

Magazines Canada

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The Honourable Judy M. Foote, P.C., M.P.
Minister of Public Services and Procurement
Receiver General
Government of Canada
Ottawa, Canada K1A 0S5

February 12, 2016

Comprehensive review of Canada Post

Dear Minister Foote,

We were pleased to learn that you are undertaking a comprehensive review of Canada Post Corporation (CPC). Magazines Canada looks forward to actively participating in this constructive dialogue to ensure CPC meets Canadians' needs and expectations in a way that reflects modern best practices. Specially, ***we are writing you to request that the review includes a thorough assessment of CPC publications mail practices as they affect the dissemination of Canadian-made content to Canadians across the country.***

Magazines Canada has undertaken a broad consultation with members regarding the most recent rate and services changes made by Canada Post for 2016. I am writing to inform you that the current situation is very bad and is severely impacting the ability of producers of Canadian content and culture to reach Canadian audiences. Below, I outline some of our members' specific concerns.

It is our view that CPC's 2016 Publications Mail rate increases are punitive and lack a credible rationale. The variances across 2016 rates are alarming and the average increases are staggering. Additionally, our sector received less than three months' notice of the impending increases, where in the past mail users would have six months to ensure an orderly change to a complex system. Please be assured that we have attempted to remedy this situation through intense member consultations with CPC, to no avail.

CPC's estimates that the average cost increase for magazines is 4%. However, it turns out that CPC doesn't actually have the ability to model how its rate changes affect individual magazines: it is simply an estimate that has no basis in fact. Indeed, many major publishers among our membership have provided CPC with their own modelling of the new rates for each magazine, with calculations to show that the increases will actually be 8% to 12% in January 2016. That kind of sudden increase is having major consequences for our members.

In order to reach its far more benign estimates, we can only suppose that CPC has included non-magazine products and factored in a "loss of revenue" to CPC from the cancellation of undeliverable publications fines which have been wrongly charged to Canadian publishers for years. To explain: frequently magazines are returned to sender even though the original

addresses were correct; CPC would charge the publisher for the return. CPC cannot credibly claim a revenue loss for a fee it should not have been collecting in the first place. Further, CPC has reduced charges associated with ad sample insert distribution and attached a 25% value to this change as a benefit. This is pure speculation, not fact.

The facts are these: Rate increases are running 8% to 12% on any significant volumes.

Larger volume Canadian magazines that have the highest proportion of direct bundles are getting hit the hardest in terms of rate increases. Strangely, these are the customers that provide CPC with pre-sorted bundles that bypass almost all CPC operational channels and are placed almost directly in the hands of letter carriers. CPC has very little to do with these bundles before its carriers do their job. CPC's Publications mail is a profitable line helped by Canada's magazine publishers who have already internalized and absorbed a considerable share of the pre-delivery cost of the product. Magazines are being punished for helping to improve Canada Post's operational flow and productivity. Further, swings in these 2016 rate charges can be breathtaking: No private sector supplier would ever consider a new pricing structure, as CPC has unilaterally implemented, that allows for variances between -11% to +12%. For some of our members, this means sudden increases of hundreds of thousands of dollars. Please see the attached appendix for more information on the impact to our members of such variances.

Ironically, CPC sees magazines as a product line that will decrease at a time when Canadian magazine media have shown growth. In fact this is a loss of business to CPC by its own hand.

Projections for print consumption by Canadian indicate stability with no precipitous decline in sight. Canadians love print Canadian content magazines because they know their Canadian magazine is a place to actually find Canadian content in a crowded media marketplace. Most certainly digital content consumption is on the rise and Canada's magazines are drawing large and growing audiences. However, Canadians are clear telling us they want print and it remains the preferred platform among all of age demographics.

CPC's approach to print magazines negatively affects publishers; in effect it encourages them to seek out alternative delivery options. But here is the challenge: while Canada Post is not legally a monopoly it has, by legislation as a crown corporation, certain exclusive access points to many Canadians (such as those who live in multi-residential housing). By virtue of its mandated exclusive access, CPC is abusing its dominant position through such unilateral rate increases, while it lacks transparency and provides services well below industry best practice.

