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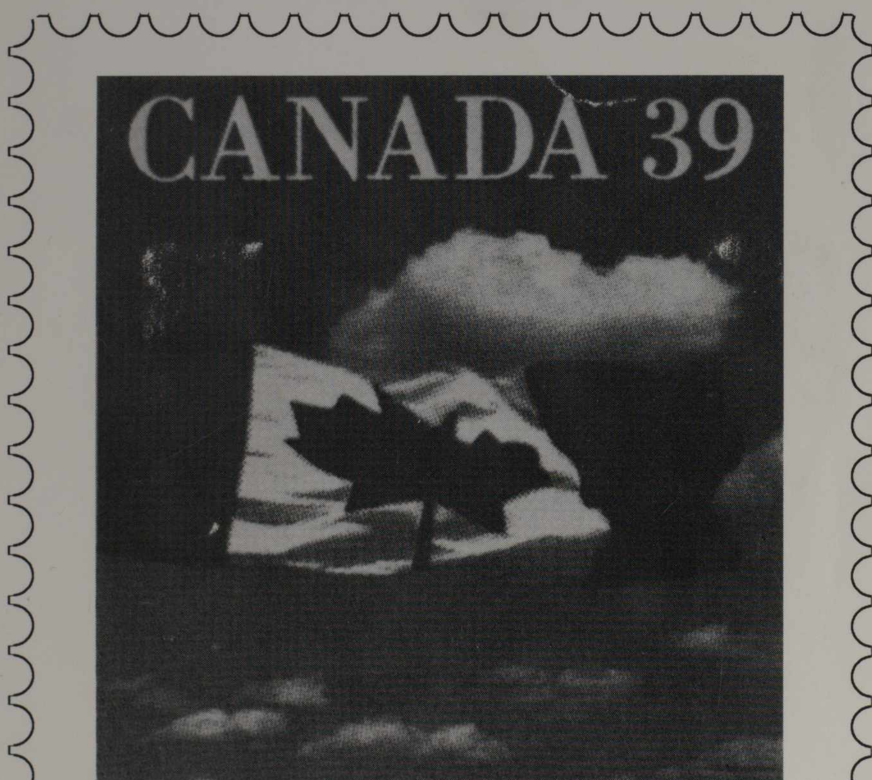
CANADA'S POSTAL SERVICE IN THE 1990'S



REPORT OF THE STANDING COMMITTEE ON CONSUMER AND CORPORATE AFFAIRS AND GOVERNMENT OPERATIONS

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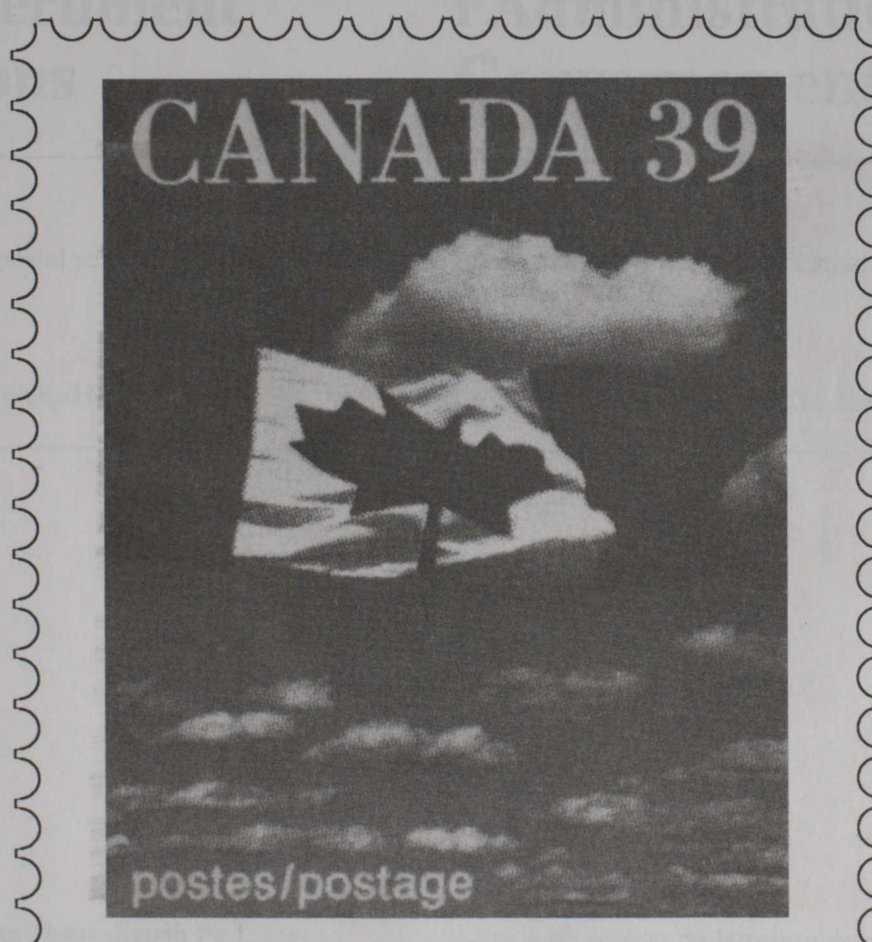

REPORT OF THE STANDING COMMITTEE ON CONSUMER AND CORPORATE AFFAIRS AND GOVERNMENT OPERATIONS

APRIL 1990

HOUSE OF COMMONS

Issue No. 53

Wednesday, April 11, 1990

Chairman: Garth Turner, M.P.

Minutes of Proceedings and Evidence of the Standing Committee on

Consumer and Corporate Affairs and Government Operations

RESPECTING:

Review of Canada's postal service, pursuant to Standing Order 108

INCLUDING:

The Second Report to the House

CHAMBRE DES COMMUNES

Fascicule nº 53

Le mercredi 11 avril 1990

Président: Garth Turner, député

Procès-verbaux et témoignages du Comité permanent de la

Consommation et des Corporations et de l'Administration Gouvernementale

CONCERNANT:

Étude sur le service postal canadien, conformément à l'article 108 du Règlement

Y COMPRIS:

Le Deuxième Rapport à la Chambre

Second Session of the Thirty-fourth Parliament, 1989-90

Deuxième session de la trente-quatrième législature, 1989-1990

34865-1

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Published under the authority of the Speaker of the House of Commons by the Queen's Printer for Canada

Available from the Canadian Government Publishing Centre, Supply and Services Canada, Ottawa, Canada K1A 0S9

THE STANDING COMMITTEE ON CONSUMER AND CORPORATE AFFAIRS AND GOVERNMENT OPERATIONS

has the honour to present its

SECOND REPORT

In accordance with its mandate under Standing Order 108, your Committee has reviewed Canada's postal service and has agreed to present this report.

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POSTAL SERVICES IN THE 1990s

INTRODUCTION

The 1981 passage of the *Canada Post Corporation Act* (the Act), which created a Crown corporation to operate postal services in Canada, marked the beginning of a new era for the Post Office. The move from a government department to a Crown corporation was designed to distance postal services from the political arena, to introduce a measure of fiscal accountability into postal operations and generally to overcome many of the problems that had beset the postal system.

The Act sets out the following three objects for Canada Post Corporation ("Canada Post" or the "Corporation"):

(a) to establish and operate a postal service for the collection, transmission and delivery of messages, information, funds and goods;

(b) to manufacture and provide products and services that are necessary or incidental to postal services; and

(c) to provide services to government departments, agencies and others that are convenient for the Corporation to provide.

The Act also outlines certain factors that Canada Post must consider when carrying out its objects. These require the Corporation, while maintaining basic customary postal service, to have regard to

(a) improving and extending its products and services in the light of developments in the field of communications;

(b) conducting its operations on a self-sustaining financial basis while providing a standard of service that will meet the needs of the people of Canada and that is similar with respect to communities of the same size;

(c) providing for the security of mail;

(d) utilizing its human resources to achieve its objects and to ensure the commitment and dedication of its employees; and

(e) maintaining a corporate identity that recognizes that it is an institution of the Government of Canada.

From the beginning, Canada Post's management set out three objectives. These were: improved service; improved labour–management relations; and financial self-sufficiency.

The Committee notes that the Corporation has made significant progress in meeting two of these objectives. For this, the Corporation and its management team deserve credit. Postal services are more reliable, standards for the delivery of first-class mail are being adhered to, the number of postal outlets is increasing and service to large-volume mailers has improved. On the financial front, great strides have been made. In achieving its first operating surplus in nearly 30 years, the Corporation has progressed toward its goal of financial self-sufficiency. Additional profits in forthcoming years should enable it to finance the capital investment needed to introduce new products, further improve the reliability of services and keep pace with a rapidly changing marketplace.

As a general rule, there is a direct link between service and profitability; those firms which provide the best service are often among the most profitable. By continuing to be profitable, Canada Post will be able to achieve its primary objective of providing reliable, accessible and affordable service.

In the area of labour-management relations, however, much more needs to be done. Relations between management and employees continue to be acrimonious, although it would appear that progress will be made in settling the inordinately large number of outstanding grievances filed by employees. It is our belief that Canada Post must become increasingly aware of and responsive to the needs of its employees.

The year 1989 witnessed a number of significant developments for the future of Canada Post. First, the Corporation had its first operating surplus in more than three decades. Next, the Minister of Finance requested that the Corporation adopt a commercial mandate and achieve a target return on equity of 14%-15% in 1993-1994 while keeping first-class letter rate increases down to less than the increase in the Consumer Price Index. As part of this mandate, the Corporation is expected to pay a dividend of approximately $300 million to the government for the five-year period ending with the 1993-1994 fiscal year. Finally, the Minister responsible for Canada Post suggested that the time has come to look at its possible privatization.

These developments, along with concerns expressed by the general public about a number of aspects of the Corporation's service, have prompted the Committee to examine Canadian postal services.

The Committee held public hearings in Ottawa from October 1989 to March 1990; during these, the Minister responsible for Canada Post Corporation, the President of Canada Post and 28 organizations and individuals were heard (see Appendix I for a list of witnesses).

In the course of our study, we have had the opportunity to explore several aspects of Canada Post's relationships with its customers, employees and competitors. We have also been able to look at trends and developments in postal services in other jurisdictions.

We have found that postal administrations in a number of other countries are expected to be commercially viable, even profitable operations. In Australia and New Zealand, for example, postal services make a profit and return a dividend to the government. Such a requirement for Canada Post, then, is not unusual or novel and lends support for a definition of financial self-sufficiency that encourages the Corporation to adopt the fiscal standards of comparably-sized private sector enterprises.

Examining the possible privatization of Canada Post was an important aspect of our study. The Committee heard evidence suggesting that privatization might be appropriate once proper corporate and financial structures were in place and the Corporation had achieved a consistent record of profitability. But we also were told that the Corporation is not yet ready for privatization and will not be for some time. This question will likely require further assessment should the Corporation achieve its target return on equity.

While privatization of the Corporation may be an issue for future consideration, the regulation of postal services is of immediate concern to the Committee. We note the problems encountered by the Postal Services Review Committee (PSRC) in its attempt to review Canada Post's recent rate and service proposals. We are concerned that the PSRC's inability to obtain information from the Corporation prevented it from determining whether postal rates are fair and reasonable and whether the Corporation is competing unfairly by cross-subsidizing its competitive operations from its monopoly services. Unable to fulfill its mandate, the PSRC could neither effectively respond to the public's concerns nor ensure that Canada Post had not abused its monopoly power.

We believe that it is in the public interest to have postal rates and services scrutinized by an independent body with the power to obtain the information it needs to fulfill its mandate. This is crucial where the enterprise subject to review enjoys considerable monopoly power. It is also important as Canada Post attempts to distance itself further from government.

Our recommendations cover several aspects of postal services in Canada. Some deal with specific concerns brought forward by witnesses while others address broader issues. We hope that they will help towards providing better postal services to Canadians in the 1990s and beyond and give direction for a profitable, customer-responsive postal system.

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CHAPTER 1 – CANADA POST'S FINANCIAL PERFORMANCE

A. Progress Towards Financial Self-Sufficiency

In recent years, Canada Post has made remarkable progress in achieving its objective of financial self-sufficiency. An operating deficit of almost $600 million in 1981–1982 has now been replaced by a surplus of $96 million, the first Post Office surplus recorded in 30 years.

The Corporation's financial results have, to a great extent, mirrored those of other postal administrations. As of 1988–1989, the United States Postal Service (USPS), the Australian Postal Commission, the U.K. Post Office and New Zealand Post have all achieved profitable positions.

While rate increases certainly influenced the change in financial performance, much of Canada Post's success can be attributed to increases in mail volume and improved efficiency. The Corporation's efforts to stress productivity, and efficiency improvements in evidence since the mid–1980s have resulted in more reliable service and stronger volume growth. The focus has also been on containing costs. Throughout most of the 1980s, these factors have allowed Canada Post to keep the price of delivering first–class letter mail from increasing at a faster rate than the cost of living as measured by the Consumer Price Index, and to ensure that the price is well below international norms.

Canada Post deserves to be commended for its success. As a result of this financial turnaround, the direct cost of the postal system is, with the exception of certain payments made for public policy purposes, now being borne almost entirely by the users themselves, without an additional burden placed on the taxpayer in the form of an operating subsidy.

We urge the Corporation to continue its efforts to increase efficiency and improve its financial results. In our opinion, more stress should be put on moving from retail and processing facilities in downtown locations to more cost–effective and efficient structures elsewhere. The Corporation would also be wise to achieve greater flexibility in contracting out certain services, such as mail delivery. It is vitally important that Canada Post reduce operating costs devoted to labour, which, at approximately 70%, now impose a considerable burden on financial performance. Only through excellent financial results can the Corporation generate the funds for the capital investment needed to improve service and efficiency. As will be suggested below, a much greater return than that so far recorded will be required.

B. New Definition of Financial Self-Sufficiency

Now that Canada Post has realized an operating surplus, it has been instructed by the federal government to function increasingly on a commercial basis, by borrowing in private capital markets, by establishing financial targets and by remitting a dividend to the government. The government is also prepared to consider providing the Corporation with a share capital structure which would enable traditional measures of financial performance to be applied.

To help establish a new, private-sector definition of financial self-sufficiency for Canada Post, the government commissioned a study of financial performance targets by the investment firms S.G. Warburg Securities and RBC Dominion Securities Inc. Their report (the Warburg/DS study), produced in August 1989, examined a number of relevant companies and appropriate financial criteria against which the Corporation's financial practices and performance could be assessed. Included in the universe of firms selected were the following: other postal administrations, courier companies, regulated utilities in Canada and the U.S., several major Canadian firms and a number of domestic Crown corporations. Of these groups, the regulated utilities and the courier companies were most comparable to Canada Post in terms of business risk, although the study did state that the utilities faced a lower risk in that they had a lower percentage of competitive activities in their operations.

The definition of financial self-sufficiency adopted in the Warburg/DS study took into account the cost of capital when developing private-sector financial criteria for Canada Post. To be "self- sustaining," the study concluded that a firm must have access to capital in order to finance investments to sustain its asset base. Since private capital comes in only two forms, debt and equity, it is necessary for the Corporation to provide adequate financial return to potential investors, whether they be bond or shareholders. As the study noted, "to ensure access to the debt markets the Corporation would have to provide comfort to potential lenders by meeting a variety of financial tests, and ... to ensure access to equity capital, Canada Post would have to earn profits sufficient to provide a return comparable to other competing investments."

After examination of financial performance in other firms, the study arrived at appropriate ranges for key financial criteria for Canada Post. Of greatest significance was the setting of a 14–15% range for return on equity and a dividend payout ratio of 35–45%. Achievement of an adequate level of return, it was noted, is important since shareholders need to be compensated for the risk associated with their investment. Similarly, a dividend payout ratio of the size mentioned would ensure that investors were adequately compensated and that Canada Post had the financial freedom to maintain its capital investment program. While the Corporation has not, up to now, paid out a dividend, the study noted that private-sector firms with similar characteristics would normally have done so.

The government has adopted the recommendations of the Warburg/DS study and has instructed the Corporation to operate within a commercial mandate, and by doing so generate a financial return adequate for a private-sector firm of similar size with similar corporate objectives. In its latest five-year Corporate Plan, Canada Post has accordingly set a return on equity (ROE) target of 14%, to be achieved in 1993–1994. This would be substantially higher than the current return of 5.9%, and would generate an additional $802 million in profits over the next five years.

The Corporation has also adopted a dividend payout target of 40%, starting in 1989–1990. This will ensure that a return of $300 million will accrue to the federal treasury over the five-year planning period, with additional funds devoted to support of the firm's capital investment plans.

The Committee heard conflicting evidence on the merits of the new private-sector definition of financial self-sufficiency. Opinion was split on whether the Corporation should be exceeding its initial target of breaking even. The Canadian Labour Congress (CLC) argued in favour of using the new profits to improve and expand postal services, to increase wages and to reduce postal rates. The CLC was of the view that many of the problems in labour relations and service cut-backs are a by-product of having tried to push Canada Post toward financial self-sufficiency too quickly. The Congress, while not opposed to the concept of financial self-sufficiency, felt that the initial target should have been achieved over a much longer period of time.

