

products and services are not cost-based, an otherwise level playing field will be tilted in its favour and the public could not be assured that postal rates are fair and reasonable. Moreover, as the Chairman of the PSRC noted, such cross-subsidization can be a real threat to effective, efficient private sector producers.

We note that the United States Postal Service is required to establish postal rates and fees for each class of mail or type of mail service that will cover all its direct and indirect costs along with other costs that can be reasonably attributed to it. We believe that Canada Post should be subject to a similar rate and costing structure. The Committee therefore recommends that:

Canada Post not be permitted to cross-subsidize the costs of its competitive and unregulated products and services from revenues generated from those products and services offered under its exclusive privilege.

B. Other Methods of Unfair Competition

The question of whether Canada Post is competing fairly in the marketplace has been raised before the Committee. The CCNA noted that there has been a steady deterioration in the relationship between its members and the Corporation. Because the latter plays a major role in the delivery of community newspapers, the situation has become particularly acute.

The "supplement line requirement" of the postal regulations prescribes that the full name of a newspaper must be printed on admail flyers that are to be delivered with the newspaper. The requirement stipulates that the name must be printed on the flyer at the time of production and prohibits a newspaper from stamping its name on the flyer subsequent to its receipt. Admail flyers delivered directly by Canada Post, on the other hand, do not have to bear its name. According to the CCNA, this gives the Corporation a competitive edge and "serve(s) no useful purpose other than to direct admail and its revenues from community newspapers to Canada Post." The CCNA also criticized the manner in which these regulations are administered, noting that on some occasions when a non-complying flyer had been inadvertently included in a newspaper, immediate payment of full postage for each flyer was demanded under a threat that the newspaper would not be delivered.

The Committee notes that there is an inherent conflict in the fact that Canada Post is both a supplier of services to and a competitor of the publishers of community newspapers. Thus, the creation and administration of regulations governing the Corporation's status as a supplier can have the effect of advancing its position as a competitor.

The Committee is of the view that the supplement line requirement, which is representative of this conflict, imposes considerable hardship on community newspapers.