

Vital Links”, the Association questioned the Corporation’s cost allocation methods, suggesting that “the estimated subsidy to second-class mail may well be inflated because the postal system allocates costs to such mail that are not caused by it.” The study concluded that the estimates of the size of the postal subsidy required could be reduced significantly, thereby avoiding rate increases.

This view was also shared by the President of Maclean Hunter Canadian Publishing, who was not convinced that the cost of providing service to publishers was significantly higher than the price paid. This witness speculated that a sizeable portion of the subsidy is applied against the Corporation’s overhead and basic infrastructure, and not directly against the movement of publications mail. In order to allay these concerns, we believe that the imposition of changes in second-class postal rates must be preceded by a complete and accurate investigation of Canada Post’s allocation of costs.

#### **B. Northern Air Stage Subsidy**

As recently as 1985, the federal government provided Canada Post with \$19 million to subsidize air freight service to communities in northern Quebec and the Northwest Territories. Soon thereafter, it was decided to phase out the subsidy by the year 2005, with annual reductions of \$1 million put into effect.

With the Corporation able to reduce costs in line with the declining subsidy in the first three years, no rate increases were implemented. Late last year, however, Canada Post decided on increased rates ranging from 27% to 42% for northern commercial shipments. Since then, the Corporation has agreed to a 5 percentage point reduction (from 32% to 27%) in increases for mailing food and medical supplies, and has stated that the rates now in place will not be adjusted for at least one year.

Isolated communities in the North have historically borne high living costs as a result of transportation expenses. Most of the communities in question are accessible only by high-cost air service, and have no all-weather roads or railways. The federal government decided in the mid-1970s to subsidize commercial shipments of fruits, vegetables and other consumer products to northern destinations to help compensate for this cost burden.

The phase-out of the subsidy program will greatly increase the price of perishable and consumer goods in the North. According to evidence presented to the Committee by representatives from the Inuit Cooperatives of Quebec, the cost of living, which is already high in northern regions, could rise by an additional 20%. The phase-out could also place the health of northern residents at risk, through the increased danger of scurvy and rickets. Air stage shipment is seen as the only way to provide fresh foods necessary for a healthy diet at a reasonable price.