The Canadian Union of Postal Workers (CUPW) shared the CLC's concerns and recommended that the Corporation use the profits to improve service to rural Canadians and to city-dwellers currently receiving mail in community mail boxes. The Union also argued that the legal mandate of the Corporation as set out in subsection 5(2) of the *Canada Post Corporation Act* does not include as a minimum requirement the achievement of a specified profit margin nor does it obligate the Corporation to distribute dividends to the government.

For their part, both the Retail Council of Canada (RCC) and the PSRC approved of the new definition of financial self-sufficiency. The Retail Council argued that the profit incentive provides the Corporation with the stimulus to enhance efficiency and, as a direct result, improve service. The Chairman of the PSRC, Mr. Alan Marchment, felt that the new target of profitability could be supported only if it was achieved through an increase in competitiveness, efficiency and innovation, and not reductions in service. While the 14–15% return target was not unreasonable as an eventual target, these groups expressed concern about the speed at which it would be reached and the fact that service to customers could be jeopardized.

The Committee also is concerned about the maintenance of adequate levels of service. Yet we are of the opinion that the realization of private-sector return levels will provide distinct advantages for both the Corporation and the Canadian consumer. And while the concerns about the speed at which the Corporation achieves the target are entirely understandable, we believe it is better to strive towards a set target. Only with a disciplinary tool in place will financial performance be assured.

A number of points can be made to buttress the case for the increased generation of profits. As Gerard Harvey, Chairman of the Management Board of International Post Corporation, noted before the Committee, an adequate level of profitability is required to ensure that obsolete or deteriorating capital equipment is being replaced. Canada Post has spent on average a mere 3.7% of net assets each year on capital expenditures since 1981, with the result that the asset base has not been effectively maintained. Capital investment is required to replace the capital stock and by so doing to improve the efficiency of postal operations and the reliability and speed of service. By engaging in a major capital expansion program, such as the Corporation recently announced, Canada Post can construct and improve mail-processing facilities, expand and modernize the vehicle fleet, and enhance its data processing network. To help finance these necessary expenditures, the Corporation requires additional profits.

The implementation of higher target levels of return will also enable dividends to be provided to the shareholder (the government). This payment may in turn be applied to the deficit and could provide the Canadian public, long a victim of government funding to the Corporation, with a sizeable financial return.

It should be noted that the dividend requirement, along with the adoption of an increasingly commercial orientation, is not unique to Canada's postal system. Australia Post, long viewed as being comparable to Canada Post in operational characteristics, is expected to contribute dividends to the government from fiscal 1989–1990 on, pay corporate taxes, adopt financial targets and establish a private-sector share capital structure.

Similarly, both the United Kingdom and New Zealand Post Offices are required to provide dividend and tax payments to their national governments. New Zealand Post, for instance, has committed itself to maintaining a future dividend rate of 40% of aftertax profits, while also paying corporate tax at a rate of 48%. All told, the firm paid the government $130 million in dividends and taxes during 1987–88 and the first half of 1988–89.

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 an assessment of the issues as they affect the Corporation and its financial plan, particularly its attempts to achieve the new financial self–sufficiency targets.

Postal administrations in the United Kingdom, Australia and New Zealand have been requested to pay income taxes to their governments; we see no reason why this question should not be examined with a view to implementation in this country. The Committee therefore recommends that:

> **The Government of Canada examine the feasibility of requiring Canada Post to pay corporate income tax.**

CHAPTER 2 – POSTAL SUBSIDIES

The federal government has traditionally paid subsidies to Canada Post in support of the Canadian publishing industry, and has made payments related to public policy programs, such as Northern Air Stage, Parliamentary Free Mail and Literature for the Blind. An amount of $203.6 million is budgeted for these programs in 1990–1991, of which $174.6 million is to be allocated to the publishers and $29 million to the other three programs.

The government has decided to reduce spending in two of the four areas, with the publishers' subsidy to be cut back and eventually eliminated, and the Northern Air Stage subsidy phased out. The other two, Parliamentary Free Mail and Literature for the Blind, have remained untouched. Planned spending in these latter two areas totalled $14 million for this fiscal year.

Economists are generally of the opinion that universally–provided subsidy programs are not cost–effective. Given that these programs are universal, many subsidy recipients are benefiting from them needlessly, in some cases at the expense of greater subsidies for those more deserving.

It is also recognized that it is easier to verify the true need for direct subsidies in programs where there is a direct relationship between sponsoring agency and recipient. In the case of the publishers' subsidy, for instance, one cannot identify the true cost to Canada Post of handling publications mail. Similarly, it is difficult if not impossible for northern residents to obtain reliable cost information from the Corporation about its Northern Air Stage mail service. In both instances, a more accurate assessment of the true need for the program could be gauged through a more direct link between the government and subsidy recipients.

We support policy shifts that would remove indirect social program subsidies from Canada Post, as long as they were replaced by direct subsidies with spending levels sufficient to satisfy requirements. The Committee therefore recommends that:

> **The Government of Canada consider the replacement of postal subsidy programs with direct recipient programs.**

A. Publishers' Subsidy

For more than one hundred years, the federal government has provided the Post Office with a subsidy designed to offset the revenue shortfall which it incurs against total publications mail costs. In doing so, the government has attempted to satisfy three objectives: to encourage a well informed and better educated public through a reduction in subscription rates, to encourage a financially healthy Canadian publishing industry, and to improve access by all individuals, whether residing in remote areas or not, to Canadian cultural products.

The subsidy provides preferential second-class postal rates for newspapers and periodicals in accordance with a six-level rate structure which includes the following categories of publications: daily newspapers, weekly newspapers, subscriber-based periodicals, controlled-circulation periodicals, foreign periodicals, and foreign periodicals printed in Canada. In order to benefit from the subsidy, publishers have to meet the individual criteria which Canada Post sets for the six different rate levels. Also eligible for subsidy are publishers, wholesalers and retailers of books, and public libraries. The rate structure is tiered so that small mailers pay lower average postage than larger publishers.

The Publications Distribution Assistance Program (PDAP), as the subsidy program is known, is essentially the responsibility of the Department of Communications (DOC). That Department sets the overall policy of the program and determines the concessionary rates applicable to the various publishers' mailing categories. Once the policy guidelines have been established, however, Canada Post administers the subsidy.

In the April 1989 budget, the federal government announced that it would reduce the annual subsidy by $10 million that fiscal year and by $45 million per year beginning in 1990-1991. The intent was to weed out from a universal subsidy program any spending that is not truly required, while keeping the subsidy in place for the majority of publications which would experience financial difficulty without it.

In December 1989, the federal government decided to eliminate the universal postal subsidy program completely by 1992-1993 and replace it with a direct subsidy. The new program, to be administered by DOC, would have a budget of $110 million, or one-half of the present program's budget.

The publishing industry is extremely concerned about any significant reduction in the postal subsidy. It claims that its pre-tax profit margins, at less than 4%, are quite low and that large increases in second-class postage rates would have a devastating effect on its members' financial performance. According to the Canadian Magazine Publishers' Association (CMPA), a majority of the organization's members either lose money or break even. Without the subsidy, many Canadian paid-circulation magazines would not survive; those that did would see their distribution reduced. Even many of the larger publications would not be unscathed.

As for passing increased postal costs on to customers and/or advertisers, the Association has argued in the past that its room to manoeuvre is quite limited, given that its publications are extremely price-sensitive. If this is indeed the case, many publishers would have to absorb incremental costs, or somehow adjust their operations. While some publishers would cease operations, others would attempt to reduce their operating costs and in the process possibly reduce product quality.

Canadian publishers are limited in their ability to change distribution methods. Owing largely to the postal subsidy, most Canadian magazines have abandoned newsstands as a distribution vehicle, with the result that the American publications now heavily dominate this sales venue. Thus, Canadian publications are almost totally dependent on the postal service, or some private equivalent. Of course, in rural Canada sending publications through the mail is in many instances the only possible method of distribution, since rural customers do not have ready access to newstands.

While the importance of some subsidy to the publishing industry cannot be denied, it can also be argued that during the present period of financial restraint the government should be carefully re-examining such universal subsidy programs as the PDAP. Such programs lead to an absence of accountability, and also benefit large-circulation periodicals such as *Time* and *Maclean's*. Given the current size of the national debt, do these largely profitable magazines deserve to be subsidized?

The publications subsidy program was subjected to considerable scrutiny in the mid-1980s, having been reviewed by two study teams of the Nielsen Task Force on Program Review as well as by DOC itself. Of particular interest are the major findings of the latter's 1986 program evaluation study, which found the program to be "no longer an appropriate or, at $220 million a year, cost-effective way to pursue any objectives whether economic, communicative, or cultural." The study also concluded that the program represented a form of regressive income transfer since its major beneficiaries were those readers with higher incomes and greater education.

We are generally supportive of the government's move to replace this universal postal subsidy program with a more direct needs-based subsidy. Only in this way can cost savings and accountability be ensured. We are concerned, however, about the effect of this policy shift on rural weekly newspapers and small circulation consumer magazines, for which any appreciable change in postal costs could prove catastrophic. The Committee therefore recommends that:

> **The Government of Canada endeavour to provide publishers of rural community-owned newspapers and small-circulation magazines with adequate financial support.**

The CMPA has also expressed its concerns that the Canada Post cost estimates on which the subsidy is based may be overstated. In its 1987 study of the subsidy, "Severing

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.

Moreover, price increases for commercial parcels pose a serious threat to the future viability of small businesses and thus to the region's already fragile economic development environment. Under the new price structure, it will be particularly difficult for community stores which have benefited from reduced postal rates to compete with larger firms such as the Bay that have the financial resources to construct warehousing facilities for sea lift operations.

We have already registered our support for the elimination of indirect subsidy programs such as the Northern Air Stage subsidy. At the same time, however, we are concerned that no alternative transportation arrangements and/or funding programs have been announced. We are hopeful that the study of the program currently underway within the Department of Indian Affairs and Northern Development will provide alternative suggestions for accommodating the needs of northern residents.

We believe that Canadians in isolated regions of the country should not be subject to hardship arising from yet higher living costs. While certain residents of the North, such as federal and provincial public employees are somewhat protected through northern living allowances and special freight subsidies, native northerners do not enjoy such benefits. We are also interested in promoting economic development among indigenous populations; higher shipping costs will be a hindrance to this objective. The Committee therefore recommends that:

> **The Government of Canada impose a moratorium on future reductions in the Northern Air Stage postal subsidy until alternative funding and/or shipping arrangements have been finalized and that active consideration be given to the special needs of the indigenous population when formulating alternative arrangements.**

[illegible] prices increases in recent months pose a serious threat to the viability of small businesses and those in the region [illegible] fragile economic environment. Under the new postal structure, it will be more difficult [illegible] supplies [illegible] have benefited from reduced postal rates [illegible] the Bay that have the financial resources to construct warehousing facilities [illegible] operations.

We have already registered our support for the continuation of subsidy programs such as the Northern Air Stage subsidy. [illegible] concerned that no alternative transportation arrangements [illegible] have been announced. We are hopeful that the study of the program currently [illegible] the Department of Indian Affairs and Northern Development will provide [illegible] suggestions for accommodating the needs of northern residents.

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> **The Government of Canada impose a moratorium on future reductions in the Northern Air Stage postal subsidy until alternative food shipping arrangements have been finalized and that active consideration be given to the special needs of the indigenous population when formulating alternative arrangements.**

We believe [illegible] Canada [illegible] competitive advantage [illegible] delivering [illegible] and [illegible] that [illegible] important for Canada Post to continue to [illegible]

CHAPTER 3 – THE RETAIL NETWORK

In early 1987, Canada Post began to re-organize its corporate retail network in both urban and rural Canada, in the process committing a greater share of its operating and capital expenditures to mail collection, processing and distribution. The year 1996 was set as the target for the closure and/or conversion to private-sector outlets of most of the 5,221 rural post offices and the 734 offices in larger urban centres. Many of the new private outlets, known simply as retail postal outlets (RPOs), were to become franchise operations that generally would provide services similar to those of the corporate outlets they were designed to replace.

Behind this plan was the Corporation's desire to realize operational savings—some $1 billion over 10 years—as a result of cuts in wages, overheads and capital costs through the conversions of employee-staffed outlets. An equally important objective was to shift post offices to more convenient locations and increase the accessibility of Canada Post's services to the public through improved hours of operation. The conversion program has not developed as quickly as the Corporation originally hoped. It is now expected that some 300–350 conversions will be initiated in urban and rural Canada each year.

At the same time, the Corporation intends to expand its total retail network by a third over the next few years, to some 20,000 outlets. This would be accomplished through contracts entered into with private firms.

The use of the private sector in postal retailing is common practice in many urban areas of Canada, where sub-post offices already make up a significant proportion of total outlets. For rural Canadians, however, the change in direction is quite significant and the most adverse response to these proposals has come from them.

Though we sympathize with those Canadians who are reluctant to accept the changes, we believe that the Corporation's comparative advantage lies in gathering, processing and delivering mail and that it is also important for Canada Post to continue to reduce its costs. By using the private sector's proven retail experience cost-effectively, the Corporation will be able to provide customers with many more convenient retail locations. We therefore support the Corporation's current plans to improve its retail network through contractual arrangements with private retailers and recommend that :

> **Canada Post discontinue its retail postal business and devote its resources to the collection, processing and delivery of mail.**

Quality of service, however, need not be jeopardized by these changes. We concur with arguments in the recent report of the PSRC that to ensure that customers receive high-quality service at retail outlets, the Corporation should devote greater attention and resources to the training of the private-sector workers and to the security of the mail. RPO operators must also assign a high priority to the postal service. With these concerns addressed, we are confident that the benefits of the retail conversion and expansion programs will greatly outweigh the costs.

A. Rural Conversion Program

Since March 1987, Canada Post has been implementing a program to convert post offices in small rural communities into private retail postal outlets. Rather than allowing a community post office to close with no alternative service to replace it, Canada Post continues to provide mail service. Since customers no longer need to travel to neighbouring communities to pick up their mail, and retail services are also maintained in the community in almost 80% of cases, the Corporation argues, and the PSRC concurred, that the new policy provides for "equal or better service."

A review of postal service in a given community is triggered when a "natural opportunity" arises. This may be the resignation, retirement, transfer or promotion of a postmaster, the submission of a request by the community, or changes in the status of the Post Office building. The job security of existing postmasters and assistants is generally guaranteed.

Canada Post reviews each community on a case-by-case basis and makes a decision about conversion based on the following factors: size of community, business base, revenue, distance to nearest town, demographic trends and current service. Once it is decided to change the type of service, the Corporation informs the Member of Parliament and local municipal officials and a 90-day period of consultation with the community begins when a first letter is mailed to the customers affected. A contact name is provided for those with inquiries about the conversion process, and the Corporation promises to hold at least one local meeting to allow customers to present their concerns.

Criticisms have been expressed, however, that Canada Post representatives do not meet with the community leaders, but rather with individuals. We view the involvement of community leaders in this consultative process as being of paramount importance. The Committee therefore recommends that:

> **Canada Post hold at least one meeting to discuss upcoming proposed service changes with interested elected officials, prior to and apart from a general meeting with the community residents affected.**

Customers are consulted about alternative delivery options, which could include: lock boxes in an RPO, community mail boxes (supermailboxes) spread throughout the community, rural route lot-line delivery, clustered community mailboxes and kiosks*. In every case, local mail delivery is guaranteed.

Usually, the sale of postal products and services also remains in the community, although delivery and retail services are often not at the same location. In the first customer letter which the Corporation sends out, retail firms in the community are invited to apply to become an RPO. Canada Post also canvasses the community to measure the extent of business interest in providing postal products at the counter.

Sizeable program benefits have been cited by the Corporation for RPOs, apart from the continuation of a postal presence in rural communities; for example, it is claimed that accessibility is enhanced through an increase in the number of hours of service; the business base of rural communities is improved through an increase in the business opportunities for retailers; and that service to customers is made better through an upgrading or changing of delivery service — access to outdoor mailboxes is possible on a 24-hour basis.

Independent public opinion polls carried out for the Corporation in 1989 indicate an extremely high rate of satisfaction with the new retail postal services. Over 80% of the individuals interviewed were "very satisfied", especially with the increased number of hours of access to postal products and services.

The Corporation hopes to realize considerable long-term savings from its conversion program. It is, however, somewhat early to assess what these might be. As of the end of February 1990, there had been only 542 conversions, and these largely involved smaller-scale facilities and operations. While savings may not have been substantial to date, they can be expected to increase rapidly as the rationalization program advances.

Those opposed to the conversion program argue that corporate outlets should remain in place and, if anything, they should have their services expanded to include such items as the sale of hunting and fishing licenses, greeting cards, parcel wrapping, and acceptance of payment of utility bills. Post office employees could perhaps distribute information for federal government departments and act as economic development officers for rural communities. Banking services could also be provided in the over 2,000 communities where the banks do not have branches.

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* Weather-protected and heated structure providing for parcel and mail delivery, stamp vending and out-going mail.

