed, we could end up in a deficit position, either temporarily or permanently if we alter the assumptions at some stage to reflect a growing understanding of reality or change in the circumstances. So the risk that's taken.... In fact, the plan, it's invested in equities at the moment. Some portion of the plan is invested in the public equity market, which carries a good deal of risk, because as you know, stock markets are volatile. We do expect that that sort of investment will pay off in the long run, that it will provide higher returns, but it's not guaranteed.

The Chair: Thank you very much.

Mr. Weir, you have seven minutes.

Mr. Erin Weir: I want to start out by drawing a connection with the last panel and I just want to confirm that Mercer is owned by the same parent company as Oliver Wyman. Okay, yes. I just wanted to get that on the record.

I have another question for Mercer. Does your analysis of the Canada Post pension plan take account of the recent agreement to expand the CPP?

Mr. Cory Skinner: It does not. No. There's no reflection of the CPP expansion in the Canada Post pension numbers.

Mr. Erin Weir: That strikes me as a relatively important point, given that the formula for the defined benefit at Canada Post is structured around a certain assumed level of Canada pension plan.

Mr. Cory Skinner: I'll address that.

The plan is designed as a plan structure, a benefit formula, that does recognize an expected level of CPP benefit. That is true. But it is not tied directly to CPP so if someone takes their Canada pension plan earlier than the assumed retirement age of 65, or decides to defer and take it later, that doesn't affect the benefit that comes from the Canada Post plan. There is a very approximate reflection of expected benefits from the CPP, but not direct.

With the increases that have been announced to the Canada pension plan, we are talking to our clients, including Canada Post, to encourage them to look at their benefit formula, and if it's not an automatic shift—which for Canada Post it's not; for most plans it isn't—do they want to rethink the benefit level because some members, especially at the lower end of the earnings ladder, will have significantly higher benefits under the CPP, and maybe then it would be appropriate to scale back the benefits under the registered plan, but not in all cases.

Mr. Erin Weir: I take your point that there's not an automatic coordination between the Canada Post plan and the CPP, but I think we agree the Canada Post plan was clearly structured the way it is, based on an assumed level of CPP—

Mr. Cory Skinner: That's certainly true.

Mr. Erin Weir: —and if the CPP is now being expanded, that will relieve some of the pressure on the Canada Post plan if it's adjusted in response.

Mr. Cory Skinner: If it's adjusted. That sudden adjustment would need to be negotiated with the unions, though.

● (1355)

Mr. Erin Weir: Okay. It would. It just strikes me that this is one potential solution to some of the pressures facing the plan.

Ms. Hemmings, Ms. Ratansi often likes to tell this committee that she's an accountant. I didn't have enough personality to be an accountant so I had to be an economist. Specifically, I was an economist with the Department of Finance so I want to welcome you to this committee. I do want to ask specifically about the possibility of a permanent exemption for the Canada Post pension from solvency requirements.

You used Air Canada as an example. It's a private company that could go bankrupt. It could have to pay out all its pension obligations at once so solvency valuation might make sense for a private company like Air Canada.

Given that no one's proposing to privatize Canada Post, and it therefore can't go bankrupt, shouldn't it just be exempt from solvency valuation?

Ms. Lynn Hemmings: The intent of the solvency funding requirements is to protect the pension benefits that beneficiaries will receive by ensuring there are sufficient assets to meet the plan's full obligations to pay out a pension.

All plans—crowns and private sector—are subject to solvency funding. If you eliminate solvency funding from one plan, you're going to end up with an unlevel playing field, and you're going to have many other plans lining up for the same type of treatment. We have 19 crowns, and then as I said, roughly 280 DBs in the private sector.

Mr. Erin Weir: Okay, but if for Canada Post and other federal crown corporations for that matter there's no real prospect of going bankrupt and having to pay out all the pension obligations at once, why should they be subject to solvency valuation?

Ms. Lynn Hemmings: Again, it's to protect people's pensions in the event the plan is terminated.

Mr. Erin Weir: Okay, but if we're confident the plan isn't going to be terminated, then we wouldn't think that's an important benchmark.

Ms. Lynn Hemmings: Yes. It's one of the options that was put forward in the report.

Mr. Erin Weir: Okay.

Ms. Lynn Hemmings: As a basic tenet of the PBSA, solvency funding is there to protect people's pensions. It's true some provinces have backed off from having their crowns fund on a solvency basis. Quebec has eliminated it right across the board. I'm not sure that's such a great thing. Other provinces are reviewing their solvency funding regimes to see what might replace it.

We're always open to considering new proposals to help federal plans address their funding challenges.

Mr. Erin Weir: It just seems to me that there's a pretty fundamental distinction between a crown corporation and a private company like Air Canada.

Since you mentioned the Ontario situation, I want to go to Ms. Cover and ask her the same question.

Given that Canada Post has a very large pension plan and given that it's in the public sector, would it not be reasonable to exempt it from solvency evaluation in the same way that your pension has been exempted?

Ms. Mary Cover: I think I need to steer clear of opining on what Canada Post can do, but I can reiterate that what is very important about our solvency exemption is that JSPP structure. The employees are at the table, and they make decisions about contribution and benefit levels. They understand that, if our plan were ever to wind up and we were underfunded, they would take a reduction in benefits. They're a part of that decision-making, and that's the important part of our structure.

Mr. Erin Weir: Joint trusteeship is certainly something the postal workers have proposed.

The Chair: Mr. Whelan, you have seven minutes, please.

Mr. Nick Whalen: Thank you very much, Mr. Chair.

Oh, pensions—unlike Mr. Clarke, I love math, so I'm really happy and excited about this discussion.

I think the elephant in the room that's dogged us around the trail of our discussions is that the largest risk to Canada Post seems to be its ongoing pension liabilities and the changing pension landscape that everyone has to deal with. As I try to juxtapose Canada Post and the level playing field and other government employees, I'm faced with a question similar to the one Mr. Weir has. If the public sector pension plans and the public service pension plan for Canada aren't managed on a solvency basis, why should Canada Post's?

Maybe this is a question for you, Ms. Hemmings. Is there something particular about the going concern assumptions that don't apply to Canada Post because of its precarious financial position, or could it simply be wound up into the public service pension plan, as observed by the task force?

● (1400)

Ms. Lynn Hemmings: You mentioned something about the going concern assumptions. Is that what's attributing to the Canada Post issue?

Mr. Nick Whalen: I'm just wondering whether that is a reason. Are going concern assumptions not applicable to—

Ms. Lynn Hemmings: Well, they're in a surplus on a going concern basis right now.

Mr. Nick Whalen: Okay, but is the overall business and cost structure a reason to give us concern about allowing them to manage their pension plan on a going concern basis?

Ms. Lynn Hemmings: Obviously, mail volumes are declining. You need to build a healthy business to support your obligations to the pension plan. I think the business model that Canada Post develops going forward is very important and critical to the health of the pension plan over the long term.

Mr. Nick Whalen: Is there any particular concern that you would have about simply winding the Canada pension plan up into the public service pension plan, as recommended by the task force? This was suggested as a solution that would be highly effective with medium ease of implementation.

Ms. Lynn Hemmings: I really don't think it's appropriate for me to comment on that as an option in advance of the minister making any decisions as to how he wants to approach the pension plan issue.

Mr. Nick Whalen: Okay. Can you comment on its effectiveness? The task force says that it would be an appropriate way to transition the pension plan from its current status into one which allows it to be treated as a going concern and to be paid out accordingly.

Ms. Lynn Hemmings: Again, I would have no comment on that.

Mr. Nick Whalen: Okay.

Mr. Skinner, do you think it would be effective if we wound the pension plan up into the public service pension plan as a means to avoid this problem in the future, at least for existing pensioners and existing benefits?

Mr. Cory Skinner: That's an important clarification. It's not immediately clear to me in the report what the intention was. There are a few different variations on that approach on repatriating the Canada Post plan back into the public service plan. One option might be just to bring the assets and liabilities corresponding to retirees, or maybe retirees plus the accrued service of existing actives, or perhaps everyone would participate in the public service plan going forward. It's not clear what's meant there.

I'd say that the answer would depend somewhat on what's left behind at Canada Post.

Mr. Nick Whalen: Sure. Of those three examples, do you think it would work just for existing pensioners?

Mr. Cory Skinner: I think it would be a help in terms of affordability, certainly.

Mr. Nick Whalen: Do you think it would be helpful and would work in respect of existing benefits for workers who are still in the service and haven't retired?

Mr. Cory Skinner: I think that financially it's probably of greater effect. I think it's administratively, logistically probably more cumbersome. That's going to be difficult to split their membership between.... We'd have to do a lot more analysis of that option.

Mr. Nick Whalen: Okay.

Then in terms of new workers, new benefits going forward, why put Canada Post workers on a different playing field from other Government of Canada workers?

Mr. Cory Skinner: That's not a question for me. It's a policy question.

Mr. Nick Whalen: Okay, fair enough.

I have another line of questioning.

When I was looking at the historical solvency discount rate for Canada Post and I was trying to find similar numbers for the public service pension plan and other government pension plans, how does this 1.25% compare as a discount rate to the other government plans? Maybe Ms. Hemmings can mention the plans that the Finance department oversees. What discount rate are you operating on and how does a 1.25% discount rate for Canada Post compare?

Mr. Cory Skinner: If I could jump in, the public service pension plan doesn't report on solvency, so there's no direct comparator rate under the public service plan.

Mr. Nick Whalen: Okay.

When you talk about the inflation rate that you're using, one of the other suggestions given by the task force was that we would mark inflation to market rather than use some target inflation level which is higher. Which number is being used here in the chart that you provided for us today? What would be the net result of using a mark to market inflation rate instead?

● (1405)

Mr. Cory Skinner: Yes, the solvency inflation assumption that we're using in our calculations is 2% per year, so that is a bit higher than the about 1.5% as an approximate basis, which I think is how they put it in the task force report. I don't have the numbers in front of me, but I remember I did a rough calculation of the number that was in the task force report, and that seemed about appropriate. It seems about right.

Having said that, I'm not myself very comfortable in reducing the inflation assumption as low as what the task force report would say. I think so-called marking to market is probably more complex than it sounds, and we're really looking at a long-term assumption about inflation. The number of 1.5% is based on a particular read of some bond yields, and I think there are a number of items that can distort that reading.

Mr. Nick Whalen: How is the Canada Post pension plan doing in terms of returns? How did it do last year?

Mr. Cory Skinner: It did well last year. I don't recall; I'd have to look it up, and I know you're very tight for time, but they exceeded their assumption for investment returns, so there were gains.

Mr. Nick Whalen: What was the assumption, then, for investment returns for this year?

Mr. Cory Skinner: For going concern we were looking for 5.8%.

Mr. Nick Whalen: You exceeded that.

Mr. Cory Skinner: We exceeded that, yes.

Mr. Nick Whalen: Ms. Hemmings, how did the public service pension plan do last year?

Ms. Lynn Hemmings: I'm sorry, but I'm not able to respond to that. I only look after the federally regulated pension plans and the public service pension plan is not part of our portfolio.

Mr. Nick Whalen: Okay.

In terms of the federally regulated, how did Canada Post do vis-à-vis its competitors?

Ms. Lynn Hemmings: In terms of returns, amongst the crowns it was pretty on par.

Mr. Nick Whalen: Okay.

Ms. Lynn Hemmings: If you want more detailed information to compare how it performed vis-à-vis other crown corporations federally, we can provide the committee with that information.

The Chair: If you could, that would be helpful. Thank you very much.

Mr. McCauley for five minutes, please.

Mr. Kelly McCauley: Thanks for joining us today, it's very good information.

Ms. Hemmings, you mentioned...Ms. Hemmings?

Ms. Lynn Hemmings: Oh, sorry.

Some hon. members: Oh, oh!

Mr. Kelly McCauley: If you don't want to answer, just say no comment.

Ms. Lynn Hemmings: It's the earpiece actually.

Mr. Kelly McCauley: You said there are 19 crown corporations. How many of them compete directly with the private sector, like Canada Post does with some of their—?

Ms. Lynn Hemmings: There's the Business Development Bank, the Export Development Corporation, and the CPPIB is competing in some respects. Also, CBC is. There are several.

Mr. Kelly McCauley: Okay.

Have any of them ever received the exemption, like a permanent exemption, that you recall?

Ms. Lynn Hemmings: No one has ever received a permanent exemption; however, some of the crown corporations have opted to take a solvency reduction on occasion. Just as Canada Post did from 2011 to 2013, there are some other crowns that have opted to do the same thing.

Mr. Kelly McCauley: Okay.

Mr. Skinner, I've asked the question before, but if Canada Post was exempted, so to speak, from the solvency, how much of a competitive advantage would it give them over companies like FedEx and UPS? Would it be just marginal, insignificant, or would it be actually...?

Mr. Cory Skinner: It's difficult for me to say. I don't have any detailed information on what those competitors' benefit plans are like and what kind of cost structure they have, so it's difficult to be precise about that.

I do know that, to the extent that they have DB pension plans, they would be required to fund them on a solvency basis.

Mr. Kelly McCauley: Right.

Mr. Cory Skinner: They may not have DB pension plans, though. I'm not sure what their compensation structure is like and how that might compare to what Canada Post is offering.

Mr. Kelly McCauley: You mentioned that some of the Canada Post people have gone over to a defined contribution. We've heard that a very large cohort, something like 35% to 45%, of Canada Post employees will be retiring in the next five years. For the sake of argument, if they retired and a new cohort were brought in on a defined contribution, would that have any effect on the pension issue? Would it be significant?

Mr. Cory Skinner: I would say that most new groups of employees who are hired at Canada Post would enter the defined contribution, the DC component. A major exception to that would be the CUPW, the Canadian Union of Postal Workers, and they make up about three-quarters of the active membership—

Mr. Kelly McCauley: Right, the majority.

Mr. Cory Skinner: So, for the most part, the replacement of people who retire will likely still be going into the defined benefit component.

To the extent that we shift from DB to DC, though, it slows the growth of the defined benefit component. We're not adding more cars to the back of the train.

● (1410)

Mr. Kelly McCauley: Ernest & Young mentioned as well that the liability for the pension is very large compared to the revenues. To your knowledge, is anyone else in a similar position? We have this huge outstanding pension liability, but our revenues have been—

Mr. Cory Skinner: Pretty flat.

Mr. Kelly McCauley: They haven't been flat, but—

Mr. Cory Skinner: Close.

Mr. Kelly McCauley: What's happened that ours has grown so much?

Mr. Cory Skinner: Figures 3 and 4 show a couple of different measures of size versus revenue, and you can see that we have tried to compare it to a selection from the TSX Composite, which are private sector of course. There's the issue of private and public, but Canada Post competes in the private sector, and compared to comparable firms, Canada Post's pension plan obligation and contributions are quite a bit higher.

Mr. Kelly McCauley: Okay, you mentioned life expectancy assumptions. Are they in line with other similar pensions?

Mr. Cory Skinner: Yes.

Mr. Kelly McCauley: Okay.

What's the biggest risk you see. You say you have a lot in equities right now. What would happen if we get a market shock of 10% or 20%? That seems to happen to my stocks all the time.

Mr. Cory Skinner: Well, we have solvency funding still in place. If we were to see another crash like in 2008, where I think the plan made something like negative 19%, as did most pension plans—

Mr. Kelly McCauley: Or even a zero to 5% drop.

Mr. Cory Skinner: —then we're looking at very large contribution requirements rolling in over the next few years. The averaging mechanism in the solvency funding does moderate the volatility somewhat, but it wouldn't take long before that rolls in. Even on a going concern basis, a shock of that size would be felt.

Mr. Kelly McCauley: Thank you.

The Chair: Madam Ratansi.

Ms. Yasmin Ratansi: Ms. Hemmings, who is managing the Canada Post pension plan at the moment?

Ms. Lynn Hemmings: The plan administrator is.

Ms. Yasmin Ratansi: Who is the administrator?

Ms. Lynn Hemmings: Canada Post has a team that manages it, with the money held in trust.

Ms. Yasmin Ratansi: That's fair enough. Do they receive a level of compensation for managing the plan?

Ms. Lynn Hemmings: That's a question I would put to Canada Post.

Ms. Yasmin Ratansi: That's fair enough, not a problem.

When we're looking at the history of Canada Post and its insolvency issue, it's solvent at the moment, but what if it were ever to go insolvent? If the plan is being managed by CP itself, does Canada Post have the management capacity to manage pension plans, like Mercer or the Ontario Teachers' pension plan do? Does it have the core competencies to do it?

Anybody can give me their answer.

Competition, I need to know.

Mr. Michel St-Germain: Well, there's a huge market of providers to help all sorts of clients, so if they do not have the expertise internally, they can buy it from outside providers.

Ms. Yasmin Ratansi: If they can buy it from outside, why is Canada Post facing such a problem? From an insolvency perspective, if we are projecting, we know that because it's part of their charter they have to think of insolvency. Do you think Canada Post is facing a problem? We are discussing it here, so pension liability is a problem.

Mr. Michel St-Germain: The problem the Canada Post plan is facing is frankly no different from what most defined benefit plans, not cost-shared plans or joint governance plans, are facing. There is a problem with the level of the interest rate. With a low interest rate, as it now has, frankly, I'm not sure defined benefit plans are sustainable.

I would recommend that one thing you could do is to make that interest rate higher.

Voices: Oh, oh!

The Chair: Why are you looking at me?

Mr. Michel St-Germain: Well, you're the chair.

Ms. Yasmin Ratansi: We agree. In a market where there is so much volatility, how have you guys managed your constituents' pension plans so that they are not risk averse but are able to mitigate market risk?

Ms. Cover, maybe you can tell us.

Ms. Mary Cover: We have been doing quite a lot in terms of looking at our asset mix, as an example, and moving over into more liability-driven investments, but really conditional inflation protection has been our strongest funding lever.

A few valuations ago our conditional inflation protection dropped to 60% of inflation protection, and that has had a very strong impact. That's really the core of our success story for managing the markets over the last few years.

● (1415)

Ms. Yasmin Ratansi: Mr. Skinner.

Mr. Cory Skinner: I would echo Ms. Cover's words. The one important lever that can help to address risk is the ability to vary benefits when needed. Inflation seems to be the one that is the most often targeted for that, but it's quite effective.

Ms. Yasmin Ratansi: When the Canada pension plan was underfunded and it was in its doldrums, the then finance minister, Paul Martin, decided to create the Canada Pension Plan Investment Board. Would going that way be an option for Canada Post?

Maybe, Ms. Hemmings, you have some ideas.

Ms. Lynn Hemmings: CPPIB was created for very different reasons. The governance structure is entirely different, such that you have provincial stewards. I'm not sure how you would transplant that model onto Canada Post.

I think if you want to involve all the parties with representation from the unions and the employees and the employer, the proposed target benefit plan, which allows the benefits and contributions to be adjusted up or down as the plan performs is probably a better model than is the CPPIB model.

Ms. Yasmin Ratansi: Thank you.

The Chair: Mr. Clarke.

[*Translation*]

Mr. Alupa Clarke: My next question is for Ms. Hemmings.

Do you confirm the conclusions of the working group concerning the general deficit of Canada Post, or is this question completely outside your field?

I would in any case like to know your point of view.

[*English*]

Ms. Lynn Hemmings: Are you just asking for the actual deficit? That is now at $8.1 billion.

[*Translation*]

Mr. Alupa Clarke: Yes, I should have been more specific. I was talking about the overall Canada Post deficit.

[*English*]

Ms. Lynn Hemmings: Is it the solvency deficit?

[*Translation*]

Mr. Alupa Clarke: I am talking about the report that was prepared by the working group. This was the first phase of the study on Canada Post. I would simply like to know, generally speaking, if the Department of Finance agreed with the deficit as it was set out.

[*English*]

Ms. Lynn Hemmings: I think any questions about the deficit and whether we feel it is accurate are better put to Mercer, the external actuary.

Mr. Cory Skinner: There are a couple of kinds of deficits in the report. One is the solvency deficit for the pension plan specifically, and that comes from our valuation report. We certainly agree with the task force on that and that's a matter of record in the past. It has been reviewed by the regulator as well.

They also speak of an operating deficit in terms of revenue versus expenses projected into the future. If that's the type of deficit that you're asking about, it's a very different type and it's outside of my area of expertise. I can't speak to that.

[*Translation*]

Mr. Alupa Clarke: I have another question for you, Mr. Skinner and Mr. St-Germain.

Representatives of the Canadian Union of Postal Workers have repeatedly told us that in their opinion the pension plan is not necessarily in deficit.

In your opinion, are they playing politics, or are they basing their opinion on actuarial studies conducted by some of your colleagues?

When they say that their pension plan is not in deficit, is that statement based on facts?

[*English*]

Mr. Cory Skinner: It's certainly in a deficit situation on a solvency basis. It is currently in a surplus on a going concern basis. That may be the statement you're referring to.

The argument they're putting forth, I believe—I don't want to speak for them—is that the solvency basis is not appropriate and therefore not important. I think that's a legitimate discussion to have, and we're having it today. That's the source of that discrepancy.

Mr. Alupa Clarke: Thank you very much.

Kelly.

Mr. Kelly McCauley: Mr. Skinner, you discussed shared risk pensions. From what I've read, that seems mostly about the indexing of the pensions and taking the shared risk on indexing. Is that mostly correct?

● (1420)

Mr. Cory Skinner: That's probably the most common thing we see, although there are other things that can be done.

Mr. Kelly McCauley: What other large pensions out there would be doing this right now? At Teachers', you sound like you have a tiny bit of that, but not a pure shared risk.

Ms. Mary Cover: Yes, Teachers' does. HOOPP, the hospitals of Ontario pension plan, does have a shared risk on indexation.

Mr. Kelly McCauley: Do you know of any private sector unions doing that, or is it more in the public sector?

Ms. Mary Cover: I'm sorry?

Mr. Kelly McCauley: Do you know if there are any in the private sector doing that or is it mostly public?

Mr. Cory Skinner: CN has some conditional indexing as well.

Mr. Kelly McCauley: CN does. Is that a stronger way forward than looking at other changes to the pension, do you think?

Mr. Cory Skinner: I think it's a very effective way to address risk so that it gets spread out more over time. It will affect the provision of benefits to some degree. That's the point—

Mr. Kelly McCauley: Yes, but it protects the base pension. It's just the indexing.

Mr. Cory Skinner: Right.

Mr. Kelly McCauley: Okay.

Ms. Cover, do you share the same opinion that this is perhaps a strong alternative?

