

**Submission of the Canadian Union of Postal Workers
to the Canada Post Corporation Strategic Review**



September 2, 2008

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Executive Summary

CUPW's Submission to the Canada Post Strategic Review

CUPW represents over 55,000 rural and urban operational postal workers. Our members work in over 2,000 communities in every region of the country. We are very proud of the role we have played in fighting to protect and improve public postal services in Canada and we are determined to continue this tradition.

At the outset, the union wishes to state our belief that public sector organizations, such as Canada Post Corporation (CPC), should, at all times, strive to be model institutions in our society. They should exhibit the highest standards of social responsibility in all of their relationships with the public, employees, customers and competitors

As a large national institution, with a physical presence in almost every community, it is essential that CPC set the highest standards in all of its endeavours. With regards to the environment CPC should ensure that its plant facilities, retail services and delivery operations are the most environmentally responsible in the industry. In its commercial undertakings CPC should implement the highest ethical standards in its dealings with both its customers and its competitors. CPC should constantly seek new ways of involving public participation in its decisions concerning the public services it provides in the communities. As an employer CPC should respect the dignity of its workforce and aim to have the best record concerning the health and safety of employees. In its international dealings, and especially when it engages in joint ventures with partners in other countries, CPC should require all of its business partners provide wages and labour standards which are superior to the minimum standards established in conventions of the International Labour Organization (ILO).

We believe the public policy issues concerning Canada Post should be guided by the following principles:

- CPC must use its advantages of national coverage and economies of scale to provide accessible and affordable services to all Canadians.
- The obligation to service all communities must be balanced by an exclusive privilege to deliver letters.
- Postal services must encourage economic development in rural areas.
- Canada Post must operate in a manner that promotes the environment.
- Postage rates should be set at a level necessary to cover all costs of operations and investment. Any surplus should be reinvested into expanding services to the public.
- Canada Post should be owned collectively by the people of Canada and accountable to Parliament.

Today CPC can be considered as a public sector success story. It is rated as the most trusted public institution in Canada. It has experienced over a decade of profitability while raising prices at a rate considerably less than the overall rate of inflation. Internationally, CPC is rated among the most successful postal services in the world. During the past thirteen years, CPC has not only been financially self sustaining as required by the CPC Act, it has also paid the federal government \$623 million in dividends and \$496 million in taxes.

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As seen from the following table CPC ranks among the most successful post offices from an international perspective.

20 g First-Class Rates for Industrialized Countries in Currency and Labour Time

| | 2008 domestic rate | Currency | Foreign unit in US\$ | 20 gram rate in US\$ | Density (pop per km ²) | Production workers: hourly wages in US\$: 2006 | Production workers: minutes labour to purchase 20 gram letter | Fully liberalised domestic market? |
|----------------|--------------------|----------|----------------------|----------------------|------------------------------------|--|---|------------------------------------|
| Finland | 0.70 | EUR | 1.58584 | \$1.11 | 16 | \$ 29.90 | 2.23 | Yes |
| Italy | 0.60 | EUR | 1.58584 | \$0.95 | 195 | \$28.71 | 1.93 | No |
| Sweden | 5.50 | SEK | 0.16989 | \$0.93 | 20 | \$31.80 | 1.75 | Yes |
| Austria | 0.55 | EUR | 1.58584 | \$0.87 | 99 | \$30.46 | 1.71 | No |
| France | 0.55 | EUR | 1.58584 | \$ 0.87 | 111 | \$24.90 | 2.10 | No |
| Germany | 0.55 | EUR | 1.58584 | \$ 0.87 | 232 | \$34.31 | 1.52 | Yes |
| New Zealand | 0.50 | NZD | 0.79224 | \$0.40 | 15 | \$14.47 | 1.66 | Yes |
| Japan | 80.0 | YEN | 0.00965 | \$0.77 | 338 | \$20.20 | 2.29 | No |
| United Kingdom | 0.36 | GBP | 1.99131 | \$ 0.72 | 248 | \$27.10 | 1.60 | Yes |
| Canada | 0.52 | CAD | 0.99481 | \$0.52 | 3 | \$25.74 | 1.21 | No |
| United States | 0.42 | USD | 1.00000 | \$0.42 | 31 | \$23.82 | 1.06 | No |

Foreign exchange rates of 5/12/08

Source: Rates: International Affairs Department: USPS

Density: United Nations: World Population Prospects 2006

CPC and the exclusive privilege

The exclusive privilege was included in the CPC Act to ensure that competitors cannot reduce CPC revenues by undercutting the corporation in the lettermail service in the lucrative large city markets.

CUPW believes there are many reasons to maintain the exclusive privilege as it is.

1. Previous independent reviews have acknowledged the importance of the exclusive privilege and recommended its preservation.
2. The public and small businesses support the exclusive privilege and most large volume mailers support the status quo.
3. The exclusive privilege is necessary to maintain uniform postage rates.
4. Postage rates for the public and small businesses would increase without the exclusive privilege.
5. Elimination of the exclusive privilege would lead to cutbacks in service to the public especially in rural and remote locations.
6. By increasing delivery density the exclusive privilege promotes efficiency and lower costs.
7. The exclusive privilege is good for the environment.
8. The exclusive privilege promotes security of the mail.
9. The exclusive privilege supports decent jobs.
10. Deregulation has not worked where it has been tried.

The exclusive privilege for letters has allowed CPC to obtain greater efficiencies of scale in processing and a sufficient delivery density to permit CPC to offer low prices while also maintaining profitability. CUPW proposes that the exclusive privilege in letters should be maintained and also be extended to the nation's parcel delivery industry.