The 1985 Report of the Review Committee on the Mandate and Productivity of Canada Post Corporation (the Marchment Report) argued that there was insufficient proof that an expansion of Canada Post's product line into non-postal areas would be profitable for the Corporation. Concern was also expressed that such expansion might lead to unfair competition with the private sector.

We too are not convinced that product line expansion of this kind is warranted. We have received no evidence of its profit potential. The unions and other interest groups assume that such expansion would be profitable but appear to have given little consideration to the investment in staff and facilities that would be necessary.

The Corporation's plan for its retail services does not include the sale of non-postal products in corporate-owned outlets or envisage competition with the private sector in this area. It is clear, however, that the franchising concept, which allows private sector operators to acquire the right to sell postal services in conjunction with other services and products, is accomplishing, indirectly and without any investment risk to the Corporation, what others would like the Corporation to do directly.

Although postal jurisdictions in other countries have long-standing traditions of offering non-postal products for sale, the Committee cannot endorse the introduction of such products and services in Canada Post's corporate outlets. As we argued earlier, the Corporation's comparative strength does not lie in the retailing end of its operations.

Fears were expressed to the Committee that the closure of a corporate Post Office will mean a loss of employment for the community affected and displace the traditional meeting place for rural Canadians. Critics of the conversion policy view the loss of a dedicated Post Office as highly symbolic and representing a degeneration of the social fabric of the community.

While we acknowledge that the local post office often is an important institution within the rural community, we recognize that the Corporation's rural network is costly. We believe that the new retail postal outlets will, over time and with proper monitoring by the Corporation, provide a more than adequate replacement service. We also question the assumption that Canada Post has an obligation to provide and maintain a community meeting place.

Critics of the new policy have also raised questions about security and confidentiality of the mail, and the training of RPO employees. The perceived lack of security of registered mail and parcels is an important issue. Opponents of franchising argue that these items should be handled only by qualified individuals. While the Corporation contends that successful applicants receive extensive, on-site training, anecdotal evidence suggests otherwise.

We believe that the success of the conversion program in both urban and rural Canada rests with the proper training of employees and a dedication to ensuring the security and confidentiality of the mail. The Committee therefore recommends that:

Canada Post provide adequate training to private-sector workers in the proper provision of postal products and information as well as in the security procedures which must be implemented.

Canada Post ensure that standardized procedures are used by franchise-holders to safeguard the security and confidentiality of the mail.

For many rural residents, it is the quality, and not quantity of service which is the prime concern. Many opponents of the franchising program do not believe that the businessperson who agrees to sign an RPO contract will give the mail the priority it deserves and are convinced that customer service will decline as a result. It is imperative that potential franchise-holders understand that the provision of good postal service is an important corporate objective. We urge Canada Post through its quarterly monitoring of RPOs to ensure that this objective is met.

B. Expansion of Retail Postal Outlets

Apart from the Rural Conversion Program, the Corporation is also undertaking a program designed to improve customer access to postal services in rural Canada and provide extended hours. RPOs provide a full range of postal products and services including the sales of stamps, money orders, postage meter settings, Special Letter Sales and Priority Courier. Rural customers will also be able to pick up their "call for" items when the retail outlets are open. Through the expansion of the retail network, Canada Post hopes to increase its sales revenue; this is crucial at a time when the Corporation faces growing competition.

Canada Post actively seeks out candidates for RPOs and subjects all applicants to a ranking test which takes into account the following criteria: hours of service, location, availability of parking, access for the disabled, ability to provide security of the mail, type and physical appearance of the business, ability to satisfy credit and security checks, and bilingual capacity, if required.

The firms selected are remunerated through discounts on the purchase of postal products such as stamps as well as by payment of a fixed fee for performing certain services such as sorting for lockboxes, cancellation, sale of money orders, and meter settings. The Corporation also leases basic equipment at a nominal charge to the RPO operator. This equipment is returned to the Corporation at the end of the contract.

Canada Post has identified four cases where retail expansion would be warranted: first, communities that are not currently receiving postal service and where there has been rapid residential growth; second, communities where a corporate office was closed prior to 1987; third, communities where the Post Office runs into operational difficulties—for example, if there are insufficient numbers of lock boxes at the corporate outlet and lack of space to introduce new capacity; fourth, rapidly-growing communities where one corporate-owned outlet already exists, but where a second postal outlet might be added.

It is this last scenario that has generated the most controversy. The new outlet would complement the existing corporate office by providing postal customers with better locations and improved access to retail services through increased hours of operation. While Canada Post argues strongly that it is not its long-term intention to divert business away from a dedicated outlet, not all are convinced. In some instances, outlets have been opened within close proximity to each other; in others, certain services such as parcel and registered mail pick-up traditionally offered by the dedicated outlet have now been transferred to the RPO. According to Rural Dignity, a prominent rural interest group, in many cases there has also been a reduction in the number of hours that the dedicated outlets are open. The fear is that the establishment of RPOs in rural communities will reduce business for corporate outlets and eventually cause their decline and closure.

We oppose any action taken by the Corporation to undermine the ability of existing corporate outlets to carry out their normal operations. Until such time as a natural opportunity presents itself, we believe that the full range of services should be provided to the community through its dedicated outlet, even if there is a private retail outlet nearby. The Committee therefore recommends that:

Canada Post refrain from contracting out to retail postal outlets the services which are normally provided by corporate outlets as long as the corporate outlets remain open.

CHAPTER 4 – DELIVERY MODES AND STANDARDS

A. Delivery Modes

Since the late 1970s, residents of most new homes and business parks in Canada have been obliged to collect their mail from green group boxes or through general delivery. While withholding door-to-door delivery was not official policy, it was the practice up to 1985. In July of that year, Canada Post formally adopted a policy not to extend letter carrier door-to-door delivery to new subdivisions and new construction within existing municipalities. By doing so, Canada joined a number of other industrialized nations such as the United States, France, Sweden, Australia and New Zealand, who have also concluded that the continuation of home delivery would impose considerable financial burdens on their postal operations. With post offices around the world placing greater emphasis on financial self-sufficiency, it was only natural that they change a method of delivery which, owing to population growth, could prove costly in the long term.

Canada Post decided to provide delivery in new-growth areas by means of community mail boxes (CMBs). These were viewed as a considerable improvement over the green group boxes, in that they were sturdier and could handle both incoming and outgoing mail as well as parcels. Public opinion polling conducted for Canada Post suggests that even though many Canadians might prefer to receive door-to-door delivery, they are generally satisfied with the new mode of delivery.

The PSRC recently noted that some 405,000 CMBs were in use as of the end of the 1988-1989 fiscal year, as opposed to approximately 5.7 million households that received home delivery. The erection of another 402,000 CMBs was planned by the Corporation for the four-year period ending in 1992-1993, by which time the PSRC estimated it would have cost Canada Post an additional $42 million each year to replace delivery through CMBs with door-to-door service. The Canadian Union of Postal Workers (CUPW) has calculated that it would cost the Corporation $34 million in extra costs each year if it were to reinstate the service now.

In its *Recommendations*, the PSRC urged the Corporation to reverse its delivery policy and restore the traditional service. The Corporation turned down the suggestion, but did promise to review inequities in its current delivery systems. We support the Corporation in its continuing efforts to reduce operating costs. For this reason, we would not be in favour of any move to reinstate door-to-door delivery to all those now receiving mail through CMBs. While the annual cost of such a move might, as CUPW suggested, be $34 million, population growth would undoubtedly raise the cost even further. Moreover, this figure does not include the one-time expenditure of $75 million which the Corporation has calculated would be required to eliminate the community mail box delivery method.

While we cannot support the termination of the CMB program, we believe it can be improved. For example, the Federation of Canadian Municipalities argued before the Committee that there is customer dissatisfaction when the mail boxes are placed adjacent to areas which receive door–to–door service. It might be wise, therefore, for the Corporation to remove such inequities.

We would also urge the Corporation to contract out all delivery in new–growth areas. At present, urban CMBs are generally served by letter carriers, whereas CMBs in suburban and rural locations are generally served by contractors. It is estimated that the annual cost of letter carrier delivery to a CMB or group mail box is $89, that of delivery by private contractor a mere $38. This suggests that considerable savings could be achieved. The Committee therefore recommends that:

Where possible, Canada Post contract out mail delivery to community mail boxes or group mail boxes in new–growth urban areas.

It has also come to the Committee's attention that more needs to be done to ensure that access to the CMBs is not hampered by poor weather. Canada Post is responsible for maintaining its boxes and keeping them free of snow and ice in the winter. The Corporation's personnel therefore must respond quickly to weather changes as well as to complaints about access to the boxes. It may also be in the best interests of the Corporation to redesign the CMB to help guard against weather–related problems. Alternatively, the Corporation could accelerate the introduction of kiosks, which provide a range of postal services in sheltered locations. If a cost–effective new–generation community mail box and/or kiosk program could be phased in, many of the concerns in this area would be eliminated. The Committee therefore recommends that:

Canada Post change the design of its community mailboxes and/or accelerate the introduction of kiosks in order to lessen the impact of adverse climatic conditions on postal users.

Finally, we wish to state our position on the configuration of rural mail delivery. In its December 1986 report on postal services, the House of Commons Standing Committee on Government Operations recommended that Canada Post not implement changes which would have caused a large number of rural Canadians to forfeit their traditional lot line delivery service. This Committee strongly supports the continuation of the current mode of delivery. We therefore recommend that:

Canada Post retain its present lot line delivery system in rural Canada.

B. Reliability Standards

An important criterion in assessing Canada's postal service is its reliability, or the consistency with which mail is moved from point of collection to point of delivery through the mail stream. Prior to 1986, the Corporation promised to deliver mail 99% of the time on the next business day when sent within the same city, in two business days when sent between major urban centres within a province, and in three business days when sent between urban centres in different provinces. In 1986, in response to a recommendation in the Marchment Report, Canada Post quietly put in place less stringent reliability standards for its speed of delivery of first class letter mail. The standards have now been pushed back one day.

The Corporation has improved reliability appreciably, if it is measured against the new standards. It recorded a 95% reliability rating in the latest independent performance survey, conducted by the chartered accounting firm Ernst and Young for the quarter ended December 1989. We applaud the Corporation's success in improving the consistency of its mail delivery, since we realize that this is crucial in ensuring continued customer satisfaction.

We share the concerns of the Consumers' Association of Canada, however, that success in this regard may result in complacency. Now that Canada Post has demonstrated its success in meeting the current on–time delivery targets over a relatively long period, we challenge it to return to the previous, tougher ones. Such a move, if it resulted in improved performance, would be of great benefit to individual Canadians as well as to the business community, which has always been critical of the relaxed standards.

We believe that such strengthened performance is within the grasp of the Corporation. Already, it has established, and is close to meeting, a three–day service commitment for mail sent between provinces in Atlantic Canada, between major urban centres in Manitoba and Saskatchewan, between Ottawa and Montreal, and between Toronto and Montreal. The Corporation's recently announced capital expansion program should also help it realize processing and delivery efficiency improvements which should translate into greater delivery speed. To ensure that the speed of delivery continues to increase, the Committee therefore recommends that:

> **Canada Post restore the standards of reliability for the delivery of properly prepared first–class letter mail which existed prior to 1986. These include: next business day delivery for local mail; delivery within two business days for mail sent from one urban centre in a province to another; and within three business days for mail sent between urban centres in different provinces.**

We are also concerned that no performance standards at present exist for the delivery of other types of mail, such as second–class mail. In addition, the Corporation has neither subjected itself to a test of its mail delivery performance in the smaller urban centres, nor has it established standards for mail delivery in the rural regions of the country. As the PSRC noted, the volume of mail subjected to the independent audit comprises less than 80% of first–class letter mail, which in turn represents only 50% of all addressed mail. In order to improve the monitoring and speed of mail delivery in the areas not covered by the quarterly survey, the Committee therefore recommends that:

> **Canada Post expand the coverage of its independent delivery performance test, to include additional classes of mail and a greater number of urban and rural locations.**

CHAPTER 5 – CANADA POST'S RELATIONSHIP WITH LARGE-VOLUME MAILERS

Canada Post relies heavily on business users for volume and for revenue. In the fiscal year 1988–1989, 80% of its total mail volume was generated by business, and more than 60% of this by large-volume mailers. An even greater proportion of first-class mail, some 90%, originated with business. Business mail also accounted for 83% of the Corporation's postal revenue.

A significant inter-dependency exists between Canada Post and the major mail users. Just as large-volume mailers are the backbone of the Corporation's business, postal services are essential to mailers' ongoing business. The importance of the relationship explains, in part, the amount of cooperation and consultation between the Corporation and the users' organization, the National Association of Major Mail Users Inc. (NAMMU). Often, NAMMU members play a role in the testing and application of postal service innovations and in the formulation and modification of postal policies and regulations.

In the past, business users have been highly critical of Canada Post's performance. The efficiency and reliability of the service were major concerns. Work stoppages created significant problems for organizations depending on the mail for the conduct of business. According to NAMMU, the quality of the service has improved dramatically and the Corporation has become more responsive to the needs of its major users.

Canada Post offers rate discounts for large-volume mailings, and for pre-processing and pre-sorting by the sender. These discounts are authorized by the *Canada Post Corporation Act*, which allows the Corporation to make regulations respecting the reduction of postage rates on mail prepared according to prescribed specifications (incentive letter rates) and to enter into rate agreements with users who mail in bulk or prepare their mail in a manner that facilitates processing.

In its presentation to the Committee, NAMMU, whose members are the principal beneficiaries of the rate discounting system, contended that a regulated rate structure was inappropriate for a "customer-driven supplier" such as Canada Post and suggested that the regulations be revoked in order to enable Canada Post to enter into comprehensive service agreements with major users. The Retail Council of Canada also called for improvements to the discount rate structure to allow smaller businesses to take advantage of reduced rates.

Recently, the federal Cabinet approved Canada Post's proposal for the deregulation of incentive letter rates. The Committee believes that this decision will give the Corporation added flexibility in serving its large-volume customers. It may even allow for an extension of the discounting system to smaller mailers.

Since the Post Office became a Crown corporation, it has devoted considerable effort to improving service to large–volume mailers by implementing policies and programs to ensure that postal services are reliable and effective. Such programs are particularly important as developments in the field of electronic communications create new and faster modes of contact between businesses and their customers.

Witnesses suggested a number of ways in which the Corporation could maintain and enhance its relationship with its business customers. NAMMU indicated that several of its members are interested in developing a mechanism for the electronic transfer of funds and suggested that Canada Post could lose significant revenue if it fails to take the opportunity to work with its business customers in developing this technology. Another witness suggested that Canada Post could place more emphasis on its electronic mail services. The linking of the postal and business databases may also provide new business opportunities for the Corporation.

The relationship between Canada Post and its business users is not unlike that between the telecommunications carriers and their customers. For both, as one witness pointed out, there is a "significant reliance on a relatively small group of business customers for a large portion of ... revenues." Since becoming a Crown corporation, Canada Post has spent much time and effort on servicing its major customers in order to ensure that its business revenue base is not eroded. Some would argue, however, that the Corporation's concentration on large–volume mailers has harmed service to small business and households.

The Committee believes that it is important for the Corporation to maintain and enhance its business customer base. We concur with the view that an erosion of this base could lead to higher postal rates for residential and small business users as well as to a decline in universal service. Ultimately, these customers, whose ability to bypass the postal system is limited, would be left to pay an increasing portion of the Post Office's fixed costs. As revenue declined, fewer resources would be available to maintain the infrastructure necessary for universal service.

In the Committee's opinion, Canada Post must continue its drive to improve service to large–volume mailers. If these customers bypass the postal system, everyone will suffer. The Corporation, however, must also be mindful of its commitment to serve residential and small business customers and develop strategies to improve service to these groups. Enhanced service to large–volume mailers does not and should not have to result in reduced service to others. The Committee therefore recommends that:

Canada Post continue to improve service to large–volume mailers and implement new programs to enhance service to residential and small business customers.

CHAPTER 6 – CANADA POST AND ITS COMPETITORS

Canada Post's business is an amalgam of monopoly and competitive services. The Corporation's monopoly allows it to carry most of the letters sent in Canada, some 4.5 billion in the 1988–1989 fiscal year; yet, a significant amount of the Corporation's business is subject to competition.

The *Canada Post Corporation Act* gives the Corporation the exclusive privilege to collect, transmit and deliver letters within Canada. This privilege, however, does not apply to parcels, books, or magazines and is subject to certain statutory exceptions, some of the more important of which are the delivery of time–sensitive mail for a fee that is at least three times the postal rate for a letter weighing 50 grams, and letters transmitted by electronic or optical means.

The Corporation's competitors are as numerous as they are diverse and include couriers, bus companies, trucking companies, airlines, advertising media and newspapers, among others. Moreover, facsimile machines and other modes of electronic transfer of information pose a growing threat to the Corporation's exclusive privilege over letter mail. In its brief to the Committee, NAMMU questioned the relevance of the Corporation's monopoly on first class mail, noting that facsimile transmission, electronic transfer of funds, data processing networks and private door–to–door delivery services are all in competition with the postal service.