Ms. Mary Cover: Extremely strong, and it gets more powerful every single year from the line in the sand that you choose. In our case, it was 01-01-2010, and only six years later we're already seeing a very large impact in terms of the ability to reduce deficits by lowering inflation protection.

Mr. Kelly McCauley: Thank you very much.

The Chair: Madam Shanahan, please, for five minutes.

Mrs. Brenda Shanahan (Châteauguay—Lacolle, Lib.): It's very worrisome this testimony we've been hearing, and certainly what we know. In fact, if we were not talking about Canada Post as a going concern business, we also would be very concerned about the pension itself.

Can we wrap this up a bit? Can the panel tell us what are the elements of a well-run pension plan? What would be the elements that we would need to have in place to see this as a going concern going forward, to see this as a viable pension plan going forward?

I'll start with Mr. Skinner.

Mr. Cory Skinner: I would say that some of the things we've talked about would be very helpful.

If I can put it this way, one thing that's difficult for a traditional plan like the one in place today is the lack of flexibility around benefits. In terms of all the benefits, first, they're generous in the marketplace—they're essentially exactly like what's in the public service pension plan—and fully guaranteed. That level of guarantee and that level of benefit are expensive to provide.

If, when times are bad, there is a safety valve, if I can put it that way, to scale back on those benefits, even temporarily until things recover, then you can restore them, and that kind of flexibility has a huge impact on the risk sharing and on the sustainability—that, combined with sound investment practices. Also, I think joint governance does help, because it can remove some of what can be an adversarial approach to pensions and get all the parties pulling in the same direction.

Mrs. Brenda Shanahan: Monsieur St-Germain or Madam Cover.

Mr. Michel St-Germain: I agree with my colleague.

Mrs. Brenda Shanahan: Yes, of course.

Ms. Hemmings or Ms. Pezzack, especially in the realm of crown corporations, along that line.

Ms. Lynn Hemmings: It's difficult for me to speak to what I think would be the key things that would make a pension plan a success without giving away some of the considerations that we would take into account in developing options. It's not appropriate for me to get into too much detail on that.

Mrs. Brenda Shanahan: Okay, I understand.

What would be the way forward if we were to look at something? It strikes me that it's the tail wagging the dog here. If we were to decouple, to separate the pension plan entirely from the plan administrator at this point, the current sponsor, what would that look like?

What would that involve? Are we talking about insurmountable hurdles or can we anticipate...? These are very turbulent times, to use one of those old clichés, but it is true in the pension world that things are not as they were. In fact, they never really were for very long, and all of us here are old enough to remember very different times as well.

Is that possible? Can you see management and unions getting together and making this work?

● (1425)

Mr. Michel St-Germain: [*Inaudible—Editor*] comment on the labour management issue here, but I will say two things on whether or not joint governance can be the solution for Canada Post. The first is alignment of interest. The various stakeholders need to have interest that is possible to align. The second one is there has to be cost sharing between the stakeholders, and I'm willing to say between all stakeholders, including retirees.

These two issues are a major challenge. I do not want you to think they're easy to achieve.

Mrs. Brenda Shanahan: Okay, thank you.

Briefly, would someone like to comment on what came up fairly recently about Canada Post retirees taking the commuted value of their pension and going outside to buy annuities? Mr. Skinner?

It looks like it's a fairly recent decision from the Office of the Superintendent of Financial Institutions that is allowing Canada Post retirees to actually remove their commuted value.

Mr. Cory Skinner: I don't think that's true. I'd have to see the comment to put it in context, but I believe that it's not possible under the current rules for a retiree to commute his future benefit into a lump sum. It is possible when somebody terminates employment—in certain age ranges—that they could take a lump sum.

Mrs. Brenda Shanahan: Okay, thank you very much.

The Chair: Mr. Weir, for three minutes.

Mr. Erin Weir: I thought it was very interesting when government members asked about the solvency valuation of the federal public service pension plan. Of course, the answer is that there isn't one. It wouldn't make sense to assume that the federal government would have to wind up its pension plan and pay out all the benefits at once.

I guess my question would be, why is Canada Post different from that? Why are we treating Canada Post as a private company rather than like it's part of the federal public service?

Ms. Lynn Hemmings: I wasn't around back in 2000.

There was a review, I believe, in the late 1990s—and I may be getting my facts mixed up—where the government of the day was looking for cost savings. They looked at various crown pension plans that were under the PSPP, did a review, and made the decision to move it out from under the PSPP into the PBSA. There may have been some rationale, some consideration, given to the fact that mail services were not part of core government and therefore it should be spun off.

Mr. Erin Weir: During the 1990s, the period you referenced, the federal government was also privatizing a number of crown corporations. Certainly if the government were in that mode, it would need to get their pensions on a solvency valuation, which would appropriately be required in the private sector. Given that no one is actually proposing to privatize Canada Post, I wonder whether it might make sense to treat it more like the rest of the federal public service.

I'd welcome views from Mercer on this as well. I asked similar questions to the other witnesses in the last round, but certainly if folks from Mercer have any views, I'd welcome them.

Mr. Cory Skinner: I would say it's an issue of policy, about how much of a distinction you want to make in the rules between public sector and private sector pension plans.

Ms. Hemmings made the point earlier about a level playing field. To the extent that especially if a crown corporation is competing in the private sector, there could be an argument that it's unfair competition.

Mr. Erin Weir: I don't think the private courier companies have defined benefit pensions, so that's a fairly hypothetical argument. However, I take the point.

The Chair: Thank you very much, Mr. Weir.

I want to thank all of our witnesses for being here.

I have one quick question for Ms. Cover.

I'm curious about the joint governance structure that you have in your pension plan. I know the Ontario pension plan has made many investments over the years. The one I'm most familiar with recently is that in the last two or three years you purchased the Assiniboia Farm Credit Corporation. Would those investment decisions be made in a joint governance structure as well?

● (1430)

Ms. Mary Cover: Yes, our board actually has oversight. Because of the structure, our board is tasked with the investments, so the plan sponsors do not have direct influence over the investments that we choose to make.

The Chair: To all of you, thank you once again. Your testimony has been very well received, very helpful to us. Some of our committee members may have additional questions they want to pose to you, and I hope you would invite them to do that directly. Conversely, if you have any additional information that you think would benefit us, please send it to our clerk.

We will suspend for a couple of minutes while we wait for our next witnesses to come to the table.

● (1430)

(Pause)

● (1435)

The Chair: Colleagues and witnesses, we'll commence once again.

Thank you to our witnesses for being here. Once again, I'll make an assumption that you understand the process. After your opening statements, we'll follow with questions from all of our committee members.

Mr. Irwin, I have you first up for your presentation. Is it a five-minute or a 10-minute opening statement?

Mr. Tony Irwin (President, Canadian Consumer Finance Association): It's five minutes.

The Chair: Please proceed, sir, when you are ready.

Mr. Tony Irwin: Thank you, Mr. Chair and committee members.

My name is Tony Irwin, and I'm president of the Canadian Consumer Finance Association, formerly known as the Canadian Payday Loan Association. We appreciate the opportunity to speak to the House of Commons Standing Committee on Government Operations and Estimates regarding the discussion paper “Canada Post in the digital age”.

Our association represents financial service businesses that provide payday loans to Canadians, as well as a range of other financial products including installment loans, cheque cashing, wire transfer services, bill payment services, and currency exchange. The CCFA has 18 member companies that hold the lender licences for approximately 960 stores and online lending platforms. This represents 69% of the payday loan industry across Canada.

A payday loan is typically a loan in an amount of $400 to $500 that is repayable on the borrower's next payday. The legal definition of a payday loan is a loan not to exceed $1,500 for a term of not more than 62 days. In 2008, the federal government transferred jurisdiction to the provinces to regulate this product. The provinces of British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Nova Scotia, and Prince Edward Island have now licensed the product, and the Province of New Brunswick is currently finalizing its regulations.

To operate in these provinces, a payday lender must apply for and obtain a lending licence, which requires payday paying annual licensing fees, and often filing transaction data, or financial statements, on an annual basis. Each province sets maximum fees that can be charged for loans, and all aspects of the operation of the business are strictly regulated, including disclosure of information, standard contract terms, right to rescind by borrowers, limits on default fees, advertising, sale of ancillary products, and collection practices, among other things.

There are many misconceptions and much misinformation about the industry. Some opponents have labelled our industry as predatory, but the industry grew in response to consumer demand. Many Canadians have a need for a small loan for a short period that they can obtain quickly, and for those who do not have good credit or an established banking relationship, the need was not being served by banks or credit unions. A survey of payday loan borrowers that was just published by the Financial Consumer Agency of Canada on October 25, 2016, found that 45% of respondents typically used payday loans for unexpected necessary expenses, and 41% typically used payday loans for expected necessary expenses. Borrowers will tell you our members provide a needed and valuable service, and provincial governments understood this when they chose to regulate the industry in a manner that protects consumers but allows for a viable industry.

There is a perception that payday lending is a rapidly growing industry, and lenders are making excessive profits. This is not correct. At the time regulation came into effect in most provinces, in 2009, there were approximately 1,452 payday loan outlets across the country. Today, there are approximately 1,426 licensed online or store outlets. The return on investment of payday lenders is far lower than that of the banks. If the industry were highly profitable, the industry would have grown in the last five years, rather than contracted.

As the Canada Post discussion paper states, despite the high rates, the payday loan industry has low margins. The cost of credit is expensive because it's costly to provide. Costs are high not just because of higher default rates, as the consultation document notes, but also a high cost of operation. Unlike banks and credit unions, payday lenders do not hold deposits or offer large secured loans to help cover the cost of operations. In addition, our industry serves a large sector of borrowers with thin credit files, and lenders have to employ complex and expensive technology and systems to manage their product offerings, risk assessments, and regulatory compliance.

Many payday lenders offer the service of cheque cashing, which is referred to in the discussion paper. Cheque cashing is a competitive business, and a typical fee for cashing a cheque is 2.9% of the face amount, plus an item fee of $3 on average. On a $300 cheque, that would equate to $11.70. While the government indemnifies banks, credit unions, and trust companies for loss due to fraud resulting from cashing cheques up to $1,500, no such indemnity is provided to financial service businesses. They must bear the risk.

It is important to note that over the past decade, the use of cheques has dropped dramatically, and this trend is continuing as more and more businesses are making payments electronically. As a result, cheque cashing is becoming an ancillary and increasingly more marginal business.

The Canada Post discussion paper increasingly notes payday loan-type businesses are moving online. This is very true. Five years ago, getting an online loan was not common. Today there are any number of apps you can download on your phone to provide you with a loan. A survey of our members who are primarily bricks-and-mortar operators found that the amount lent by their online divisions from 2010 to 2014 increased over 520%.

● (1440)

In the past there was typically a delay of up to 24 hours between the time a customer applied online for a loan from the lender and the time funds were deposited into the borrower's bank account. With recent updates in technology, lenders can now deposit funds into a borrower's bank account instantly. Removal of this time delay will result in greater and more rapid growth of the online business in Canada.

A recent study commissioned by the Consumers Council of Canada noted that in the United Kingdom more than 80% of transactions are done online. In the U.S. and Australia online lending comprises one-third of all payday loan transactions. We expect this will be the Canadian experience as well. In the future as most customers are reached electronically, the need for physical premises to transact and advance a loan are less important.

Access to credit for all Canadians is important. The Canadian Consumer Finance Association believes that the more options consumers have to meet their credit needs, the better. However, anyone considering entering the marketplace should be aware that this is a highly regulated and competitive market. Margins are small and even at the maximum fees permitted in each province, only the most efficient operators will succeed.

Thank you.

The Chair: Thank you very much.

Mr. Hannah, do you have a five-minute or a 10-minute presentation? You have a five-minute one.

Thank you, sir. You're on.

Mr. Darren Hannah (Vice-President, Finance, Risk and Prudential Policy, Canadian Bankers Association): Thank you for inviting me to be here with you this afternoon to contribute to your review of Canada Post.

My name is Darren Hannah, and I am the vice-president of finance, risk and prudential policy, at the Canadian Bankers Association.

The CBA represents 59 domestic banks, foreign bank subsidiaries, and foreign bank branches operating in Canada.

As the committee is likely aware, the CBA was an active participant in the first phase of the review process led by the Canada Post review task force. The banking industry's interest in the review is limited, and it relates specifically to the proposals that Canada Post engage in the business of banking across the country. Our concern is that such proposals are not guided by a clear public policy need. They overlook that Canada benefits from a highly competitive and accessible financial services sector, and that banking is one of the most heavily regulated and supervised sectors across the country.

Canada has a highly competitive financial services sector. There are currently 80 banks operating in Canada, with more than 40 offering financial products and services to Canadian consumers. Canada has more large banks actively competing against each other for customers than practically any country in Europe, including the U.K., which has almost double the population of Canada. There are also non-bank providers of financial services that actively compete with the banking industry, including over 1,000 credit unions and caisses populaires.

With so many financial service providers available to consumers, Canadians are actively taking advantage of the choices available and shopping around for the options that are best suited to their needs. Nearly 60% of Canadians have switched accounts to reduce their service fees, and 32% have switched banks entirely. Additionally, 65% of Canadians deal with more than one financial institution, and of those, 34% deal with three or more. With so many bank and non-bank providers of financial products and services actively competing across the country, consumers continue to be well served by Canada's competitive financial marketplace.

Some proponents of postal banking have asserted that banking services have become inaccessible in Canada. Contrary to these claims, banking is more accessible than ever. According to the World Bank, 99% of Canadian adults have an account with a financial institution, and Canadians can now bank virtually any time from anywhere using a number of different options that reflect the growing expectations of Canadians for greater ease and convenience when banking.

Online is emerging as the preferred means of banking for the majority of Canadians of all age groups. Banking has continually evolved, and customers value innovation and convenience as they access their banking outside of traditional business hours. Now 55% of Canadians use online as their preferred means of banking, which is up from only 8% in 2000. Additionally, 48% of Canadians use online as their primary method of bill payment. Furthermore, the number of transactions taking place online keeps growing, with nearly 615 million Internet banking transactions being completed in 2015.

With more and more Canadians carrying mobile devices, banks offer mobile banking services and apps that allow customers to carry out a variety of day-to-day transactions through their mobile devices. Over a few short years, the number of Canadians who use these applications has grown dramatically, with 31% of Canadians using mobile banking last year, which is up from 5% in 2010.

Branches remain an integral part of banking in Canada. While only 13% of Canadians visit branches for their daily banking, banks have maintained their extensive branch network for those clients who choose to access financial services and advice they need in person when making important life decisions like purchasing a home, making investments, or planning for retirement.

To argue that postal banking is needed so that Canadians can have access to banking services does not reflect the continuing innovations and growing convenience of banking across the country.

A healthy financial sector is a key component to a well-functioning economy. Canada's banking system is widely recognized as being one of the strongest and soundest in the world. This strength was clearly demonstrated through the global financial crisis, as the Canadian banking sector continued to perform and did not require government-funded bailouts, which stands in sharp contrast to the challenges faced in other countries. Canada's prudent banks, combined with effective regulation and supervision, form a model of stability in the global financial system.

Given the strength of Canada's financial system and its critical importance to the health and stability of the broader national economy, proposals for Canada Post to become involved in retail financial services should not be taken lightly. The cost of regulatory compliance is high, and it's critically important for all financial service providers to have appropriate expertise, processes, systems, and robust risk management practices in place to protect Canada's financial system. Canada Post is a crown corporation, and taxpayers ultimately bear the risk of its operations.

● (1445)

Canadians benefit from more choice, convenience, and access in banking services than ever before. Canadians are well served by Canada’s competitive, prudently regulated, and effectively managed banking system. We agree with the task force members, who concluded that Canada already benefits from a well-established market for financial services. We believe there is no public policy objective or existing gap in the marketplace that would necessitate the Government of Canada entering into the business of retail banking through Canada Post.

Thank you, again, for the opportunity to present our views. I look forward to your questions.

The Chair: Thank you, Mr. Hannah.

Mr. Martin, do you have a five-minute opening statement?

Mr. Robert Martin (Senior Policy Advisor, Canadian Credit Union Association): It's probably closer to 10.

The Chair: All right. Proceed, please.

Mr. Robert Martin: Good afternoon. My name is Rob Martin, and I'm a senior policy adviser at the Canadian Credit Union Association. Looking around the table, I think that some of you know who we are.

The Canadian Credit Union Association is the national trade association for credit unions outside of Quebec. Desjardins is our co-operative partner, but it's mostly within Quebec. CCUA represents 293 credit unions including the first federal credit union, which is called the UNI Financial Cooperation, which came out of New Brunswick.

Credit unions are banking institutions owned by their members and their customers. This means we're 100% Canadian-owned competitors to the big banks. Currently 5.6 million Canadians trust the local credit union for their day-to-day banking needs. Collectively we employ more than 27,000 people and manage over $196 billion in assets. This makes us bigger collectively than National Bank.

In terms of market share, credit unions have about 6.3% of the assets held by deposit-taking institutions in Canada, but we have large market shares in two key segments, small business and agriculture, with 11.5% of the market and 10.4% of the market respectively. As co-operatives, credit unions are different. We are not motivated by profit maximization but rather focus on the benefit of our members and our community. This translates into our having preferential rates, providing patronage dividends for credit union members, and keeping branches and service outlets in underserved areas.

In fact, credit unions are the only banking service provider in 380 communities across Canada. In other instances we see credit unions like Vancity providing alternatives to payday loans, such as Vancity's fair and fast loan or First Calgary Financial's cash crunch loan, to help individuals get out of a payday loan debt. Servus Credit Union in northern Alberta is working on a similar offering as is the Ontario system.

While credit unions are users of the mail and parcel services offered by Canada Post, the reason we are presenting today is to address the debate concerning Canada Post's potential entry into the financial services industry. We know that CUPW is promoting the entry of Canada Post into banking as a means of increasing revenues, offsetting losses, and maintaining jobs. Other advocates emphasize delivering financial services to under-banked rural remote regions and indigenous communities. Of course, given our history and our orientation, concerns about the financially excluded have considerable resonance with credit unions, and we are always open to dialogue with the government on these issues. That being said, CCUA is not supportive of establishing a stand-alone postal bank in Canada. Our reasoning behind this position aligns well with the report of the task force for the Canada Post review.

Specifically we believe that the business case for such an enterprise is weak, and the entry of Canada Post into the banking field could result in negative unintended consequences in the market. Regarding our first point, given the rapidly evolving financial services sector, we are certain a postal bank would face a challenging time establishing itself in a crowded and well-served market. On the supply side, the market is served by nearly 80 chartered banks—ATB in Alberta, Desjardins, and 293 credit unions across Canada. These institutions offer remote cheque capture, eliminating the need to access an ATM or branch, and most allow customers or members to conduct all their transactions—everything from applying for a loan to transferring funds—from the convenience of their home. Not surprisingly then, credit unions are seeing a steady decline in traffic in their branches.

On top of this, Canadians also have offerings from the Business Development Bank of Canada, Farm Credit Canada, and Export Development Canada. On the demand side, as my colleague here mentioned, World Bank research suggests that unmet demand for financial services is limited. The World Bank research indicates that 99% of adult Canadians age 15 or over have some form of bank account. Other research from the Canadian Centre for Policy Alternatives indicates that only 3% of all Canadian adults have no bank account at all. Admittedly this number rises to 8% for low-income Canadians. This is a fact that merits attention from policy-makers. CCUA is open to a dialogue with government on how these issues might be addressed. We do not, however, believe that this situation justifies the establishment of a stand-alone postal bank in Canada.

Now to our second point. A concerted push to establish a postal bank in Canada could produce unintended consequences and crowding-out effects in the financial services market. Banks and credit unions could find themselves in competition with a postal bank that benefits from difficult-to-match state-granted privileges and advantages. One of these advantages would be a lower cost of funds. C.D. Howe Institute research has noted that crown financial institutions enjoy a comparatively low cost of capital because they can issue debt that is backed by the federal government and can borrow directly from the government itself at preferential rates.

● (1450)

The institute estimated that crown borrowing costs are 30 to 50 basis points lower than those available to private sector competitors like credit unions. This can rise to 300 basis points in times of stress. This funding advantage can tilt the playing field in favour of the crown by granting it pricing advantages. If a postal bank were to lean on these advantages, it might produce perverse outcomes with banks and credit unions possibly pulling back from markets where margins are thin.

Also, a postal bank would enjoy a pre-established outlet network. A postal bank could also enjoy an advantage over competitors as a result of its outlet network, which I think is approximately 6,400 locations across Canada. This outlet network was developed with Government of Canada investment over many decades in the service of its mail mandate. From the get-go, a postal bank would face fewer costs associated with establishing and administering a financial network as do other financial institutions.

The scope of that network will be difficult to match and could undermine the economic rationale for some bank and credit union branches in regions with a limited economic base or thin operating margins. I can elaborate on that further in questions.

My final point is there would be a lighter regulatory touch. If history is any guide, it's possible that a postal bank would face fewer regulatory pressures in comparison to those faced by banks and credit unions. For example, Farm Credit Canada, the BDC, and EDC are not answerable to a prudential regulator. Furthermore, they often face fewer statutory restrictions on their business powers and activities than crowns do. This is in contrast to credit unions and banks that face significant restrictions on their business practices and are therefore subject to ongoing prudential onsite guidance.

Before I conclude, I would like to flag the fact that at the moment, there are two concurrent federal ongoing efforts to research competition and financial inclusion in the Canadian banking sector. The first announced in the 2016 budget consists of the decision to push off the five-year 2017 financial services review by two years to 2019 and to provide $4.2 million in funding for that effort. It's to look at competition and service in the market. The second, as recently announced by the Competition Bureau, is looking at how technology-led innovation in the Canadian financial services sector is affecting the way consumers use financial services and products.

From a policy perspective, it would be ill advised for the Government of Canada to move toward establishing a postal bank in advance of these studies being completed and their recommendations known by the Canadian public.

To conclude, the Canadian Credit Union Association thanks the committee for this opportunity to contribute. While the CCUA is not supportive of the establishment of a postal bank in Canada, we appreciate the need to expand the availability of banking services in some targeted areas. CCUA is open to engaging with the government on how that might best be achieved through collaborative approaches involving both public and private sectors.

We'd be happy to respond to any questions you have.

Thank you.

● (1455)

The Chair: Thank you very much.

We'll go directly to questions. Mr. Whalen, you have seven minutes.

Mr. Nick Whalen: Thank you all for coming. We've heard a lot of testimony across the country not just from CUPW members but also from other members of the community about the desire for postal banking services and the additional revenues that could be used to help fund the operations of Canada Post.