Financial Issues

Concerning the criteria for a price cap the union believes that the all items Consumer Price Index (CPI) is not an appropriate instrument to use as it does not reflect CPC's actual input costs. CPC should be able to fully cover all input costs such as fuel, facilities, labour etc. The price cap should be constructed to reflect the relative importance of these inputs and ensure CPC is fully protected from external events over which it has no control. The only exception to the new price cap we are proposing would be for qualified non-profit organisations.

In line with the recommendations of the 1996 Mandate Review we oppose any requirement for CPC to pay dividends to the federal government. We recommend that some of the funds currently being paid in dividends should be redirected to partially subsidize the mailing costs of Canadian publications.

Services to the Public

The Union supports the continuation of services such as materials for the use of the blind, government free mail, the publications assistance program (PAP), the food program and the library book rate.

CPC's retail operations are an integral part of the services provided to the population. We recommend the moratorium on rural closures should continue and be expanded to include urban offices. The hours and range of services offered at rural post offices should be expanded to include banking, insurance, financial services and other government services where these are not currently available in the community. CPC should also conduct an audit of all postal services offered to aboriginal peoples and consult with aboriginal organisations and the postal unions to improve service offerings and properly utilize CPC facilities on reserves.

Concerning delivery services we propose that door-to-door letter carrier delivery service be included in the universal service obligation. Elderly and disabled residents should be offered door-to-door letter carrier delivery immediately and

further expansion should occur as finances permit. CPC should also cease converting rural mailbox delivery to community mailboxes or other forms of delivery until an inclusive consultative process involving residents and union representatives is established.

Environment

The government should sponsor a thorough examination of the overall environmental impact of postal services. CPC should conduct an environmental audit to identify measures that can be taken to reduce its carbon footprint.

Submission of the Canadian Union of Postal Workers to the Canada Post Corporation Strategic Review

Introduction

The Canadian Union of Postal Workers (CUPW) welcomes the opportunity to make a submission to the Canada Post Corporation Strategic Review (CPCSR). We believe the report of the advisory panel, including your observations and recommendations, will have a very profound impact on the future of both Canada Post Corporation and the working conditions and welfare of the men and women represented by the CUPW and employed by Canada Post. We believe Canada Post is currently very well positioned to play an important role in meeting the future needs of citizens and businesses for postal and delivery services. We hope that the advisory panel will play a positive role proposing a direction and policies which will promote a dynamic, service-oriented public postal service.

Who We Are

CUPW represents over 55,000 rural and urban operational postal workers. Our members work in over 2,000 communities in every region of the country. We process mail on shift work in large urban plants, provide service at hundreds of retail counters, fix and maintain equipment and deliver mail to more than fourteen million points of call daily. CUPW members are the operational backbone of the postal service.

The median age of regular employees represented by CUPW at Canada Post is 48 years and the median length of service for urban operational workers is 18 years. Approximately 37 per cent of urban operations workers and 70 per cent of rural and suburban mail carriers are women.

In addition to operational postal workers, CUPW represents approximately 800 members in private sector bargaining units comprised of car and bike couriers, medical dispatchers and cleaners.

What We Stand For

CUPW prides itself as a democratic, national union with a proud history of representing the interests of its members, the postal service and the community at large.

At Canada Post, our members do much more than ensuring that citizens and businesses receive mail each day. Collectively, through their union, postal workers have consistently struggled to ensure that Canada Post Corporation would remain an important public institution providing high quality services at exceptionally low postage rates. We are very proud of the role we have played in fighting to protect and improve public postal services in Canada and we are determined to continue this tradition.

In many ways, we see ourselves as the architects of the modern postal service. In the mid and late 1970s CUPW was the driving force arguing for the need to transform the post office from a government department to a Crown corporation under the Canada Labour Code. Together with the other postal unions and the Canadian Labour Congress, we worked with both Liberal and Conservative governments to craft the text of the current Canada Post Corporation Act. The passage of this Act by a unanimous vote of Parliament on April 14, 1981 was in large part a result of the tireless efforts of thousands of postal workers who lobbied, distributed pamphlets, wrote letters or demonstrated in support of union's campaign for Crown corporation status.

Since the proclamation of the Canada Post Corporation on October 16, 1981, CUPW has considered it the union's responsibility to act as advocate for the right of working people and small businesses to have access to high quality, low cost

postal services. Many times we have been required to take action in defence of public postal services.

When the Conservative government of Brian Mulroney attempted to close and privatize all but 11 corporate retail offices, we were required to take strike action in 1987 and 1991 against this plan. After being legislated back to work we spearheaded a vast public campaign, involving the labour movement and many allies in both urban and rural communities which eventually resulted in the current moratorium against postal closures being adopted by the Liberal government in February 1994.

We have also had to fight to preserve parcel delivery services. After the Conservative government ordered the Post Office to contract out first class parcel delivery in 1989, it took 14 years, including strikes in 1991 and 1997 and four rounds of bargaining to finally turn that decision around and re-establish an efficient and integrated parcel delivery network.

The union also promoted the expansion and improvement of postal services in our presentations to the three independent reviews of postal operations which were conducted in 1985, 1989 and 1996. In both 1989 and 1996 we were successful in obtaining recommendations from the review panels concerning the need to maintain corporate retail outlets and in favour of expanded door-to-door mail delivery by letter carrier as opposed to delivery to community mail boxes (CMBs). Unfortunately the recommendations concerning expansion of home delivery have yet to be implemented on a national scale although the union's ongoing campaign for expanded delivery has met with some limited success.

More recently, the union has led the resistance to the passage of Bill C-14 by the current Conservative government. This Bill is designed to legalize the illegal violation of the Canada Post Corporation Act by international remailers. More will be said about this issue in the section of our brief on the exclusive privilege.