The drive to achieve financial self–sufficiency, together with an increase in the number of competitive services, has resulted in the Corporation's more aggressive approach to the marketplace. In the past few years, it has been competing vigorously for a larger share of the unaddressed "admail" market (retail sales flyers, sales brochures, coupons, catalogues, leaflets), the courier market and the parcel market. Canada Post's latest *Annual Report* reveals that for the 1988–1989 fiscal year, its unaddressed admail volume increased by 13% over the previous year while its Priority Post Courier/EMS business grew by nearly 36%. Parcel volume, however, was down by 3.5%.

A. Cross–Subsidization

A number of witnesses before the Committee suggested that Canada Post would have an unfair advantage over its competitors if the revenues from its monopoly services were being used to cross–subsidize its competitive operations.

The Canadian Community Newspapers Association (CCNA), whose members compete with the Corporation for the delivery of retail sales flyers, alleged that Canada Post is subsidizing its rates for unaddressed admail from other postal revenues and is thus 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 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.

According to the CCNA, Canada Post claims that the supplement line enables postal workers to insert flyers back into newspapers from which they have become separated. But the CCNA doubted that postal employees actually take the time to reinsert flyers.

If the Corporation is to compete fairly, it must attempt to resolve the conflicts that emerge from its position as both a supplier and competitor. The Committee therefore recommends that:

> **A comprehensive review be conducted of all postal regulations, policies and guidelines that apply to customers who are also competitors of the Corporation with a view to determining whether they give the Corporation an undue competitive advantage. Those regulations (etc.) that create such an advantage should be revoked or amended.**
>
> **The requirement calling for the preprinting of the name of the newspaper on advertising supplements inserted into newspapers to be delivered by Canada Post should be abolished.**

Both UPS and the Canadian Courier Association hold the view that customs laws give Canada Post a distinct competitive advantage over private carriers in the international movement of packages and envelopes. Unlike its private sector counterparts, Canada Post does not have to provide financial security to Canada Customs for import taxes, is not subject to penalties for customs violations, and is not required to provide customs documentation for each shipment. Moreover, it does not have to provide a secure storage facility for goods pending receipt of a customs clearance.

Theoretically, this places Canada Post in a more favourable cost and delivery position. In practical terms, however, it is unclear to the Committee whether the Corporation actually derives any material advantage from these differing customs requirements. While we are not prepared to recommend changes to the customs law at this time, we believe that this matter should be reviewed if it can be shown that differing customs requirements give Canada Post a significant competitive advantage.

C. Consistency in the Application of Regulations

According to the CCNA, the Corporation is now applying to community newspaper mail rules that were seldom used in the past. In its brief, the CCNA referred to the "thumb and finger" shake test for third-class advertising mail; Canada Post uses this to determine if an advertising supplement inserted into a newspaper will become separated from it under normal postal handling. Although the CCNA decried the rigorous application of the test, its greater concern lay with the inconsistent manner in which it claims the test is applied across the country. The Canadian Magazine Publishers' Association also stressed the importance for postal rules and regulations to be applied uniformly.

While the Committee recognizes that the Corporation may need to enforce rules that were not enforced in the past, we consider it essential these be applied consistently and fairly. The Committee therefore recommends that:

Canada Post ensure that all rules and regulations applicable to postal customers are applied fairly and consistently.

CHAPTER 7 – REVIEW OF CANADA POST'S RATES AND SERVICE CHANGES BY THE POSTAL SERVICES REVIEW COMMITTEE

In June 1988, the Minister responsible for Canada Post Corporation announced the creation of the Postal Services Review Committee. The PSRC was to review Canada Post's plans for rates and services until a permanent board, to be established by legislation, was created.

Bill C–149 to establish the Postal Services Review Board was introduced in the House of Commons on August 15, 1988. Although the bill failed to pass before Parliament was dissolved later that year, it served as a guideline for the PSRC's mandate.

Among other things, the bill would have established a process for an independent review of the rates and services of Canada Post Corporation by a body with the mandate to hold public hearings and to make recommendations to the Corporation on proposed changes in postal rates, major service proposals and any other matters referred to it by the Minister.

The bill would have required that various "public interest" criteria be considered in the review of postal rates and services, including :

(a) the provision of postal services that are satisfactory to users;

(b) the operation of an efficient and competitive postal service;

(c) fair and reasonable rates;

(d) the provision and extension of postal services in a manner that encourages fair competition with other similar services;

(e) the operation of the Corporation on a financially self–sustaining basis; and

(f) the Corporation fulfilling its objectives as set out in the *Canada Post Corporation Act* .

In November 1989, the PSRC issued its *Recommendations* to Canada Post on its proposed January 1990 regulatory changes. The Corporation disputed nearly all of the PSRC recommendations that were in conflict with its own, and the final regulations that were approved by the Cabinet basically adopted that position.

In the February 1990 Budget, the Minister of Finance announced that legislation to create the Postal Services Review Board would not be re–introduced and that the PSRC would be discontinued. Despite this, the Committee feels that it is important to comment on certain aspects of the PSRC report, since, as will be discussed in the next chapter, we believe that there is a strong and pressing need for an independent review of postal rates and services. The PSRC experience, in our view, serves as a useful starting point for addressing the framework of a meaningful review process.

A. Deficiencies in the Information Provided by Canada Post

The PSRC devoted an entire chapter of its report to the Corporation's inability to provide it with the information needed to review both postal services and the requested rate and regulatory changes, though the information requirements had been set out in *Interim Rules* after consultation with Canada Post officials. These rules were designed to obtain information on the "fairness and reasonableness of rates and any possible cross–subsidization between products." The PSRC was ultimately forced to make its recommendations on the basis of what it deemed to be incomplete information, and concluded that any future submissions by the Corporation should contain the requested data.

Some of the specific information shortcomings identified by the PSRC were:

(a) incomplete volume, cost and revenue information for the Corporation's regulated products;

(b) no disaggregation of the volume, cost and revenue information provided for unregulated products, so that there could be no investigation of cross–subsidization;

(c) inadequate costing information, with deficiencies noted in the reliability of input data, timeliness of analysis, and variation from the concept of incremental cost;

(d) insufficient rationale for the rate changes and the deregulation proposals; and

(e) no economic impact studies of the proposed changes.

The PSRC went on to conclude that "deficiencies in information have limited the ability of the public to participate and the Committee to perform an effective review as intended by Bill C–149," and recommended that in future Canada Post respond explicitly to its information requirements.

In its response to this recommendation, Canada Post stressed its willingness to cooperate with the PSRC but expressed concern about the amount of information requested and the need to ensure that commercially-sensitive information be kept confidential. Canada Post also suggested that a detailed review of its unregulated and competitive products was beyond the mandate of the PSRC and that the data relating to individual competitive services are not needed to determine whether monopoly services cross-subsidize competitive services; aggregate data for each type of service should be sufficient.

The Chairman of the PSRC told the Committee that Canada Post's fear that its competitive position would be endangered by the release of certain information was overstated. While recognizing that the Corporation should be able to present some information in confidence, he felt that public disclosure of the Corporation's costs by product area would not put it at a competitive disadvantage.

The Committee believes that it is important for any body exercising regulatory scrutiny over Canada Post to have access to information on a product-by-product basis in order to determine if cross-subsidization exists. It is also essential that sufficient information be available to determine whether postal rates are fair and reasonable. We note that Bill C-149 would not have compelled Canada Post to provide any information to the review agency. Clause 21 of the bill stated that the Corporation would have to provide any documents and information requested of it, but no consequences other than possible public condemnation would have flowed from non-compliance.

The Committee also believes that it is necessary to balance the interests of the regulator and the Corporation, by supporting both the review agency's need for information and the Corporation's need for protection for commercially-sensitive data. At the same time, we are of the view that as much information as possible about postal rates and services must remain in the public domain. The Committee therefore recommends that:

> **Any body exercising review powers over Canada Post have legal authority to compel Canada Post to provide all information necessary for it to conduct an effective review in accordance with its mandate.**
>
> **While ensuring that as much information as possible remain public, provision be made, where necessary, to allow the review agency to receive information from Canada Post in confidence.**

B. Time for Responding to the Corporation's Rate and Service Change Proposals

The *Canada Post Corporation Act* provides for the publication of proposed postal regulations in the *Canada Gazette* so that interested persons will have a period of 60 days to provide their comments to the Minister. Bill C-149 would have altered the public consultation process by referring all such regulatory proposals to the Postal Services Review Board and by requiring the Board to hold public hearings regarding the changes and to report its recommendations to the Corporation within 120 days.

The first set of regulatory changes to be subject to PSRC review were published in the *Canada Gazette* on July 22, 1989 and the PSRC issued its *Recommendations* some four months later.

The Committee has some concerns that the amount of time provided to the PSRC for public consultation and reporting may not have been adequate. Those wishing to intervene would have less than 120 days in which to study the Corporation's proposals, and to prepare and present their briefs. While the Corporation would want to have its rate and service changes approved in the shortest time possible, its customers and competitors might appreciate a longer notice and comment period.

In its brief, NAMMU advised the Committee that the 60–day public consultation period under the Act made it difficult for interested parties to prepare "persuasive representations". It also indicated that large–volume mail users require a minimum of 12 months' notice before the implementation of rate increases in order to adjust their business plans and budgets.

The Committee believes that it is important for the public to have sufficient time to comment on Canada Post's proposed regulatory changes. The 60–day period set out in the *Canada Post Corporation Act* is inadequate. It is also doubtful whether the somewhat longer period of time provided for in Bill C–149 would have been a material improvement. Although the Committee would not support a lengthy period of time for the implementation of a rate increase after it has been approved, we would like a longer period for public consultation after rate and service changes are proposed. The Committee therefore recommends that:

The period for public comment and consultation in respect of future changes to Canada Post's regulated rates and services be at least six months from the date that notice of such changes are published in the *Canada Gazette*.

C. Postal Service Customer Councils

Bill C–149 would have established regional customer councils to consider postal service needs and to receive and investigate complaints. Among other things, the Corporation would have been required to respond to council reports, and to indicate whether or not it intended to comply with a council's recommendations. Nine customer councils, one for each major postal division, were appointed.

In testimony before the Committee, the Chairman of the PSRC noted that as of January 31, 1990, 881 issues had been brought before the customer councils. Of these, 337 became formal complaints, of which 155 had been resolved. He also noted that interventions by the customer councils in some cases had resulted in an overall improvement in service to a number of postal customers.

The Committee believes that the customer councils are an important vehicle for considering local and regional needs and for fielding and resolving complaints. We feel that they should continue even though the PSRC is to be disbanded and Bill C–149 will not be re–introduced. The Committee therefore recommends that:

> **Legislation be passed to allow for the creation of postal service customer councils.**
>
> **Until such time as legislation to establish the postal service customer councils becomes law, existing councils should continue to operate under the mandate that would have been established by Bill C–149, the *Postal Services Review Act*.**

The Federation of Canadian Municipalities (FCM), while supportive of the customer councils, felt that the current network was inadequate as a "local forum" because the large geographical area covered by each council inhibited local participation. It suggested that the number of councils be increased to 12, one for each province and territory.

We agree with the FCM that the vast geographical areas for which each council is now responsible may hamper their effectiveness. But, in our opinion, it is too early to determine whether this is in fact the case. A review of the activities of the councils after each has had a reasonable opportunity to operate would appear to be appropriate. The Committee therefore recommends that:

> **A review of the operations of the postal service customer councils be conducted at the end of two years for the purpose of determining whether they are fulfilling their duty to represent the local interests of postal customers.**

In testimony before the Committee, the Chairman of the PSRC noted that as of January 25, 1990, 881 issues had been brought before the customer councils. Of these, 337 became formal complaints, of which 155 had been resolved. He also noted that interventions by the customer councils in some cases had resulted in an overall improvement in service to a number of postal customers.

The Committee believes that the customer councils are an important vehicle for considering local and regional needs and for fielding and resolving complaints. We feel that they should continue even though the PSRC is to be disbanded and Bill C-175 will not be re-introduced. The Committee, therefore, recommends that:

> **Legislation be passed to allow for the creation of postal service customer councils.**

> **Until such time as legislation to establish the postal service customer councils becomes law, existing councils should continue to operate under the mandate that they would have been given in Bill C-175, the *Postal Services Review Act*.**

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> **A review of the operations of the postal service customer councils be conducted at the end of two years for the purpose of determining whether they are fulfilling their mandate to represent the local interests of postal customers.**

CHAPTER 8 – TOWARDS EFFECTIVE REGULATION OF CANADA POST

Section 14(1) of the *Canada Post Corporation Act* grants the Corporation an exclusive privilege over collecting, transmitting and delivering letters within Canada. This monopoly insulates the Corporation from direct competition in the delivery of most letter mail.

Businesses having a monopoly are often subject to some form of independent external regulation in order to ensure that rate and service changes are fair. Such regulation is intended to counterbalance the power of the monopolist in the absence of competitive forces. For enterprises with both monopoly and competitive services, it is also important to ensure that the monopoly is not used to subsidize unfairly those services that are subject to competition in the open market.

At present, there are a number of controls on Canada Post. These include parliamentary scrutiny through the submission of annual reports and summaries of Canada Post's approved corporate plans to Parliament; oversight by a parliamentary committee; the requirements for budgets, financial controls and corporate plans imposed under the *Financial Administration Act*; and the obligation to publish regulatory changes in the *Canada Gazette* before the Governor in Council (the Cabinet) approves or rejects them.

Some who have studied the operations of Canada Post, however, suggest that other forms of regulatory control of the Corporation's activities are needed. In 1985, the Marchment Report recommended that Canada Post's rate increases be regulated by a neutral third–party regulatory agency whose decisions could not be appealed to Cabinet and whose mandate would be limited to ensuring that the Corporation complied with its mandate for self–sufficiency. According to that report, independent, external regulation of postal rates would insulate Canada Post from political intervention, give it greater flexibility in designing a rate structure appropriate to its revenue requirements and afford its customers sufficient prior notice of rate changes.

Also in 1985, the Task Force on Program Review stated that "(Canada Post's) monopoly should be regulated in the same manner a telephone or telegraph carrier is regulated by the CRTC. Any change in service or rates should be authorized only after public hearings, full financial disclosure and accountability." In addition, the Task Force suggested that "the methods used by Canada Post to generate more revenue should be closely watched to ensure that federal subsidization does not permit unfair competition in new activities."

In March 1988, the Department of Consumer and Corporate Affairs published the discussion paper, *Third Party Review of Canada Post Corporation's Rates and Services*, which set out various options for a third-party review process for the Corporation's rates and services. Two approaches to regulation were presented in the paper: an advisory board and a regulatory agency.

The first, the advisory board, as its name implies, would have powers to make recommendations rather than decisions. It would conduct public hearings, perform research, examine complaints by customers and competitors and issue reports with conclusions and recommendations. Ultimately, the power of such a board would rest on its ability to direct public attention to its work. The regulatory agency, on the other hand, would have decision-making powers and formal procedures and employ a considerable number of professional staff. The discussion paper also went on to examine the possible mandate of such an advisory board or regulatory agency. The scrutiny of rates, services or some combination of both was considered.

There has been little debate over whether Canada Post should be regulated. The real question relates to the scope of the authority of the regulating body—should it make non-binding recommendations on the Corporation's rate and service proposals or should it have authority to make decisions?

Canada Post is an important part of the communications network that links Canadians. Founded upon the principle of universal access, the post office has built up an extensive retail, transmission and distribution network intended to serve all Canadians.

Over the years, the role of the Post Office has changed. Although it continues to have a statutory monopoly on the delivery of letters, many of its services are highly competitive. In addition, its transformation to a Crown corporation in 1981 requires it to operate on a more business-like basis and to achieve financial self-sufficiency.

For some, burgeoning competition is evidence of a diminution of the Post Office's role as a vital link in the communications field while the requirement for financial self-sufficiency justifies a reduction of state control over postal services. Others, however, regard a state-controlled communications system as essential, regardless of the extent of competition and the financial goals of the enterprise.

The Committee supports the thesis that there must be some form of state control over a field as vital as communications, particularly where certain aspects of this are under monopoly control. But, in our view, state control does not necessarily mean state ownership. The latter is not essential for ensuring that a national communications system meets government objectives. These objectives can be achieved through the independent regulation of private enterprise, as is evidenced by the regulation of telecommunications and broadcasting companies by the Canadian Radio-television and Telecommunications Commission (CRTC).

In the case of Canada Post, exercising control over the Corporation's monopoly services is more important than ownership of the Corporation. Whether it is a public or private monopoly, there must be constraints on the exercise of monopoly power. This becomes even more critical when the enterprise in question offers both monopoly and competitive services.

Regulatory regimes for postal services vary throughout the world. In Australia, certain rate increases proposed by Australia Post are reviewed by an independent body with limited authority and no power to refuse an increase. In the United Kingdom, the British Post Office is required to consult with the Post Office Users' National Council (POUNC), an independent body, on rate and services changes for letter mail and certain other services. In the United States, the Postal Rate Commission (PRC) reviews both rates and major service change proposals. Its recommendations on rate increases can be overturned only by a unanimous vote of the Board of Governors of the United States Postal Service. With regard to service matters, the PRC acts in an advisory capacity. In yet other countries, postal rates and services are not independently scrutinized.