We've also heard some commentary that the banks and various lobbying groups are speaking out of both sides of their mouths and they say, first of all, that there's plenty of competition and then that they couldn't handle competition from Canada Post were it to enter the market.

With respect to online banking services, Mr. Hannah, as someone representing the banks, do you see that Canadian banks have the lion's share of online banking services in Canada or do foreign competitors like PayPal or other foreign offerers of these services hold the majority of the online transactional market in Canada?

Mr. Darren Hannah: Let me separate online banking from payment services providers. Online banking is in effect a suite of products that provide you with online access to be able to conduct your financial affairs on your account. You can make a deposit through remote deposit capture; you can make a payment; you can make a bill payment; you can transfer funds; you can execute a remittance. Almost anything you can do in a branch you can do online. A service like PayPal does one thing and one thing only. It moves money from you to somebody else. So they are two more than slightly different things.

To your point, one thing we have been very strongly supportive of is providing a robust regulatory framework to capture all those financial services providers and payment services providers like PayPal to ensure that Canadians who use any product or service can do so with certainty that there's a robust regulatory framework that sets minimum standards for safety and security.

Mr. Nick Whalen: From your experience, approximately how many different offerers or suppliers of the back-end IT infrastructure that is needed to start your own online bank or to service one of the Canadian online banks are there in the market? Is this something readily available for a large number of international suppliers, or is this something that every individual bank needs to create in-house?

Mr. Darren Hannah: It is no small undertaking to build the technological capacity to operate a full-service bank in today's environment. To give you a sense of scale, last year alone, Canadian banks spent $10 billion on technology investments. It gives you a sense of what's involved in trying to build out the capacity that Canadians have demanded, in order to give them the service they want, to be competitive in this business.

Mr. Nick Whalen: Well, I'm sure we could find some better things to do with $10 billion than to develop our own in-house bank.

In terms of leveraging the existing banking network, the task force and some of the external analysis that was done suggested that maybe something in the order of $10 million could be generated per year, if the big banks co-operated with Canada Post to provide some type of rural offering, but at a great cost.

From your perspective, do you think there would be an appetite among the competitors that are part of your organization to participate in such a nation-building exercise, to partner with Canada Post and reach out to rural Canada, to make sure they have the services they need to bank in the 21st century?

● (1500)

Mr. Darren Hannah: I'll start by saying that partnerships are the sorts of things that would need to be evaluated on a case-by-case basis. The challenge in this particular question though is what partnership means in that context. Partnership can mean any number of things, with any number of degrees of complexity and interaction, so it's hard for me to generalize.

Mr. Nick Whalen: Mr. Martin, it's over to you then. Would the credit unions be open to this? One assumption was that, even the minor or minimally profitable models that were explored by the task force would require some type of partnership with an existing financial institution. Would credit unions be open to partner with Canada Post to service communities where Canada Post has sufficient physical resources and there is sufficient population density, despite the fact that it's rural? Would you be open to it?

Mr. Robert Martin: The short answer is yes. We have heard from some of our credit unions already that there is some interest in partnering, though we have some concerns. Historically, many crowns seek out partners through a tender process and it often goes to the largest and highest bidder. That would be our concern, and if there's any process around moving to a partnership model, that it be open to smaller institutions to participate and it not be done on an exclusive basis with one institution or two.

Mr. Nick Whalen: Mr. Martin, does your organization offer a full suite of online banking tools for customers of the various credit unions across the country?

Mr. Robert Martin: Yes, we do.

Mr. Nick Whalen: Are you spending tens of billions of dollars a year to develop that internally?

Mr. Robert Martin: We're spending a lot. I don't have an exact figure, but it's quite expensive. One issue we face is that our members want us to be available in branch; they want us to be available by telephone, by Internet, all kinds of different...and the number of channels requested seems to proliferate. We're trying to keep on top of that, though we are seeing some decline in branch activities.

We do spend a lot.

Mr. Nick Whalen: Okay. That's fair enough.

Overall, would you consider that your market share for credit unions is growing or is it staying about the same?

Mr. Robert Martin: It depends on the area. I would say that overall, just in terms of assets, we're steady. We are growing in the small to medium-sized enterprise market. We're almost as big as BMO right now in terms of what we do as a collective of individual credit unions. In ag we've grown. Probably until two years ago, we were steadily growing and then there's been some slowdown.

Mr. Nick Whalen: One thing identified by the task force was the strong brand value associated with Canada Post. Do you think the Canada Post brand, associated with banking, would allow your organization to attract and retain customers you wouldn't ordinarily be able to attract and retain? Would your organization pay a premium to be part of such a...?

Mr. Robert Martin: I think we might look at it the other way, that in some regions, in terms of the attactiveness of banking institutions, the credit unions would have some attractiveness, say, if you were living in northern Alberta and you know Servus Credit Union. If there were a joint branding exercise with Canada Post, then I could see there could be some synergies. Once again, it all depends on the terms of a contract with Canada Post and how that's modelled. Once again, we want it to be an open process.

The Chair: Thank you very much.

Mr. McCauley, you have seven minutes, please.

Mr. Kelly McCauley: Welcome, gentlemen.

Mr. Irwin, thanks for being here today. I appreciate your comments. We have heard a lot across the country about the predatory...I don't want to say “spin”, but the predatory narrative that's been spread around. To my understanding, most of the payday loan outlets are within a block or two of an existing bank. Is that generally correct?

Mr. Tony Irwin: I don't have specific information on that, but it would not surprise me if that were the case.

Mr. Kelly McCauley: Most of your customers, I understand, actually do have bank accounts. They just do not have the ability to put in their paycheque and access the money immediately.

Mr. Tony Irwin: Right. Banking is not the issue. They do have accounts. The issue is obtaining credit. They have had trouble doing that in other places.

Mr. Kelly McCauley: Right.

Money Mart, I guess, is the largest player in town. How big would their collections office be? We heard from someone in Edmonton that they had about a 20% default rate on their cheques, but they had about 500 people in their collection department.

I ask this because the question came up earlier about whether or not Canada Post would do their own collections.

● (1505)

Mr. Tony Irwin: Yes. I read some of those transcripts in advance preparation for today.

I don't know how many people Money Mart employs for collections, but they do have a significant operation for that action in Victoria. They have a full team there.

I think there are a few important points to note about that in terms of some of the testimony I read. From the collections standpoint, they don't generally seek redress through the court system. These are small loans.

Mr. Kelly McCauley: What I'm getting at is that it's not a simple procedure, is it?

Mr. Tony Irwin: No, it is not, sir. In terms of trying to work with their customers, trying to work out some sort of payment plans, a lot of times they do that before the loan is even due if the customer has indicated they can't repay it on time. Our members do try a number of ways to work with their customers to obtain repayment of the loans.

Mr. Kelly McCauley: Right.

Mr. Hannah, I asked another witness earlier today about this. The postal bank has been presented by some parties as a panacea to cure all that ails you financially with Canada Post. What would it cost to capitalize Canada Post as a full bank across the country?

Mr. Darren Hannah: That's a good question. Actually, the regulator would be in a better position to answer that than I would. There's a minimum capital requirement, but then there is, beyond the statutory minimum, whatever it would take to satisfy the regulator that the enterprise has sufficient capital strength to carry itself forward and has put in place sufficient operational and managerial capacity so that they are fit and proper and know what they're doing.

Mr. Kelly McCauley: Well into the billions?

Mr. Darren Hannah: It would be enormous.

Mr. Kelly McCauley: Yes. This is what we came across in Alberta. The ATB had switched over to a new accounting system with SAP. I think they spent $500 million just on training for the new system. It boggles the mind what it would take to do this across the country with individual outlets.

One of the other issues we're hearing about is the amount of bank closures and credit union closures in small towns, but I saw a report where it was actually less than 100 planned over a five-year period. Is that generally correct? The quote for the Bank of Montreal was “several” across the entire country.

Again, I ask this just to counter the narrative of this dystopian future where banks are shutting everywhere, leaving them without services.

Mr. Darren Hannah: As I said in my opening remarks, branches still matter. They still are a feature of the banking system. There are over 6,300 bank branches in Canada right now. The number has actually gone up a little bit in the last few years. It's also worthwhile noting that this number is roughly twice the number of Canada Post corporate outlets.

Mr. Kelly McCauley: Right.

Mr. Darren Hannah: If you add in the credit unions, I think it would be up to 3:1. The footprint is large and substantial.

Mr. Kelly McCauley: So it's actually growing.

Mr. Martin, we heard from some of your colleagues at Desjardins about doing training sessions for seniors for online banking and mobile banking in Saskatchewan. Do you see that and similar initiatives growing with the credit unions, to reach out to the rural areas that might be looking for—

Mr. Robert Martin: In general, individual credit unions would have their own individual financial literacy programs, in the past. Now what's happened is that Vancity has elaborated a very sophisticated financial literacy program, called Each One, Teach One. They have just given that to the system gratis. They are rolling it out across the country. Individual credit unions are now incorporating Vancity's model of financial literacy. That will be an ongoing project for us for many years. It eliminates the duplication we used to have in our financial literacy models.

So yes, we're doing that in a big way.

Mr. Kelly McCauley: Mr. Hannah, maybe you, or actually even Mr. Martin, can answer. We were in New Brunswick, where we heard from a local mayor who was doing a phenomenal job in his town but they had lost their bank and they had even gone as far as offering basically free rent to attract a bank, with no takers.

One of the recommendations that came out of one of the reports when they talked about banks teaming up to go with Canada Post, I think was mostly just renting space within an existing Canada Post. Is that viable? If we have a town that's doing well but if they can't even get a bank with free rent, is it viable to think that banks will team up to rent in areas where it may not be financially viable?

● (1510)

Mr. Darren Hannah: You've put your finger on it. As you said in the last statement, there's the financial viability. The rent of the location is but one factor that goes into financial viability. You have to look at the size of the market. You have to look at foot traffic. You have to look at economic circumstances. Ultimately, the business decision to close a branch is not one that anybody takes lightly. Ultimately, these are customers you want and these are your clients, and you are part of the community. There is a robust process that banks go through to ensure that there is community involvement and they have a consultation and talk about alternatives.

But at the end of the day, you're correct, in that it has to be driven by viability and a number of factors go into assessing viability.

The Chair: Thank you very much.

Mr. Weir, for seven minutes, please.

Mr. Erin Weir: Mr. Irwin, you suggested that many people might perceive the payday loan industry as not meeting a real need. I would suggest that in fact we see it as a big market and think maybe there is an opportunity for Canada Post to participate in it.

You made the point that one of the reasons payday lending is sometimes not very profitable is that there are a lot of defaults. In your business, I wonder, if it were possible to just get the Canada Revenue Agency to collect money from those who default, would that help to make it more profitable?

Mr. Tony Irwin: I never thought about that, to be honest with you. Certainly our position is that the industry does meet a very real need. That's why it exists.

Yes, we have defaults—student loans do go into default—but that's an idea that maybe I should take back to our members. I haven't thought about that before.

Mr. Erin Weir: Yes, if only there were a federal government agency involved in payday loans.... Perhaps it could happen.

I have a question for Mr. Hannah.

I want to thank you for a very succinct presentation, but to make it even shorter, it seems to me that you were arguing that Canada has a well-developed banking sector and therefore does not need postal banking.

Another country that's had a well-developed banking sector for a long time is Switzerland, yet the Swiss post office has gotten into banking in a very successful way. I wonder if you have any reaction to that.

Mr. Darren Hannah: Sure, there are some countries around the world that have a banking element to their post office, but typically where they do that has been a part of the postal system since its inception and the banking system effectively grew up around it, so it already occupied a part of the market.

I'm not aware of any instances in a developed banking market with effectively universal access to banking and universal ownership of accounts of a post office being able to interject itself successfully in that market and do so in a sustainable manner.

Mr. Erin Weir: You don't see Switzerland as such a case? Your argument would be that postal banking existed before the rest of the banking system?

Mr. Darren Hannah: My argument would be that in that instance, as with most others, the postal banking system grew up with the banking system so everything grew around it. I'm not aware of many instances where you have had successful entry into a developed banking market by a post office.

Mr. Erin Weir: Okay.

Mr. Martin, you're dealing with a committee that has a chair and a vice-chair from Saskatchewan so we certainly appreciate the importance of credit unions. Would you also acknowledge that there are many parts of Canada where credit unions do not have a great presence?

Mr. Robert Martin: Yes, I would.

We have been predominant west of the Ontario border historically, especially in B.C., Saskatchewan, and Manitoba. We've been growing in Alberta but we do face ATB there.

In Ontario, if you live in Toronto or if you live in Ottawa, you might be misled even in terms of the scope of the credit union system because you might not see that many. My dad was a member of the Ontario Educational Credit Union and we used to have to drive up to this little box of a building. I always wondered what he did there and then I realized it was a credit union. So that was not in my experience growing up.

But if you now go into London, Ontario, or Guelph, or Kawartha, you're seeing credit unions growing all over. I think that part of the dynamic is our competitors at the banks changing their positioning in the market and our being able to take up some of that.

Once again, we have a lower penetration in the Atlantic market but the banks have been there historically right from the beginning of Confederation so it's been a struggle.

● (1515)

Mr. Erin Weir: I guess my point is that I don't think anyone who's advocating postal banking wants to put credit unions out of business. I wonder if there might be some compromise whereby Canada Post could provide banking services in areas where credit unions don't have much of a presence. Perhaps credit unions could offer some services out of post offices in regions where they do have strong networks.

Mr. Robert Martin: Of course, in theory, that would make sense. We see that there are opportunities. There are credit unions that are interested in those kinds of models.

I have to put a little history around what I'm saying. You're saying there's nobody who's going to think that Canada Post should come in and put credit unions out of business. Our historical experience with some crowns has been that we faced extremely competitive lending, both in terms and in price in the past. I don't want to dig up old history, but Farm Credit Canada was one in particular that was a very big challenge for our system. It moved from almost 14% to 15% of the market in 1993. Then it got a mandate to compete directly, and it moved up to 32% of the market. We struggled to maintain our market share at around 10% to 11%. Part of my job was to take the phone calls from credit unions that were saying, “Here's the term sheet from FCC that we can't match; there's no way.”

Mr. Erin Weir: Sure. I don't know how much time we have to get into that debate about FCC, but I appreciate the analogy.

Mr. Robert Martin: I have to close on that, because I do want to recognize that our relationship with the FCC is much better than it used to be.

Mr. Erin Weir: Okay.

Mr. Robert Martin: It took a good long six or seven years of dialogue with them to get into a better space, with the backing of minister Ritz.

Mr. Erin Weir: Maybe it could work out well with Canada Post then.

Mr. Robert Martin: It's possible, but we want to be certain that if we go into this, it's done in a way that's open to all parties to participate in and it's not done on an exclusive basis with, say, one or two large banks that they white label.

Mr. Erin Weir: On that note, I do have another question for Mr. Hannah.

Some of your members are certainly contemplating closing some branches in less profitable or slower growing locations. Instead of closing those branches altogether, what if your members were able to offer some banking services out of the postal outlets that are continuing? What I'm saying is that Canada Post wouldn't necessarily get into banking itself, but it would collaborate with your members to provide a venue for their services.

Mr. Darren Hannah: The short answer to that, I think, is tied in with the earlier question. The physical location is only one aspect of viability. It ultimately has to be economically viable for the bank and also for Canada Post, frankly.

The Chair: Mr. Ayoub, you have seven minutes, please.

[*Translation*]

Mr. Ramez Ayoub: Thank you, Mr. Chair.

I thank the representatives of the Canadian Bankers Association and of the Canadian Credit Union Association for being with us today.

We are at the end of our consultation process. We have heard a lot about postal banking. We were told that it could be a viable solution in certain cases. This was the opinion of the members of the union, among others.

I listened to you. I would have been surprised had you said the opposite of what you said to us. I have never heard any person or industry speak in favour of the arrival of a new competitor on the market. I did not expect you to say anything else. This does not detract from you in any way; it is nothing personal.

However, I heard Mr. Martin say some interesting things. The cooperatives have a greater interest in the needs of members. They have a concern that has been raised on many occasions throughout Canada. In remote areas, there are fewer services. In certain cases, even the cooperatives are closing. That is unfortunate given that in certain cases, they are the last financial institutions in the regions.

That said, there is still worse. Often, the people who live in these regions do not have access to quality Internet services. When you leave large urban centres, you are caught in a vice.

As you confirmed, Mr. Martin, 1% of the population does not have a bank account, and these are mostly low-income people, people who have particular needs and cannot get access to credit easily.

As people say, banks are interested in the bottom line. Mr. Hannah, you said that there was a rigorous process that precedes the decision to close a branch. Nevertheless, if you are making money, you will never close it. If you are not making money, you will close it rather quickly. To my mind, it is that simple.

Can things be seen in a different way, and could we take advantage of this opportunity? In fact, it is an opportunity. We were talking initially about Canada Post, but we came to talk about a postal banking service. This has highlighted a gap in the Canadian banking and credit union system. There are improvements that could be made. There may be an opportunity with Canada Post, or perhaps not.

I would like to hear how we could cooperate—Mr. Martin will be happy—in order to offer new services that may not be offered currently to Canadians who need them, so that we may become a world leader in banking and credit union services, in cooperation with Canada Post.

I used three minutes of my speaking time for this long introduction.

Mr. Martin, could you answer me first?

● (1520)

[*English*]

Mr. Robert Martin: It's a fact that a number of our credit unions have expressed interest in co-operating with Canada Post, if it is done on terms that are fair in terms of the bidding process or the participation process. As I mentioned, our concern is that if it turns into a bidding process that is exclusive, they may end up not being able to participate as a small institution. You have to keep in mind that many of our institutions are below, say, $1 billion in assets, which is fairly small. It might be difficult to participate, so there would have to be an open process. As I said, there are credit unions that are interested.

We do agree that in the north, for example, in rural and remote regions, there are definite challenges. To pick up on the point made by Darren, if you are running a credit union and you are looking at a need, say, in the north, you have to make sure that the branch has some kind of financial viability, or what ends up happening is that your members are actually subsidizing that branch. Part of our job is that we have a responsibility to our members to manage their funds effectively and make investments that work. That said, we are looking at other models that do not necessarily involve branches. We are moving to micro-branches, ones that are a sort of more elaborate ATMs.

We are open to the discussion—I made that point a couple of times in my presentation—but it all depends on what form the dialogue would take.

I just want to pick up on another point, because I've heard it said twice, that credit unions are closing branches. While it may be true that some are closing, the number of branches in our system has been steady—uptick or downtick by one or two—historically for many, many years. It's not like we are shutting down branches wholesale. In fact, Mr. Hannah might think we are over-branched, given our asset size relative to the banks.

[*Translation*]

Mr. Ramez Ayoub: I'd like to go back to the cooperation aspect and to the training Canada Post employees would have to receive.

How do you view the fact that Canada Post employees would have to become financial advisors? What type of training would these people have to receive? How can we teach employees who have not worked in the financial sector to offer services of that type?

When you recruit your employees, what type of qualifications do you look for? What links could there be between those qualifications and those of the people who have experience at Canada Post?

Mr. Hannah, what is your answer?

[*English*]

Mr. Darren Hannah: Sure. There are a couple of questions embedded in there. I'll separate them out and take the last one first.

What sort of background do people have who work in the banking sector? Typically they come from a financial services environment. They may have a degree in business. Depending on the financial product they're selling, they will have different licensing requirements. If you are involved in securities, you'll have securities licensing; you'll have to deal with mutual funds. It really depends on what exactly you're doing.

Another key point to consider—and I just want to raise it here in this context because I think it's an important one—is to recognize that embedded in all of this is an assumption that a transaction in a bank branch looks in some way like a transaction at a Canada Post outlet. Maybe 40 years ago that might have been closer to being correct. The challenge now is that most of the transactional part of a banking relationship has moved outside of the branch. If I'm doing a regular banking transaction, then chances are I'm doing it online, or I'm doing it on an ABM, or I'm doing it with some other mechanism. What's happening in the branch is typically a more involved transaction. It is likely financial advice, such as the negotiation of a sale of a complex financial product.

All of this is to say that interaction takes longer now than it would have some time ago.

The question you have to think about is what the implications are of moving that into a Canada Post operation that's then trying to, at the same time, efficiently deliver the mail.

● (1525)

The Chair: We will go to Monsieur Clarke.

[*Translation*]

You have five minutes.

Mr. Alupa Clarke: Thank you, Mr. Chair.

Good afternoon, everyone. Thank you for being with us this afternoon.

I am going to continue with you, Mr. Hannah, on the issue you have just raised. In Canada, at this time, what is the proportion of applications coming from students who are looking for work, as compared to the number of positions on offer in the banking sector? Are there any data on this?

I'm going to word the question in another way.

How many applications do you receive from people looking for work in the banking sector, as compared to the number of positions available?

[*English*]

Mr. Darren Hannah: I don't have data on that. I don't know how many applications a bank would typically get, and I don't know how many openings they would have at any given time.

[*Translation*]

Mr. Alupa Clarke: Fine.

Mr. Irwin, if I'm not mistaken, your association is more or less in favour of a postal banking service, correct?

[*English*]

Mr. Tony Irwin: We don't really have a position, per se. My role in coming here today was to explain a bit about our industry and about the products we offer. We welcome competition, and certainly I think if that's the direction in which anyone wants to go, then it's better for consumers to have more choice.

[*Translation*]

Mr. Alupa Clarke: Fine.

You were saying that one of the objectives set out by those who are in favour of the creation of a postal banking service is to broaden access to credit.

Do you think that if Canada Post offered banking services, Canadians would have greater access to credit in all of its forms?

[*English*]

Mr. Tony Irwin: I guess that would really be more a question of how postal banking would be run and what their risk appetite would be. I don't know what type of lending they would do, so it would be difficult for me to answer that.

[*Translation*]

Mr. Alupa Clarke: Fine.

My question is for you once again, Mr. Hannah.

In your document you present figures that indicate that thanks to the Internet and online services, Canadians have more access than ever to banking services. However, while travelling throughout Canada in the course of these 22 public consultation meetings we have held, our committee has observed that Canadians have trouble accessing the Internet because they live in very rural regions, or very remote areas in the North. Also, some bank branches are closing.

I think it would be good to know what you are saying to those Canadians. Personally, I hate cell phones, even though you saw me using one. In fact, I don't have a choice. I do prefer going to my bank in Beauport, where I live, to do my transactions. I function in a somewhat archaic way. I am conservative, after all.

As a representative of the Canadian Bankers Association, what do you have to say to these Canadians, whether they are seniors or people who live in rural areas, who have indicated that they have less access to banking services than they used to?

[*English*]

Mr. Darren Hannah: Let me start with a few facts. I've said them before, but I think they're important to mention.