We believe that while there are many opportunities for improvement with respect to the quality of service and the working conditions of employees, Canada Post Corporation has many of the elements of a public sector success story. It provides fast efficient service over a huge expanse of territory at a very reasonable price. The Canadian Union of Postal Workers stands ready and determined to ensure that Canada Post will continue to provide an excellent level of postal and delivery services for generations to come.

The Mandate of the Advisory Panel

The members of the advisory panel have been given a very formidable task. The federal government has asked you to examine Canada Post's public policy objectives, its ability to remain financially self-sustaining, and the continued relevancy of the 1998 Multi-Year Policy and Financial Framework.

The specific terms of reference that govern your appointment are extremely extensive. You have been charged with examining virtually all of the major challenges facing Canada Post. You have been asked to examine the evolution of the markets for CPC's products including the emerging needs of domestic customers and related international developments. You are also to evaluate both the internal and external challenges and risks faced by Canada Post in its effort to ensure its activities generate reasonable rates of return. You have been asked to identify the costs and the social policy implications of the universal service obligation (USO) and project the future evolution of postal costs and revenues. You are to identify the financial impacts of public policy obligations placed on Canada Post and to judge the relevancy of these obligations with respect to the needs of Canadians. Concerning finances, you have been asked to evaluate the current policies and financial framework to ensure that Canada Post can compete successfully in the marketplace and meet its public policy obligations. You have also been asked to determine the appropriate financial and performance targets for Canada Post. With respect to the quality of services, you have been asked to propose the means to establish service delivery standards. Regrettably you have not been asked to apply an environment lens to your analysis. Given the size of

the carbon footprint of the letter and parcel delivery industries this is a very significant oversight on the part of the government. We hope you will step out of your mandate and include an analysis of the environmental impact of all of your recommendations and observations.

In addition to this very extensive mandate, you have been asked to address the most complex and controversial subject facing postal administrations in the world today: the issue of what postal services should be preserved as exclusive privileges and which ones should be provided in a more competitive environment.

For the CUPW all of the above issues are important for the future of the postal service and consequently for the welfare of our members. However, there is no single issue which is more important for the long term viability and very survival of the postal service than the continuation of the exclusive privilege.

Government Dictates Inadequate Process

We believe that the timeframe for this review, and the resources provided to the advisory panel by the federal government are inadequate to permit the issues to be properly examined and discussed by the public and by interested parties such as the major stakeholders. The responsibility for both the secretive process and the lack of resources lies entirely with the federal government.

The issues to be addressed by the advisory panel are of great importance to the CUPW and its members. They are also important public policy issues that will impact upon postal users and the general public. Canada Post is a publicly owned Crown Corporation providing an important service to all citizens and businesses in every community in the country. Despite the importance of the issues and the institution the government decided to conduct the current review process in virtual secrecy.

Unlike the three previous reviews, held in 1985, 1989 and 1996, the 2008 advisory panel is not conducting any public hearings. Although submissions will be posted

on the internet, there will be no opportunity for interested parties to observe the presentations of other major stakeholders and comment on them in their own submissions. The media will be denied the opportunity to report on the proceedings and the discussion and debate which would occur between members of the panel and presenters should the process be open and public.

The secrecy of the Canadian process can be contrasted with the current proceedings of the United States Postal Regulatory Commission (PRC) which is also involved in an investigation into the universal postal service and the postal monopoly in the United States, including the monopoly on the delivery of mail and on access to mailboxes. Under its legislative mandate the PRC is required to “consult with the Postal Service and other federal agencies, users of the mails, enterprises in the public sector engaged in the delivery of the mail, and the general public.” As part of its public consultation the PRC conducted public hearings in Flagstaff, Arizona, St. Paul, Minnesota, and Portsmouth, New Hampshire. To further encourage public involvement the Commission sponsored an open workshop in Washington, D.C. in May 2008, to receive public comment. This public process also provides interested organisations 30 days to reply to the presentations of others.

Contrast the openness and inclusivity of the American process with the CPCS process as dictated by the Canadian government. The timing and the lack of public notice could not have been better planned to ensure that the work of the advisory panel will exclude participation of the public. Effectively, the entire CPCS process has been arranged as a secret review of a very public institution.

Openness and Transparency Necessary

The CUPW is also concerned the process established by the government for the CPCS may prohibit the union from examining and commenting on information concerning the labour costs, work rules and collective agreement provisions that govern our members employed by Canada Post Corporation.

In the 1985 and 1996 mandate reviews, information provided by Canada Post management to the review panels was used as the basis for recommendations concerning work rules, labour costs, outsourcing, absenteeism and other labour relations issues. Although we never were provided access to this data, we believe it was similar to inaccurate and erroneous information provided by Canada Post management to arbitrators.

There are several items in the Terms of Reference for the CPCSRS which may lead the advisory panel to examine issues associated with work practices, work rules, labour compensation or other items covered by CUPW's two collective agreements with Canada Post Corporation. Should the panel find it necessary to consider data provided by any source that relates to work rules, labour costs, outsourcing, absenteeism, job security, staffing provisions or any other labour relations issues relating to our members working at Canada Post Corporation we expect to be provided the opportunity to examine and comment on this information.

In no circumstances will we tolerate a repeat of the unethical misrepresentation of facts conducted in 1996 by George Radwanski when he deliberately misquoted Mr. Gordon Ritchie to justify his recommendation to cut the labour costs of CUPW members. Both the 1985 and 1996 mandate reviews included recommendations which led to national postal strikes in 1987 and 1997. We do not want to see a repeat of this sorry history.