With the creation of the Postal Services Review Committee, and the introduction of legislation in 1988 to create the Postal Services Review Board, the Canadian government chose a more benign regulatory approach. The PSRC has made recommendations to Canada Post while ultimate decision-making authority regarding rate increases and major service proposals has rested with the Cabinet. In the Committee's view, this softer approach, while possessing certain advantages in terms of speed, flexibility and cost, would be inadequate for a privatized post office and, in light of the recent PSRC experience, deficient for any enterprise, whether publicly or privately owned, that offers both monopoly and competitive services. Indeed, the Chairman of the PSRC confirmed to the Committee that its review process had been disappointing and recommended that the government consider changing the status of the proposed Postal Services Review Board into that of a full-fledged regulatory agency.

A number of witnesses told the Committee that it becomes more desirable to increase the powers of a regulatory agency for postal services as more and more services are offered outside postal regulations. This is particularly true if unregulated products are offered under the Corporation's exclusive privilege, and in the absence of effective competition. Deregulation may also increase the opportunity for the exploitation of monopoly power and the elimination of private-sector competition by pricing below cost.

The Consumers' Association of Canada is of the view that Canada Post must be required to disclose and justify its rate and service proposals in a public forum; it called for a regulatory board with statutory decision-making power to oversee the Corporation. Other witnesses also called for a credible and effective regulatory agency to ensure that postal rates are fair and reasonable and that postal services are provided in a manner that encourages fair competition.

The Committee endorses these views and believes that Canada Post's rates and services should be independently regulated by a body with more than mere advisory powers. Such a body would, among other things, remove decisions concerning postal rates and services from the political domain while ensuring that rates were fair and reasonable and that major service changes met the needs of postal users. As part of its mandate, the agency would have specific authority to review Canada Post's revenue and cost estimates on a product–by–product basis to determine whether there was cross–subsidization between the regulated and unregulated products. In advocating regulation, however, we do not wish to stifle Canada Post's competitive ability. We believe that it is essential that regulation be sufficiently flexible to allow the Corporation to compete effectively and to pursue competitive initiatives. The Committee therefore recommends that:

> **Canada Post's proposals for changes to postal rates and major changes to postal services be regulated by an independent, third–party regulatory agency with decision–making power.**

The PSRC believes that as postal services become more competitive, the need for regulation decreases and the kind of oversight required of a regulatory agency changes. If strong, effective competition was present to prevent Canada Post from charging excessive or exploitative rates, then government regulation would be unnecessary and oversight could be limited to ensuring that there is no pricing below cost and that the Corporation was not using its monopoly revenues to subsidize unregulated products. Where service performance was not constrained by competition, however, the regulator would have to intervene to ensure that the Corporation is not abusing its monopoly power. Matching the degree of regulation to the competitive status of the Corporation's products and services in order to give it the necessary flexibility to respond to market changes will pose a significant challenge for a regulator.

CHAPTER 9 – LABOUR RELATIONS

Canada Post's business is highly labour intensive. Its workforce at present consists of some 61,000 full and part-time and 6,000 casual employees. Salaries and benefits account for approximately 70% of operating costs.

Postal employees are represented by five unions. The largest, the Canadian Union of Postal Workers (CUPW), has some 46,000 members and represents postal clerks, letter carriers, mail service couriers, maintenance personnel, mail handlers, electronic technicians and general service workers. The other unions are: the Canadian Postmasters and Assistants Association (CPAA), representing rural postmasters and postmistresses; the Public Service Alliance of Canada (PSAC), representing clerical, administrative and general trades workers; the Association of Postal Officials of Canada (APOC), representing postal supervisors; and the Professional Institute of the Public Service of Canada (PIPS), representing workers involved in computer systems, nursing and engineering.

A. The Grievance Process

In its 1985 report, the Review Committee on the Mandate and Productivity of Canada Post Corporation commented on the acrimonious state of labour relations between management and the postal unions, describing them as "poisonous to the point of potential destruction of the enterprise". It is the Committee's observation that this situation has changed very little.

The unions and management continue to be at odds over a number of issues, such as technological change, the use of casual labour, occupational health and safety, overtime, the discipline, suspension and discharge of employees, and employee absenteeism, to name a few. Some 80,000 grievances are currently outstanding, an extraordinarily high number by any standard. According to CUPW, approximately half of these relate to disciplinary matters and the use of casual employees.

CUPW attributes the inordinate number of grievances to what it describes as Canada Post's "cheap labour strategy". According to the Union, the use of casual labour has increased dramatically. CUPW's collective agreement allows for the hiring of casual employees under certain conditions, but the Union contends that they are regularly engaged in violation of the agreement. CUPW also noted that the number of employees dismissed by the Corporation has increased seven-fold in the last eight years. It now dismisses an average of 35 employees per month as compared to an average of five per month in 1981. The Corporation, on the other hand, maintains that the Union has made excessive use of the grievance process and displays an inflexible approach to the Corporation's operational requirements.

The grievance procedure is costly and time consuming for all parties and is marred by procedural wrangling. Representatives of CUPW told the Committee that the Union spent $4 million on the grievance process in 1988. Some estimate that it would cost Canada Post $50 million to settle unresolved grievances, a number of which have been outstanding for as long as four years. CUPW advised the Committee that in Ontario it can take at least 16 months before a grievance relating to the dismissal of an employee is heard by an arbitrator.

The Committee believes that the grievance backlog must be reduced to a manageable level. In fact, the goal should be to eliminate this backlog completely. The costs of its continuation for all parties--the Corporation, the unions and the employees--are too great. Moreover, it can only exacerbate an already bitter relationship between the Corporation and its employees. We are encouraged by recent developments that call for a new system of union-management committees to settle many of the outstanding grievances. This should go some way toward removing a long-standing irritant in the relationship between the Corporation's unions and management.

We suggest, however, that the unions and management look for avenues other than the traditional grievance process to settle significant questions. The Committee therefore recommends that:

Canada Post and its unions develop new consultative mechanisms in an effort to reduce the number of future grievances.

B. Absenteeism

Employee absenteeism is a major concern for the Corporation. In 1983-1984, employees were absent an average of 19 days, a figure considerably higher than that of other industrial sectors. As of September 1989, the absentee rate had been reduced to approximately 12 days; two days above that of the manufacturing sector; four days above the national average. The Corporation is aiming for a nine-day rate by 1992.

In 1983-1984, employee absenteeism resulted in a direct cost of $139 million and a total cost of $209 million to the Corporation. For the 1988-1989 fiscal year, the comparable figures were $96 million and $144 million.

Canada Post's rigorous program to reduce absenteeism to accepted industrial standards has been attacked by the unions. They describe as persecution and harassment such practices as supervisory interviews of employees for unscheduled absences and refusals, in certain circumstances, to accept sick leave credits, certified or otherwise. Moreover, the unions claim that supervisors have no discretion in administering the program and are often forced to discipline employees in situations where discipline is unwarranted. The Corporation, however, considers the program essential to improving efficiency and productivity and to reducing operating costs, a significant portion of which are associated with labour.

The Committee believes that reducing the levels of employee absenteeism is important to both the efficient operation and financial self–sufficiency of Canada Post. We therefore support the Corporation's goal of reducing absenteeism to comparable industrial levels. However, we have some concerns about the administration of the Corporation's attendance management scheme. Stories of employee harassment appear to be too numerous to be without foundation. In the Committee's view, this can only heighten union animosity toward management and demoralize employees. The Corporation must strive to achieve its absenteeism targets in a manner that does not promote or increase friction with the employees, its most valuable asset. The Committee therefore recommends that:

While pursuing its efforts to reduce the level of absenteeism to comparable industrial levels, Canada Post undertake a review of its attendance management program with a view to ensuring that it is administered and applied in a reasonable, fair and consistent manner and with respect for the human dignity of its employees.

C. Occupational Health and Safety

The unions also complain that the Corporation has done little to improve occupational health and safety and that the result is an inordinate number of workplace injuries (some 10,000 annually) and significant amounts of lost work time. They claim that workers are inadequately trained, equipment is damaged and the investigation and reporting of injuries is ineffective. It appears to the Committee, however, that the Corporation is attempting to deal with this issue. The most recent *Annual Report* refers to efforts to institute occupational health and safety programs for employees and to prevent hazardous work conditions and practices. The Committee notes that Canada Post's Corporate Plan also refers to strengthening these programs.

The Committee recognizes that a reduction in the number of workplace injuries would benefit both the Corporation and the employees by reducing the amount of worktime lost to injury and by improving working conditions. We believe that it is incumbent upon the prime beneficiaries of these programs to cooperate to further improve occupational health and safety. The Committee therefore recommends that:

Canada Post and its major unions work together to develop programs to improve occupational health and safety.

D. Technological Change

The issue of technological change has been a long–standing point of contention between Canada Post and its unions. Among other things, the latter argue that new equipment has been introduced without regard for the quality and security of employment and without proper consultation with employees or sufficient regard for employee safety. The Corporation, on the other hand, contends that new technology is necessary to improve the efficiency and reliability of postal services.

We strongly believe that labour and management at Canada Post must develop new methods of cooperation and consultation in relation to the introduction of new technology. Management and labour must both support initiatives to increase efficiency and improve service but, at the same time, be mindful of the implications of these changes for the nature and quality of employment. In its brief to the Committee, CUPW referred to the union–management consultative process that preceded the introduction of new machinery by Australia Post. A similar process would, in our view, be of value in the Canadian context. The Committee therefore recommends that:

Canada Post and its unions engage in meaningful consultation with regard to the introduction and impact of new technology into the workplace. To that end, Canada Post should, in consultation with its unions, ensure that studies are conducted on the impact of new technology on employee health and safety and that appropriate levels of training are provided.

E. Recognition of Employees

Thus far, in our commentary and recommendations on labour relations we have tried to emphasize the importance of consultation between management and employees. We also believe that Canada Post must ensure that employees are fully aware of ongoing developments in the Corporation and of the competitive challenges to postal services.

We note that the Corporation is using print and audio–visual media to inform employees of its performance. We are also aware of programs that encourage employees to suggest improvements and recognize workers with long service records. With programs such as these, it would appear that Canada Post is beginning to acknowledge the value of maintaining an informed workforce, of encouraging employee participation in improving service and of recognizing the commitment and dedication of its workforce.

The Committee believes that it is essential for the Corporation to continue its efforts in this area and, where feasible, to encourage employee participation in other aspects of its operations. In our view, this could promote greater harmony in labour-management relations and create an environment within the Corporation that is conducive to further improving postal service for all Canadians.

F. Postal Service Disruptions

For many Canadians, the postal service is an essential service. Numerous service disruptions, however, have plagued the Post Office since the right to strike was introduced in the mid-1960s. These disruptions have adversely affected those such as the elderly, the handicapped and the poor, who are dependent on the mail for government transfer payments. The 1985 Marchment Report noted that these groups are particularly susceptible to financial hardship when postal service interruptions occur.

Such interruptions can also have a devastating effect on the business community. NAMMU suggested that in some cases irreparable harm to postal users may result and called for a means of resolving labour-management disputes without service interruptions.

Damage to the Corporation is an inevitable consequence of service interruptions. The Corporation has staked its reputation on providing fast, reliable and continuous service to its business customers. If this cannot be guaranteed, these customers will turn to other means of communications, perhaps permanently.

The fact that Canada Post has a statutory monopoly on the delivery of first class mail limits delivery options for many customers during postal service disruptions. Courier services can help fill the void for those who can afford to pay their rates and for those whose mailing requirements are confined to the more densely populated urban areas of the country. For others, however, mail may come to a standstill.

The Committee recognizes that every effort must be made to ensure that postal services continue in the event of work disruptions. While abolishing the right to strike would not be appropriate, measures to ease the movement of the mail at these times must, in our view, be implemented. We concur with the recommendation found in the Third Report of the Standing Committee on Government Operations (June 23, 1987) that during postal disruptions Canada Post continue to do its utmost to ensure continued delivery of the mail. But to provide further assurances for the continuous delivery of the mail, the Committee recommends that:

In the event of a disruption in postal services, Canada Post's exclusive privilege to deliver letters should be suspended for the period of the disruption.

operations, to put in place mechanisms to ensure greater harmony in labour-management relations and create an environment within the Corporation that is conducive to further improving postal service for all Canadians.

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When disruptions occur, they can have a devastating effect on the business community. Nor is it suggested that in some cases irreparable harm to the postal system may result and cause for concern of resolving labour-management disputes without recourse to stoppages.

Damage to the Corporation is an inevitable consequence of service interruptions. The Corporation has staked its reputation on providing fast, reliable and continuous service to its business customers. If this cannot be guaranteed, these customers will turn to other means of communications or to private competitors.

The fact that Canada Post has a statutory monopoly on the delivery of first-class mail limits delivery options for many Canadians during postal service disruptions. Courier services can help fill the void for those who can afford to pay their rates and for those whose mailing requirements are confined to the more densely populated urban areas of the country. For others, however, mail may come to a standstill.

The Committee recognizes that every effort must be made to ensure that postal services continue in the event of work disruptions. While abolishing the right to strike would not be appropriate, measures to ease the movement of the mail at these times must be considered. The Committee concurs with the recommendation contained in the third Report of the Standing Committee on Government Operations that during postal disruptions Canada Post should ... the delivery of ... mail. In ... to individuals ... and ... of the mails, the Corporation ... .

In the event of a disruption in postal services, Canada Post's exclusive privilege ... letters should be suspended for the period of the disruption.

CHAPTER 10 – TECHNOLOGICAL ADVANCES AND POSTAL SERVICES

Canada Post operates in a dynamic communications environment characterized by rapid technological change. Over the years, the postal system has experienced numerous advances in communications technology, many of which have improved and complemented postal services. New workplace technology has contributed to increased productivity and efforts by the Corporation to make postal services more customer-responsive. Technological advances, however, particularly in the areas of facsimile machines, computer communications, electronic mail and electronic funds transfer have put pressure on the Corporation to look for new ways to remain competitive and to ensure that mail volumes increase.

When the President of Canada Post appeared before the Committee, he referred to a number of improvements in technology that have been, or are in the process of being adopted at the Corporation. These include: modernizing mail processing equipment, new concepts for mail processing plants, the latest optical character readers and sorting equipment, replacements for traditional mailbags and new methods for redirecting mail. The Corporation is also exploring other technological innovations to postal operations.

Keeping pace with changes in technology and integrating them into postal operations is crucial for the survival of Canada Post. In 1985, the Marchment Report mentioned that technological developments in electronic invoicing and electronic funds transfer, which would allow businesses to bypass the Post Office, might have "serious implications for the postal service". In addition, it noted that greater access to forms of electronic communication would also allow consumers to avoid using the Post Office.

Mr. Gerard Harvey, Chairman of the Management Board of International Post Corporation, told the Committee that advances in electronic communications pose a great threat to postal services, one that is being gravely underestimated by many postal administrations. He felt that it was incumbent on postal managers and employees to understand the implications for the future of postal services and levels of employment.

In many cases there are few or no acceptable substitutes for the Post Office's transportation and delivery of hard copy material. For example, distribution of magazines, newspapers and books by any other means would appear to be impractical and costly. In testimony before the Committee, the President of Maclean Hunter Canadian Publishing noted that a test conducted by his company for private delivery of magazines in an urban area produced very disappointing results, having achieved a customer penetration of only 72%, as compared to 100% by Canada Post.

Other facets of the Corporation's business, however, are not likely to be immune from technological advances and lower rates in competing forms of communications technology.

As one witness pointed out, the present cost of a five-minute telephone call between Toronto and Montreal during business hours is 39 cents per minute—the cost of a stamp. And long distance telephone rates will be lower in the future if competitors are permitted to enter the market and a rebalancing of long distance and local rates takes place.

The widespread availability of facsimile machines leaves Canada Post's basic letter service vulnerable. This is recognized by the President of Canada Post, who indicated that facsimile machines could have a major impact on its business. We note that the Corporation is moving to place facsimile machines in postal franchises. Witnesses suggested that corporate-run post offices should also have them. The Committee strongly supports this suggestion and therefore recommends that:

Where feasible, Canada Post should place facsimile machines in corporate-run and other postal outlets.

One witness described the future of Canada Post as lying in "the marriage of physical delivery and electronic communications." He felt that the Corporation would achieve two major benefits from advances in electronic communications—a reduction in its costs and developments in postal services.

The same witness was of the opinion that if Canada Post does not merge its delivery business with electronic communications, it will have difficulty retaining its large-volume mailers. The comments of the National Association of Major Mail Users Inc. give credence to this view. NAMMU suggested that it would be in the best interests of Canada Post to work with its members on the development of electronic funds transfer technology since the Corporation would likely lose substantial revenue if other enterprises succeeded in developing this technology first.

The Committee has been presented with considerable evidence of the threat to the postal system from developments in electronic communications. But, in our view, by integrating appropriate technological developments into the postal system, this threat can be turned into an opportunity to modernize postal services and to offer a full range of integrated services to meet differing business and personal communications needs. The Committee therefore recommends that:

Canada Post integrate appropriate developments in the field of electronic communications into the postal system.