There are over 6,300 bank branches in this country. There's a very substantial network of bank branches. Ninety-nine per cent of Canadians have a bank account, and everyone can get a bank account if they want one. Access is out there.

More than half of Canadians prefer to do their banking online. I'm certain if you aren't comfortable with it, if you go into your bank, they will be happy to walk you through the process and you will feel great by the time you're done.

● (1530)

[*Translation*]

Mr. Alupa Clarke: Thank you.

I'd like to talk about another aspect my colleague mentioned, that is the amount of money Canada Post would have to have access to, from the outset. My colleague asked you what sort of money Canada Post would need to have on hand. He spoke of billions of dollars and you smiled, and said that it would be an enormous amount.

Generally speaking, what are the liquidities of Canadian bank branches? For instance, how much money does a regular National Bank branch, located on the side of the road in my riding, have in its coffers?

[*English*]

Mr. Darren Hannah: The cash on hand in the branch is not what determines, from the regulator's perspective, whether you're sufficiently well capitalized.

Mr. Alupa Clarke: Okay.

Mr. Darren Hannah: It's the amount of investment that goes into the institution to backstop it so that the regulator can have confidence that the institution is able to manage itself properly and safely.

[*Translation*]

Mr. Alupa Clarke: I understand.

Thank you.

[*English*]

The Chair: Thank you. I was a little concerned you might be breaking out a hoodie or something like that.

Voices: Oh, oh!

The Chair: We will now go to Ms. Shanahan, for five minutes, please.

Mrs. Brenda Shanahan: Full disclosure, I am a former banker. I certainly saw many changes, from the very intense branch activity back in the eighties, and then in the nineties when there was considerable downsizing, and branch closures in fact, and then the advent, of course, of technology that we're grappling with today as to what that will mean going forward.

With regard to commercial banking, though, we've talked a lot about retail customers and what they need. However, we've heard a lot of testimony about growing opportunities for small sellers, micro-business. We heard from one fellow when we were on the road who is selling $15 million in mukluks, and he's selling them all over Canada and internationally. There are very interesting opportunities, and that is very much of concern to us.

Now, I get it: banks are there to maximize shareholder value and to take advantage of whatever opportunities are there. However, Mr. Hannah, in the banking community today, have you looked at those opportunities in rural and remote areas, and are you looking at that? How do you serve those clients?

Mr. Darren Hannah: That's a great question. I'm glad you raised it.

With respect to commercial lending, what you see a lot, and you'll especially see it in agriculture, in small business, is that increasingly you will see the lender going out to the client. They'll be mobilized. They'll be operating outside of the branch structure to make it easier for you, the borrower, the entrepreneur, to be able to engage directly with the banker on your own terms.

Mrs. Brenda Shanahan: Okay, but in a situation where the banker cannot physically go out.... We're talking about microcredit opportunities here, but it's still very interesting on an aggregate basis.

Mr. Darren Hannah: Well, in that case, you start getting back into technology: how can I interact with you on an effective basis to give you the kind of robust relationship you're looking for, that experience, while trying to overcome the geography that you're talking about? The geography is always there and has always been there. What the technology allows you to do now is find ways to overcome that meaningfully.

Mrs. Brenda Shanahan: That's, of course, another challenge that we have, that we are not completely connected from coast to coast to coast. That's certainly something we're grappling with as a government, as a country, to ensure that all citizens have equal access. However, I'm just trying to get my head around where there could be a synergy, where there could be opportunity for the banking community to be working with what we are seeing as emerging opportunities, and very exciting ones.

Mr. Martin.

Mr. Robert Martin: We're heavily involved in what you might call microcredit in the first place. The Canadian Federation of Independent Business just came out with a research study. Every few years they rate the bankers in terms of the quality of service, and credit unions came out on top for lending to microcredit, which is basically defined as institutions of five individuals or less. We're doing pretty well in that space.

If you're talking about remote areas, maybe in the Northwest Territories, Nunavut, or Yukon, I'll tell you frankly, we're not there because we don't have credit unions incorporated in the north. However, coming to Darren's point, there may be an opportunity, based on technology, to deliver in some of those areas. We have had discussions with Arctic Co-operatives Limited in the past. I think they were having discussions with Desjardins also, as well as some of the banks, and we were invited in to participate.

We have been interested historically in doing that, but we haven't been successful moving up there.

● (1535)

Mrs. Brenda Shanahan: Okay, but if we're now thinking outside the box, what would that look like? You mentioned that some of your members are interested in partnering with Canada Post. Of course, it's the parcel business that is doing well now, and it will have some challenges going forward, but certainly there seems to be some synergy between Canada Post and these small sellers who don't have easy access to private couriers.

What does that look like to you?

Mr. Robert Martin: I'm going to be very brief because I'm not sure. I don't design the business models, so I feel as though I'm getting into an area where I don't feel comfortable speaking to it.

Mrs. Brenda Shanahan: Okay, thank you.

The Chair: Thank you very much.

Monsieur Clarke and Mr. McCauley, you have five minutes.

[*Translation*]

Mr. Alupa Clarke: Mr. Hannah, my question is for you once again.

You are certainly aware that Canada Post once had a banking service system. This was before 1968. You undoubtedly know how this system functioned. Could you talk to us about it briefly? Did it offer the same type of banking services as a traditional bank?

[*English*]

Mr. Darren Hannah: I can't speak to what Canada Post looked like in 1968. That would have been before I was born. However, I can also say with a lot of certainty that the way a banking interaction would have worked in 1968 and what you would have experienced when you went into a bank branch would look very little like what you have today.

The way Canadians bank has changed so profoundly. I think this ties in with my earlier point, that what a transaction would look like in a branch today and the type of transaction you would do there on an in-person basis would be very different from what it would have looked like at that time.

[*Translation*]

Mr. Alupa Clarke: Yes, but history books exist. That is why I was asking you.

How did the banking sector do at the time, since Canada Post was an additional competitor? That is what I would like to know. What was the competition exactly? Did the Canada Post Corporation function well in that environment? Did it suspend its banking services because they were not profitable, perhaps? That was what I was trying to get at with my question.

[*English*]

Mr. Darren Hannah: I want to answer your question, but I want to address a point in there that I think is implicit but needs to be understood. The way you framed it, it's as though banks as a group compete with credit unions as a group, which compete with caisses populaires as a group, which compete with crown financials as a group. It doesn't work that way. Each individual institution competes with each other institution.

What did the world look like in 1968? Well, there would have been banks that wouldn't have necessarily been exactly the same ones as you see now, competing with credit unions that wouldn't have necessarily been exactly the same ones as you see now, competing with government agencies that wouldn't have been exactly the same ones as you see now. So how Canada Post's operation would have fit into that is hard to say because the environment has evolved broadly.

Mr. Alupa Clarke: Okay, I get it. Thank you very much.

Kelly.

Mr. Kelly McCauley: Great. We don't have much time.

Gentlemen, witnesses who have appeared before us who are proponents of postal banking, when asked about the difficulties of how they are going to repossess granny's house if the loans aren't paid—I guess Revenue Canada would come after them—but when confronted with the difficulties of everything with banking, their fallback was that they'll make a lot of money doing cheque cashing.

Mr. Irwin, we've heard that even companies with the same infrastructure and expertise as Money Mart have very, very slim margins. Do you think Canada Post could make money by offering their banking services in the relatively small rural areas that aren't served by banks?

● (1540)

Mr. Tony Irwin: The short answer is I don't know whether they could or they couldn't. I think it's important, though, to note that—

Mr. Kelly McCauley: Would you invest your own money in that?

Mr. Tony Irwin: I will beg your forgiveness not to answer that.

Voices: Oh, oh!

Mr. Tony Irwin: I guess so. I mean, I think it's important to note that—

Mr. Kelly McCauley: I'm asking, is it practical?

Mr. Tony Irwin: Right. Perhaps in some remote areas that don't have services today, maybe it would be. But from our perspective, in terms of what our industry does, it is complicated. There are a lot of moving parts to it—technology, collections—as you've spoken about, not to mention risk and other things. I think all areas would have to be really considered.

Mr. Kelly McCauley: Okay. That's my time, thanks.

The Chair: Ms. Mendès, welcome to our committee, you have five minutes.

Mrs. Alexandra Mendès (Brossard—Saint-Lambert, Lib.): Thank you very much, Mr. Chair.

[*Translation*]

Thank you very much to all of you.

I am very happy to be here with you today.

We organized consultations in our ridings on Canada Post services. I represent a suburban riding, the riding of Brossard—St-Lambert, close to Montreal. We aren't exactly in the wilderness. Forty minutes from my riding there is a well-known ski resort, in Bromont. Right next to it, there is no access to either the Internet or a cell phone network. And I repeat: this is 40 minutes from Montreal. There are all sorts of constraints that prevent citizens from having access to the Internet.

That is why we need to consider whether Canada Post could offer banking services. Several regions in this country that are not so remote do not have broadband access. People thus cannot do their banking transactions online, as many other Canadians can. I am myself a big consumer of Internet products. I love doing all my transactions online. I have no problem with that.

Some credit unions in Quebec are closing. Many of them are in remote areas and citizens can no longer cash cheques. Making a remote deposit with an image capture won't work if you don't have Internet. How do you do that? If you can't go to a bank machine or a credit union to deposit a cheque, what do you do? These are some of the constraints linked to the geography of our country and the challenges it poses.

I have not heard the banks talk about participating in the implementation of a broadband network in our country. That could be one national initiative to further develop access for everyone. I think those are options that could be looked at if we are to solve the accessibility problem for people who live outside large urban centres.

I would like to hear your thoughts on accessibility.

[*English*]

Mr. Darren Hannah: Again, I'll start by saying that 99% of Canadians have an account, so access to—

Mrs. Alexandra Mendès: But that's not the question. It's not about having the account.

Mr. Darren Hannah: I understand that, and I'm getting to the answer.

There's a couple of points in here that need to be brought out because I think they're important.

First , I'll start with one disclaimer. We don't represent the caisses populaires. That's a different group. Setting that aside, a number of issues were raised there, and I want to pull them apart.

In terms of things like cashing cheques, the biggest and best solution from our perspective is making sure that people, to the extent they can, sign up for direct deposit of anything. If they do that, they get funds put directly into their account. They don't pay a fee. They don't—

Mrs. Alexandra Mendès: I agree, but that isn't always possible. A farmer who is getting paid for selling his feed or his stock, whatever, he cannot necessarily get that directly deposited into his account. How does he or she solve that?

Mr. Darren Hannah: Then, having looked at that, I come back to the fact that at the end of the day, while banks have a large footprint across the country, every branch still has to be financially viable. Are there instances where a community cannot be served by a full service branch? Absolutely. This happens. Where that happens, do banks try to find alternatives to the extent that they can? Yes, but alternatives don't always present themselves.

Certainly, when a branch closes, there is a well laid out process that a bank has to go through. There's a notice requirement with a certain amount of time involved, depending on proximity to another branch. There's a consultation requirement, whereby the institution has a consultation with the community. There's a discussion involved about what the bank might be able to do in the alternative, but can every community be served by an in-person presence? There will be instances where it can't happen, so the alternative—

● (1545)

Mrs. Alexandra Mendès: On the second part of the question about banks maybe thinking of eventually partnering with government for the broadband investments that are needed in this country, would that be something you would consider?

Mr. Darren Hannah: I can't speak about partnering with government, but I will say generally that I think the point is well taken. I'll quote Wayne Gretzky, since it's always a good thing for a Canadian to quote Wayne Gretzky—

Voices: Oh, oh!

Mr. Darren Hannah: —and say to skate where the puck is going, not where it is.

If people are moving to it and have expressed a desire to interact and transact online, and if the limiting factor is in some cases that online isn't available, then, from a public policy perspective, it's certainly something that I'd encourage the government to look at.

Mrs. Alexandra Mendès: We're looking at it, but—

The Chair: Thank you, Ms. Mendès.

Mr. Weir, please, for three minutes.

Mr. Erin Weir: Mr. Hannah, you described the Canadian banking sector as very competitive. I think conventional economic theory would tell us that competition tends to pull down profits, yet the Canadian banking sector is exceptionally profitable year after year. I wonder how you'd explain that.

Mr. Darren Hannah: I would explain it because we have strong banks and we have good management, but what we also have is very competitive pricing. I'll give you an example on accounts—

Mr. Erin Weir: For these five or six institutions, each one is exceptionally well managed year after year, decade after decade. Is that your explanation of Canadian bank profits?

Mr. Darren Hannah: I can tell you that Canadian banks made it through the financial crisis without the need of a government bailout and in fact increased business over that time. Almost no other developed country can say that, so are Canadian banks better managed than those in other countries? I think the proof says yes.

Mr. Erin Weir: I think part of the reason that Canadian banks survived the financial crisis is that they're an oligopoly. That might be a source of strength in resisting the financial crisis, but it's not the same thing as saying they're competitive in serving consumers.

Mr. Darren Hannah: The structure of the Canadian banking sector, actually, as I noted in my opening remarks, has more large banks in its geography than what you'll see in most of Europe likewise.

You can look at who Canadian banks compete with, in addition to competing vigorously with each other. There are, as I said, 40 in the marketplace that provide individual products and services. They compete very vigorously and get very vigorous competition from other deposit-taking institutions, from credit unions, the caisses populaires, and trust companies all across the country. It's a highly competitive market, with a lot of players.

Mr. Erin Weir: There are obviously federal restrictions on foreign ownership of banks. I think there are arguably some very good public policy reasons for that. Would you see banking as a protected sector in the Canadian economy?

Mr. Darren Hannah: We have a number of foreign banks in this country, and a number of very large and successful ones. HSBC has a very large presence here.

Mr. Erin Weir: But American banks can't just come in and open branches wherever they want and fully compete with Canadian banks.

Mr. Darren Hannah: As long as they have a retail licence, they can come and open branches if they want, and some of them have opened branches here.

Mr. Erin Weir: You don't think the foreign ownership restrictions for Canadian banks are of any real effect in terms of competition? You don't think they limit competition in any way?

Mr. Darren Hannah: I think we have a highly competitive sector, and I think we've had a lot of foreign banks enter Canada very successfully and do very well.

Mr. Erin Weir: Okay. You don't see the limits on foreign competition as putting banking in a different category than other industries in terms of competition.

Mr. Darren Hannah: No. I want to take issue with the premise of your question. Foreign banks can and do enter the Canadian marketplace.

The Chair: Thank you.

Colleagues, before we go into our next round, I want to get a sense of whether we have a full complement of questioners.

Ms. Yasmin Ratansi: Yes.

The Chair: Okay. At some point in time, if we have a spare moment, I would like to go over the schedule for the rest of the week for about five minutes in camera with the committee.

That said, Madam Ratansi, you're up for another seven minutes.

● (1550)

Ms. Yasmin Ratansi: Thank you all for coming. It's a pity we do not have the Kiwibank guys or other postal banking people.

We have been travelling across Canada, and you talked about 99% of the people having a bank account. When we look at the reality in the remote and rural areas, I've just had some statistics from the Canadian Centre for Policy Alternatives. For example, 84% of the communities in Newfoundland do not have either a bank or a credit union. When we went to Bathurst, New Brunswick, there was a community, Chipman. The mayor was saying the bank was closing, and if the bank closes, then the businesses actually do not want to take the trouble to go 40 kilometres away. We're trying to resolve an issue where we're asking how we help, how we work synergistically to ensure that we have a robust rural population and a robust urban population. What if postal banking were to come in and be a form of fringe financial services? Those people are saying that's what they want. The people who sell the mukluks do not have access to banks. If they want to do a deposit or take money out, what would be advantageous to the banks to participate with them? They have the infrastructure, they have the logistical network, and they have the last mile ability. All they need is probably a thinking banker. Would that work?

Mr. Darren Hannah: It's hard to generalize, because relationships can look different and it depends on what one is talking about. Relationships can be scoped out large or scoped out small. Are partnerships available, and do they happen? Periodically they will, but they are evaluated on a case-by-case basis and they're usually done on a commercial basis, so it's hard for me to say with certainty whether something would work or not. It would really depend on the circumstances at the time and in the locations.

Ms. Yasmin Ratansi: I'm taking different communities and then averaging it out, but 45% of Canadians don't have access to any banking, and the fringe services—the report says the fringe financial services, payday loans, money grams, etc.—are sometimes not available either. I'm looking to banks to be socially responsible. You know the best example one can look at is the Tata group. It has huge corporate social responsibility. Can we look at corporate social responsibility? If you don't have an answer just now, it doesn't matter. Could you just throw back some suggestions to us as to what would work, in your assessment? How can we take the whole logistical network, all the assets Canada Post has at the moment, and instead of dismantling it and throwing it away, capitalize on it? How can we leverage it? You guys are good at leveraging.

Mr. Darren Hannah: I'll take what you said. I don't have an answer right now. It is not simple. I don't know what the answer would be. I do wonder if the answer lies somewhere outside of financial services. It's something I'd ask the committee to look at, to consider whether or not there are alternatives in other areas, where physical presence and physical delivery are key. But I don't really have a strong answer for you right now in the context of your specific question.

Ms. Yasmin Ratansi: Okay, it's not a problem.

Mr. Irwin, do you know if pawnbrokers and cash-for-gold people are regulated?

Mr. Tony Irwin: Pawnbrokers, I believe, do need a business licence, but I don't believe there are robust regulations like those that exist for our industry.

Ms. Yasmin Ratansi: So they could charge any interest they want.

Mr. Tony Irwin: I can't speak to it directly because—

Ms. Yasmin Ratansi: I'm just asking the question. I'm just trying to get my sense about it.

In the 600 indigenous communities, Mr. Martin, there are only 56 credit unions or people that serve them. Do you have any idea whether the post office structure might help the credit unions expand their service?

Mr. Robert Martin: As I indicated in some earlier comments, there would be an openness for the system to have a dialogue with Canada Post to fill some of those gaps. We are aware of them. We know that they're up in the north. We know that in some indigenous communities, they face challenges. We are trying to serve some of those communities, but it is challenging, especially as they have to be financially viable in some way. Once again, all I can say is we'd be open to a dialogue.

One thing is that we may not want to focus solely on Canada Post as the modality or mechanism to deliver this. There might be two different things being mixed in this discussion. On the one hand you have Canada Post, which is facing huge challenges in its core businesses. It's looking for ways to either streamline its activities or to expand its product offerings. The postal—

● (1555)

Ms. Yasmin Ratansi: Could I cut you off for one second, please?

I just want to ask all of you whether you have ever looked at the Australian model of the post office supplying banking. If you haven't, please send us your thoughts on it, because it has $6 billion in assets and $36 million in profit. Its land mass and population are the same as ours.

If you could give us your thoughts on it, that would be really appreciated. Thank you.

Mr. Robert Martin: Sure, but I would just like to finish up my comment, if I could.

Ms. Yasmin Ratansi: Sorry. Yes, finish.

Mr. Robert Martin: Within this discussion around the future of Canada Post, the issue of servicing rural and remote areas keeps emerging as part of the dialogue. I'll admit that we as credit unions, as co-operatives, are interested in that issue.

At the same time, I don't see using a Canada Post model to serve those communities as a means to deal with its structural issues. The markets it would be serving need services, but those are certainly not going to address the core problems at Canada Post. I think we can't mix those things up. That's why we're making the point that if you want to have a dialogue about this, these issues in rural and remote regions, then we're open to that discussion, but we don't necessarily have to have the Canada Post bank on the table. There could be other ways of doing it.

Ms. Yasmin Ratansi: Sure. Thank you.

The Chair: Mr. Weir, you're back up for seven minutes.

Mr. Erin Weir: Oh, already? That's amazing.

The Chair: Well, you were having so much fun the first time, we figured you'd want to—

Mr. Erin Weir: Yes, I was. I was thinking the Conservatives got to have some more questions in there or something.

The Chair: They've ceded their time to you.

Mr. Erin Weir: Oh, well, that's very much appreciated.

Mr. Martin, is there any possibility of collaboration between credit unions and Canada Post in offering financial services? I know you've said it's not all about branch banking, but credit unions are keen to keep physical branches open. I wonder if there are any postal outlets that might be attractive to you in that regard.

Mr. Robert Martin: Yes, and I've said that a few times.

What we are really concerned about is that we don't believe we should establish a stand-alone full-service bank at Canada Post. If you want to have a dialogue about serving rural and remote regions, we're totally open to that. You also do not have to do it through a Canada Post modality. There may be other ways of doing it.

I know that maybe about five or six years ago, or maybe a little longer—I'm showing my age, I guess—we had a discussion about moving into Nunavut. We had a long dialogue with Arctic Co-operatives Limited and the government up there. It didn't result in anything. I think other options were tried up there.

We'll have those discussions. We're open to that.

Mr. Erin Weir: So it's not so much that you're opposed to any version of postal banking; it's more that you're skeptical of Canada Post itself trying to become a full-service bank.

Mr. Robert Martin: Yes.

Mr. Erin Weir: Okay. Fair enough.

I have a similar question for you, Mr. Hannah. I know we've talked a little bit about this, and you have really emphasized the point that you want to move to where the puck's going to be, which perhaps involves more digital options. Is there a willingness among your members to try to collaborate with Canada Post in delivering financial services?

Mr. Darren Hannah: Well, as I said, absent an actual proposal on the table, it's hard to say, but even in the case of a proposal, those kinds of relationships are always evaluated on a case-by-case basis and on a commercial basis. It would really depend on the circumstances at the time and the actual proposal on the table.

Mr. Erin Weir: I suppose I'd put the same question to you, Mr. Irwin. Canada Post, obviously, has some good facilities. Through the federal government it might have some advantages in terms of collections. Is there any willingness on the part of your members to go into some kind of partnership with Canada Post to provide short-term loans?

Mr. Tony Irwin: I can't say it's anything our membership has ever discussed, but certainly, as is my colleague Mr. Martin, we're always open to conversations and discussions with any and all governments.

Mr. Erin Weir: Okay, fair enough.

Mr. Hannah, we were having a discussion earlier about the competitiveness of the Canadian banking sector, and of course you've suggested it's quite competitive. I've been a little more skeptical of that. Just to make sure I understand your argument correctly, is it that it's so competitive that Canada Post would not be able to get into it and compete effectively, or is it more the notion that in response to Canada Post entering the market, your members would lower their fees and respond in an effective way to Canada Post's entry?

● (1600)

Mr. Darren Hannah: My view is that the market is already highly competitive. Canadians are already well served and have a very high regard for their financial institutions and their relationship. In an environment like that, given how much it would cost Canada Post to try to get into this market in a meaningful way, given what you need to do in order to satisfy customers' demands for omni-channel access, I have a great deal of difficulty believing they would be able to penetrate that market successfully and profitably.

