

able to charge prices that are below cost and to compete unfairly with others whose prices are cost-based. The CCNA claims that the Corporation is providing unrealistically low rates to large-volume admail senders as well as free shipping to distribution points throughout the country. According to the CCNA, the Corporation's ability to deliver advertising flyers at rates "well below what any community newspaper can" implies that there is cross-subsidization. The CCNA continues to make this assertion notwithstanding assurances given them by Canada Post that its volume discounts for admail flyers do reflect costs. Information from the Corporation indicates that, as of March 1988, its prices for admail service were generally 15% to 40% higher than the cost of newspaper inserts. At its 1988 volume levels, the Corporation estimated that unaddressed admail contributed about \$14.4 million to overhead, or 9.3% annually (based on long-term attributable costs).

The CCNA called for an independent audit of Canada Post's rate structure for unaddressed advertising mail to ensure that all costs are being taken into account.

Another of Canada Post's competitors, United Parcel Service Canada Ltd. (UPS), raised the issue of cross-subsidization before the Committee. UPS competes with the Corporation in the parcel delivery and courier business although, at present, it does not offer ground service to all parts of the country. UPS has no direct evidence of Canada Post cross-subsidization but is anxious to ensure that it does not compete unfairly in this way. The Canadian Courier Association, in a letter to the Committee, echoed the concerns about cross-subsidization expressed by UPS, and suggested there is "reason to believe that the post office has used, does use, and will use the substantial revenue generated by its exclusive privilege to compete unfairly with private competitive services."

UPS noted that Canada Post's revenues from monopoly services far exceed those from competitive services. For UPS, the solution to the cross-subsidization question is a "regular and thorough public examination of costs and the justification for their attribution to each class of mail and each type of service" so that "the users of postal services and Canada Post's competitors (can) be certain that Canada Post is not overcharging for monopoly mail or competing unfairly with private enterprise."

The PSRC contended that it could not adequately assess the fairness and reasonableness of postal rates without knowing whether specific products cover their incremental costs and provide a fair contribution to overhead. Because it was unable to obtain volume, cost and revenue information from Canada Post for each of the Corporation's products, it was unable to determine whether cross-subsidization was taking place.

The Committee agrees that revenues from Canada Post's monopoly services should not be used to subsidize its competitive operations. If the Corporation's competitive