It is worthwhile noting that Canada Post currently operates electronic mail services. One such service, Volume Electronic Mail, allows businesses to send their messages and mailing lists electronically to the Corporation, which, in turn, produces individual letters and delivers them to the appropriate address. Recently, three of the Corporation's electronic mail products, Intelpost, Envoypost, and Telepost were approved for deregulation by the PSRC and the Cabinet. Deregulation of these services should give the Corporation additional flexibility in meeting the challenges of the competitive environment in which they are offered.

Much of this discussion on technological change has focused on the integration of electronic communications technology with postal services. But it is clear to the Committee that Canada Post will have to integrate advances in technology into all areas of its operations if it is to improve service and maintain its customer base. In our view, Canada Post's future investment plans and research and development efforts must also be directed toward improving the efficiency and reliability of the mail handling and distribution system. Improvements in these areas will have a positive impact on customer service.

CHAPTER 11 – CANADA POST'S LINK WITH GOVERNMENT

A. Privatization

Now that Canada Post has recorded a profit and has been instructed to operate within a commercial mandate, it may be worthwhile to evaluate the relative merits of divestiture. This in no way suggests that the Corporation is currently an attractive proposition for investors. With its continued industrial relations difficulties and its financial shortcomings, Canada Post is still viewed as a risky business venture. Labour costs need to be reduced; this can best be achieved through improved internal technological advances designed ultimately to reduce labour intensiveness.

In addition, the Corporation would need a consistent record of profitability before the private sector, employees and individual Canadian investors might be interested in acquiring ownership. A return on equity of more than 6% would be required for a potential sale of shares. The Corporation expects that it will only reach an acceptable level of private-sector performance by 1993–1994.

It should be mentioned that others, such as the President of United Parcel Service Canada (UPS) Ltd., Glenn Smith, have questioned Canada Post's profitability. UPS has estimated that if the Corporation had competed as a private sector firm and had not enjoyed any of its many advantages as a Crown corporation, it would have actually recorded a loss of $300–$600 million in the fiscal year 1988–1989. Regardless of the exact nature of the Corporation's current profitability, it is clear that a number of years will be required (five, according to Alan Marchment) before the prospect of full divestiture can be realized.

Most empirical studies conducted in recent years have concluded that public enterprises are less efficient than their private-sector counterparts. State-owned firms often pursue multiple objectives, do not possess clearly enunciated targets, and rarely provide their managers with sufficient economic incentives. Privatization encourages greater efficiency in the allocation of resources, thereby increasing economic wealth. Entrepreneurship is encouraged by the removal of political and bureaucratic constraints; managers are more able to compete aggressively in existing and new markets, and financial markets are often easier to access. There is more autonomous decision-making when the number of levels of decision-making declines.

Yet it is often the absence of effective competition that is the major reason for the poor efficiency of the enterprise. As some observers have pointed out, the intensity and form of competition would appear, in many instances, to be a stronger factor in determining efficiency than the form of ownership. In the case of Canada Post, competition comes in the form of alternative transmission technologies, such as the facsimile machine, and the existence of efficient courier companies. While the monopoly on first-class mail provides the Corporation with some protection, the threat of competition from outside the market nevertheless does exist.

Canada Post needs to deal with the challenges posed by new technologies. To respond effectively to competitive pressures, it requires the managerial flexibility to introduce new products and services. Privatization guarantees the freedom to compete in both traditional hard-copy mail and new forms of electronically-transmitted mail.

The divestiture of the Corporation would remove the threat of political interference, which at present inevitably limits its efficiency. This we view as a potential benefit for the government as well, given that it is best for the government to concentrate on a more limited set of responsibilities, such as national defence, which are beyond the capacity of the private sector.

Yet another motivation for privatization arises from the need of the government, and ultimately the Canadian taxpayer, to ensure that the Corporation will not be a drain on the public purse. For, while Canada Post has recently registered an operating profit, a serious setback in the form of a long and costly labour dispute could jeopardize this financial state and place renewed demands on the treasury. Privatization would also provide the Corporation's management with greater financial ability to accommodate its capital expansion needs. In both of the above cases, the financial burden would be shifted to the private sector.

Closely tied to this is the potential for the government to realize net monetary gains from the sale of the Corporation. Should the proceeds exceed the book value of the Corporation, which stood at $1.64 billion as of March 31, 1989, the government would be able to use the surplus to reduce the deficit or to finance required spending programs. Privatization would also provide the government with additional revenues to add to the corporate tax base.

Finally, employee share ownership should, as the Retail Council of Canada has suggested, have a positive effect on labour-management relations at Canada Post. Council members who have established employee stock purchase plans and/or profit-sharing schemes have reported improved employee-management relations as a result. According to the Council, share ownership provides a direct financial incentive for employees to perform well. Communication is also improved since performance can be linked to profit. The Council is generally of the view that privatization is a worthwhile goal.

Improvements in labour-management relations are an important objective for Canada Post, and privatization is one way to ensure that gains will be made. Employee share ownership plans have permitted employees of privatized firms to participate directly in the success of their companies. When Teleglobe Canada was sold, 56% of its employees participated in the employee share ownership plan. When Air Canada was privatized, over 80% of active employees bought shares through the company's Employee Purchase Plan even though three of the four unions involved were opposed to the idea. In the United States, United Parcel Service is often cited as an example of a firm where employee share ownership has worked well. Allowing investment by employees, as well as the population at large, has resulted in greater responsiveness to the bottom line and has increased productivity and efficiency. As the Sub-Committee to Promote Profit-sharing by Employees in Business of the House of Commons Standing Committee on Finance, Trade and Commerce noted in its June 1982 report on employee participation, "the potential for productivity improvement is further stimulated by providing employees with an incentive, by way of a share in profits and/or ownership in the company, to work more diligently, improve work attendance and product quality."

Despite the above benefits, the Committee heard strong views against any privatization initiative from a range of witnesses. Not surprisingly, the Canadian Labour Congress, the Canadian Union of Postal Workers, and the Public Service Alliance of Canada were strongly opposed to privatization, both in whole or in part. The Congress claimed that Canada Post's services must remain public, universal and equitable. CUPW argued that privatization would result in higher costs and less service for all Canadians, but that the situation would be particularly acute in rural regions. For their part, the Federation of Canadian Municipalities and Rural Dignity argued that wholesale divestiture could prove to be very harmful for many municipalities, especially those outside the mainstream.

Other critics of divestiture question the value of selling off the Corporation when it is finally earning a return to the shareholder in the form of a dividend. While this appears on the surface to be a valid argument, the future of Canada Post as a financially profitable firm is not guaranteed. It seems better to remove the risk of future deficits by transferring the financial risk to the private sector.

Several roadblocks to a successful transfer to the private sector need to be resolved. Of primary importance is the need for a regulatory framework to ensure that postal services would be provided at a fair price and that standards would be maintained in the absence of competition. Essentially, there must be effective regulation to monitor the activities and pricing policies of private monopolies. A regulatory body with increased supervisory powers would need to examine such features of postal operations as the treatment of rural Canada, quality of service, the existence of fair and reasonable rates charged in a universal fashion (i.e. constant pricing), cross-subsidization between rate classes, rate increases, and mechanisms to protect public interests. The issue is particularly serious for rural Canada, since individuals there must not be cut off from postal service.

Regrettably, the costs of regulation often represent a sizeable expense to the taxpayer, since ensuring that all objectives are met is a complex undertaking. Moreover, watchdog agencies are generally recognized to be poor substitutes for competition. Yet regulation is required to ensure that Canada Post does not abuse its monopoly privileges by subsidizing any services that are supposed to be competing fairly.

A second issue to be resolved is the future of the monopoly. Private investors or employees are much more likely to purchase shares if the monopoly is intact than if it were forced to compete. If the government were to recommend that Canada Post be privatized, what assurances would potential investors have that the monopoly on first-class mail would not be immediately abolished? As is noted in the following section, it is our view that the Corporation's exclusive privilege should be maintained.

We are of the opinion that important benefits would accrue from an eventual privatization of the Corporation. Obviously, Canada Post's labour and financial situations need to be improved before investor interest would materialize. We strongly urge the Corporation to continue to make progress in both of these areas. We would also recommend that when the point of financial self-sufficiency is reached, and the industrial relations climate has improved, the federal government provide an opportunity for employees and the general public to purchase equity in the Corporation. The Committee therefore recommends that:

> **The Government of Canada privatize Canada Post once adequate financial performance, comparable to private-sector levels, has been attained and once the industrial relations climate has improved.**
>
> **The privatization plan be carried out by means of a public share issue and should incorporate an employee share ownership plan.**

It is generally accepted that privatization increases the need for an effective regulatory agency to counterbalance potential abuse of monopoly power. The Committee therefore recommends that:

> **Canada Post, if privatized, continue to be regulated by an independent, third-party regulatory agency with decision-making power.**

B. Removal of Exclusive Privilege

The tradition of a Post Office monopoly on the delivery of letter mail dates back 122 years. Over this period, legislation has provided the Post Office with the exclusive right to deliver first-class letters and some third-class mail. All told, monopoly services accounted for a full 61% of the Corporation's revenues in the fiscal year 1988-89, with competitive services such as unaddressed admail, parcels and time-sensitive delivery making up an additional 25%.

Three sections of the 1981 *Canada Post Corporation Act* set out the current monopoly. Section 14 grants Canada Post the exclusive privilege of collecting, transmitting and delivering letters within Canada. Section 15 sets out a number of exceptions to this monopoly, which include electronic and facsimile transmission and "letters of an urgent nature," for which a charge of at least three times the rate of postage on a fifty-gram letter must be imposed. Section 50 establishes the legal penalties for violation of the exclusive privilege.

While the Corporation is provided with a measure of protection in law for its first-class mail, it is generally acknowledged that the term "exclusive privilege" is not entirely accurate, in that alternatives exist to the delivery of letter mail in the form of time-sensitive delivery services and modern transmission technologies. The Warburg/DS study likens the Corporation's monopoly services to "services provided by telephone and electric utilities which are granted monopolies in their service areas but face competition from alternate forms of communication and energy sources, respectively". The study notes a high degree of demand elasticity in the Corporation's monopoly services, especially among the major mail users.

Apart from growth in the number and diversity of efficient courier companies, Canada Post also faces increased competitive pressure to its primary source of revenue from a rising use of facsimile machines and other advances in telecommunications. This has led some observers to question the need for a Post Office in the long term, and to dispute the importance of the first-class letter monopoly.

The traditional argument against the removal of the exclusive privilege is that competitors would avoid servicing higher-cost rural areas, and concentrate on high-volume, low-unit-cost routes within large urban centres. As a result of this "cream-skimming" process, Canada Post would be left as a carrier of last resort in rural areas, while it would be undercut from a price perspective in the higher-density, and thus more lucrative, urban markets. The 1985 Marchment Report noted in its defence of the maintenance of exclusive privilege that "if the Corporation is to survive and if universal service at uniform rates is to be maintained, the exclusive privilege is a requisite."

As the argument goes, if the monopoly was removed, the Corporation would not be able to generate the profits it must make in urban areas to pay for its losses in rural districts. It would then have to seek government assistance in the form of a "rural subsidy."

To buttress their case, those opposed to change in the current status of the Corporation as the sole handler of first-class mail also point out that there is no precedent among other countries for the total removal of exclusive privilege. Public access to a universal postal service at a uniform price remains a basic tenet of public policy; to ensure this, some form of monopoly is required. Deregulation, while politically difficult to implement, owing to powerful interest groups, would also increase the organizational complexity of the postal system.

There is a strong economic counterargument to the retention of the monopoly. Often mentioned are items on a long list of shortcomings of a government-owned and operated monopoly; these include lack of accountability, operating deficiencies, lack of choice for consumers, excessive wages, misappropriation of resources and less than optimal output. The removal of the exclusive privilege, it is noted, would provide advantages in the form of lower postal rates, more electronic mail services and less public vulnerability to postal strikes. It would help guarantee reliable, speedy mail service and would ensure that labour's wage and benefit demands were moderated to enable Canada Post to compete effectively.

The provision of mail service is not a natural monopoly like utilities or the telephone system, where much of the cost of production is tied up in fixed capital and the costs incurred through the production of additional units of output are low. It would thus be feasible, over time, for private-sector competitors to set up distribution networks and act as a real competitive force for the Corporation in certain markets. Only by opening up all aspects of postal service to competition, it is argued, would productivity and service gains arise.

While the Committee understands the benefits of increased competition in Canada's postal service, we are also cognizant of the possible adverse effect on rural Canadians of lifting the monopoly, and wish to ensure that rural mail service not be eroded. It has been argued that in order to maintain suitable rural service, the federal government could provide direct subsidy payments. We are concerned, however, that at a time of fiscal restraint, the federal government should not be paying subsidies to firms such as Canada Post to provide services in isolated regions. Moreover, we believe that the uniform rate on first-class letter mail should be maintained, and that removal of the exclusive privilege places the traditional policy of providing service at a standard price to individuals in all regions of the country at risk. We therefore support the position that the legislative provisions providing the Corporation with its exclusive privilege not be changed. The Committee therefore recommends that:

Canada Post's exclusive privilege for first-class mail be maintained.

LIST OF RECOMMENDATIONS

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

2. 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.

3. The Government of Canada examine the feasibility of requiring Canada Post to pay corporate income tax.

4. The Government of Canada consider the replacement of postal subsidy programs with direct recipient programs.

5. The Government of Canada endeavour to provide publishers of rural community-owned newspapers and small-circulation magazines with adequate financial support.

6. The Government of Canada impose a moratorium on future reductions in the Northern Air Stage postal subsidy until alternative funding and/or shipping arrangements have been finalized and that active consideration be given to the special needs of the indigenous population when formulating alternative arrangements.

7. Canada Post discontinue its retail postal business and devote its resources to the collection, processing and delivery of mail.

8. Canada Post hold at least one meeting to discuss upcoming proposed service changes with interested elected officials, prior to and apart from a general meeting with the community residents affected.

9. Canada Post provide adequate training to private-sector workers in the proper provision of postal products and information as well as in the security procedures which must be implemented.

10. Canada Post ensure that standardized procedures are used by franchise-holders to safeguard the security and confidentiality of the mail.

11. Canada Post refrain from contracting out to retail postal outlets the services which are normally provided by corporate outlets as long as the corporate outlets remain open.

12. Where possible, Canada Post contract out mail delivery to community mail boxes or group mail boxes in new-growth urban areas.

13. Canada Post change the design of its community mailboxes and/or accelerate the introduction of kiosks in order to lessen the impact of adverse climatic conditions on postal users.

14. Canada Post retain its present lot line delivery system in rural Canada.

15. Canada Post restore the standards of reliability for the delivery of properly prepared first-class letter mail which existed prior to 1986. These include: next business day delivery for local mail; delivery within two business days for mail sent from one urban centre in a province to another; and within three business days for mail sent between urban centres in different provinces.

16. Canada Post expand the coverage of its independent delivery performance test, to include additional classes of mail and a greater number of urban and rural locations.

17. Canada Post continue to improve service to large-volume mailers and implement new programs to enhance service to residential and small business customers.

18. 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.

19. A comprehensive review be conducted of all postal regulations, policies and guidelines that apply to customers who are also competitors of the Corporation with a view to determining whether they give the Corporation an undue competitive advantage. Those regulations (etc.) that create such an advantage should be revoked or amended.

20. The requirement calling for the preprinting of the name of the newspaper on advertising supplements inserted into newspapers to be delivered by Canada Post should be abolished.

21. Canada Post ensure that all rules and regulations applicable to postal customers are applied fairly and consistently.

22. Any body exercising review powers over Canada Post have legal authority to compel Canada Post to provide all information necessary for it to conduct an effective review in accordance with its mandate.

23. While ensuring that as much information as possible remain public, provision be made, where necessary, to allow the review agency to receive information from Canada Post in confidence.

24. The period for public comment and consultation in respect of future changes to Canada Post's regulated rates and services be at least six months from the date that notice of such changes are published in the *Canada Gazette*.

25. Legislation be passed to allow for the creation of postal service customer councils.

26. Until such time as legislation to establish the postal service customer councils becomes law, existing councils should continue to operate under the mandate that would have been established by Bill C–149, the *Postal Services Review Act*.

27. A review of the operations of the postal service customer councils be conducted at the end of two years for the purpose of determining whether they are fulfilling their duty to represent the local interests of postal customers.

28. Canada Post's proposals for changes to postal rates and major changes to postal services be regulated by an independent, third–party regulatory agency with decision–making power.

29. Canada Post and its unions develop new consultative mechanisms in an effort to reduce the number of future grievances.

30. While pursuing its efforts to reduce the level of absenteeism to comparable industrial levels, Canada Post undertake a review of its attendance management program with a view to ensuring that it is administered and applied in a reasonable, fair and consistent manner and with respect for the human dignity of its employees.

31. Canada Post and its major unions work together to develop programs to improve occupational health and safety.

32. Canada Post and its unions engage in meaningful consultation with regard to the introduction and impact of new technology into the workplace. To that end, Canada Post should, in consultation with its unions, ensure that studies are conducted on the impact of new technology on employee health and safety and that appropriate levels of training are provided.