In order to promote greater public involvement in this process CUPW has provided the advisory panel with a list of organisations that may be interested in making submissions. We have also used our own resources to help publicize the CPCSRS process. We hope and expect that the advisory panel will recommend to the government to increase media advertising to better notify the public of the review, open the process to public consultations with media access, and extend the deadline for submissions.

We strongly believe that the CPCS process should be as public and as inclusive as possible. The Post Office is owned by the people of Canada and it exists to serve the need of the people. As much as possible they should have the opportunity to express their views and participate in any process which may alter the future of this important public institution.

Recommendation #1: The CPCS process should be opened to public involvement with increased public notification. Public hearings should be held in several locations, and the deadline for submissions should be extended.

Recommendation #2: All recommendations and proposals for change by the advisory panel should be examined in the context of their impact on the environment.

Canada Post Corporation: A Public Institution

At the outset, the union wishes to state our belief that public sector organizations, such as Canada Post Corporation, should, at all times, strive to be model institutions in our society. They should exhibit the highest standards of social responsibility in all of their relationships with the public, employees, customers and competitors.

We believe that social responsibility requires participation, transparency and accountability. The public must have a right to participate in the planning processes which guide important decisions concerning the future of public services.

Canada Post Corporation competes in a commercial environment for some of its services but it is first and foremost a national public service. It is owned entirely by the people of Canada. As such, its main objective must be to contribute to the betterment of society. CPC does this by providing high-quality postal services,

which are important to the economic, cultural, social and educational development of the nation. However, as a large national institution, with a physical presence in almost every community, it is essential that CPC set the highest standards in all of its endeavours. With regards to the environment, CPC should ensure that its plant facilities, retail services and delivery operations are the most environmentally responsible in the industry. In its commercial undertakings, CPC should implement the highest ethical standards in its dealings with both its customers and its competitors. CPC should constantly seek new ways of involving public participation in its decisions concerning the public services it provides in the communities. As an employer, CPC should respect the dignity of its workforce and aim to have the best record concerning the health and safety of employees. In its international dealings, and especially when it engages in joint ventures with partners in other countries, CPC should require all of its business partners provide wages and labour standards which are superior to the minimum standards established in conventions of the International Labour Organization (ILO).

The Mandate of Canada Post Corporation

The stated purpose of the strategic review is to examine Canada Post's public policy objectives, its ability to remain financially self-sustaining, and the continued relevancy of the Multi-Year Policy and Financial Framework.

The public policy objectives of Canada Post Corporation, as established in the Canada Post Corporation Act, represent a balance of the interests of the public, postal users, competitors and post office workers.

The creation of Canada Post Corporation, in 1981, came at a time when postal services were in a state of crisis. The Post Office Department had been regularly running annual deficits of hundreds of millions of dollars. The botched introduction of new technology during the late 1970s had resulted in very significant performance problems. The legislative reform was not only a response to financial and service quality problems. It was also a direct response to a lengthy

and sustained campaign by the postal unions to transform the post office into a Crown Corporation under the Canada Labour Code.

The Act identifies that the primary objective of the corporation is to establish and operate a postal service for the collection, transmission and delivery of messages, information, funds and goods both within Canada and between Canada and places outside Canada. It provides Canada Post with a public policy mandate to provide basic customary postal services that meet the needs of the population and a commercial mandate to operate on a financially self sustaining basis.

The mandate included in the legislation, adopted unanimously by parliament, also instructs CPC to improve labour relations, provide for the security of the mail and maintain an identity program which reflects the role of the post office as a federal government institution.

To enable CPC to provide a universal service the law provided the corporation with the exclusive privilege of collecting, transmitting and delivering letters to the addressee thereof within Canada. Several exceptions to the exclusive privilege were included in the legislation including letters of an urgent nature that are transmitted by a messenger for a fee at least equal to an amount that is three times the regular rate of postage payable for delivery in Canada of similarly addressed letters weighing fifty grams.

To ensure that the government and CPC did not use postal service as a “cash cow” to generate revenue for federal coffers, Section 19 (2) of the Act states postage rates shall be fair and reasonable and consistent so far as possible with providing a revenue, together with any revenue from other sources, sufficient to defray the costs incurred by the corporation in the conduct of its operations.

The Act also envisioned that Canada Post offer new electronic communications services in order to compensate for declining growth in lettermail volumes. Section 5 (2) (a) states CPC must have regard to the desirability of improving and extending its products and services in the light of developments in the field of

communications. Speaking in the House of Commons during the Second reading of Bill C-42, Postmaster General Andre Ouellet said this clause meant, “the Corporation shall be at the forefront of technology and new developments in the area of communications to serve the Canadian people better.”¹

CUPW supported the legislative mandate of Canada Post Corporation in 1981 and we continue to do so today. We believe that under the current mandate and legislative framework, CPC can continue to provide excellent services to the population for decades to come.

Our discussion of the public policy issues will be guided by the following principles:

- Canada Post Corporation must use its advantages of national coverage and economies of scale to provide accessible and affordable services to all Canadians.
- The obligation to service all communities must be balanced by an exclusive privilege to deliver letters.
- Postal services must encourage economic development in rural areas.
- Canada Post must operate in a manner that promotes the environment.
- Postage rates must be established at a level necessary to cover all costs of operations and investment. Any surplus should be reinvested into expanding services to the public.
- Canada Post should be owned collectively by the people of Canada and accountable to Parliament.
- The individual and collective rights of all post office workers must be respected.