Mr. Erin Weir: So your sense is that bank fees in Canada are essentially as low as they reasonably could be.

Mr. Darren Hannah: One-third of Canadians pay nothing at all for their account.

Mr. Erin Weir: They pay nothing at all in terms of monthly fees.

Mr. Darren Hannah: One-third pay no monthly fees, and the remainder pay between $1 and $15, and anybody through the low-cost account agreement can get an account for $4 a month. Seniors can get—

Mr. Erin Weir: There are other costs in addition to monthly account fees, though, aren't there?

Mr. Darren Hannah: For your typical client, it really depends on how you conduct your banking and what kind of relationship you have.

Mr. Erin Weir: Okay, fair enough.

I suppose one of the questions with Canada Post is, what other lines of business could they get into to make better use of their infrastructure? We've heard strongly from this panel that you don't think postal banking is the main option. Are there other lines of business that you think Canada Post should be exploring instead?

Mr. Darren Hannah: I can only speak of banking, unfortunately, so I don't know the answer to that. I'd certainly encourage the committee to look at that issue because I think that's an important point, and one that in some respects we've made here. This is probably not the best alternative for Canada Post. But I'd certainly encourage the committee to look at what other ways you may be able to leverage that asset.

Mr. Erin Weir: Okay.

Mr. Irwin or Mr. Martin, do you have preferred alternatives to Canada Post? It does face this challenge of declining letter mail. On the other hand, it has this great network of assets out there. As a committee we're interested in other innovative and productive things they could do with those assets. We're very seriously interested in postal banking, but if not that, then what?

Mr. Robert Martin: It's difficult for me to pronounce on how Canada Post should reform itself or evolve, not being as close to that issue, not being close to Canada Post in any institutional way.

That said, I think that if you're facing issues—everything from the pension issues, to declining core services, to labour relations issues, all the things we see rear their head around Canada Post—I have a very difficult time thinking that jumping to a whole new line of business is the way you address those core issues. It just seems like a high-risk strategy. It's one, as I indicated in my remarks, that would have unintended consequences in the market, and even the panel report was indicating that it probably wouldn't succeed.

I think they can't just ignore dealing with those core issues and rationalizing their service offering to Canadians. That's really difficult to do because you have to challenge your employees, and you have to challenge your management structure, but I don't see an easy way around that by finding another magical stream of revenue.

The Chair: Thank you very much.

Monsieur Drouin.

Mr. Francis Drouin: I want to thank the witnesses for being here.

We've touched on a few points. It's true that the access landscape has changed over the past, I'd say, 30 years. It has changed for banks. It has changed for gas stations. It has changed for grocery stores. Banks and credit unions are still present in rural communities, but not so much in T-shaped communities, where one street crosses the other, and I think that's where we're getting some heat or some comments from certain constituents. Then again, you ask them where they get their gas, and they say they get it in town. It's just a matter of everybody getting used to changes.

The other point I have is about access to the Internet. That's a problem. I wasn't expecting you to come out in support of postal banking. I think we've heard your positions in the previous testimonies. If there was a role to play—I think what the task force came up with is maybe there could be a potential partnership for....

I think of my grandmother, who needs a place to deposit money and take out money. That's all she needs. If she wants a loan, she will drive to town. She still has about 15 to 20 years to go, hopefully. She will be over 100 by then.

Do you see a role for a potential partnership like that, where all major banks and all major credit unions could be part of that banking system?

● (1605)

Mr. Robert Martin: I can't speak for the credit unions. We have 290 of them, and they all have their own business models.

I suspect you would find a core group of credit unions that would be interested in this, and it would probably be coming out of some of our larger credit unions that would be interested in a dialogue with government. As I indicated before, possibly Canada Post, though not necessarily Canada Post, defines modalities to deliver.

I know Vancity is one of our credit unions that already has some engagement with Canada Post, so we could build out from there, but I can't speak for the whole system beyond that.

Mr. Francis Drouin: Mr. Hannah, do you have comments?

Mr. Darren Hannah: I have a couple of comments.

I don't want to leave people with the impression, and I don't think the impression should be left, that somehow access is diminishing. I'll give you a personal anecdote.

I grew up just north of Highway 7, If anybody knows where Madoc is, about 15 or 20 minutes north in a small town of I think 50 to 75 people. Of course, there was never a bank branch there, nor could there be. In fact, at only varying times was there even a store there.

If you grew up in Madoc, there was always an expectation that if you were going to do any kind of banking, then you went into Madoc and went to the TD Bank branch, which is still there. When I was a kid, that meant you went there, and it was open from nine until three and part of the day on Saturday. You had to transact in person. There was no ABM. You had a certain number of hours to do a certain number of transactions, and that was that.

My parents still live there, and they can bank online. They can go into the branch that has extended hours, and there's an ABM if the branch isn't open.

Has access improved for them or diminished? I dare say for them it has improved. I don't want to leave the impression that somehow all Canadians in rural Canada have experienced diminishing access from changes in the environment, because I know that's not true.

There are circumstances, as you're saying, where change has happened. Do we all try to find ways around that? Yes, we try to find ways of addressing it, but I don't want to leave anyone with the impression that there aren't circumstances on the other side of this as well.

Mr. Francis Drouin: I agree with you. It's maybe transportation, where it used to take you five minutes to access a bank or a credit union, and now it takes you 10 to 20 minutes. I agree that banking has changed over the last 20 years so much. I remember a bank being a nine to five operation. Today they meet consumer demand.

I completely agree with you about that, but just the travelling time for some rural communities has changed, and that's where we're getting some heat.

Mr. Darren Hannah: I get that, and I understand that. I felt the need to make that point.

Mr. Francis Drouin: Okay.

You touched on an important point previously and it's with regard to when people do step into a bank for more complicated transactions, such as for a loan or if they want to buy mutual funds, and whatnot.

It's one thing I did ask the union a few months ago with regard to training. How much training goes into each person to require that? I know from personal experience, because I almost went into banking at one point. I was all trained, and I was almost ready to pass my licences, but then I found out I had to spend about 2,000 to 3,000 hours of being a bank teller, for instance. I had already gone toward my political career, so I didn't want to do that.

That would require all Canada Post employees, if we were to go into more complicated transactions, to do that rigorous training. Does it vary from province to province?

Mr. Darren Hannah: It depends on the product you're selling. In some cases it's national. In some cases it's provincial. It's substantial in all cases, I can tell you that first-hand. My wife works in the financial planning business and to see what she goes through from a training perspective between the Canadian securities course and the wealth management essentials course, and the practice standards course, and the number of hours one goes through both to obtain licensing and then to be able to maintain it because there's a continuing education requirement is enormous. It's no small undertaking on the individuals or their spouses.

● (1610)

Mr. Francis Drouin: I'm not sure if you're able to answer this question, but when banks and/or credit unions look at opening a branch and some of the economics they look at, return on investment, how fast do they want that return on investment? Do they say they're going to be profitable in five or 10 years? Is that confidential, or can you share that in terms of how long it takes a branch generally to be economically viable?

Mr. Darren Hannah: I don't know the answer to that question. It probably depends on an institution by institution basis. A number of metrics go into that decision. I don't know that there is one answer.

Mr. Robert Martin: I don't necessarily have an answer. I have the same issue that Darren has. I know that credit unions tend to be able to survive in lower profitability areas. Just because we're owned by our members there may not be the pressures, though of course we have to earn a profit, and every branch has to pay its way, but maybe not as much as a bank branch.

Mr. Francis Drouin: How much time do I have , Mr. Chair?

The Chair: You have no time left.

Mr. McCauley, you're up for five minutes.

Mr. Kelly McCauley: Mr. Hannah, I want to thank you for bringing that up. I recall a time when banks were open 9:30 to 3:30, and if you were lucky, they were open until 4:30 on Thursday. Now where I live, five or six banks within a five-minute walk are open on Sunday, and ATMs are everywhere.

I was referring to the village of Chipman where the mayor had offered free space to a bank to keep open even one day a week, and the bank said that wasn't financially viable, but the bank ended up offering a full-service ATM, one where they take deposits as well as cough up...and then change came up. A private vendor would do a change machine as well, and someone else, but not Brinks, would do armoured car for pickup.

Do you see banks being open to that kind of thing for the smaller communities, or do you push it off on one of the ATM specialists?

Mr. Darren Hannah: Banks want to serve their clients. Ultimately these are customers, and they want to find a way to service them. Can they put ATMs in those locations? They probably can. It depends on the individual circumstance. Certainly to collect deposits it has to be an ATM of the bank. A white-label one only provides cash; it doesn't accept deposits. One thing that does help a lot is remote deposit capture where now I can deposit a cheque remotely.

From the bank's point of view, these are ultimately customers and they're customers they want to retain and they want to find a way of making this relationship work commercially and feasibly for both the client and the bank.

Mr. Kelly McCauley: I'm sure you can sell them RRSPs and everything else by email.

For any of the three of you, I want to go back to postal banking where the idea is the post office agents by themselves would act as the banker when they're not selling stamps or whatever. We saw a report that says you need a full-time manager at every outlet. Is even having two feasible for the work required, either from payday lending or for a credit union?

Mr. Robert Martin: Do you mean individuals? I'm not sure.

Mr. Kelly McCauley: What came up from this study was the idea to have Canada Post do postal banking. The person who is already there doing the post office work will also act as the banker as well. The report says having one isn't feasible, that you'll need a manager at every outlet doing that. Are even two feasible?

Mr. Robert Martin: I'm out of my depth answering that.

Mr. Kelly McCauley: Do you have any branches with just two people?

Mr. Robert Martin: Yes, I know of one.

● (1615)

Mr. Kelly McCauley: Okay.

Mr. Hannah.

Mr. Darren Hannah: That's an interesting question. The question I would have is what is the traffic flow going to look like in that case? Is this person literally going to switch hats back and forth on a customer by customer basis, selling financial products to one and then providing postal services to the next one who comes in the door? What is the client experience going to look like?

Mr. Kelly McCauley: I think that was the idea.

Mr. Darren Hannah: I have to wonder what that customer experience would look like.

Mr. Kelly McCauley: I was just asking the practicality of it.

Mr. Irwin, do you have any shops with just two people?

Mr. Tony Irwin: Sure. There probably are some, but, again, it would depend on where they are and what the traffic is like. Some times of the day and some days of the week, that simply would not work. I echo some of the comments of my colleague.

A voice: There would be security issues, too.

Mr. Kelly McCauley: Okay.

You've come up with a number, that 98% of Canadians have bank accounts. StatsCan shows that 81% of Canadians live in cities, so that's 81% who have easy access. Where does the 98% come from?

Mr. Darren Hannah: Ninety-nine per cent is from the World Bank.

The Chair: Ms. Shanahan, for five minutes, please.

Mrs. Brenda Shanahan: When we were on the road, we often posed the question to the witnesses, regardless of their background: Do you see Canada Post as being a business or a service? Very often the answer we got was a combination of the two, which makes a lot of sense, of course. It's an essential service, but it needs to be sustainable as a business. Then it's up for grabs whether the dividend should be paid out or the money reinvested.

Stemming out of it being an essential service is the idea of a community hub. That would be especially useful in these rural and remote areas, but also in inner cities there's a market as well, where other services could be provided. It could be passport services, or something that's dear to my heart, which is income tax preparation, especially as we go forward and that becomes, I hope, a lot easier.

I was very interested to hear what Vancity was doing as far as financial literacy goes. Very often people are just not aware of the GST rebate and that kind of thing. They don't fill out their income tax. They head over to the payday lender, because that's the easiest and closest service that they have, and they're in that debt spiral.

Members of the panel, I would like to hear your comments on the idea of a community hub. In other words, what do you think of Canada Post leveraging probably its biggest asset, which is this coast to coast to coast distribution network that it has?

Maybe we could start with Mr. Irwin.

Mr. Tony Irwin: I think it's something our organization hasn't necessarily spent a lot of time thinking about. I'd certainly undertake to get back to you with any thoughts we have.

Briefly, I would say that if there's a way to leverage existing resources to be able to provide services that people need, that's always important and should be looked at. Our members are always looking at ways we can continue to serve our customers. Income tax preparation is something some of our members do as well. It started as an industry that cashed cheques, and then it evolved into lending. Now it's evolved into more things beyond that. Whatever the case may be of the customer, whether they can't find those services where they live, or whatever the case is, our members are always trying to step in and figure out ways to fill that gap.

If there is one message I would like to convey today, it is that the industry I represent is a lot more than what you think it is, or what a lot of people think it is, which is that loan for a few hundred dollars that's repaid the next payday. We do a lot more than that, and we try to do it in the best way we can.

Mrs. Brenda Shanahan: Okay, but you do need to make a profit while you're doing it.

Mr. Tony Irwin: Absolutely.

Mrs. Brenda Shanahan: Very good.

Mr. Hannah.

Mr. Darren Hannah: The question is an interesting one. In many respects, it's more a real estate question than a banking question, which is, if I'm Canada Post, how do I take my existing real estate assets and repurpose them or at least reorganize them in some way so that I can leverage them off on, depending upon the location, different relationships.

Conceptually, is that a good idea? It's certainly something I would explore if I were Canada Post, because they have a substantial real estate asset.

There's not a lot more I can say about it than that, other than I can see the attractiveness of looking at that from Canada Post's perspective.

Mrs. Brenda Shanahan: Okay, thank you very much.

Mr. Martin.

Mr. Robert Martin: I can't add any more to what Darren said. Those are pretty much my thoughts.

Mrs. Brenda Shanahan: Very good, thank you.

The Chair: Thank you.

[*Translation*]

Mr. Clarke, you have five minutes.

Mr. Alupa Clarke: Thank you, Mr. Chair.

I will continue with my questions.

Mr. Hannah, as you were saying, there are already foreign banks in Canada that do good business.

In your opinion, how long would it take Canada Post to get into the Canadian banking market and comply with all of the rules and regulations of the banking system?

● (1620)

[*English*]

Mr. Darren Hannah: First off, I'd say that the question is best addressed to OSFI.

If you haven't spoken to them already, it's probably a good idea. They can explain the process involved in getting a banking licence. It's a multi-year process. You have to satisfy the regulator that you are sufficiently well capitalized, that you have put in place a management team and an operation that is able to be sustainable, that you have a business plan that looks like it will work, that you've put in place the appropriate risk management controls and the appropriate information security controls both to address your financial risk and also your operational risk. I want to point out the latter one and draw attention to that, because it's important. These days, given cybersecurity issues, technology risk is a big issue, and technology and information security is a big issue.

If Canada Post were to go into this space in a meaningful way, they would have to look very hard at what they need to do to secure customer information.

[*Translation*]

Mr. Alupa Clarke: Precisely, Mr. Hannah, and this leads me to my next question.

What physical changes would Canada Post have to make to its post offices, both in rural and urban areas, to convert them into banking facilities?

You make me think of the fact that this would surely require huge investments, because the current premises would have to be transformed. We are talking about a physical transformation. They would need a vault, and so on. I want to go back to the issue of banks' liquidities. It takes room to store money. It would be quite a job.

[*English*]

Mr. Darren Hannah: Yes, it would have to be reconfigured. You would have to reconfigure it both from a security point of view, as you've discussed, but also from a customer point of view as well, to recognize what an interaction would look like.

To try to do that over top of or in conjunction with maintaining the postal business would be no small undertaking.

[*Translation*]

Mr. Alupa Clarke: You were also saying that we should not be mistaken: of course the banks like their clientele in the rural regions, and their objective is to have a good relationship with their clients and to meet the demand.

Has the banking sector ever considered sending representatives to people's homes, for example? Recently, a mortgage specialist came to my home. Does that exist for regular services?

[*English*]

Mr. Darren Hannah: Depending upon the product and the service, there are mobile banking representatives. You talked about it in mortgages, absolutely. We see it in small business and agriculture all the time. It really depends on the client relationship and on the product, but in selective areas and in selective products, that does happen.

[*Translation*]

Mr. Alupa Clarke: Very well.

My next question is addressed to Mr. Martin.

As you were saying, we are discussing a postal banking service for the purpose of resolving Canada Post's financial difficulties, that is to say the deficit projected by 2026. In your opinion, that is not necessarily the solution. So it may be somewhat awkward to talk about a postal banking service.

I would like to hear you on the 10 other suggestions that were made over the past few weeks, or months, regarding additional services Canada Post could offer. I am thinking of passports, for instance, or issuing driver's licences—even though this is a matter of provincial responsibility—and of assistance to the elderly. These are services that are provided in Switzerland, France, and elsewhere.

What do you have to say about that?

[*English*]

Mr. Robert Martin: I think the key thing is whether these services align well with the skill set, with the labour complement they have, and with the technologies they have in place.

I think we've said that making the jump into financial services is going to require large investments. There's going to be training, security issues. There's going to have to be some change in labour management relations.

However, I can see moving into other areas, maybe like the passport office and these sorts of things, as being more in alignment with the service delivery model that Canada Post has. I couldn't go farther than that. It seems to make more sense.

The Chair: Thank you very much.

Mr. Hannah, for your benefit, you said that perhaps it would be best that we talk to OSFI about a particular issue. They were invited to appear before this committee and they declined.

● (1625)

Mr. Darren Hannah: Oh, okay.

The Chair: Mr. Whalen, for five minutes, please.

Mr. Nick Whalen: Is this the last round?

The Chair: This will be the last round.

Mr. Weir will be after you and that will be it.

Mr. Nick Whalen: Okay, thank you very much.

Thank you all again for coming. As I mentioned before, we have had a number of representations across the country regarding the possibilities of postal banking. We were looking forward to an opportunity to test some of those assumptions and some of what we heard against people in the banking industry.

The banking industry has faced the same style of pressures that Canada Post has faced in terms of digitization and the pressures it places on industries with a large physical footprint.

Mr. Hannah and Mr. Martin, could you talk a bit about how your organizations have restructured their efforts and dealt with having such large real estate assets, whether or not to leverage them, whether or not to dispose of them, and how that has evolved over the course of the past decade?

Mr. Darren Hannah: I'll start, Rob, and then you can join in.

As I mentioned, what happens in a bank branch now looks a lot different from what it would have 20 or 30 years ago. What have banks done? In many cases they've reconfigured the branch to recognize that you're getting less traffic necessarily going to the front desk, and adding more kiosks so they can provide one-on-one financial advice. In some cases the footprint of the branch is changed and made more compact to reflect traffic. The branch is still there, it's just smaller than it was.

There has been more integration of the front-line electronics, so you have the option to go in there and use the ATM right in front of you in order to deal with those one-off, relatively straightforward transactions. What they've done is they have tried to align the footprint with where it provides value for customers, recognizing that a lot of the transactional relationships are being done through electronic mechanisms.

Mr. Robert Martin: I can't add much more to that, but the other thing we've done is we've tried to extend our ATM network. We are part of what's called the Exchange network, which includes credit unions and some banks that have committed to a surcharge-free exchange network. You can actually go and make deposits and do some beyond basic transactions at ATMs. That is at 4,200 ATMs in the country.

I'm a credit union member, of course, but I can deposit at National Bank and I can take out money at National Bank, too.

Mr. Nick Whalen: One of the things we've seen in the face of the rural moratorium on closing rural post offices across the country is that the time during which certain rural post offices are open has severely contracted from 40 hours a week down to 25 hours a week, down to 13 or 15 hours a week in some places. Is that something the banks have explored, or does it reach a point at which with minimal hours of operation it's just as well to close the operation's location?

What other types of factors do you consider, maybe the possibility of a temporary or a roving site, as some of the credit unions have talked about?

Mr. Darren Hannah: I'll start by saying that in general, if you actually look at the trend toward branch hours, it has been to lengthen them rather than to contract them to try to reflect when people are actually able and want to do banking.

Are adjustments made on a case by case basis? Sure, it can happen, but in general it's ultimately all driven by viability. Is this branch viable? Is there a way I can repurpose it or reframe it to make it viable? If there isn't, what's my alternative and what can I do to try to maintain some degree of service to people in the community while recognizing that the branch, as it exists, simply isn't economically sustainable anymore?

Mr. Robert Martin: Yes, and some of our credit unions, usually in very remote areas, have moved to some shorter-hour models to make them viable.

Of course, these decisions have to be made at the credit union level. It has to do with their business model and what's going on in their other branches.

Also, whenever we move to look at a branch and its viability, there is eventually going to be a membership meeting to talk about it. We always have to keep in mind, too, that it's what our members want in the end.

The Chair: Thank you very much.

Mr. Weir, you have three minutes.

Mr. Erin Weir: Thanks a lot. It has been great having this panel with you, although I feel we must be nearing the end because members from all parties are starting to spitball about different options and asking you to respond to those.

In that same spirit, one of the reasons that letter mail volumes might be declining even a bit faster is that some companies are charging customers extra to receive bills or statements by mail. I wonder if your members are doing that and if you have any thoughts on that topic.

● (1630)

Mr. Darren Hannah: In the case of banking, it depends on the package you buy. As part of the low-cost account that banks have agreed to for $4 a month, you can get a low-cost account that has a number of transactions and includes also free mailed statements.

Are there other options where you pay for a statement by mail but get it electronically? Yes, those options are available as well. Typically they come with another package of services.

Really, you can purchase the package that suits your needs, and if paper statements are part of what you want, you can get that.

Mr. Tony Irwin: Our members don't mail statements.

Mr. Erin Weir: Fair enough.

Another thing that's come up in the discussion is the fact that there are other federal entities in the financial sector. We had a bit of a discussion about Farm Credit Canada. CMHC obviously plays a big role in the mortgage business. What do you think about the possibility of Canada Post serving as a network of retail outlets to provide some of those financial services that already exist? For example, if people could connect with Farm Credit Canada through the post office, might that make sense, or if post offices were places where people could buy government bonds on a retail basis?

I don't expect you're going to be super enthusiastic about that idea, but I thought I'd bounce it off you.

Mr. Darren Hannah: I can't say I'm terribly excited about helping Farm Credit Canada, but it's really more a question you'd have to ask them.

Mr. Robert Martin: They're not in the deposit-taking business, so they have a limited suite of products. But there are other equally viable models to partner with, credit unions or other institutions, too, not necessarily postal banks. We already provide a lot of, say, agricultural products and services for our members, for example, AgriInvest accounts. We might be able to partner in some way with FCC around that.

The Chair: Gentlemen, thank you very much for being here, for taking time out of your day to be with us. Should our committee members have any additional questions—and God, I can't think that they would after two hours—I hope you would invite them to contact you directly.

