

**REMARKS BY**

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**Canada Post: Delivering for Tomorrow**

**Friday June 20, 2008**

**AT THE**

**Calgary Chamber of Commerce  
100 6th Avenue S.W.  
Calgary, Alberta**

**Check Against Delivery**

Good morning everyone and thank you for inviting me to speak to you here in Calgary, with one of the fastest growing and most dynamic business communities in Canada.

I'm delighted to talk to you about what we're doing at Canada Post to be a successful business and to serve our customers better today and in the future, as well as about some of our challenges.

Canada Post has a major presence here in Calgary and also in Alberta. We have 1,750 employees in this city and almost 5,800 people in the province to serve you.

Our company has come a long way since the days when we made headlines because of our huge deficits and our labour strife. We have been profitable for 13 consecutive years—although our profit margins are razor thin by private sector standards.

Not only have we long been financially independent of taxpayer dollars, but over the past 13 years, we have made payments to our Shareholder totalling nearly one billion dollars in dividends, capital returns and income tax. And we are committed to making sure we do not return to being a burden on the taxpayer in the future.

We have constantly improved our delivery performance. Think about it: our dedicated 72,000 men and women deliver 40 million items a day to 14 million addresses across the second largest country on the planet, in some incredibly inclement weather. And we deliver the mail 96 per cent on time, as measured by an independent third party. We manage to do this while offering the third lowest postage for basic letters among developed countries.

We've done well in continuing to meet your needs up until now. But we simply haven't invested in renewing our vast and complex infrastructure for decades. Every day we face great challenges

working with out-dated equipment, obsolete technology and in some very old plants.

So we need to modernize... to create an efficient modern postal service, firmly focused on our customers.

I also want to engage our 72,000 people in building that modern postal service because they are the heart and soul of the company.

Despite our urgent need for capital investment, we have nevertheless made tremendous progress in a short time. We have fixed some of the basics.

- We've improved on-time delivery of our Admail products; in fact, substantially improved it here in Alberta;
- We've made it easier to track parcels, and simplified our products.
- Our website, [canadapost.ca](http://canadapost.ca), and our Online Business Centre, are better. We are combining these and will introduce a new online store and advanced online shipping tools;
- We've made our claims process simpler and faster. It used to take our customers an average of 49 days to settle a claim. Now it takes just seven.
- More than 325,000 small businesses have signed up to save money with our VentureOne preferred customer program;
- We have a new online resource called "Market with Direct Mail," to give smaller businesses the resources to complete a direct mail campaign... and more.

We have received strong external validation for our progress. A survey conducted last year by the respected polling firm Strategic Counsel found that Canada Post is *the most trusted federal institution* in Canada, *bar none*. More trusted than Parliament, than the federal public service, even than the Supreme Court and the military.

And I'm proud to tell you that for the second year in a row we have been named as one of Canada's top 100 employers in a Mediacorp survey published in Maclean's magazine.

All this has been accomplished at a time when postal markets the world over are undergoing profound changes. Canadians are at the top of G8 countries in adopting broadband Internet service. And today, two in three Canadians have cell phones.

You know things in the communications market have changed pretty drastically when millions of people today can text message, connect to the Internet, take photos and even watch TV broadcasts... all on their cell phones! A few years ago, there was no such thing as e-filing your income tax return or paying bills online.

Today we are operating in one of most competitive markets in our history. For the parcel business we compete against some of the world's largest and highly aggressive logistics companies, including UPS, DHL and FedEx. Our competitors for direct marketing include telecommunications giants such as Bell, Rogers and Quebecor.

We recognize that we're less crucial as a way for individual consumers to pay bills and send correspondence. Letters are certainly not dead—far from it! We delivered some 11.8 billion items last year. Let me be clear: Canada Post remains a vital

communications link and an essential part of the country's infrastructure.

Today, The Canada Post Group of Companies generates \$7.5 *billion* in revenues a year. But fully 90 per cent of those revenues come from the commercial sector.

Unlike our competitors, we have a mandated obligation to serve all Canadians. That mandate is to deliver mail to every address in Canada five days a week, to specific service standards, and at a reasonable and fair cost. In return, we were granted the exclusive privilege to deliver letters. Even in what was once our exclusive domain, we've seen the entry of many private sector players.

We are committed to maintaining the level of service our customers expect... without returning to the deficits of former days. But the cost of maintaining that universal service is going up.

Last year, Lettermail volumes decreased by slightly less than one per cent. For every one per cent decline in the volume of letters, we stand to lose \$30 million in revenues. Some postal services have experienced much greater declines. This is a worrying trend going forward.

And our cost to deliver a letter to each of those 14 million addresses is going up. The number of addresses in our delivery network expands by about 200,000 each year, while today each household receives fewer letters than last year. The fixed costs for a letter carrier to walk down a street are similar... whether he or she delivers three pieces of mail to *each* mailbox, or one piece to every *third* mailbox.

As well, since 2000, the rate to mail a basic letter has been restricted by a price-cap formula to two-thirds the rate of inflation.

When you think about it, the Consumer Price Index has increased 14.5 per cent since 2002, while the price of a basic stamp has gone up by only 8.3 per cent, or four cents.

We understand that the formula provides our customers with some cost certainty year over year, and this is something we want to protect. Yet the price cap means we have deferred potential revenues of half a billion dollars over the past eight years. This is not sustainable in the long term.