¹ Hansard, House of Commons debates, October 24, 1980

Canada Post Today: An Engine of Economic Growth and a Valuable Public Service

Twelve years ago George Radwanski, the chairperson of the 1996 mandate review remarked that Canada Post Corporation was plagued by “a serious crisis of identity, behaviour, purpose and long-term financial viability.”² He noted that in its first decade and a half CPC had a dismal profitability record with losses in nine years and an accumulated deficit of \$1.5 billion. He speculated that unless CPC underwent very significant changes it would “remain mired in growing public controversy and chronic financial underachievement.”³

Very much has changed since Radwanski wrote his bleak assessment of the prospects of Canada Post Corporation. Today CPC is ranked as the most trusted public institution in Canada. It has experienced over a decade of profitability while raising prices at a rate considerably less than the overall rate of inflation. Internationally, CPC is rated among the most successful postal services in the world.

Despite numerous predictions of the demise of lettermail and the corresponding decline of postal services, Canada Post remains a very important institution. Each day CPC reaches more than 13 million residential addresses, over one million small businesses, over 10,000 medium and large businesses and over 80,000 public institutions in Canada. It provides a direct link to over 160 postal administrations around the world. Canada Post operates both the largest retail network and the largest fleet of vehicles in Canada.

² The Future of Canada Post, Report of the Canada Post Mandate Review, Ministry of Public Services, Government of Canada, 1996, page 4

³ The Future of Canada Post, Report of the Canada Post Mandate Review, Ministry of Public Services, Government of Canada, 1996, page122

It directly employs over 72,000 workers with 1.6 million jobs being associated with the mail channel (comprising jobs associated with the post, its suppliers, the competitors and their suppliers and jobs associated with the users of the mail)⁴.

The continued importance of mail is illustrated in an examination of overall mail volumes.

Figure 1: CPC Volumes 1992-2007

| Product (millions) | 1992/93 | 1997/98 | 2002 | 2007 |
|--------------------------------|---------------|--------------|--------------|---------------|
| Transaction Mail | 4,486 | 4,605 | 4,611 | 5,399 |
| Addressed Admail | 1,286 | 1,543 | 1,383 | 1,525 |
| Publications | 491 | 414 | 565 | 535 |
| Unaddressed Admail | 3,967 | 2,377 | 2,906 | 3,940 |
| Parcels | 180 | *297 | *306 | *314 |
| Other | N/A | N/A | N/A | 66 |
| Total Addressed (Excl Parcels) | 6,263 | 6,562 | 6,559 | 7,459 |
| Total Volumes* | 10,410 | 9,236 | 9,771 | 11,779 |

* The Canada Post Group

Source: CPC Annual Reports

There is no doubt that mail delivery is not as essential for most individuals and businesses as it was prior to the advent of facsimile transmission, email and the internet. It is also true that the rate of volume growth of addressed letters is not matching that of the overall GDP and certainly not close to the dramatic increase in the overall communications market. However, the fact remains that in 2007, CPC delivered a record number of items to a record number of points of call. It continues to be an economic and cultural lifeline for millions of citizens and

⁴Summary, The Canadian Mail and Jobs Database, Foundation for Paper Based Communications of the Envelope Manufacturers Association, 2007

businesses who depend on the post for information, financial transactions and the delivery of supplies and products.

The Future of Mail Volumes

What will happen to mail volumes? Projecting mail volumes has proven to be impossible even for the most knowledgeable experts. Much will depend on the impact that future developments in communications technology have on consumer choice concerning financial transactions and advertising. Will the move from desktop and laptop computers to hand-held devices, have an impact on how individuals make financial transactions? Will the proliferation of television stations and the introduction of more charges for text messages lead to greater use of addressed and unaddressed direct mail as a marketing tool? Will environmental concerns result in a decrease or an increase in paper communications? Will internet shopping greatly expand the number of parcel deliveries?

The fact is that we do not know what will happen to mail volumes although we can make a few reasoned observations.

1. Currently mail volumes are basically flat. As seen in Figure 2 on page 22, the volume of addressed mail is not keeping up with the rate of growth in points of call. However, total volumes per point of delivery are continuing to rise. It is possible we will witness a long term decline in revenue per point of delivery while volumes per point of delivery continue to rise. This will depend on the changing composition of the product mix. Should parcel and packet delivery increase due to internet shopping, it is possible the current revenue per point of delivery might remain constant or even increase.
2. Mail volume figures provided by CPC should be questioned. When the union and management worked jointly to contract-in parcel delivery we learned that the parcel volume figures provided by contractors were tremendously inflated (up to 50 per cent) , especially in the locations where

CPC did not conduct any independent verification of the contractors' invoices. Likewise, the restatement of mail volumes in 2003 indicated that CPC had underestimated transaction mail volumes by fully 15 per cent in the years prior to 2003. The corporation has acknowledged that the current reported transaction mail volumes continue to be based on the assumption that 95 per cent of counter revenues represent letters. This may change over time and contribute to inaccurate reporting of both letter and parcel volumes as was the case prior to 2003.

3. CPC's previous projections of mail volumes have been wildly inaccurate. If the past can tell us anything it is to be wary of "expert" projections concerning lettermail volumes. In 1999, when lettermail volume was 4.7 billion pieces, the five-year CPC Corporate Plan called for a decline in volumes to 4.2 billion pieces by 2004 and a steady decline of 2.3 per cent per annum thereafter. Moreover the results from a consensus forecast of "experts" selected by CPC and including the EDI Group, Price Waterhouse, Coopers & Lybrand, Forester Research, Travis Research and the Institute for the Future were even more pessimistic, calling for lettermail volumes of 4 billion pieces in 2004 followed by an annual decline of 2.9 per cent. Actual lettermail volumes in 2004 were 5.4 billion pieces and they have remained flat since then.
4. Volumes have declined before and recovered. During the past 35 years, overall volumes of transaction mail (previously known as First Class Letters and also Communications Market) increased by 71.9 per cent. However, the growth of volumes has been anything but consistent. There have been numerous occasions in the past when letter volumes have declined or remained stagnant due to changes in communications technology only to recover later. In fact volumes of transaction mail declined in twelve of the past 35 years. (1971-1972, 1975-1976, 1977-1978, 1979-1980, 1981-1982, 1983-1984, 1991-1992, 1992-1993, 1996-1997, 1999-2000, 2002, and 2007). In another seven years during this period the increase in volumes of this category of

mail was less than one per cent. It should be noted that during this time there were only two national work stoppages that had any appreciable impact on annual mail volumes.

