Other benefits of the new approach were identified in the recent PSRC report. Last fall, the PSRC recommended that Canada Post be awarded its proposed rate increases in order for it to attain its mandated return on equity target of 14–15%. In essence, the PSRC endorsed the private sector's definition of financial self-sufficiency, which includes the full recovery of capital costs. This new approach, it was argued, would result in fairer competition, elimination of the indirect subsidy to major mail users through the Corporation's not being charged the cost of capital, and a more efficient use of capital as the Corporation incurs the full cost of this resource.

We agree with the conclusions of the PSRC, and urge the Corporation to achieve the targeted levels of return and the other financial standards which have been established. The Committee therefore recommends that:

Canada Post should be financially self-sufficient and realize enough revenue to maintain and improve its service.

Canada Post continue with its plans to realize a 14% return on equity by 1993–1994, and to provide the Government of Canada with an annual dividend of 40% of its operating profits.

While Canada Post has been instructed to operate on an increasingly commercial basis, and has adopted targets for a number of financial criteria such as the return on equity and the dividend payout ratio, there is one noticeable omission. Though the Corporation does, through the Department of Public Works, pay grants to each municipality in lieu of property taxes and is thus in essence taxed on its land holdings, it neither pays nor anticipates paying corporate income tax. A proper comparison with private-sector firms, however, would involve a comparison of rates of return before tax.

We believe that this issue warrants further observation; since a full quarter of the Corporation's revenues are derived from competitive services such as unaddressed admail, parcels and time-sensitive deliveries, unfair competition is indeed a distinct possibility. While Canada Post may not view its non-taxable status as an important factor in its competitive or general financial position, it is difficult to judge the situation since no planning study has been conducted. Moreover, the Corporation has admitted that a requirement for it to pay tax could alter certain financial ratio targets and further increase postal rates.

We consider that a review of this question by the federal government is urgently required. Many of the issues which would require resolution were identified in the Warburg/DS study (tax base of assets, application of operating losses from previous years, payment of provincial taxes, treatment of federal subsidies and capital contributions, accounting treatment of taxes, and the question of local business taxes). What is needed is