33. In the event of a disruption in postal services, Canada Post's exclusive privilege to deliver letters should be suspended for the period of the disruption.

34. Where feasible, Canada Post should place facsimile machines in corporate–run and other postal outlets.

35. Canada Post integrate appropriate developments in the field of electronic communications into the postal system.

36. The Government of Canada privatize Canada Post once adequate financial performance, comparable to private–sector levels, has been attained and once the industrial relations climate has improved.

37. The privatization plan be carried out by means of a public share issue and should incorporate an employee share ownership plan.

38. **Canada Post, if privatized, continue to be regulated by an independent, third-party regulatory agency with decision-making power.**

39. **Canada Post's exclusive privilege for first-class mail be maintained.**

APPENDIX I

1. Hon. Harvie Andre, Minister responsible for Canada Post Corporation — Issues 25 and 47.
2. Canada Post Corporation — Issues 25, 26 and 46.
3. Canadian Postmasters and Assistants Association — Issue 27.
4. National Association of Major Mail Users Inc. — Issue 28.
5. Federation of Canadian Municipalities — Issue 29.
6. Canadian Community Newspapers Association — Issue 30.
7. Canadian Labour Congress — Issue 31.
8. Canadian Union of Postal Workers — Issue 32.
9. Retail Council of Canada — Issue 33.
10. Rural Dignity for Canada — Issue 34.
11. United Parcel Service Canada Ltd. — Issue 35.
12. Mr. David McKendry — Issue 36.
13. Inuit Cooperatives of Northern Quebec — Issue 37.
14. Kativik Regional Government — Issue 38.
15. Makivik Corporation — Issue 37.
16. Canadian Arctic Cooperative Federation Limited — Issue 37.
17. Grand Council of the Crees (of Quebec) — Issue 37.
18. West Prince Chamber of Commerce, Prince Edward Island — Issue 38.
19. Federation of Prince Edward Island Municipalities — Issue 38.
20. Mr. John Holm, MLA, Nova Scotia — Issue 39.
21. Maclean Hunter Canadian Publishing — Issue 39.
22. Rural Route Mail Carriers of Canada — Issue 40.
23. Postal Services Review Committee — Issue 40.
24. Professors Brian Osborne and Robert Pike — Issue 41.

25. Dubuc Save the Post Office Committee — Issue 41.

26. Alberta Council on Aging — Issue 42.

27. Canadian Magazine Publishers' Association — Issue 42.

28. Public Service Alliance of Canada — Issue 43.

29. Consumers' Association of Canada — Issue 44.

30. Mr. Gerard P. Harvey, Chairman, Management Board, International Post Corporation — Issue 45.

APPENDIX II

STANDING COMMITTEE ON CONSUMER
AND CORPORATE AFFAIRS AND
GOVERNMENT OPERATIONS

POSTAL SERVICES IN THE 1990's

Liberal Minority Report

April 1990

INTRODUCTION

The Liberal Party of Canada firmly believes that postal service is an essential public service and that it is fundamental that it be equitably provided to both urban and rural residents. We also believe that it is in the public interest to put the highest priority on providing quality service ahead of any government deficit reduction strategy. We believe that by increasing services and concentrating on additional revenue sources the Canada Post Corporation will generate additional business and increase its net income while building one of the most effective postal services in the world. It is a commonly acknowledged fact that the most successful companies have steadily offered the best services.

Although important public consultations were held from October 1989 to March 1990, it is important to note that only 28 organizations and individuals were heard and that the Committee did not travel outside of Ottawa in spite of its stated intentions to do so. Several communities, rural and urban, greatly affected by post office closures, privatization, community mail boxes, slow mail delivery, stamp and service price increases and other issues, did not get a chance to share their views with the Committee.

For these reasons and in recognition of our responsibilities as the Official Opposition in the Parliament of Canada, the Liberal Party has formulated this minority report.

Many of the recommendations contained in the Committee's report are acceptable and we concur with these. Here is a list of the recommendations the Liberal Party of Canada supports:

1	16	23	30
9	17	24	31
10	18	25	32
11	19	26	34
13	20	27	35
14	21	28	39
15	22	29	

We are dessenting from the report because there are 12 recommendations of the Committee which are in conflict with the policy of the Liberal Party. We believe these recommendations are contrary to the public interest because they will not contribute to enhancing postal services in Canada. They, therefore, form the focus of our opposition to the majority report. These are listed below with numbers corresponding to the numbers ascribed in the Committee report and are repeated here for convenience.

RECOMMENDATIONS

Committee recommendation #2

> Canada Post continue with its plans to realize a 14% return on equity by 1993-94, and to provide the Government of Canada with an annual dividend of 40 percent of its operating profits.

We disapprove of Canada Post paying 40 percent of its operating profits as an annual dividend to be paid to the federal government because we consider this to be a tax on postage that can only negatively impact on the corporation's ability to provide quality services. This type of skimming the cream off the top of the corporation's equity is further evidence of the Mulroney government's lack of commitment to improving services to Canadians.

Furthermore, we believe that any operating profit should be re-invested by the corporation into the necessary manpower and equipment required to improve postal services. We therefore propose the following recommendation:

Liberal recommendation #2

> **Canada Post be instructed to generate only those operating profits necessary to meet its own capital investment needs required to maintain and improve services.**

Committee recommendation #3

> The Government of Canada examine the feasibility of requiring Canada Post to pay corporate income tax.

We oppose this recommendation on the same principle that we oppose recommendation #2. The Government would be sapping the necessary equity required to improve postal services. The Government should be much more concerned with collecting corporate income taxes from the hundreds of companies who didn't pay corporate income taxes in 1989 and previous years. That would be a very significant deficit reduction strategy. We therefore propose the following recommendation:

Liberal recommendation #3

> **Canada Post not be required to pay corporate income tax.**

Committee recommendation #4

> The Government of Canada consider the replacement of postal subsidy programs with direct recipient programs.

The Government of Canada has meddled enough with this crucial cultural subsidy. First, in the April 1989 budget, the Finance Minister cut the subsidy by $10 million for the fiscal year 1989-90 from $164.5 million to $154.5 million. He cut it further by $35 million for the fiscal year 1990-91 to $119.5 million. Then in December 1989, Treasury Board President Robert de Cotret reduced the $119.5 million infrastructure subsidy, and the $55.1 million publishers' subsidy (total $174.6 million) to $110 million in the guise of a "new program". Now the Committee is recommending that Canada Post no longer receive any postal subsidy and that recipients receive a new subsidy.

Furthermore, the federal government recently cut subsidies to Canada Post for the transportation of food and other goods to northern outpost regions. Northerners are forced to pay even more exhorbitant prices for food and other necessities, a pitiful state of affairs to say the least. We therefore propose the following recommendation:

Liberal recommendation #4

> **The Government of Canada not consider the replacement of postal subsidy programs with direct recipient programs.**

Committee recommendation #5

> The Government of Canada endeavour to provide publishers of rural community-owned newspapers and small-circulation magazines with adequate financial support.

We oppose this recommendation on the same basis that we oppose recommendation 4. What these groups want is a return to original postal subsidy funding levels that were in place before the April 1989 budget. These levels were $164.5 million for the Infrastructure Payment and $55.1 million for the publishers with increases for inflation. Only in this way will support for cultural organizations be guaranteed. We therefore propose the following recommendation:

Liberal recommendation #5

> **The Government of Canada endeavour to provide publishers of rural community-owned newspapers and small circulation magazines with adequate financial support by reinstating the infrastructure subsidy program and the publishers' subsidy program to their 1988-89 budget levels of $164.5 million and $55.1 million respectively with adjustments for inflation.**

Committee recommendation #6

> The Government of Canada impose a moratorium on future reductions in the Northern Air Stage postal subsidy until alternative funding and/or shipping arrangements have been finalized and that active consideration be given to the special needs of the indigenous population when formulating alternative arrangements.

In October, 1989 Canada Post announced price increases for commercial air services to the Canadian North. This announcement was the result of a 1987 budget provision where the finance Minister announced he was reducing the $19 million annual Northern Air Stage postal subsidy by $1 million per year until expiration. As a result, already very high prices for food, clothing and other necessities have risen considerably. We oppose this policy very strongly.

Although the government is now reviewing this measure, and well it should, we cannot accept a moratorium. We want the subsidy reinstated at $19 million with increases for inflation. With prices already at exhorbitant and restrictive levels this is the least that should be done. We therefore propose the following recommendation:

Liberal recommendation #6

> **The Government of Canada reinstate the original $19 million budget allocation to the Northern Air Stage postal subsidy program with adjustments for inflation retroactive to 1987.**

Committee recommendation #7

> Canada Post discontinue its retail postal business and devote its resources to the collection, processing and delivery of mail.

The 1986 Canada Post corporate plan called for the closing or privatization of all 5,221 rural post offices in Canada. What the above recommendation actually says is that the committee endorses the principle of the 1986 corporate plan. It therefore fully supports the corporation's plans to transform existing corporate post offices into a network of retail postal outlets and franchises. We oppose this policy because it will result in a widespread reduction in services Canadians are now accustomed to.

These RPO's will be staffed by inexperienced, low-wage earning employees, a situation that will lead to a high turnover ratio, decreased quality of service and delays. Security of the mail will also be reduced because the vulnerability of these outlets to theft and vandalism will greatly increase. In other words, the privatization of post offices will lead to the deterioration of this essential public service. We therefore propose the following recommendation:

<u>Liberal recommendation #7</u>

> **Canada Post maintain its existing retail network and continue to devote resources to the collection, processing and delivery of mail.**

<u>Committee's recommendation #8</u>

> Canada Post hold at least one meeting to discuss upcoming proposed service changes with interested elected officials, prior to and apart from a general meeting with the community residents affected.

Although this recommendation may sound like its extending the democratic process it is really only prolonging the agony. The words "proposed service changes" can be translated to mean "pre-determined post office closure" or "pre-determined privatization", for example. Instead of public consultations to determine the feasibility of a service change, it is all too often an exercise in convincing the community. We oppose this method of consultation.

In the past, Canada Post has encouraged direct competition with corporate outlets in a deliberate attempt to force the closure of the corporate outlet. We oppose this brand of deceitful tactic which only leads to a deterioration of service in the community and mistrust for Canada Post. If a community chooses to have a retail postal outlet in the community along with an existing corporate outlet, that retail franchise should not be in direct competition with the corporate outlet so as not to cause the closure of the existing facility.

Fair play is fair play. If there is a market for a retail outlet and the community welcomes this service, we have no quarrels with that. But under no circumstances should the corporation drive its own outlets out of business simply to implement its franchising policy. That is unacceptable and anything but fair play.

Where a major service change is proposed, we believe that the community should have the final say -- not Canada Post. If the community agrees to a closure or a privatization then democracy has been achieved. Because postal service is an essential public service we believe each community should decide on the level and quality of service it should have. In other words, let the customers have their say. We therefore propose the following recommendation:

<u>Liberal recommendation #8</u>

> **The residents of each community in Canada should have a veto over any proposed major service change by Canada Post affecting their community.**

<u>Committee's recommendation #12</u>

> Where possible, Canada Post contract out mail delivery to community mail boxes or group mail boxes in new-growth urban areas.

The Liberal Party is firmly committed to the restoration of door-to-door service to new developments where such service is already offered within the same community.

In mid 1989, over 450,000 Canadians residing in new urban developments were being serviced by community mail boxes and therefore denied door-to-door mail delivery service. In many cases, their neighbour across the street were getting door-to-door service because they were residing in an "older" development. This kind of nonsense has to stop. An essential service does not characterize itself by double standards, but rather by one high standard of quality. We therefore propose the following recommendations:

Liberal recommendation #12

> **Canada Post restore door-to-door mail delivery to all new developments in urban communities where such service is already offered within said community. Furthermore, that door-to-door service be expanded into urban communities which do not currently have such service as resources become available.**

Committee recommendation #33

> In the event of a disruption in postal services, Canada Post's exclusive privilege to deliver letters should be suspended for the period of the disruption.

Although the Liberal Party supports all reasonable means to retain a constant flow of the mails, it does not support means that would erode the rights of a labour union or threaten Canada Post's exclusive monopoly over mail delivery. This recommendation makes a mockery out of the right to strike and ignores all security and insurance problems that would ensue if other parties were contracted the privilege to deliver the mails.

Moreover, an extended disruption could lead to the permanent discontinuation of Canada Post's monopoly over mail delivery. We oppose this for many reasons but primarily because it would lead to dramatic price increases for consumers. Other problems could develop. For example how would one send a registered letter? Special delivery? Who would regulate the rates charged by other parties? Would we still use stamps at the going rate (ie 39¢) or would the company charge their own fee? We therefore propose the following recommendation.

<u>Liberal recommendation #33</u>

> **Canada Post's exclusive privilege to deliver the mails not be suspended under any circumstances.**

<u>Committee recommendation #36</u>

> The Government of Canada privatize Canada Post once adequate financial performance, comparable to private-sector levels, has been attained and once the industrial relations climate has improved.

The Liberal Party of Canada opposes the privatization of Canada Post. We believe that essential public services belong in public hands.

It is hard to understand the Committee's recommendation. On the one hand it recommends an eventual privatization of Canada Post. At the same time it sets out the condition that industrial relations improve first. When you consider the fact that the Canadian Union of Postal Employees is violently opposed to the privatization of Canada Post, it certainly is a poor start at improving labour-management relations.

The impact of privatization would be far reaching and complex. A full discussion is impossible here. However, some points should be addressed. The Canada Post Corporation has 46,000 workers throughout Canada. What would happen to their security of employment, benefits and wage levels? What about their families? Adjustments and lay-offs are expected to be widespread. The corporation holds $2.9 billion in land, buildings and equipment. Much of the land and the majority of buildings are in prime downtown locations. Privatization would result in a bonanza of prime space for the buyer at firesale prices.

What about competition? Will the monopoly over mail delivery be transferred to a private company? Who will regulate the activities of this company? Literally hundreds of questions arise especially when no other post office in the world has been privatized. Therefore the statement contained in recommendation 36 is in our opinion, irresponsible and unfounded. We therefore propose the following recommendation:

Liberal recommendation #36

Canada Post remain a Crown Corporation.

Committee recommendation #37

The privatization plan be carried out by means of a public share issue and should incorporate an employee share ownership plan.

For reasons outlined for recommendation 36 we oppose the privatization of Canada Post. **We therefore propose that recommendation 37 be eliminated.**

Committee recommendation #38

Canada Post, if privatized, continue to be regulated by an independent, third party regulatory agency with decision-making power.

For reasons outlined for recommendation 36 we oppose the privatization of Canada Post. We therefore propose the following recommendation.

Liberal recommendation #38

> In the unlikelihood that a Conservative government would privatize Canada Post, it should continue to be regulated by an independent, third-party regulatory agency with decision-making power.

Additional Recommendations

Here are two important issues that were not addressed by the Committee and that we feel merit due consideration:

Canada Post recently altered its corporate emblem to attempt to improve its image. However, in the process, the corporation removed all symbols that would reflect its role as an institution of the Government of Canada. For example, nowhere do we find the word Canada or the Canadian flag on its new uniforms and vehicles. We therefore propose the following recommendation:

Liberal recommendation #40

Canada Post restore its corporate identity program to reflect the role of the corporation as an institution of the Government of Canada.

Certain large convenience store chains are reported to be selling postage stamps at reduced prices to attract customers. This is unfair competition for smaller, family owned stores. It is also hurting business at corporate and retail postal outlets. We therefore propose the following recommendation:

Liberal recommendation #41

Canada Post ensure that postage stamps being sold at retail counters, especially at major convenience store chains, not be sold at prices below the price postage stamps are sold at corporate outlets and RPOs.

The Liberal Party of Canada believes that the most logical way for Canada Post to reduce its deficit is to generate additional revenues through new marketing techniques. This is the only way to ensure long-term quality services to Canadian taxpayers. We therefore propose the following recommendation:

Liberal recommendation #42

Canada Post should be encourage to generate new revenues.

APPENDIX III

CANADA'S POST:

Report of the New Democratic Party
on the Future of Our
National Postal System

Len Taylor, M.P.
The Battlefords-Meadow Lake
New Democratic Post Office Critic

FOREWORD

This report is not reproduced here in its entirety as a result of a Committee motion limiting the length of dissenting opinions. What follows is the introduction, conclusion and recommendations drawn from the New Democrat's Minority Report. The entire body of the report, which provides both the context and argumentation for the recommendations, is available upon request from the author.

PREFACE

Choices lie before us. Choices about what sort of national postal system we want and need. Choices about how this postal system will relate to the needs of all Canadians, both today and in the future.

Ideas and proposals concerning the future of our post office divide fairly neatly into two types. One way of addressing the demands placed on our postal system tends to take a narrow view of the role of the post office in our communities and in our country.

This view strongly favours a Canada Post which places profit before service, and which places the interests of big business before the interests of the vast majority of Canadians.

Such a view ignores the role our national postal system plays in our daily lives. It pays little heed to the different needs facing postal service in rural and remote Canada. It favours an approach which seeks profit even at the expense of the health and safety of its employees.