Conversely, if you have any additional information—clearly you have a point of view, particularly on the issue of postal banking—you wish to provide to us that you think would help us in our deliberations, we invite you to do that through our clerk.

We will now suspend for no more than just a few moments, hopefully. We have to make arrangements for a video conference for our next set of witnesses.

The witnesses are excused. Thank you.

● (1630)

(Pause)

● (1635)

The Chair: We're running a little over time, but I think we can make up time.

Ms. Falcone and Mr. Druker, thank you both for being here.

You may or may not, Mr. Druker, have been observing the proceedings. Ms. Falcone, you probably haven't had a chance to see how we work around here. We will be asking both of you to give a brief opening statement. Following those statements, we will engage in a question and answer period with members of the committee.

Mr. Druker, how long is your statement?

● (1640)

Mr. David Druker (President, The UPS Store, UPS Canada): It's certainly under five minutes.

The Chair: Ms. Falcone, how long is your statement?

Ms. Cristina Falcone (Vice-President, Public Affairs, UPS Canada): It's five minutes.

The Chair: Thank you very much.

We will commence with you, Mr. Druker, for five minutes, please.

Mr. David Druker: Thank you, Mr. Chairman.

Thank you members of the committee. I greatly appreciate the opportunity to be here today.

My name is David Druker, and I'm the president of MBEC Communications, which is the licence-holder for the franchise operations of the UPS Store in Canada. We are a network of approximately—at last count, since I think we opened another store today—365 full-service retail locations offering multi-carrier services. We exist, basically, to assist consumers, small businesses, and Canadians in finding the right solution to serve their carrier shipment needs. We also do printing and some other business support services. We're really an easy one-stop location. The franchisees are all generally individual Canadian families supporting their own businesses. It's really a small-business organization supporting small business in Canada.

Most recently, going back about four years in the United States, they have successfully done pairings whereby the U.S. Postal Service parcel shipment options are available at the UPS stores in the United States, and that has been beneficial for both parties. It has created an easy solution for consumers and small businesses to find the appropriate selective service that they require for their individual needs.

We are a multi-carrier in nature. We are basically agnostic as to which carrier it goes through; currently we offer DHL, Canpar, UPS, obviously, and Loomis, and we offer different courier packages. Historically speaking, we were previously Mail Boxes Etc. and there was a rebrand done with a brand affiliation with UPS. UPS is our preferred carrier based on the brand association, but we are an independent organization of independent franchisees—Canadians selling solutions to Canadians.

We have tried for several years—I would say a good eight plus—to have a dialogue with Canada Post as to the mutual benefit of offering these services, and we have not to date been able to get very far with that. So given the recent suggestions that Canada Post is looking at new ways of expanding its business, expanding its product offerings to Canadians, and expanding what it does, we believe that our locations offer the ability to put parcels into the Canada Post carrier network.

We currently do, at retail, approximately \$35 million to \$45 million of parcel service, and we believe that Canada Post could benefit from some of that volume.

The Chair: Thank you very much.

Ms. Falcone, could we have your opening statement, please.

Ms. Cristina Falcone (Vice-President, Public Affairs, UPS Canada): Thank you, Mr. Chair.

UPS is pleased to participate in the Canada Post task force review. I appreciate the opportunity to speak before the committee.

UPS believes this review process presents an opportunity for the government to reshape Canada's parcel delivery infrastructure into a more streamlined, harmonized, and innovative system that will better serve Canadians. UPS will respectfully build on the task force review and advance three recommendations today that we believe will help create efficiencies in parcel service while additionally supporting Canada Post revenues.

First, UPS supports the task force option to explore synergies with the private sector through final mile collaboration and an open community mailbox infrastructure. The discussion paper suggests that Canada Post pursue additional last mile delivery for third parties. UPS believes this represents a significant opportunity for Canada Post. In fact, final mile delivery service is the fastest growing product in the USPS product portfolio. We see opportunities for Canada Post to collaborate with transportation partners on the challenge that the entire transportation industry faces when it comes to final mile delivery by opening up access to its vast final mile delivery infrastructure, including its community mailbox structures.

By opening up its infrastructure, Canada Post would benefit from cost sharing with industry colleagues and gain greater access to new courier technologies. This is a best practice that is already under way in other parts of the world. In France and Belgium, UPS and national post operators are working together on local pilots to experiment with modified parcel boxes and advanced parcel technologies.

In Singapore, the government is currently in consultation with the postal service and private couriers to devise a pilot program of government-run federated mailboxes. Singapore intends to use this model to create revenue for the government, solve problems such as urban access and congestion, and improve the movement of e-commerce.

In the U.S., the Government Accountability Office is currently assessing whether shared-access mailboxes would better serve the American consumer in today's digital marketplace.

Second, UPS recommends a more consistent duty and tax collection policy for import parcels. The task force identified the need for new revenue streams for Canada Post and also stated that there should be greater consistency in the industry. Currently, there's a gap in the revenue collection process on postal import parcels as compared to parcels carried by couriers.

In fact, preliminary results from a study currently under way by Copenhagen Economics indicate a disparity in the application of duties and HST assessments completed by Canada Post versus private couriers for import shipments to Canada. The final results of the report will be complete within two weeks, and UPS can share additional information then.

Moreover, Canada Post has an opportunity to increase its revenues by increasing the terminal dues that it charges to international postal entities when receiving parcels into Canada. Canadian terminal dues are relatively low when compared to the cost to serve. An increase in terminal dues would help Canada post manage its costs while ensuring that international companies are not gaining competitive ground against Canadian businesses selling domestically.

Finally, UPS supports the option presented by the Canada Post task force review committee to change Canada Post's governance structure to introduce an independent Canadian postal regulator. A postal regulator would ensure that fair and competitive structures are in place within the relatively unregulated courier and parcel sector. As the task force discussion paper states, “there is a need for enhanced regulation to provide structure balanced between the public interest and in response to competitive market forces”.

Similarly, we see the implementation of a regulator as mutually beneficial to both Canada Post and the private courier industry. Canada Post could update the rural moratorium, streamline its operations, and explore a greater partnership with the private sector. The private sector could be assured fair competition via a more transparent cost allocation process that shows Canada Post is not cross-subsidizing its competitive business lines from its exclusive privilege. Most importantly, Canadians would be assured that their postage fees are being optimized to ensure that Canada Post is fulfilling its letter mail service mandate. UPS urges this government to look toward best practices in Europe, Australia, the U.S., and the U.K., and implement an independent postal regulator for Canada.

In conclusion, we believe the recommendations brought forward today would ensure increased parcel access for Canadians, grow revenue for the federal government and Canada Post, spur innovation, and provide Canadians with the assurance that Canada Post is being managed effectively for today and into the future.

Thank you. I look forward to your questions.

● (1645)

The Chair: Thank you both for your presentations.

We will start the seven-minute round with Madam Ratansi, please.

Ms. Yasmin Ratansi: Thank you both for your presentations.

When you talk about UPS and the store, there's a confusion. The store is a little different from UPS itself. Is that correct?

Mr. David Druker: That's correct. The UPS Store is an independent franchise network that has a branding agreement. We serve multiple carriers, not uniquely UPS. We are not UPS employees. We are not UPS shareholders.

Ms. Yasmin Ratansi: You said that you would like to synergize with Canada Post, yet you haven't had any conversations with them. What sort of service do you think you could leverage from each other that would be beneficial to Canada Post and a win-win situation for you and them? How much revenue do you think it would generate for Canada Post?

Mr. David Druker: We believe that by offering the ability for Canadians to do Canada Post parcel service out of our locations, there would be a benefit to Canada Post. Our initial estimates are that, based on market share, there's easily $1 million of volume available. The benefit to Canada Post is the increased volume. The benefit to Canadians is increased accessibility and increased selection.

As I said previously, we exist basically as a multi-carrier option. We try to listen to the consumer or the small business and assess what their needs are. Some people have an absolute need to have a package or a letter arrive by 8 a.m. the next day. Other people only have a need to have a three-day, or maybe a five-day delivery, or ground service. By increasing the selection we have available to Canadians, we're helping to support small business, consumers, and Canada Post, as well as our franchisees.

● (1650)

Ms. Yasmin Ratansi: With all the multi-courier offers you give to your clients, Canada Post has never been part of the equation or the conversation.

Mr. David Druker: No. We've had initial conversations that have basically gone to the tune of, “Thank you, but not at this time.” They've been very brief.

Ms. Yasmin Ratansi: There are opportunities for enhancing their revenue, but they have declined.

Mr. David Druker: We would assume there are opportunities for the enhancement of revenue. Based on the experience with the USPS in the stores in the United States, we believe that proof of concept is certainly a worthy exercise.

Ms. Yasmin Ratansi: Okay.

With respect to UPS, I just want to know, Ms. Falcone, how much business you give to Canada Post in its ability to do the last mile. The last mile is the strategic advantage that Canada Post provides to all its customers, really. How much business do you supply?

Ms. Cristina Falcone: Most of that right now is done through other regional couriers that are then handing off to Canada Post, including Purolator Courier. We would hand off to Purolator and they would handle that last mile hand-off to Canada Post at the moment.

Ms. Yasmin Ratansi: Do you know how much of the volume or the dollar amount you are handing off to Canada Post because you don't have the infrastructure to do the last-mile delivery?

Ms. Cristina Falcone: It's a lower percentage of our total volume in Canada. I can get back to you with that.

Ms. Yasmin Ratansi: Fair enough.

When you talked about opening up its transportation service, what did you mean by it?

Ms. Cristina Falcone: There are a couple of opportunities.

First of all, right now we are working with some regional carriers, where they would provide the final hand-off to Canada Post. We would like to have some dialogue, where we would work directly with Canada Post on handling some of that final mile, even beyond the really remote areas, where it would just be preferable for one delivery truck to go to the centre versus our sending up another vehicle.

Second, there's an infrastructure that Canada Post operates. Primarily it was established to support the letter mail service. There are the retail outlets, the community mailboxes. Yet increasingly, consumers are ordering parcels, and increasingly, couriers, including UPS...our final delivery is made to residential areas. This infrastructure could also support acceptance of courier packages, parcel packages, as it is doing today for Canada Post. Canada Post has an opportunity to open up to private couriers to access that infrastructure for final-mile delivery, making it more accessible for consumers to retrieve their parcels regardless of who is carrying the shipment.

I'll give you an example. Someone ordering a parcel online may order three different shipments: one being delivered by UPS, another one being delivered by Canada Post, and another, for example, by FedEx. That consumer will probably have three different experiences to pick up that parcel. If they're in an apartment, they can go down to their locker box in the lobby and pick up their Canada Post parcel, or they'll see a sticky note on the door of their apartment building asking them to drive to pick it up at a UPS facility, for example. FedEx may have dropped it off at another facility. There's some synergy that could be experienced if all the parcels were to be delivered into a more modern, innovative type of pick-up centre for consumers.

Ms. Yasmin Ratansi: For Canada Post to create this, you are really looking for a clearing house: everybody dumps it here, and then somebody takes the ownership to deliver it or somebody comes to pick it up. Is that the concept you are thinking about?

Ms. Cristina Falcone: It could be a combined look at these locker boxes, with Canada Post working with industry to create a more innovative type of locker box that consumers could access through a digital PIN code or something to that effect. These are the discussions and dialogues that are happening elsewhere in the world. It would be a great advantage for consumers, and it would help Canada Post innovate in the parcel delivery network and share its costs with the industry.

● (1655)

The Chair: Thank you very much.

Mr. McCauley, you have seven minutes, please.

Mr. Kelly McCauley: Welcome.

Mr. Druker, I can't help but notice that a lot of what you offer at the UPS Store is stuff that's already available at the Canada Post franchises.

Mr. David Druker: Product offerings or service offerings? We have a broader service offering. To my knowledge, at their locations, Canada Post is the only offer that can be done. Staples, for example, offers Purolator and Canada Post. We offer a multitude of different carriers. We are not really talking about exclusivity for anyone. We are really looking at giving Canadians the broadest selection possible to serve their needs. I think our services are a little larger. For example, a small business can send or receive faxes from one of our stores. There are different options available.

Mr. Kelly McCauley: Maybe their reluctance to enter into an agreement with you might have to do with their agreements with their franchisees.

We've heard a bunch of witnesses over the last couple of weeks going on about how to increase revenue with Canada Post. Box rental and printing have come up as ideas for Canada Post. How would you feel about a government-subsidized business encroaching on your area?

Mr. David Druker: I don't think it's an encroachment. We have category competition all over the place. We don't really have concept competition, in terms of having the services available in one space and the broad spectrum of services. I will tell you that, for example, printing takes several years of study and knowledge, to be able to produce placemats like the ones that are placed in front of you, and to get all that stuff done. It's not simple. It's certainly an open market. As a taxpayer, I would encourage Canada Post to pursue whatever possible to do the best possible.

From a concept standpoint, I am open to competition across all carriers. I think it's best for everyone. It's best for business. As an entrepreneur, I believe in equal access.

Mr. Kelly McCauley: Great.

Ms. Falcone, you talked about the last mile, or the interliner, with Canada Post. Could you expand on that a bit more? Canada Post does the interliner or the last mile for you, FedEx, and quite a few others. Where do you see more opportunity for Canada Post with this revenue-wise?

Ms. Cristina Falcone: In a couple of areas, we would prefer to engage directly with Canada Post, versus having it handed off by regional carriers. There are certain opportunities we have identified that we submitted to the task force when we testified in June. There are specific postal codes in Canada where we think greater collaboration could be done between the larger couriers and Canada Post.

To my earlier point, look at that final-mile infrastructure that Canada Post has established, initially to support their letter mail service, which would benefit access by the courier industry. The entire industry is challenged by this final mile, including e-commerce deliveries to consumers. Rather than repeating the model and establishing new infrastructure, there is an opportunity for Canada Post to open up access to the industry and deliver greater benefit to Canadians, and also take kilometres off the road and benefit consumers. That would be the community mailboxes. That would include assessment of retail sites.

Mr. Kelly McCauley: They already offer it. You want to cut out the middle person. Am I hearing that right? Canada Post already offers the last mile. Did I hear right that you want to cut out the regional courier?

Ms. Cristina Falcone: We don't necessarily want to cut them out; we just want to have greater interaction and collaboration with them on opportunities. Up until now, it's really just been dropping it into their system on a published rate basis. Certainly, in many cases we would still go through those regional carriers. We just want the opportunity to have that door open for further dialogue and for where it might make sense for the larger couriers to hand off directly.

● (1700)

Mr. Kelly McCauley: Okay.

Ms. Cristina Falcone: I think we're moving positively in that direction. I think Canada Post is very open to that. What we see as an opportunity that still lags is this innovation on the final-mile infrastructure, including the community mailboxes and other infrastructure that was built to support letter mail, which is a declining product. As e-commerce grows, everyone's looking at the same challenge, which opens up a whole kettle of fish.

Mr. Kelly McCauley: I understand your comment about having a mailbox with shared access to FedEx or UPS. Would UPS be open, then, to helping pay for some of the changes that might be required for Canada Post?

Ms. Cristina Falcone: We're starting to have some of these—

Mr. Kelly McCauley: I don't want Canada Post and therefore our taxpayers to be on the hook for that.

Ms. Cristina Falcone: No. We would want to have discussions to brainstorm on what would work for Canadians. That discussion would go beyond where these locker boxes or mailboxes stand today. I think this is all open to discussion, as we're doing in other countries of the world where we are working hand in hand, testing concepts.

Mr. Kelly McCauley: Yes. That's a fair comment.

You mentioned USPS and the final mile. One of the reports we saw was that USPS really gave away the farm on the last mile in their agreements with UPS, FedEx, etc. Canada Post needs to protect against that so that the big companies don't cherry-pick the good routes and leave poor Canada Post delivering to the marginal ones with very little activity. Do you have any feedback on that and on what's happened in the United States?

Ms. Cristina Falcone: I can't speak specifically—

Mr. Kelly McCauley: You brought them up as examples, so—

Ms. Cristina Falcone: Well, I would say in that lane that it's the fastest growing product. I know that USPS works very closely with UPS. This has been a continued partnership over a number of years.

Mr. Kelly McCauley: Right.

Ms. Cristina Falcone: My recommendation, like others, I would assume, would be that Canada Post needs to take a look at these opportunities in Canada to make sure that it's a win-win. That is always UPS's objective in any relationship with a business partner. The relationship would have to benefit Canadian consumers, who are going to be using the service; Canada Post, with the intention to keep it viable for the long term; and, of course, UPS, because there's a reason we're entering into this partnership, too. It would have to be looked at as a win-win.

I can't comment on what is happening financially. We've been continuing in this partnership for a number of years in the U.S.

The Chair: Thank you very much.

Mr. Weir, you have seven minutes.

Mr. Erin Weir: I remember as a young New Democrat at university being outraged that UPS had launched an investor-state challenge against the Canadian government under NAFTA concerning Canada Post. In recent days, we've seen the Canada-Europe trade deal stalled by objections to the investor-state provisions. Now we have UPS here seeking to work more closely with Canada Post. I think that we're making progress. That's excellent.

I did want to ask about the proposal to have Canada Post parcel services made available through UPS locations. What I don't completely understand about it is that Canada Post currently has far more outlets than UPS, far greater coverage of the Canadian market. What would be the key advantage to Canada Post to have those services available through the UPS locations, as well?

Mr. David Druker: To clarify, they're not UPS locations. They're the UPS Store which are branded franchisee locations.

Mr. Erin Weir: Sure.

Mr. David Druker: Currently, a Canadian consumer could walk into those stores and say that they're looking for a service to get a parcel from A to B. Frankly, Canada Post just isn't part of those conversations. We have a very good flow of customers, the same as a Staples does or anyone else that has a multiple selection available. It's the same as if you walked into a grocery store. Some people want juice with pulp; some people want juice without pulp. We're just looking to make it convenient for Canadians to get access to the Canada Post product, which certainly has a value in the marketplace, has a value proposition to consumers.

We are not UPS. We are independent individuals who have put up money to build their storefronts, and they are a multi-carrier.

Mr. Erin Weir: I appreciate the distinction.

For better or for worse, Canada Post does a lot of franchising. Have your stores applied to become Canada Post franchises so that they could deliver these services?

Mr. David Druker: We can't get anywhere on those conversations.

Mr. Erin Weir: Okay, so that's something you've tried to do.

Mr. David Druker: No, we've actually tried to have conversations, and we can't really get past the “thank you, but no thank you, not at this time.” We've never really had the opportunity to sit down at a table and explore what the options are that could be mutually beneficial to Canada Post and to our network.

I would also like to point out that Staples currently offers Canada Post and Purolator services with a similar type of network distribution, and chances are, the same type of crossover of locations to existing Canada Post locations. I think it's really just an opportunity to make the product more easily accessible at a more varied selection of places than where the current Canada Post facilities might be located.

● (1705)

Mr. Erin Weir: Thank you.

Ms. Falcone, you made the point that we need to stop Canada Post from cross-subsidizing its more competitive businesses, and I opened with a tongue-in-cheek comment about the UPS case under NAFTA. In this current environment of declining letter mail volumes but increasing parcel volumes, is there really still a concern that Canada Post is using the letter mail business to subsidize the parcel business?

Ms. Cristina Falcone: I think the bigger question is that we don't know. Because there is not this independent oversight to see how costs are being allocated and how the business is being managed, it's a big question mark right now. The task force saw the same issue and they raised in their recommendation paper that the only way we are really to know that the business is being managed effectively is by putting in a regulatory body to ensure that overhead costs are broken down by business line. I think it's more of an issue to say that if we're looking into how viable Canada Post is going to be in the long term, this would be a tool to help with that oversight.

Mr. Erin Weir: I think it would be our committee's impression that it's the parcel business at Canada Post that's growing and probably supporting the letter mail delivery at this point. I appreciate that it might have been different a decade and a half ago when this NAFTA case occurred, but I'm just not sure how relevant a concern that is anymore.

To move on to the question of last-mile delivery, clearly Canada Post is already involved in doing a certain amount of that for different courier companies. Canada Post is really the only service that goes everywhere in the country. What specific policy changes would you be looking for at Canada Post to get into that line of business in a bigger way?

Ms. Cristina Falcone: I would confirm again that the main opportunity we see is in the infrastructure that was originally meant to support letter mail delivery. We feel that there is an opportunity to open that up to industry to innovate and allow some cost sharing for Canada Post and also create a more sustainable model that would benefit Canadians who are picking up these e-commerce parcels in their neighbourhoods. Right now, everyone is challenged to meet that final-mile delivery. We're working with local businesses to drop it off, or they're coming to a UPS operations facility to pick it up. You have, for example, three or four different courier trucks, including Canada Post's, driving in the same neighbourhood to make the deliveries. That's where we see an opportunity that's worth some further dialogue.

Mr. Erin Weir: Okay. It seemed that a moment ago you were suggesting that Canada Post should not be allowed to use its letter mail infrastructure to deliver parcels, and now it sounds as though you're saying that Canada Post should allow private companies to use its letter mail infrastructure to deliver parcels.

Ms. Cristina Falcone: I would not say that they should not be able to access the infrastructure for parcels. If they are, the appropriate way to manage that cost would be to allocate to the parcel line of business the cost for use of the real estate in that infrastructure.

Mr. Erin Weir: You're just looking for a clearer accounting of what Canada Post does. You're not necessarily objecting to using the same infrastructure for multiple purposes to save money; you just want a different type of accounting.

Ms. Cristina Falcone: There should be appropriate accounting by product line. If it's infrastructure built for letter mail, for example, if there's a parcel that's going to have access to that infrastructure, then the cost should be allocated to that parcel, just as any business would allocate costs by the product line, so that when shareholders or Canadian taxpayers are looking at the annual report, they can be confident that costs are being managed appropriately and they understand where the revenue and costs are being allocated for the postal services versus the competitive courier services.

● (1710)

The Chair: Thank you very much.

Mr. Whalen, for seven minutes, please.

Mr. Nick Whalen: Ms. Falcone, thanks for joining us remotely today. It's very informative.

I seem to be convinced now from Mr. Weir that the issue is complicated, and I can see a benefit to a postal regulator perhaps.

On the increased terminal dues and the notion that they are too low, we've heard in different parts of the country that some foreign importers into Canada will actually use a low-cost country where they can ship their goods and then ship their goods from there into Canada to get a lower terminal distribution rate. I'm wondering if you can describe this situation a little more, how it affects UPS, how it affects the industry as a whole, and what types of opportunities and timeline would there be to increase these terminal dues under the Universal Postal Union and what an appropriate recommendation might be.