Canada Post is not a private sector enterprise. It is a crown corporation owned by the people of Canada through our federal government. It should be managed as a service to Canadians

One of the essential and unique service CPC has always offered is to deliver Canadian content to Canadians in an efficient manner which also ensures equal and fair access for

everyone across the country. The Government of Canada has always maintained policies concerning the creation and dissemination of Canadian cultural content to Canadians: a mandate perhaps no more compelling than it is now, as we prepare for the country's sesquicentennial. It is the position of Magazines Canada that CPC has a role to play in this important policy—but it also has an obligation to take part in a constructive dialogue that does not abuse its market position.

We are fully prepared to be an active participant in a review of Canada Post and are relieved to see that the Government also sees the issue as important. On behalf of our members, we look forward to working with you in a constructive way and would appreciate your attention to our immediate challenges.

With thanks in advance for your consideration, my best regards,



Matthew Holmes, President & CEO

CC: The Honourable Mélanie Joly, P.C., M.P., Minister of Heritage Canada
Douglas Knight, C.M., Chair of the Board of Directors, Magazines Canada

About Magazines Canada

Magazines Canada is the national trade association representing Canadian-owned, Canadian-content consumer, cultural, specialty, professional and business media magazines. French and English member titles offer a wide range of topics including business, professional, news, politics, sports, arts and culture, leisure, lifestyle, women and youth, made available on multiple platforms. The association focuses on government affairs, services to the advertising trade, circulation marketing and the development of career skills for and the recognition of excellence among the people who work in Canada's magazine media.

APPENDIX: Canada Post Rate Increase Effect on Magazines Canada members
Comparison of Rate Changes from 2015-2016

The table below is a representative sample of actual costs to various Canadian magazines, provided by a Magazines Canada member advisory. It is important to note that in the very few scenarios in which a magazine sees benefit, the decrease in cost is negligible. Whereas, the majority of magazines experience a significant increase to their costs, totaling hundreds of thousands of dollars in some cases.

Pub.	Issues/an.	Weight(g)	Total Mailed	Local	Regional	National	2015 Cost	% Variance	Annual Variance
A	12	208	10,281	3,322	2,297	4,662	\$ 6,061	-4.3%	-\$ 3,145
B	26	238	1,625	217	1,326	82	\$ 910	-5.4%	-\$ 1,288
C	5	126	1,804	133	491	1,180	\$ 1,175	-11.2%	-\$ 659
D	4	81	11,975	87	108	11,780	\$ 6,285	12.3%	\$ 3,089
E	6	186	37,342	64	1,122	36,156	\$ 18,974	10.1%	\$ 11,522
F	9	378	22,516	4,651	5,908	11,957	\$ 26,394	6.3%	\$ 14,978
H	10	448	41,944	11,909	10,428	19,607	\$ 60,923	4.0%	\$ 24,150
G	12	292	114,083	19,536	85,694	8,853	\$ 116,504	4.9%	\$ 67,917
I	12	291	242,802	34,881	82,648	125,273	\$ 208,585	6.9%	\$ 171,576
J	52	108	163,998	17,153	56,289	90,556	\$ 86,016	9.3%	\$ 417,300

Conclusion:

Canada Post changed its pricing structure from 46 down to 8 categories. As can be seen in the 10 examples on the chart above, magazines are affected in very different ways. For instance, heavier magazines with a large national distribution (Example "I") will be more heavily impacted than a magazine with the same frequency, and same weight, with predominantly local and regional subscribers (Example "G"). Smaller circulation magazines (Examples "A-C") will see some nominal savings with this model. Due to the complexity of the rate increases, where national distribution costs are more than local or regional and where weight is factored in, individual examples show the effects of the formulas used in pricing these deliveries.

In effect, in addition to adding considerable expense to Canadian publishers of magazine media, these changes create a disincentive for content creators to provide equal access to their cultural and business publications to all Canadians across the country and in remote communities.