There are a multitude of studies and papers which examine the issue of the potential impact of electronic substitution on the posts. We recommend the advisory panel to examine the series of papers produced for the Pitney Bowles research project entitled Electronic Substitution for Mail: Models and Results; Myth and Reality. These papers do much to explain the increase in mail volumes that have occurred simultaneously with the enormous expansion in the use of email and the internet during the past decade. Concerning the answer to the question of the future of mail we note the observation of Niels Bohr, the winner of the Nobel Prize for physics in 1922: "It is very difficult to make predictions, especially about the future."

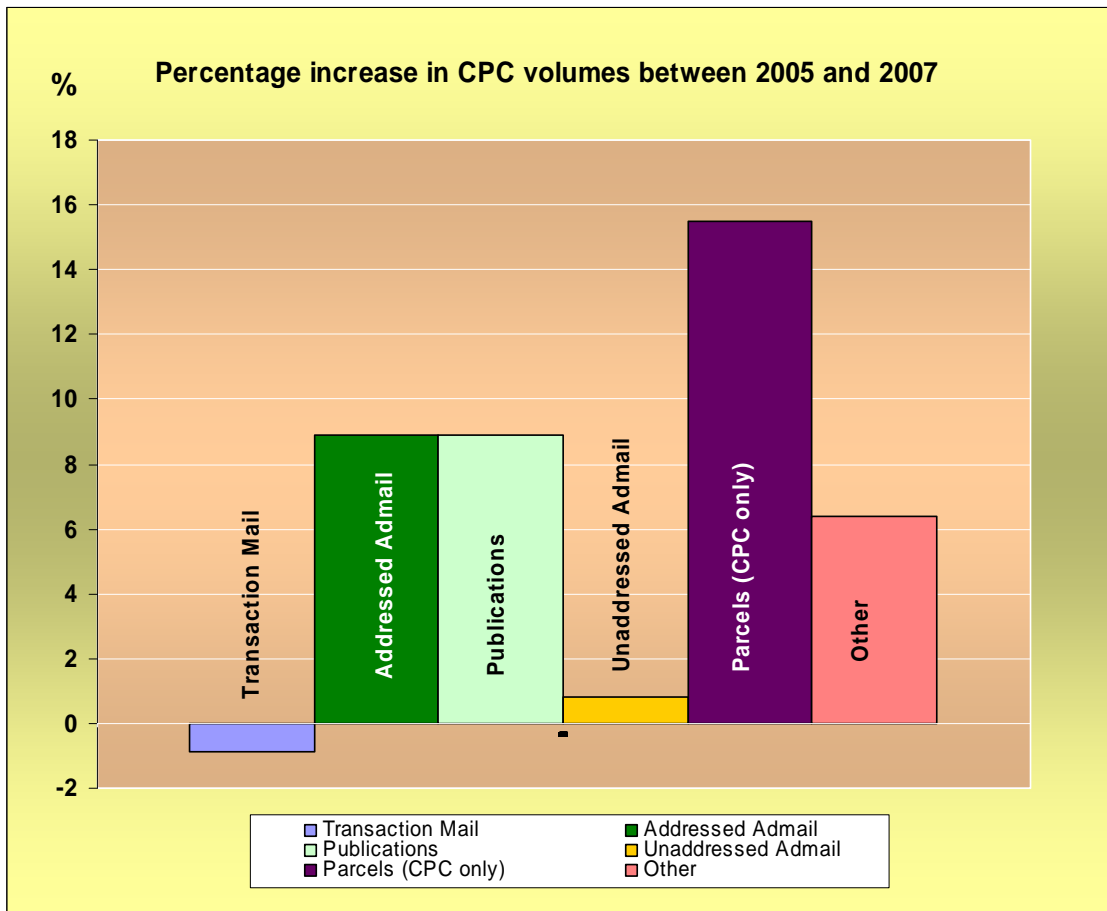
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Figure 2: CPC Volumes

| Product (millions) | | | | % Change |
|----------------------------|--------|--------|--------|-----------|
| | 2005 | 2006 | 2007 | 2005-2007 |
| Transaction Mail | 5,446 | 5,464 | 5,399 | -0.9 |
| Addressed Admail | 1,400 | 1,470 | 1,525 | + 8.9 |
| Publications | 531 | 536 | 535 | +0.2 |
| Unaddressed Admail | 3,411 | 3,722 | 3,940 | +15.5 |
| Parcels (CPC only) | 156 | 174 | 174 | +11.5 |
| Other | 65 | 60 | 66 | +1.5 |
| Total Addressed | 7,533 | 7,644 | 7,633 | +1.3 |
| Total Volumes | 11,016 | 11,433 | 11,646 | +5.7 |
| Points of Delivery (000's) | 14,053 | 14,293 | 14,493 | +3.1 |