Ms. Cristina Falcone: I would say from UPS's experience, we are a global carrier; we move shipments around the world into over 220 countries. When we move a shipment across a border, there's a higher fee for that shipment than when we're moving it within a domestic area, typically.

What we're seeing is that Canada Post, as it accepts import shipments from other international postal entities, the rate that it's charging is not matching its cost to serve. The impact that has on Canadian small to medium-sized businesses, for example, is they're having a tougher time competing with international companies with very low rates for imports into the country. This is a disadvantage for Canada Post, because if they were to raise those rates, they could help cover some of their costs. It's a revenue loss for them. Also, it would help Canadian companies to compete more fairly with these international businesses that are shipping goods into Canada.

In fact, some other countries, like the U.S., have seen the same issue. For example, the U.S. is looking at raising its terminal dues to some international postal entities because they've seen the same issue where there's been a shortfall on what it's costing them to serve versus what they're collecting.

Mr. Nick Whalen: Ms. Falcone, my understanding is that these negotiations don't necessarily happen between the postal offices themselves but between national governments and their membership in the Universal Postal Union. Is it operating in a different fashion in the U.S. when the U.S. determines that its terminal dues aren't sufficiently high? Are they brokering different agreements? How is the United States addressing this? Do you know?

Ms. Cristina Falcone: They're presenting this through the Universal Postal Union as well.

We're tracking to see how that follows, but essentially Canada would go through the same process that the U.S. does. They're taking a look at what it's costing them to accept these packages. The U.S. is recommending an increase to create a better representation of what it costs them to that final delivery. We would recommend Canada do the same, and through the same channels and methods.

Mr. Nick Whalen: What might explain why the rates were lower for developing countries? Was there a social justice aspect to it? Is there some other type of policy consideration that you think might be driving lower rates for developing countries to access our postal network?

Ms. Cristina Falcone: I can't speak to that right now. I can try to find out what the rationale was behind it. I'm assuming this hasn't been looked at for some time and, in fact, is maybe not even lining up to the trade patterns and where they've come along.

I think you're probably along the right lines in what the answer back would be, but I can confirm.

The Chair: Thank you.

Mr. Ayoub, do you want the rest of the time? You have about three minutes left.

[*Translation*]

Mr. Ramez Ayoub: Thank you.

I have the Purolator results in front of me. I am a bit surprised by your testimony today. In fact, we were told that the parcel post business was expanding at Canada Post. Moreover, Mr. Weir talked about this. However, this is what the working group's report from this summer has to say:

> Purolator net income has fluctuated over the past five years, from a low of $28 million in 2012, to a high of $53 million in 2014. Facing strong competition from private sector companies, including FedEx, UPS and Deutsche Post (DHL) [...]

So there is a considerable challenge. I see that you want to establish a partnership with Canada Post, but you do not have its attention. So this tells me that something is wrong somewhere. If it is a win-win situation, either you have not sold your position properly to Canada Post, or it would be paying attention to you, as it is definitely looking for new sources of income, or there is something that escapes me, and that I would like to understand.

What sort of commercial partnership did you have in mind? Would you be interested in privatizing part of Canada Post's activities, particularly the parcel post segment? Is that the objective?

Mr. Druker, could you answer?

● (1715)

Mr. David Druker: Thank you.

[*English*]

We're a retail network offering product, so there is really no cost to Canada Post for making their services available through our locations. We're offering to put more parcels into the stream at a fair cost, in the same way that Staples or anyone else does.

Now, that's different from my colleague, from the carrier. We are not a carrier. We do a transaction at a counter and hand it off to somebody's truck. For us, whether I'm handing it off to a Canada Post truck, a Loomis truck, a DHL truck, or a UPS truck, I am offering Canadian small business an access point to these services. Really, that's why, in our opinion, it's an upside for Canada Post, because we are offering to put variable cost volume into their network with no fixed costs associated to it.

We're not asking them to pay for our locations. We already have franchisees with established retail counters that are selling these products. Again, this is just another offering.

[*Translation*]

Mr. Ramez Ayoub: I have about 30 seconds left.

[*English*]

The Chair: You have 30 seconds for both a question and an answer.

[*Translation*]

Mr. Ramez Ayoub: Regarding your employees' remuneration, as compared to Canada Post employees...

Mr. David Druker: It's a franchise. We make a gross commission on transactions. Just like anyone else, if our part of the transaction retails at $10, and if there is a 30%, 40% or 50% reduction on published rates, normally, that is a discount. That is where the profit lies for the franchisee. As a franchisor, we receive our part afterwards.

[*English*]

The Chair: Thank you very much.

Colleagues, as I mentioned, this is only an hour-long session, so we'll be using the truncated version, which means that we have two five-minute interventions left. I have Mr. Clarke and Mr. Ayoub on my list.

I'm not sure if you want to change that on the government side, but we'll start with Monsieur Clarke.

[*Translation*]

You have five minutes.

Mr. Alupa Clarke: Thank you, Mr. Chair.

I thank the witnesses for being here with us.

Mr. Druker, you said that you would like to conclude an agreement with Canada Post. The UPS Store is present in the United States, it goes without saying. What working relationship do you have with the United States Postal Service, the USPS? Is it different from the one you have with Canada Post?

[*English*]

Mr. David Druker: I own the licence for Canada for the franchise network. I have no association with the USPS. I'm not privy to the specific data that goes on in that network.

The only thing I know from interacting with my colleagues in the United States, including my counterpart who is the president in the U.S., is that it has been beneficial to both parties, and the program continues to expand. My general assumption is that if the program continues to expand, it is therefore beneficial for both parties and ultimately beneficial for the consumers involved.

[*Translation*]

Mr. Alupa Clarke: Okay, I understand, but could you give me some details on the formula that is used?

Mr. David Druker: As for the other suppliers, their services are offered at our counters. Being able to have a choice has become a selling point.

Mr. Alupa Clarke: Fine.

Ms. Falcone, can you tell me whether the expansion of Canada Post's activities in the parcel post sector has had repercussions on your enterprise, and if so, could you describe them?

[*English*]

Ms. Cristina Falcone: Within the UPS Store locations, or what specifically...?

Mr. Alupa Clarke: Well, throughout all your activities—

Ms. Cristina Falcone: Sorry?

[*Translation*]

Mr. Alupa Clarke: I am talking about all your activities related to parcel delivery.

[*English*]

Ms. Cristina Falcone: In general?

● (1720)

[*Translation*]

Mr. Alupa Clarke: Yes.

[*English*]

Ms. Cristina Falcone: From our perspective, Canada Post has indicated that it is seeking expansion into the parcel delivery market. It's taking a look at new revenue streams. If that is completed in a fair way in terms of cost allocation and competitiveness, we welcome new competitors to the market. We deal with other competitors as well, but this has to be completed in a fair and equitable way in terms of the way Canada Post allocates its cost.

[*Translation*]

Mr. Alupa Clarke: Over the past five years, the quantity of parcels delivered by Canada Post has increased.

What repercussions have there been on your business, whose main activity is parcel delivery?

[*English*]

Ms. Cristina Falcone: Yes, I would say that this is one of the reasons that we do advocate for a third party regulator. It's to ensure there's oversight in terms of the price structures for Canada Post services and to ensure they're done in a competitive way. That reinforces the direct recommendation in the task force report: to assure competitors that Canada Post is not cross-subsidizing its competitive business lines.

As I mentioned, Canadians want choice. We welcome competition, whether it be from FedEx or from Canada Post entering into this field, but we do feel that a third party regulator would help to provide that oversight and assurance that it's being done in a fair way.

[*Translation*]

Mr. Alupa Clarke: Okay.

You also spoke of the best practices found in other countries, including Australia. Can you give us other examples?

[*English*]

Ms. Cristina Falcone: There are a couple of the examples that I've provided in terms of the regulator, the Ofcom in the U.K., the PRC in the U.S.

In terms of the annual report that is put out from the crown corporations, there's a review from these these third party regulators to ensure that the cost allocation has been done correctly, that the costing is appropriate. More importantly, it provides a channel or mechanism for stakeholders who could be impacted to bring potential issues forward, or questions forward.

Just as this task force offered the opportunity on Canada Post most recently, this would be an ongoing channel that would allow stakeholders to receive the information they would be inquiring about, and it would operate at arm's length.

The Chair: Thank you very much.

Our final intervention will be Mr. Whalen, for five minutes, please.

Mr. Nick Whalen: Ms. Falcone, you mentioned the example of delivering to the ground floor of an apartment building. It helped clarify one of my thoughts around the service to a community mailbox or super mailbox versus directly to my door. I thought, well, I own the mailbox at my door, but the community mailbox is owned by Canada Post.

In your experience, and maybe in the experience of the United States—I'm not sure if it's possible there—what sort of fees would be paid by private delivery companies and couriers to have access to Canada Post's community mailbox network? In suburban areas where Canada Post is not delivering to the door, would the thought then be that UPS would cease to deliver to the door, or would UPS continue to prefer delivering straight to the door of a suburban customer rather than accessing a community mailbox?

Ms. Cristina Falcone: On the first question, we don't have that relationship yet with the USPS in terms of access to mailboxes. These discussions—considering what should happen—are ongoing right now, so I can't give you revenue or a price on that.

On what UPS is doing in the suburban areas, again, we're facing the same challenges. We've implemented a number of different types of solutions. We work with some companies that prefer to do their first delivery to what we call an access point, which could be a UPS Store location or a small business in the area. The consumer would go and pick it up. With other companies, we make a first delivery attempt at the door, and then the second delivery attempt would go to one of these sites.

There are different models right now based on working with a shipper and what they see as being feasible for what their consumers want. One thing I can say is that it has changed from what it was 20 years ago. We're looking at different solutions, both to meet the consumer needs, but also to create a more sustainable footprint in reducing the number of times that truck drives down the road to make that attempt if we know the consumer is going to be home. A third example is use of technology. We've introduced a product called My Choice, and the number of sign-ups has really grown over the past number of years in Canada.

If a Canadian consumer orders something online, they will get a message in their inbox saying that the shipment is on its way. If they're not going to be home, they can redirect it to an alternate delivery location. We've found that's helped to save us the time of making that first attempt, because sometimes the consumer doesn't want it.

It varies right now, depending on the type of consumer. We try to work with them to find out what they want first, and then meet their needs without making an unnecessary trip if we don't have to.

● (1725)

Mr. Nick Whalen: Okay.

I'll hand my time over to Mr. Ayoub or Ms. Shanahan for the last two minutes of the round.

[*Translation*]

Mr. Ramez Ayoub: Thank you, Mr. Chair.

[*English*]

I have no more questions.

Mrs. Brenda Shanahan: I have one. I'm interested in this idea of accessing rural and remote locations.

Mr. Druker, it's maybe more your question. Your UPS stores are located where?

Mr. David Druker: In small urban, suburban, and even in some cases, rural markets.

Mrs. Brenda Shanahan: Is that an interesting option, one that a UPS Store would—

Mr. David Druker: Certainly.

We're currently expanding, and we do look at the demographic growth and the urban sprawl, and where populations go. Again, we cater primarily to small businesses in Canada, businesses with zero to five employees. A lot of those exist in rural locations where they don't have full infrastructure. We're expanding into those markets.

All that real estate in downtown Toronto, downtown Montreal, downtown Calgary is tied up already. As we look for our expansion in the future, 100% rural is an option.

Mrs. Brenda Shanahan: You do see expansion opportunities there. This is really pie in the sky, but since Canada Post already has existing physical assets, is it possible to be sharing facilities?

Mr. David Druker: We would welcome the discussions. We haven't had the opportunity to have the discussion, but certainly there is an existing portion of the footprint that would be attractive to us to either co-locate or take over, if that's what Canada Post wanted. What we were looking for is the opportunity to have those discussions and see where the meat on the bone is for both sides.

The Chair: Thank you very much.

Ms. Falcone and Mr. Druker, thank you for coming here, and thank you for your testimony. It has been very helpful. If you have additional information that you think would be of benefit to our committee, then you can submit that information directly to our clerk. With that, once again, thank you. You are excused.

We will suspend for a few moments while our next witnesses come to the table.

● (1725)

(Pause)

● (1730)

The Chair: Colleagues, I'd ask you to take your seats at the table please, and we'll commence.

Thank you to our witnesses for being here with us. Mr. Mackrell and Mr. Bacon, I assume you've been watching some of the proceedings, and you probably know how this works. We'll ask both of you to give a brief opening statement, for no more than five minutes, and following that, we will have a round of questioning from our committee members.

With that brief introduction, Mr. Bacon, we have you first on our speakers list. You have five minutes. Please, the floor is yours.

Mr. Stewart Bacon (Chairman of the Board, Purolator Courier Ltd.): Thank you very much.

Members of the committee, good afternoon, *bon après-midi.* I am pleased to be able to speak to you about Purolator in the context of the task you have taken on, and I hope my brief remarks will enable you to understand what Purolator achieves for its customers and the contributions that Purolator makes to Canada Post. Let me start with an overview of the company.

When most Canadians hear the world "Purolator", they immediately think of a courier, because the couriers are our most important ambassadors. For many customers, the courier is Purolator and is responsible for delivering the service as well as for the relationship that's created with the customer. This courier person gets urgent packages delivered from businesses to businesses across the country, because Purolator is the leading business-to-business courier in the country.

But we do a lot more than only a courier service. We are a large organization. We have experience. We have a very complete network across the country, and our integrated business-to-business solutions are enjoyed by many, many Canadian businesses.

Our services and solutions are, in fact, critical to many businesses, primarily in the busy urban centres. We are proud to have more than 140,000 customers, large and small, across the country, in just about every industry. We employ more than 10,000 people.

We have an iconic Canadian brand. If you ever come across brand surveys, the Purolator brand is a very strong brand, very well regarded, and a strong Canadian icon. I think the fact that Purolator is Canadian is a very important consideration.

Purolator specializes in the air and surface forwarding of express, freight, and parcel shipments, customs brokerage, and fulfillment and delivery services. We have a broad offering that we integrate together and piece together for our customers.

We have a consistent track record of profitability over the past decade. In 2015, Purolator generated $1.5 billion, which is just under 20% of the Canada Post Group of Companies' revenues. We're the second largest member of the Canada Post Group of Companies. We're 91% owned by Canada Post and, as I'm sure you have discovered in this work, it's not unusual for a postal administration to have invested, as Germany, the U.K., and other countries have done, in a courier service.

What's our role in the Canada Post Group of Companies? We bring supply chain know-how and business-to-business expertise to the group. Our foothold in the U.S. market through our U.S. subsidiary also contributes to what we deliver to Canada Post. Businesses often demand integrated solutions and together, that's what the Canada Post Group of Companies can deliver.

In Purolator, we have been focused and continue to focus primarily on the business-to-business segment of the market. Canada Post offers its services primarily to businesses that have packages to be delivered to consumers, and their reach across the country and the number of locations they have, as you just talked about with the last witnesses, is the attractiveness of Canada Post when it comes to the business-to-consumer market.

Purolator operates a network that allows on-time, next-day, sometimes time-specific deliveries. That has been the bread and butter of Purolator from the outset. Purolator also has delivered dividends to Canada Post over the last years in the order of $10 million to $11 million every year.

Our competitors are multinational and global, for the most part, although in Canada we have many regional courier companies and small operators. The big guys are there, but for sure, there are many, many small businesses and regional businesses that are in the courier business.

● (1735)

The business-to-business market is shrinking. Think about critical documents. Ten years ago, five years ago, that was a very important part of the Purolator business, and today we have many fewer documents being delivered on a day-to-day basis. We need to get refocused, doing a better job of continuing to be a force in the business-to-business market but at the same time looking for opportunities in the business-to-consumer market.

The Chair: Could I get you to wrap up, sir.

Mr. Stewart Bacon: Okay.

Purolator International helps bring this together. We plan to harmonize our go-to-market strategy with some big retail customers. Purolator also uses the Canada Post network on a commercial basis to get parcels delivered into rural areas.

There are synergies with Purolator and with Canada Post, and we are a big contributor to the success of Canada Post.

The Chair: Thank you very much.

Mr. Mackrell, you have five minutes, please.

Mr. Bill Mackrell (President, Pitney Bowes Canada): Mr. Chairman, members of the committee, thank you very much for the opportunity to be here today.

My name is Bill Mackrell. I am the president of Pitney Bowes Canada. For those of you who don't know our company, Pitney Bowes supports posts in countries around the world. We've worked closely with Canada Post since 1923. We're often recognized as the inventors of the postage meter. However, we also provide a wide array of software and hardware solutions that support the mailing, shipping, and marketing efforts of many of the same large and small businesses we share with Canada Post. We're also very proud to note that Pitney Bowes currently employs more than 500 Canadians coast to coast.

Pitney Bowes serves more than 100,000 Canadian businesses. The majority are small and medium-sized businesses, but it also includes many of the largest mailers in Canada. We facilitate thousands of domestic and international parcel shipments to Canadians every day. We efficiently and securely collect more than $500 million in annual postage revenue for Canada Post through our postage meters and parcel payment solutions.

We are pleased to see the government spending considerable time understanding the complex and significant issues facing Canada Post and the mailing economy that it supports. On behalf of Pitney Bowes, I would like to add our perspective to this national discussion.

In our written submission to the task force this summer, we outlined a series of issues that we think warrant attention during the review. We discussed the importance of Canada Post: first, focusing on their core business strengths; second, controlling costs while minimizing any impact on services; and third, adhering to pricing models that promote the long-term stability of the business. We would like to reiterate some of those points in light of some of the recommendations outlined in the task force report.

First, we encourage the government to protect the five-day-a-week delivery model. This is critical in order to maintain mail volume and appropriate service options for advertising mailers. The five-day model is an integral part of Canadian business marketing strategies and is a core component of the billing and payment infrastructure for small and large businesses. These businesses rely on having these much-needed funds in the bank as soon as possible. The importance of the five-day model for Canada Post's future should not be understated. It is critical to the economy. It is one of the key differentiators in the parcel space, and is one of the core capabilities Canada Post will need to retain to be able to capitalize on the last-mile opportunities for parcel delivery.

Second, to reduce potential for declining mail volumes, Canada Post needs to assure mailers that their rates will be predictable, stable, and affordable. We are concerned about the impact that significant rate increases would have on the volume of mail and the success of Canadian businesses. Rate structures should be developed with pricing incentives that encourage the design of highly efficient mailings to help the post control costs while encouraging the post's commercial mailers to expand their use of mail.

Third, by developing rates that encourage high-efficiency mail-piece design, Canada Post can gain efficiencies and help from the mailers themselves. We were impressed with the 2014 decision by Canada Post to move in this direction. Technology like postage meters helps simplify the payment process for mailers and makes the collection of revenue and the processing of mail easier for Canada Post. By following the lead of other countries that provide rate incentives for mailers who use technology, we saw a win-win for Canada Post and their customers who are best positioned to maintain or increase mail volumes.

As Canada Post and the task force have mentioned, parcel growth has already taken place, but it is important for Canada Post to maximize its opportunities in this space. Pitney Bowes is pleased to be working with Canada Post to bring new parcel label printing and postage payment technologies to shippers across Canada. These technologies will help make parcel shipping more efficient for Canada Post and our clients.

In addition to the traditional improvements in process and technology, we're excited about the opportunity for growth in parcel volume from cross-border e-commerce. Pitney Bowes recently released our annual global online shopping survey. It noted that Canadians routinely shop internationally for goods not readily available in Canada, but there were complaints about duty, tax, and shipping expenses. Cross-border e-commerce is also helping Canadian businesses grow. We are hopeful that the government will soon change the 30-year-old de minimis policy, which will also help increase the volume of parcels to and from Canada.

In closing, I would like to emphasize the importance of maintaining the five-day delivery model for both Canada Post's existing mail business and its fast-growing parcel business. We ask the committee to ensure that we have a pricing and operations model that ensures predictable, stable, and affordable rates for mailers. We encourage the continued review of cost control and efficiency measures to streamline operations. We encourage the post to reach out to private sector partners for innovative ways to ensure that parcel and mail opportunities are maximized.

Again, we would like to thank the panel and express our admiration and appreciation for the extensive research and analysis that has gone into this already.

I will forward copies of my remarks in both official languages.

● (1740)

The Chair: Thank you very much.

We will now enter our seven-minute round of questions.

Mr. Drouin, you are first up.

Mr. Francis Drouin: I want to thank both witnesses for being here today.

Mr. Bacon, I have certainly worked with Purolator. I can tell you that 15 years ago, I was satisfied with it. I used to work for a smaller company and we always relied on Purolator for deliveries.

You have mentioned the shift from documents every day. Businesses are no longer shipping documents as much, so how do you see Purolator readjusting with that shift? How do you see it ensuring that it can still survive in a non-document world in the future?

Mr. Stewart Bacon: I don't want to put too much emphasis on documents, but it is true that those documents are decreasing as a percentage of the total volume. The other thing that's happening in the marketplace is a move from speed to more focus on cost. With the type of parcels that are being delivered by Purolator and by our competitors, urgency is always there for some, but by and large there's less focus on speed and more focus on reliability and getting it there on time. Purolator has always been very good at getting things there on time. The movement away from speed as a focus means you can take longer to get the parcel there, and it means that the customer is expecting to pay less. There's a pressure on revenues as this phenomenon takes hold in the market.

Mr. Francis Drouin: We certainly heard that from eBay Canada this morning, suggesting for Canada Post to offer a slower service as long as it's predictable. You're right.0 People want slower speed, but they still want to know when it's going to get there. Is that something that Purolator is contemplating?

Mr. Stewart Bacon: Well, I think we've always done that and we certainly invest in technology and are creative about using technology to provide more and more information on time to the recipient. But this is the challenge of Purolator today, and this is what we're working on to maintain our market share in a market that is evolving in that direction.

● (1745)

Mr. Francis Drouin: You have also mentioned that you're looking toward perhaps getting into the B-to-C market area. Are you speaking with Canada Post about this, or is there some cross-pollination going on?

Mr. Stewart Bacon: Purolator has always had a small percentage of B-to-C deliveries, mostly because there are customers who have lots of B-to-B deliveries and a small quantity of B-to-C deliveries, and so if it can stay with one supplier, that supplier gets it all. We are not jumping into B to C; that is for sure.

Mr. Francis Drouin: Okay, so is there no strategy for Purolator to jump into B to C with Canada Post at all?

Mr. Stewart Bacon: No, we have it as part of our mix today. It's something we can do, but it's not where the focus is going to be for Purolator.

Mr. Francis Drouin: Okay, that's great.

Mr. Mackrell, you've mentioned the potential of a rate increase being bad for business. We know Canada Post has increased its daily letter mail service. There was a major increase in 2013 or 2014, I think it was. Have you noticed a decrease in transaction mail or business for you guys?