Our fuel, transportation and labour costs continue to grow faster than our revenues. We manage the biggest and most intricate transportation network in Canada. Increases in the price of fuel and energy bring rising costs to all aspects of our operations. With our fleet of 7,000 vehicles, you can imagine the phenomenal impact on our bottom line when the price of fuel jumps by more than 30 cents a litre as it did last year.

We have done the best to shield our customers as much as possible from the full impact of those rising costs. For example, we did not raise the price of a stamp to mail a basic letter in 2008.

We have also worked very hard in recent years to cut tens of millions of dollars out of our operating costs—\$93 million last year alone—and to improve our productivity.

Other companies regularly pass on cost increases. In 2007, the price of utilities increased by 4.4 per cent, cable and satellite TV by 6.6 per cent, and phone service by 5.1 per cent.

In 2008, our company, like others, faces an additional challenge—that of a slowing and uncertain economy. As businesses look to cut their spending, it will be harder for us to meet our revenue plans. We are struggling now—despite a run of 13 years of profitability—to stay in the black.

We must nevertheless do everything we can to keep Canada Post relevant. We want to continue to deliver excellent service to all Canadians at reasonable rates... and certainly without becoming a burden on the taxpayer.

We recognize that for businesses, mail represents a cost. Particularly in these challenging economic times, we know our customers want every dollar they spend with us to produce the best possible results. Increasingly our customers want multi-channel end-to-end solutions. They want certainty of delivery time. They want to know where their packages and letters are at each stage of our delivery process. And they want reasonable and fair rates.

First and foremost, this means we have to modernize. All of this requires modern infrastructure and technology. Let me talk about what we are doing to become a modern post.

We are moving from just delivering the physical envelope to becoming a partner that delivers a range of physical and electronic *solutions* to our customers.

Our top priority is to revitalize our aging infrastructure. So we plan to spend as much as \$1.9 billion in new capital over the next five years to bring both our physical mail processing network and our electronic infrastructure up to modern competitive standards.

Some of our plants are 50 years old and much of our equipment dates back to the 1970s. You might find it surprising that in 2008, we continue to sort a lot of mail by hand.

Some postal services in Europe have already spent *five billion dollars each* to modernize their operations.

Later this summer we will turn the first shovel of dirt on our first new mail sorting plant decades. Located near the Winnipeg airport, when it is completed in 2010 the plant will be the most efficient and “green” plant in our system... a harbinger of things to come.

The investments we are making in modern plants and equipment will also ensure our people work in clean, safe, environmentally friendly plants.

Modernization also gives us an excellent opportunity to integrate sustainable and leading environmental business practices across our company. We have just published our first Corporate Responsibility Report with targets against which we can measure our progress.

We are proud to be the first major company to adopt mental health as our cause of choice. We have just announced the creation of the Canada Post Foundation for Mental Health to receive funds raised by Canada Post and our people, including through the introduction of a special fundraising stamp this fall.

Let me also say a word here about our commitment to service to rural Canadians. We have started a Rural Mail Safety Review that involves assessing the safety of delivering to each of more than 800,000 mailboxes across the country. We have done this because what once was a quiet country lane may today be a highway, creating unsafe working conditions. Indeed, our rural carriers have been involved in more than 70 accidents since 2005, and tragically, three people have been killed.

While protecting the safety of our rural carriers, we are strongly committed to doing everything possible to continue to deliver mail to the lot line of our rural customers, where that has been their traditional way of getting mail, where it is safe to do so.

I mentioned that where our business is headed... is about more than the physical envelope. We're going beyond the envelope and delivering important messages and data.

We are well positioned to make sure the delivery – either through electronic or other channels – happens in a secure way. Canadians have always trusted us with their physical mail. In the multi-channel world, we will continue to be the secure, trusted intermediary – but now with the ability to deliver messages in seconds rather than days. This opens up many opportunities.

Last year, building on our secure electronic mailbox epost, we introduced our multi-channel product SmartFlow. Smartflow is a suite of document management services that help our customers manage their communications process from end to end.

SmartFlow enables customers to meet the growing demand for a choice of communication channels from their customers. For example, bills can be seamlessly delivered through various physical and secure electronic channels, including our epost service.

We have partnered closely with one of Canada's largest and most successful oil companies here in Calgary to let them take advantage of the flexibility SmartFlow offers. Through SmartFlow this customer sends their customer data to us. We then print and produce their customer statements and put them in the mail. This one-stop production program has saved them money and sped up the process, improving their cash flow.

SmartFlow has also let our customer Rogers Wireless double their customers' e-billing use, not only saving them money but allowing them to connect to their customers in the way they have chosen.

Building the capability for secure electronic communication will take time. But I'm convinced that going where our customers are going will be our surest route to future success... and the sustainability of the post.

As we modernize, we understand that increased communication with our customers is all-important... so there are no surprises. That is why we are holding consultations with panels of customers to discuss the potential new value propositions a modern Canada Post will have to offer.

I hope the service improvements and innovative new products I have talked about show our commitment to delivering more value to you... and that we are listening to our customers. My message today has been straightforward: In the face of challenges, we are modernizing. With modernization, you will see great improvements in customer service. We are transforming ourselves so we can continue to provide the efficient, cost-effective service you expect.

It has been a pleasure to speak to you today, and I wish you continued prosperity and success. Now I welcome your questions or comments.

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