Source: CPC Annual Reports



Good Service and Public Trust

Although future volumes are difficult to predict the current level of service is easy for anyone to evaluate. On any day anyone can perform their own test of CPC's delivery performance. The results invariably correspond to the high ratings reported by IBM and Research International in their regular testing of CPC's performance. It is the consistent and reliable service performance that is largely responsible for the dramatic change in public perception of postal service that has occurred from the days of "public controversy" cited by Radwanski in 1996. Indeed several independent studies and public opinion polls reveal that the public now views CPC as a trusted and efficient institution. The massive AC Nielsen's Homescan consumer research survey of 13,354 people found that, between 1997 and 2002 postal services surpassed banks, telephone and cable companies for reporting of service quality ratings. In 2005, a poll conducted by Legere Marketing and Marketing Magazine found that Canada Post ranked as the tenth most respected company in Canada ranking far ahead of Fedex (ranked 35) and UPS (ranked 46). Although CPC's ranking fell to 13th in 2006 and 19th in 2007, it continues to surpass all private courier companies. In 2006, the tenth edition of Commerce-Léger Marketing survey ranked Canada Post third of 150 most-admired businesses in Quebec, beating out companies such as Toyota, Sony, Tim Hortons and all private couriers. A recent survey conducted by The Strategic Counsel for the Globe and Mail and the CTV Television Network found that Canada Post ranked as the most trusted Canadian institution surpassing the Canadian Military, the Supreme Court, the RCMP and the Canadian Broadcasting Corporation (CBC).

High Profits with Low Postal Rates

At the same time that it has improved its service performance Canada Post has also been extremely successful from a financial perspective. In 2007, CPC marked its thirteenth consecutive year of profitability. This is certainly a remarkable feat given that CPC does not provide financial or banking services similar to most other financially successful postal administrations. During the past thirteen years,

CPC has not only been financially self sustaining as required by the CPC Act, it has also paid the federal government \$623 million in dividends and \$496 million in taxes. Unlike many other postal administrations, CPC has also generated millions of dollars in GST payments for the federal government.

These large profits have not been achieved by exploiting the exclusive privilege. CPC has provided its highly profitable and very dependable services at extremely low postage rates. Since 1982, increases in postage rates for transaction mail have consistently been less than the general rate of inflation less than changes in the transportation index of the consumer price index (CPI).

As seen in Figure 3 on page 27, since the initial rate adjustment following the proclamation of the Crown Corporation the rate of increase in postage rates has consistently trailed the Consumer Price Index. In the 17 years between 1982 and the announcement of the Multi-Year Policy and Financial Framework in 1999, postage rates for transaction mail increased at a rate of 70 per cent of that of the broader rate of inflation as measured by the CPI for all items. Since 1999, all items inflation has risen 22.1 per cent, while postage rates have gone up only 13.0 per cent.

The low rate of postage increases for transaction mail is even more remarkable considering the rise in CPC's input costs. The Transportation Index of the Consumer Price Index increased fully 138.5 per cent between January 1982 and January 2008 while the price charged by Canada Post to send a letter increased only 73.3 per cent.

The ability of CPC to remain profitable, while raising its prices below the rate of increases in its input costs, has been made possible as a result of productivity

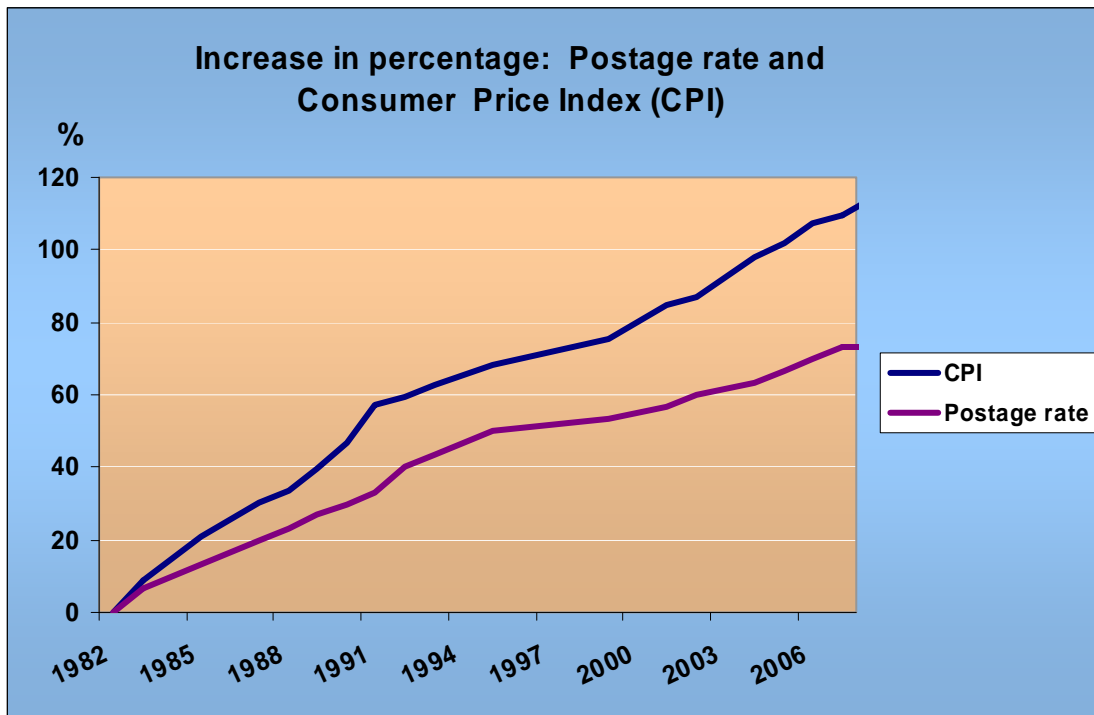
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increases in mail processing and delivery which have considerably outpaced productivity gains experienced by the business sector as a whole.⁵

⁵Ensuring Universal Service at Affordable Rates, The Mandate of Canada Post Corporation for the 21st Century, Canada Post Corporation, February 1996, page 5