Such is the view reflected by the majority report of the Standing Committee on Consumer and Corporate Affairs and Government Operations.

The comments and recommendations outlined in this report reflect quite a different view of our national postal system. This approach draws on the history of Canada Post - both in terms of its successes and failures. It draws upon both the testimony of "experts" and the practical day-to-day views of Canadians from coast to coast to coast.

For, unlike so many federal institutions, our post office is an important part of the everyday life of all Canadians, of farmers, fishers, small businesses, seniors, workers, cultural organizations and our families and friends. Few other institutions play such an important, and often critical role in our day to day lives. Therefore this report attempts to balance the need for self-sufficiency with the reasonable demands placed on this institution by a wide range of individuals and organizations.

In drawing conclusions, this report approaches the issues facing our postal system from the perspective of the current and future needs of the majority of Canadians, and if at times these recommendations favour those needs over short-term profit margins - then so be it. This report will argue that while it makes sense for the post office to be self-sufficient, it can accomplish this through increasing service to Canadians. New Democrats believe that the views and recommendations outlined herein reflect the legitimate demands Canadians place on our national postal system.

INTRODUCTION

Canada Post has an annual mail volume of 8.3 billion pieces of mail and is used by 26 million Canadians throughout the country. The Corporation has 61,000 full and part time employees and 3,950 managers (up 35% from 1987), as well as 6,000 casuals. There are five unions representing postal workers and currently over 70,000 grievances in the system.

But our national postal system is much more than just those figures.

Canada's postal system provides an important communication link between friends and families from coast to coast. In a country in which small businesses compete against large multinationals, the postal system provides an opportunity to equalize communications costs and assist small business, especially in smaller communities.

Our postal system helps countless cultural organizations with distribution of their publications, and provides a necessary service for charities, service clubs and non-governmental organizations.

Our communities are divided between large cities and many small towns and remote areas across a vast country. Our postal system has assisted people to live in small communities and has offered a very real federal presence throughout rural Canada.

The elderly, poor, disabled and infirm often critically depend upon the postal system in many ways. And almost 70,000 Canadians directly depend on Canada Post as their place of employment, and many have worked long and hard to try to create a workplace that is safe, healthy and offers a decent wage. Our national postal corporation should be a place of pride, where members of our families or communities should be able to work securely and be treated with respect and dignity.

At one point in history, Canada Post shared these views of what role it should play in society. In their 1980 Annual Report, they refer to "universal mail delivery service...the largest network of service outlets... a cornerstone of Canada's social structure... vast communications network... a cohesive force... a federal presence throughout the country... a familiar landmark in the federal network."[1]

History

Before the Post Office Act of 1851[2], the postal system was organized and managed through the British colonial governments. This system was both inefficient and inaccessible.

From the passage of the Post Office Act to the early 1900's we can see the rapid development of the postal system, both in size and in increased use by a much broader sector of the population. During this period, in Quebec, post offices were often placed near churches, while in much of the rest of rural Canada, the general store was the locale for the post office.

From the early 1900's to 1960 the popular use of the post office skyrocketed, and it was viewed by most Canadians as an important national service, central to the day-to-day lives of communities from coast to coast.

Problems with postal service and poor labour-management relations increasingly created difficulties for the public from the 1960's onward. These mounting pressures led to the call for development of a Crown Corporation to oversee the day-to-day activities of the postal system. The call for a Crown Corporation for many years came from the Canadian Union of Postal Workers, and initially from its predecessor, the Canadian Postal Employees Association in 1949.

Canada Post Today

After successive strikes, corporate plans, commissions, review committees and hearings, we arrive at a point of crisis today within Canada Post. *We see a Corporation which has little regard for the public,* hinders access to information necessary to evaluate and propose solutions to postal issues and works to reduce public input in decision making - from citizens and communities to provinces and Members of Parliament. Service to the public remains poor, and useful services offered through Canada Post continue to deteriorate. Rural post offices are closed and door-to-door delivery is denied to many Canadians whose next door neighbours receive this service.

The harassment of employees and the reduction in the number of jobs while mail volumes mount has driven a bad labour-management system to become an even worse one.

Mandate

The mandate of the Post Office calls for a very different set of priorities than those chosen today by Canada Post and by this federal government.

The mandate of Canada Post is clear, and sets out as the first priority providing service to Canadians. Section 5(2) of the Act reads:

"5(2) while maintaining basic customary postal service, the Corporation, carrying out its objects, shall have regard to:

(a) the desirability of improving and extending its products and services in the light of the developments in the field of communications;

(b) the need to conduct its operations on a self-sustaining financial basis while providing a standard of service that will meet the needs of the people of Canada and that is similar with respect to communities of the same size;

(c) the need to conduct its operations in such a manner that will best provide for the security of the mail;

(d) the desirability of utilizing the human resources of the Corporation in a manner that will both attain the objects of the Corporation and ensure the commitment and dedication of its employees to the attainment of these objects; and

(e) the need to maintain a corporate identity program approved by the Governor-in-Council that reflects the role of the Corporation as an institution of the Government of Canada."

Canada Post and this federal government continue to ignore this mandate in the following fashion:

a) Services are declining as post offices close, supermailboxes are set up in lieu of door-to-door delivery, and recommendations to expand services in federal post offices remain ignored;

b) The notion of self-sustaining in the context of meeting the needs of Canadian communities has been forsaken in favour of creating profit by closing post offices in many communities and failing to provide door-to-door delivery to Canadians in communities with over 2,000 points-of-call;

c) Mail security decreases with the opening of each retail outlet and the contracting-out of each aspect of pick-up, sortation and delivery;

d) Employee intimidation and harassment, coupled with a disregard for the collective agreement has stifled any development of ensuring the commitment of employees; and

e) The "Canada" has been taken out of "Canada Post", as is witnessed with the Corporation's new logo, materials, uniforms and public image.

Canada Post has not been comfortable with the criticisms leveled at their failure to live up to the mandate Canadians have directed at the Corporation through their elected officials. This is evidenced by the fact that Canada Post refuses to provide the information necessary to make an informed critique of many particular aspects of their operation.

Alan Marchment was until the 1990 federal budget the Chairperson of the Postal Services Review Committee, which had been set up to monitor Canada Post's rates and services and to provide customer feedback to the Corporation. Marchment also was chairperson for a 1985 review into postal operations. He has this to say about Canada Post's attitude toward providing information to the Postal Services Review Committee:

> "The committee's experience to date with the review process has been disappointing. The information provided by Canada Post was inadequate and far short of that required under most regulatory jurisdictions."[3]

Given this attitude it is not surprising that Canada Post was referred to as a hostile witness during the Committee's hearings.

While refusing to provide much required information, Canada Post is happy to continue to barrage the public with its glitzy, costly public image campaign. This campaign has carried the message to rural Canadians that Canada Post is in rural Canada to stay while it closes the doors on rural post offices across the country.

Canada Post often cites studies done which show how popular Canada Post is. One member of a Saskatchewan community complained that when Gallup came to his community, they interviewed people in the aisles of the convenience store, and that in a small town with no anonimity, he wasn't about to talk about problems with postal service when the manager was likely within earshot.[4]

As a final word, the order of the sections in this report reflect no particular priority - they are all issues which must be addressed, and addressed in the context of a vision for our postal system which places service to all Canadians first and foremost.

CONCLUSION

The goal of this government must be to work with Canada Post to develop a national postal system for all Canadians.

Such a system would follow the mandate for Canada Post as outlined in the Canada Post Corporation Act. The current government and Canada Post administration does not follow that mandate.

Postal service should be similar for communities of the same size. Postal service should be accessible and of a high quality. It should be self-sufficient and expand its revenue-generating base by providing more services to Canadians. Canada Post should become a model employer, treating its employees with respect and dignity.

Rural Canadians and urban Canadians should have access to reliable federal postal service which reflects their needs and meets the relative demands placed on it by their communities.

Superboxes should be replaced by door-to-door delivery in communities with over 2,000 points of call.

These goals are neither abstract nor unrealistic. They reflect the basic demands our society places on our postal system. All that is required is the political will and commitment to make these changes.

I urge the government to support the recommendations outlined in this report.

RECOMMENDATIONS

1. A permanent full-time Canada Post Commission should be established to oversee the operations of Canada Post and the prime function of this Commission should be to ensure the Corporation adheres to its mandate in the context of placing accessible, quality service for all Canadians as the first priority. This Commission should be directed by a Board composed of equitable representation from rural organizations, consumer organizations, postal unions, small business, big business including major mail users, seniors, the disabled, environmental organizations and native Canadian representatives. This Board should ensure there is equitable regional, provincial and territorial representation among its members.

2. The Canada Post Commission should have the power to interpret the actions and policies of the Corporation in the context of the Corporation's mandate and enforce adherence to the mandate. Input from the public should form a significant part of the operations and decision-making of the Commission.

3. The Canada Post Commission should have the authority to receive from Canada Post whatever information the Commission deems necessary for its deliberations.

4. The federal government should ensure Canada Post fulfill its mandate of achieving self-sufficiency by turning any postal "profit" immediately back into expanding and extending service for Canadians.

5. The Canada Post Commission should ensure ongoing commitment to the mandate of achieving self-sufficiency, as opposed to profit, in the context of expanding the services provided to Canadians.

6. The Canada Post Commission should regularly review postal rates with an eye to examining the propriety of discounted rates for high volume users and the current charges for and volume of ad mail both in the context of cost and impact of high-volume ad mail and householders on the environment.

7. The Canada Post Commission should ensure rates are set in the context of generating a reasonable level of revenues based upon the provision of a quality, accessible service to Canadians.

8. The federal government should continue to provide a subsidy to Northern Air Stage Rates, especially for food and medical products with the short-term goal of making prices for northern remote communities for these goods equitable with those in southern urban centres. The government should work with native and remote communities for long-term solutions to the high cost of food and medical supplies in northern and remote communities.

9. The Canada Post Commission and the federal government should ensure the Corporation move ahead with the development of such services as:

* additional New Directions outlets
* selling new retail products at the wickets through a Consumer's Post
* offering financial services at all counters, but especially in rural and remote areas
* offering packaging and wrapping services at postal stations and post offices
* introducing electronic mail services
* expanding the contracted-in parcel distribution system
* extending the hours of federal post offices

and that these contracted-in services be offered at prices which allow the Corporation to generate revenues for other areas of its operations, while keeping as the premise of these expanded services the goal of a quality, accessible postal system.

10. The Canada Post Commission should regularly review the provision of these services in the context of reasonable prices and equalized accessibility to these services to Canadians from all regions of the country.

11. Technological change in the workplace should only occur after evaluation of the ergonomic and other health and safety factors, and should be introduced and operated with the agreement of the unions affected by the change.

12. In order to develop a more efficient, healthy, safe and productive workplace, the employee's unions should play a greater role in the decision-making process within all levels of Canada Post.

13. Canada Post Corporation should end its harassment of sick and other employees and its intimidation of employees in the workplace and at home.

14. The Corporation should provide the time, personnel, authority to and finances for health and safety committees which would be able to make recommendations and monitor the development of changes aimed at transforming Canada Post into a healthy and safe work environment, paying special attention to addressing the root causes of repetitive strain and other frequently-occurring injuries.

15. The Corporation should address absenteeism from the perspective of recognizing a healthy, safe, creative workplace with reasonable demands and compensation is the best way to ensure productivity increases and absenteeism decreases.

16. The Corporation should develop a management strategy aimed at addressing the preponderance and promulgation of the number of management at all levels, both in the context of cost and efficient and responsible decision-making.

17. The Corporation should improve its work scheduling to ensure that all work possible is contracted-in and performed by full-time well trained employees.

18. Canada Post should halt the divestment of its properties and the withdrawal of its presence in rural Canada by its current practices of closing post offices, terminating leases or selling buildings.

19. 'Natural opportunities' such as the retirement or death of an employee should not constitute in themselves grounds for a change in service to a rural community.

20. The Canada Post Commission should ensure an independent study is undertaken to investigate the social, political and economic effects of the loss of a federal post office in rural communities.

21. Where the need for longer hours or more space in the post office in a rural community is required by that community, that extension should be made in the existing federal facility and not in a convenience store, or other private business.

22. No major change in postal operation or service to a community should occur without the approval of the Commission and genuine consultation with the community, its elected officials and postal employees from the area.

23. The Minister Responsible for Canada Post should work with other ministries dealing with rural Canada to develop a positive plan for the future of federally operated rural post offices.

24. Rural route carriers should be recognized as a bargaining unit and the Corporation should ensure working conditions, compensation and seniority are sufficient to encourage long-term commitment to this work by rural route carriers.

25. Canada Post and Public Works should work together to ensure Canada Post facilities in rural and urban Canada located in "Heritage" buildings be, where possible, maintained in those buildings.

26. Door-to-door delivery by letter carrier should be instituted for all units in communities with over 2,000 points of call not currently served by general delivery or lock boxes, and this should be the standard for the provision of postal delivery for similar new communities in the future.

27. Superboxes which have been replaced by door-to-door delivery by letter carrier should be used to replace group mail boxes in cases where the superbox would provide a better service to the community.

28. The government should continue to provide subsidies for postage of Canadian magazines and newspapers, supporting the century-old goal of developing a literate and educated population and encouraging the development of a community-based Canadian culture with regional, national and international expression.

29. The Canada Post Commission should recommend appropriate changes to the level of subsidy at regular intervals and after meaningful public consultation.

30. In order to ensure there is no discrimination between regions or groups of Canadians, and to ensure postal services and products are accessible, Canada Post's products and services should not be deregulated.

31. The Canada Post Commission should undertake regular reviews of the cost of postal products in order to ensure an equality of access to these products and a reasonable return to the Corporation, and these reviews should include consultation with and input from the public, and especially the communities or groups affected by the proposed change.

32. Canada Post should halt the closure of its urban federally operated post offices and ensure all urban post offices be federally operated and staffed with trained full-time Canada Post employees.

33. There should be no contracting-out of postal service, vehicle and equipment maintenance, parcel sortation or delivery, and there should be no contracting-out of postal franchises or sub-post offices.

34. The government should place service to Canadians first and not move to privatize any part of Canada Post's operations.

FOOTNOTES

1. From Brian S. Osborne and Robert M. Pike, "A Canadian Postal Service for the Twenty-First Century: A Brief to the Standing Committee on Consumer and Corporate Affairs and Government Operations". November 11, 1989, p.9.

2. Thanks to Brian Osborne and Robert Pike for their information on the history of Canada Post from their presentation to the Committee, February 7, 1990. *Minutes of the Committee*, Issue 41, page 7.

3. Alan Marchment, Chairman - Postal Services Review Committee, in his presentation to the Committee, February 6, 1990. *Minutes of the Committee*, Issue 40, page 26.

4. Cynthia Patterson, National Co-ordinator - Rural Dignity for Canada in her presentation to the Committee, December 5, 1989. *Minutes of the Committee*, Issue 34, page 28.

REQUEST FOR GOVERNMENT RESPONSE

Your Committee requests that the Government table a comprehensive response to this Report in accordance with the provisions of Standing Order 109.

A copy of the relevant Minutes of Proceedings and Evidence (*Issues Nos. 25 to 48, 50 and 53 which includes this Report*) is tabled.

Respectfully submitted,

GARTH TURNER,
Chairman

MINUTES OF PROCEEDINGS

WEDNESDAY, APRIL 11, 1990
(61)

[*Text*]

The Standing Committee on Consumer and Corporate Affairs and Government Operations met at 3:41 o'clock p.m. this day, in Room 269 West Block, the Chairman, Garth Turner, presiding.

Members of the Committee present: Don Boudria, John E. Cole, Louise Feltham, Gabriel Fontaine, Gabriel Larrivée, Russell MacLellan and Garth Turner.

Acting Members present: Doug Fee for Gabriel Larrivée; Dave Worthy for Jean-Marc Robitaille; Beryl Gaffney for Roger Simmons; and Jim Karpoff for Len Taylor.

In attendance: From the Research Branch of the Library of Parliament: Peter Berg, Research Officer.

Appearing: The Honourable Alan Redway, Minister of State (Housing).

The Committee resumed its review of Canada's postal service. (*See Minutes of Proceedings, Tuesday, October 31, 1989, Issue No. 25*)

The Committee resumed consideration of the Draft Report on Canada's postal service.

It was agreed, —That the Committee request a comprehensive response from the government.

It was agreed, —That the Draft Report, as amended, be concurred in.

It was agreed, —That the Draft Report, as amended, be the Committee's Report to the House.

It was ordered, —That the Chairman report the Report to the House.

It was ordered, —That the Committee print 1,000 copies of the report with a distinctive glossy cover.

The Committee resumed consideration of its Order of Reference dated Thursday, February 22, 1990 related to the Main Estimates for the fiscal year ending March 31, 1991. (*See Minutes of Proceedings and Evidence, Tuesday, March 27, 1990, Issue No. 48*).

The Chairman called Vote 25 — Canada Mortgage and Housing Corporation — under PUBLIC WORKS.

The Minister made an opening statement and answered questions.

At 5:05 o'clock p.m., the Committee adjourned to the call of the Chair.

Bernard G. Fournier
Clerk of the Committee