Mr. Bill Mackrell: There's an ongoing decrease in transaction mail. It's fairly predictable over the last few years. The correction, I would call it, back in 2014 was actually welcomed by Pitney Bowes. It was a change to a more commercial-based pricing model where mailers were mailed more often. They got a better rate, and certainly mailers who prepared their mail for Canada Post in a better fashion got a better rate. In that regard, it was a good move, and we saw it as being progressive. It was actually following the lead of many other postal jurisdictions around the world, which basically incentivized mailers to use postage meters and other forms of technology to make their postal operations more effective.

Mr. Francis Drouin: As a business that's involved in servicing the delivery side of the business, where do you see the innovation within the next five or 10 years? Where do you see the industry going? You've mentioned parcel delivery, but what about innovation within parcel delivery?

Mr. Bill Mackrell: I think a big part of that is getting easy access to parcel delivery solutions for Canada Post. Canada Post can work with technology firms like Pitney Bowes and others who are developing those solutions to make it easier for clients to access, pay for, and get lines of credit for parcel shipments. That's where I see the innovations coming, with ease of access and the ability to pay for those services.

On the direct marketing side, I see intelligent mail, where the right piece of mail gets to the right address at the right time. It's a more effective use of marketing spend and a better return on investment for marketers.

On the parcel side, it's technology innovation and on the marketing side, it's smarter marketing.

Mr. Francis Drouin: Great. Thank you.

The Chair: Thank you very much.

[*Translation*]

Mr. Clarke, you have seven minutes.

Mr. Alupa Clarke: Thank you, Mr. Chair.

Gentlemen, thank you for being here this evening.

I'll start with you, Mr. Mackrell. Do you think Canada Post should provide other services such as banking or government services, in particular passport services? What's your opinion on this issue?

[*English*]

Mr. Bill Mackrell: My opinion on that is, managing a postal system is a very complex business. I'd be concerned about Canada Post getting too far away from its core mission. Certainly, I'd encourage Canada Post to investigate adjacent spaces. In the report, there were several ideas I thought were certainly worth pursuing.

[*Translation*]

Mr. Alupa Clarke: Can you provide an example?

[*English*]

Mr. Bill Mackrell: On the final-mile mail delivery, I think there's something there. It's a little tricky getting the pricing right and making sure you get the right competitive advantage while you're delivering the final mile, but there's an opportunity within that space there.

Synergies with Purolator was another discussion point in the paper. Government service is intriguing. It's in an adjacent space. Renting advertising space, having fleets of trucks, real estate, and what have you, I think there are opportunities there. There are areas where, I think, they can logically expand without getting distracted from the core mission of delivering the mail.

● (1750)

[*Translation*]

Mr. Alupa Clarke: That's interesting. Today, most of the witnesses, like you, emphasized how important it is for Canada Post to not get involved in other services that would constitute distractions and to remain focused on its core mission. This seems to be the theme of the day.

In your presentation, you suggested that Canada Post should control its costs. That's obviously the most laudable element. Also, it was indicated that labour accounts for 70% of Canada Post's total operating expenses. How should labour costs, which represent 70% of the total costs, be controlled?

[*English*]

Mr. Bill Mackrell: Canada Post is in a very difficult position with declining mail volumes and such a large percentage of its cost structure tied up in labour. As I read the documents, I think there is an opportunity through attrition over the coming years. There's a large population of Canada Post employees who will be retiring and there's an opportunity there to reset the footprint in accordance with where the business is heading.

I think they should look at all elements of cost reduction. It's just smart business to do that. Obviously, the key there for Pitney Bowes and others in our industry is back to the affordable and predictable rates. Managing cost structure in this business with the challenges it has is very important. The path of last resort has to be pricing, because that would have a knock-on effect that I don't think the industry would be very pleased with.

[*Translation*]

Mr. Alupa Clarke: Thank you, Mr. Mackrell.

Mr. Bacon, Mr. Mackrell spoke of having further synergies between Purolator and Canada Post. The report prepared by the task force mentioned that Canada Post could save around $16 million annually by having further synergies with the Purolator group.

Do you agree with that statement?

Mr. Stewart Bacon: I think this number is the result of a study commissioned by Canada Post. I don't think it's my role to comment on the $16 million.

At Purolator, we're always looking for ways to create synergies with Canada Post. We did so, for example, by entering into an air cargo contract.

Mr. Alupa Clarke: Are there any obstacles blocking these collaborations? If you were to collaborate more, what do you think would be the main challenges?

Mr. Stewart Bacon: I don't think there are any obstacles per se. On the contrary, I think both parties are very positive about looking for new ideas. It's simply a matter of coming up with good ideas and being able to use them.

Mr. Alupa Clarke: If you don't mind, I would like to have an idea of Purolator's current financial situation.

Mr. Stewart Bacon: Our financial situation is very good. We've been making profits for about ten years. Of course, the profits vary from year to year, but there are profits.

Mr. Alupa Clarke: Do your fiscal projections match your current results?

Mr. Stewart Bacon: I think so. We're expecting the team to generate the projected profit this year.

Mr. Alupa Clarke: I have a standard question. How have the changes in parcel delivery in recent years affected Purolator and how have you adjusted to the situation?

Mr. Stewart Bacon: What changes are you talking about?

Mr. Alupa Clarke: There has been an increase in parcel deliveries because Canadians are ordering their products more and more often over the Internet.

Mr. Stewart Bacon: Indeed.

As I said earlier, Purolator has always focused mainly on the business-to-business model. The current major increase in the market applies more to the business-to-consumer model. The increase is the result of online shopping. This has created many opportunities for Canada Post, because it has a suitable delivery network.

Mr. Alupa Clarke: So it hasn't necessarily affected you.

Mr. Stewart Bacon: Pardon me?

Mr. Alupa Clarke: I mean that, at Purolator, you focus on the business-to-business model.

Mr. Stewart Bacon: Yes.

Mr. Alupa Clarke: Since the increase in parcel deliveries has had an impact on the business-to-consumer model, you haven't been affected much by the change.

Mr. Stewart Bacon: I think that, when the tide rises, everyone heads to the wharf.

Mr. Alupa Clarke: Everyone's affected. Okay.

Mr. Stewart Bacon: That said, Canada Post has benefited the most from this phenomenon.

Mr. Alupa Clarke: Thank you.

● (1755)

[*English*]

The Chair: Mr. Weir, for seven minutes, please.

Mr. Erin Weir: Here we are at the end of the day, and we started the day hearing from eBay Canada Limited a proposal for Canada Post to offer a lower-cost tracking option. I think that connects a little to the point that was made that people are maybe less concerned about speed but still want reliable service with tracking. Do either of you have any thoughts about the feasibility of Canada Post filling that niche?

Mr. Bill Mackrell: I think they should explore all options. It really comes down to client choice. If clients have an appetite for a different level of service, Canada Post should absolutely explore it.

Mr. Erin Weir: Logistically, do you see any particular reason that Canada Post couldn't offer tracking at a lower price, if we accept that delivery might not be quite as fast?

Mr. Bill Mackrell: I'll defer to my colleague on that one.

Mr. Erin Weir: Okay.

Mr. Stewart Bacon: I'm not sure what you mean by tracking at a lower price.

Mr. Erin Weir: I guess the argument from eBay was that if you want a service from Canada Post that includes tracking, you have to buy some kind of relatively expensive rapid delivery, like express post, or something like that, whereas they think there's a lot of demand to have the tracking but without the speed, at a lower price. I was trying to ask about the feasibility of that.

Sorry to put you on the spot. We don't have to stay on that, unless you have a further thought on it.

Mr. Stewart Bacon: I really can't comment on what Canada Post can do for what cost.

Mr. Erin Weir: Okay.

Something interesting that we heard in Dryden, Ontario, was a concern about the way Canada Post sorts mail. The perception there was that mail was being trucked from Dryden to Thunder Bay, run through a machine there, and trucked back to Dryden. The concern was that this was inefficient and was being done only because Canada Post had bought this big fancy machine in Thunder Bay and needed to run more mail through it to justify it.

Since I believe, Mr. Mackrell, you might be in the business of supplying that kind of equipment, I wonder if you have an alternative view.

Mr. Bill Mackrell: The solutions that we provide are generally to the end user, who can sort their mail and deliver it to Canada Post. By doing that, they get postal discounts or incentives for delivering the mail to the sorting facility already sorted.

Mr. Erin Weir: Okay.

Mr. Bill Mackrell: I think we should do more of that. Using those types of technologies to deliver mail to Canada Post that has advanced through the sorting process is a good way for Canada Post to reduce costs. One of the public-private partnerships that Canada Post could explore further is how the mailers or industry can participate in things like sortation.

Mr. Erin Weir: I suppose if you're doing a mail merge and you have all the postal codes, then it might not be that much more work to have it sorted accordingly—

Mr. Bill Mackrell: Right.

Mr. Erin Weir: —so good point.

For parcel rates, another concern that we heard, and I think this might relate to some of your testimony, Mr. Mackrell, was that Canada Post currently discriminates in its parcel pricing depending on the location and the size of the market, etc. While those might be relevant variables, it's also the case that Canada Post is obliged by international treaties to offer essentially a flat rate to foreign companies shipping into Canada. Do you have any further thoughts on that?

● (1800)

Mr. Bill Mackrell: My comments were largely in the letter mail and the marketing mail arena, where price sensitivity comes into play. Increases in that realm would have a dramatic impact on a marketers' ability to continue to use the mail and get the ROI they're looking for. On the transaction mail side, and there's no secret it's in sector decline, we don't want to accelerate that any further. My comments on pricing, and controlling pricing, and making sure it's predictable and affordable really were more on the letter mail and marketing mail side of things. Parcel delivery I see as being obviously more competitive, and the competitive forces govern more there.

Mr. Erin Weir: Your case on ad mail is essentially to maintain five-day delivery and keep the costs reasonable.

Mr. Bill Mackrell: Absolutely. If we go to an alternate model that's going to diminish the value of marketing mail and the predictability of it getting to the client at the right time, then the marketers gets their ROIs.

Mr. Erin Weir: Some testimony we heard in Yellowknife was about the possibility of Canada Post generating more revenue through commemorative products and catering to the stamp collecting hobby. There was some talk about a huge stamp collecting convention in New York. Folks from Ernst & Young weren't particularly enamoured with this idea, but I wonder, given Pitney Bowes' international presence, if you have any perspective on what other post offices have done in this area and whether there is the possibility of bringing these international conventions to Canada.

Mr. Bill Mackrell: I certainly like the romance of the stamp collecting. I'm not sure of the economic model of it. We're in the postage meter business, which is almost anti-stamp. I certainly like the commemorative stamps. They recently did one for the NHL with the top forwards. If it's a money-making venture, I think Canada Post should pursue it with vigour, but I don't know what the economics are of that.

Mr. Erin Weir: Okay, fair enough.

I have a question for Mr. Bacon.

The Chair: Very briefly.

Mr. Erin Weir: Yes.

Purolator is currently about 90% owned by Canada Post. Do you think there's a case to combine the two entities completely?

Mr. Stewart Bacon: I'm not sure how the ownership affects the day-to-day business. To be honest, I'm not sure. That's more a question for the shareholders, I think, than for the board.

Mr. Erin Weir: Boards sometimes make recommendations to shareholders.

Mr. Stewart Bacon: Yes, we do, but....

The Chair: Thank you very much.

Mr. Whelan, for seven minutes, please.

Mr. Nick Whalen: Mr. Chair, I'm probably going to share the last minute of my time with Madam Mendès, if I may.

The Chair: Your generosity is staggering.

Voices: Oh, oh!

Mr. Nick Whalen: I'm not going to ask a question about Canada Post acquiring the last 9% of Purolator, because that's already not been answered, but I do have a couple of questions about the financial statements and also about expansion into foreign markets.

Mr. Bacon, when I look at the 2015 financial statements, I see that there was a large reduction in the air cargo business from about 5% of revenues the previous year to 2% of revenues the next year. I'm not sure if that was net neutral from a profit perspective, but can you walk us through that? I am wondering why that dropped, and whether that was already a type of a synergy that was found between the companies.

Mr. Stewart Bacon: I believe the cause of that was the new air transportation arrangement that was entered into by Canada Post and Purolator with a third party, with Cargojet. Prior to that time, Purolator was the contract door and was reselling air transportation to Canada Post. That business went away by virtue of the new contract.

Mr. Nick Whalen: It was just an internal reorganization—

Mr. Stewart Bacon: It's more a bookkeeping effort.

Mr. Nick Whalen: Is Cargojet related in any way to Purolator? Are they a sister company or owned by the other shareholder fully, not related to Kelowna Flightcraft?

Mr. Stewart Bacon: No, not at all.

Mr. Nick Whalen: That's great.

We look at Deutsche Post DHL and we see, my gosh, how big that organization has grown. It's now much larger than the German postal service. Do Purolator and Canada Post Group of Companies have all the pieces they need to expand international operations and to become a global player in the B-to-B and B-to-C courier market outside of Canada?

● (1805)

Mr. Stewart Bacon: That's a good question.

I think a lot of the answer has to do with the intent of the government, mostly of Canada Post being the—

Mr. Nick Whalen: Let me phrase the question another way.

We have in front of us a proposal to spend about $1.2 billion to save $400 a million a year, five years down the road, in terms of the community mailbox rollout.

If, instead, Canada Post decided to invest $1.2 billion in expanding international markets for the Purolator side of the business, would you be able to achieve an as good or better return on investment? That international expansion that worked so well in the German context does not seem to have been explored in any of the documents I've looked at. Maybe it's something that you have explored or thought about.

Mr. Stewart Bacon: As I said previously in my remarks, we do have a subsidiary in the United States. It's a $200-million operation, roughly. The role of that business is to feed parcels into Canada. Their motto is they deliver Canada to their U.S. customers.

I once learned, when I was at IBM, that you should never fly over business. So how much do you want to go offshore when we still have lots of opportunities, I think, south of the border? I'm speaking for Purolator now. That is where we're going to focus any expansion.

The other side of that answer is that it's largely to be determined by Canada Post, that whole international expansion question.

Mr. Nick Whalen: Do you think it has the value? Is that worth the return on investment, and also under CETA expansion into Europe for bringing Canada to Europe but also into European logistics and delivery?

Mr. Stewart Bacon: To be honest, I don't know enough about the financial aspects of the $1.2-billion investment in community mailboxes, what the return on that is, and so on, but it seems to me that they aren't mutually exclusive. I'm just speaking personally, now.

Mr. Nick Whalen: Ms. Mendès.

Mrs. Alexandra Mendès: Thank you very much.

First of all, on the question of offering Canadians a cheaper way of tracking either post or parcels, it exists. I don't think Canada Post makes enough of an advertisement of it. It's called registered post. You can keep track of whatever you send and it takes four or five days to get delivered, but you actually do keep tracking it and it's cheaper than sending it express post or by Purolator or whatever. So that is one—

Mr. Stewart Bacon: I think it's called regular parcels, or something like that.

Mrs. Alexandra Mendès: I'm talking about registered, because if you register something, you may or may not need a signature, but you are getting a tracking number. You can go online and check the delivery time and that it was received, but it doesn't give any assurance of speed, that it will be delivered in 24 or 48 hours. Canada Post should definitely explore this and make it known to people that they have that option, and to give that to businesses too, that they can offer the alternative to customers. For example, if I go online and shop on Indigo, I can choose registered post. That will cost me less, but it will take a few more days, but I don't care because I don't need those books urgently.

Those are alternatives to consider.

I saw the DHL centre, the new one in Leipzig, Germany, in April. I was absolutely flabbergasted. It's immense. They have half the airport to themselves, and it's huge. I'm sure you know it.

They don't have the geographical challenges that Purolator has in Canada, obviously, but how do you see this kind of investment that they made in Leipzig, compared to what Purolator is doing here in growth of business and eventually even growing bigger in the United States?

● (1810)

The Chair: Be very brief as we're out of time now.

Mr. Stewart Bacon: Purolator is always trying to be creative about solutions we can invest in for better, more economical, more technology-enabled service. It's a requirement.

The Chair: Thank you.

Mr. McCauley, you have five minutes.

Mr. Kelly McCauley: Thanks for joining us. We're at the end of the day, so I'll be brief.

Mr. Bacon, one of the suggestions that's been bandied about to address the pension issue is to sell off Purolator and apply it toward the pension structural deficit. Have you done an evaluation, or is there a publicly available evaluation of the worth of Purolator? Is it possible to disconnect Purolator from Canada Post with all the overlapping admin work?

Mr. Stewart Bacon: We haven't done any work on that scenario at Purolator. I can't speak for Canada Post.

Mr. Kelly McCauley: Is it possible to detach from Canada Post to be sold off, or is there too much overlap of administrative services? I understand Canada Post bills Purolator for some work, especially on the administrative side.

Mr. Stewart Bacon: With the synergies we've built, there certainly are connections, but they're all built on a business-like competitive basis, and I am assuming they could be detached, if that was what was desired.

Mr. Kelly McCauley: One of the items we read about as well is that Purolator is under pricing pressure. You mentioned that. Is that because of reduced volumes, or is it because of competition with UPS and FedEx?

Mr. Stewart Bacon: There's no question it's a very competitive marketplace. All the big international players are here, as well as some Canadian-based players, some regional players, so there are always competitive aspects to our business, and we are always looking at ways to reduce costs, improve service, use technology, and provide better service for our customers. It's an ongoing day-to-day thing. Yes, I think everybody in the business is under competitive pricing pressure.

Mr. Kelly McCauley: What do you see as the biggest risks for Purolator in the coming years? Is it FedEx doing a price war? Is it business disrupters such as a drone-type service or driverless cars?

What keeps you up at night worrying besides committees? Well, these committees put you to sleep.

Voices: Oh, oh!

Mr. Stewart Bacon: I think the risk to Purolator, as it is a risk to anybody competing in this business, is it's a fast-moving business. Dimensions are changing, and I think the risk is to be able to keep on top of all the dimensions: the cost, the volumes, having the right employees, having good labour agreements, and being able to execute the work properly. It's the risk of doing the business.

Mr. Kelly McCauley: Mr. Mackrell, I only have one minute, so I'll ask you a quick question.

Over the three weeks of travel, we heard some odd claims. One was that there was some insinuation that Pitney Bowes was getting special pricing because of a past relationship with Mr. Chopra. I wonder if you'd take this opportunity to put to rest such silliness.

Mr. Bill Mackrell: Yes, it's ludicrous. Obviously, Deepak Chopra worked with Pitney Bowes for probably a couple of decades and I know him very well, accordingly. That's a ludicrous statement.

Mr. Kelly McCauley: I figured as much, but it came up a couple of times, so I wanted to put the facts on the record.

Gentlemen, thanks very much.

The Chair: Madam Ratansi will have our final intervention, for five minutes, please.

Ms. Yasmin Ratansi: I have a quick question.

Purolator, I know, is 91% owned, so I won't ask if it is in competition with Canada Post. As for Pitney Bowes, are you in competition or in synergy with Canada Post?

Mr. Bill Mackrell: We're a client, a customer, and they regulate us. It's a very unique scenario we have. It's a trifecta.

Ms. Yasmin Ratansi: You are their client, their customer, and they are the regulator.

● (1815)

Mr. Bill Mackrell: Right.

Ms. Yasmin Ratansi: I'll follow up on what Mr. McCauley said.

When I used to use a Pitney Bowes machine it was cheaper for me. Is it still cheaper? Do I still pay 85¢?

Mr. Bill Mackrell: No, you pay slightly less. Bulk postage is getting adjusted in the next rate change. Bulk stamp purchases would be 85¢ as opposed to the $1, and metered mail is going to 82¢. It's a 3¢ differential from a roll of stamps. It was 10¢ at one point. We believe there should be a more significant difference between a roll of stamps and metered mail. The cost benefit to Canada Post is enormous.

Ms. Yasmin Ratansi: How much would that be?

Mr. Bill Mackrell: I can say confidently that it probably costs money. Canada Post probably loses money with every stamp and they make a sizeable profit on metered mail and indicia mail.

Ms. Yasmin Ratansi: How much do you pay Canada Post for the metered mail?

Mr. Bill Mackrell: We don't pay Canada Post for metered mail. We collect the funds for them from the clients.

Ms. Yasmin Ratansi: Is that revenue for Canada Post or for you guys?

Mr. Bill Mackrell: We make our money through renting postage meters, the devices that process the mail. They seal the envelopes, fold and insert the contents, evidence the mail, and when they get to the end user, they will fill the meter up with $500 in postage. Overnight, we send that $500 to Canada Post. We really take care of all the billing and collecting the difference between the meter and the stamps. You don't have to manufacture a stamp. You don't have to distribute a stamp. You don't have security—

Ms. Yasmin Ratansi: Okay, not a problem. I'm sure I'm going to get told my time is up.

In the 96 years that you've been in operation, you seem to be always on the cusp of innovation. Has it been a reality or have you had some ups and downs?

If I look at Canada Post, it's in the same integrated solution. It has Purolator, and it has SCI, and it does provide integrated solutions. However, you have taken it a step further. You said create, produce, distribute, and manage.

What is missing in Canada Post? It's the same CEO who has moved to Canada Post, so I would have thought that some creativity, some thinking outside the box should come along, but we're being told they lack vision. What's going on?

Mr. Bill Mackrell: I wouldn't share that comment of lacking vision. I think Canada Post has come a long way in recent years.

Pitney Bowes...to your point, we have actually reinvented ourselves several times in those decades. We're getting ready to enter into our second century, and we're reinventing ourselves as I speak.

Ms. Yasmin Ratansi: Do you have any words of wisdom for Canada Post?

Mr. Bill Mackrell: Reinvent yourself.

Ms. Yasmin Ratansi: How? If somebody can't think outside the box, what would you tell them?

A voice: Change boxes.

Ms. Yasmin Ratansi: Change boxes.

Time's up, I guess.

The Chair: We'll go with that.

Gentlemen, thank you very much for appearing here today. Your testimony has been excellent and very well received.

To committee members, a reminder before we adjourn. We are on at 12:30 p.m. tomorrow, but the agenda has changed. We'll be talking about drafting instructions tomorrow, rather than having the minister with us.

I'll go over the schedule for the rest of the week when we meet tomorrow in room 253-D, I believe, at 12:30 p.m.

Ms. Yasmin Ratansi: Are we having witnesses tomorrow or just drafting instructions?

The Chair: Drafting instructions. We'll have a discussion.

Gentlemen, you're excused. Thank you very much.

The meeting is adjourned.