

# Canada Post Corporation

## Opening Statement by:

**Marc Courtois**, Chairman of the Board

**Moya Greene**, President and Chief Executive Officer

To the House of Commons Standing Committee on Transport,  
Infrastructure and Communities

Meeting No. 25  
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**Check against delivery**

**Mr. Courtois**

I am pleased to be here today to assure the committee that actions taken by Canada Post were appropriate and done with the approval and oversight of the Board.

Specifically, a key role of the Board is to ensure proper governance for transactions above a certain threshold. I can confirm that the contract to move domestic mail by air, which was awarded to Purolator Courier Ltd, was awarded appropriately and with the full oversight and approval required of the Board.

The contract was negotiated in accordance with Canada Post's commercial mandate. All applicable rules, laws and regulations were followed.

This was discussed at three Board meetings. We approved the strategy, as required by our governance process, because we believed that the steps being taken by the company were in the best interests of Canada Post, the Government of Canada, and all Canadians.

Canada Post's Board of Directors understands and embraces the importance of good governance, transparency and accountability. We also understand that as a Crown Corporation, this company is held to a higher standard. We have all the necessary processes and checks and balances in place to ensure money is spent appropriately and in the best interest of Canadians.

**Ms. Greene**

We welcome this opportunity to be here today.

Canada Post has, first and foremost, a mandate to deliver mail to every Canadian in every part of Canada every business day. Given the immensity of this country, Canada Post has to rely on a complex transportation network. In fact, it may be the most complex in the country. Transportation by air is a critical component. Without planes, the mail does not get delivered.

For decades, Canada Post had a business relationship with Air Canada to transport domestic and international mail. On April 30<sup>th</sup>, 2008 we received an email from Air Canada demanding that we change the existing agreement to include five new provisions:

1. To change the fuel surcharge from 25% to 100%
2. To increase base rates by 2.5% annually
3. To discontinue a well-established volume rebate
4. To guarantee a minimum of 75% utilization. What this means is they wanted us to pay for space on their planes even if we didn't use it
5. To increase international volumes on Air Canada

We were told to "Respond/agree/negotiate" by May 16<sup>th</sup> or Air Canada would provide notice of termination. These demands would have driven a significant increase in our air network costs of about \$15 million per year. This, of course, was prohibitive.

On May 16<sup>th</sup>, 2008 we received a fax from Air Canada. The fax, which began "Dear Sir/Madam", formally advised us that we were being given 120-days notice of termination of the contract. We had until September 13<sup>th</sup> to recreate an entire air network, which was an extremely short period of time. Normally something like this would take well in excess of six months to a year, given the breadth and scale of the operation. We met with Air Canada, to try to extend the notice period. It became obvious by the tone and specifics of our exchanges that they no longer needed our domestic business. An interim extension of our Air Canada contract would have required significant additional financial commitments. This was neither reasonable nor viable. The differences were irreconcilable.

As a company, we have an obligation to Canadians to get them their mail. It is up to us to work out how we do it, but our obligation is plain and understood by all – deliver the mail. We had to act quickly and appropriately to avoid major disruptions in mail service as we headed into our peak season of September through Christmas.

We turned to Purolator Courier, a very important member of the Canada Post Group of Companies. Purolator was already providing transportation services to Canada Post and has been a reliable supplier since 1993. We had and continue to have confidence in Purolator's ability to keep the mail moving.

Canada Post owns 90.96 % of Purolator. Profit earned by Purolator is to the benefit of Canada Post, and the Government of Canada. Purolator continues to bring many attributes to the overall business relationship. Some examples include Purolator's access to tarmacs, its air network management capabilities to actually orchestrate a lift of one hundred and fifty thousand pounds a day, and air craft large enough to meet our needs.

It is standard business practice for companies to enter into business transactions with their subsidiaries. These transactions provide efficiencies, economies of scale and cost savings to one or both parties and can be a source of value-creation for shareholders.

Before we entered into the contract with our subsidiary, Canada Post engaged in a Request for Information to investigate whether other solutions were feasible in the timeframe required. The Request For Information was sent to four qualified air cargo suppliers: Cargojet, Esposito Logistics Services, First Air and Purolator Courier. Because we were in a high risk situation, we selected companies with which Canada Post already does business. Our conclusion at the end of this process was that Purolator could best meet our operational requirements within the restricted timeframes. I would also remind committee members that we have been moving the mail by air with a number of Canadian companies for a very long time and that experience has given us an excellent understanding of the marketplace.

I am pleased to report that the transfer from Air Canada to Purolator was handled seamlessly. This was a very big change in our operations. We were dedicated to doing it properly because we have an obligation to deliver 45 million pieces of mail to 15 million mailboxes every day in Canada. We were able to reconstruct our transportation network in 120 days. I cannot imagine the implications for Canadians had there been disruptions in mail delivery resulting from a break in air service.

Six months into the operation of our new Air Transportation Network, the movement of domestic mail by air is more efficient, and Canada Post's overall costs are now less than what they would have been with Air Canada. We also have more control over our process.

I believe that the process we followed and the outcome were both appropriate and resulted in continued excellent service and value for Canadians. We are very satisfied with the result. We feel our approach has created additional value for Canadians and for our shareholder, the Government of Canada.

Thank you. Merci.