Figure 3: Lettermail Rate Compared to Consumer Price Index



Sou

Source: Statistic Canada

| Date | Postage rate | CPI (all items) 1992=100 | CPI (transport) 1992=100 | % increase Postage rate | % increase CPI | % increase CPI (transport) |
|--------------|--------------|-----------------------------|-----------------------------|----------------------------|-------------------|-------------------------------|
| Jan 1, 1982 | 30¢ | 62.1 | 66.3 | - | - | - |
| Feb 15, 1983 | 32¢ | 67.6 | 70.5 | 6.6 | 8.9 | 6.3 |
| Jun 24, 1985 | 34¢ | 75.0 | 79.1 | 13.3 | 20.8 | 19.3 |
| Apr 1, 1987 | 36¢ | 80.8 | 83.7 | 20.0 | 30.1 | 26.2 |
| Jan 1, 1988 | 37¢ | 83.0 | 85.5 | 23.3 | 33.7 | 29.0 |
| Jan, 1 1989 | 38¢ | 86.6 | 88.4 | 26.7 | 39.5 | 33.3 |
| Jan 1, 1990 | 39¢ | 91.3 | 94.2 | 30.0 | 47.0 | 42.1 |
| Jan 1, 1991 | 40¢ | 97.6 | 100.7 | 33.3 | 57.2 | 51.9 |

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| Date | Postage rate | CPI (all items) 1992=100 | CPI (transport) 1992=100 | % increase Postage rate | % increase CPI | % increase CPI (transport) |
|--------------|--------------|-----------------------------|-----------------------------|----------------------------|-------------------|-------------------------------|
| Jan 1, 1992 | 42¢ | 99.1 | 98.9 | 40.0 | 59.6 | 49.2 |
| Jan 1, 1993 | 43¢ | 101.2 | 102.5 | 43.3 | 63.0 | 54.6 |
| Aug 1, 1995 | 45¢ | 104.4 | 113.5 | 50.0 | 68.1 | 71.2 |
| Jan 1, 1999 | 46¢ | 108.9 | 120.2 | 53.3 | 75.4 | 81.3 |
| Jan 1, 2001 | 47¢ | 114.7 | 131.2 | 56.7 | 84.7 | 97.9 |
| Jan 14, 2002 | 48¢ | 116.2 | 126.9 | 60.0 | 87.1 | 91.4 |
| Jan 12, 2004 | 49¢ | 122.9 | 142.2 | 63.3 | 97.9 | 114.5 |
| Jan 17, 2005 | 50¢ | 125.3 | 146.3 | 66.7 | 101.8 | 120.7 |
| Jan 16, 2006 | 51¢ | 128.8 | 154.2 | 70.0 | 107.4 | 132.6 |
| Jan 16, 2007 | 52¢ | 130.3 | 152.3 | 73.3 | 109.8 | 129.7 |
| Jan 2008 | 52¢ | 133.0 | 158.1 | 73.3 | 114.2 | 138.5 |

By international standards the Canadian rate of postage for transaction mail is a bargain. As seen in Figure 4 on page 29, the rate of postage in most countries is considerably greater than Canadian rates even though Canada has much more territory with a significantly lower population density. Indeed, when postage rates are expressed in terms of the average wage levels, even New Zealand charges much higher postage rates than Canada.

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Figure 4: 20 g First-Class Rates for Industrialized Countries in Currency and Labour Time

| | 2008 domestic rate | Currency | Foreign unit in US\$ | 20 gram rate in US\$ | Density (pop per km ²) | Production workers: hourly wages in US\$: 2006 | Production workers: minutes labour to purchase 20 gram letter | Fully liberalised domestic market? |
|----------------|--------------------|----------|----------------------|----------------------|------------------------------------|--|---|------------------------------------|
| Finland | 0.70 | EUR | 1.58584 | \$1.11 | 16 | \$29.90 | 2.23 | Yes |
| Italy | 0.60 | EUR | 1.58584 | \$0.95 | 195 | \$28.71 | 1.93 | No |
| Sweden | 5.50 | SEK | 0.16989 | \$0.93 | 20 | \$31.80 | 1.75 | Yes |
| Austria | 0.55 | EUR | 1.58584 | \$0.87 | 99 | \$30.46 | 1.71 | No |
| France | 0.55 | EUR | 1.58584 | \$0.87 | 111 | \$24.90 | 2.10 | No |
| Germany | 0.55 | EUR | 1.58584 | \$0.87 | 232 | \$34.31 | 1.52 | Yes |
| New Zealand | 0.50 | NZD | 0.79224 | \$0.40 | 15 | \$14.47 | 1.66 | Yes |
| Japan | 80.0 | YEN | 0.00965 | \$0.77 | 338 | \$20.20 | 2.29 | No |
| United Kingdom | 0.36 | GBP | 1.99131 | \$0.72 | 248 | \$27.10 | 1.60 | Yes |
| Canada | 0.52 | CAD | 0.99481 | \$0.52 | 3 | \$25.74 | 1.21 | No |
| United States | 0.42 | USD | 1.00000 | \$0.42 | 31 | \$23.82 | 1.06 | No |

Foreign exchange rates of 5/12/08

Source: Rates: International Affairs Department: USPS

Density: United Nations: World Population Prospects 2006

Maintaining the Exclusive Privilege

The advisory panel has been asked to examine which activities or services currently provided by Canada Post should be preserved as exclusive privileges and which ones should be provided in a more competitive environment.

The Canadian Union of Postal Workers considers this to be the most significant and complex issue to be examined by the advisory panel. In our view, the elimination, or erosion of the exclusive privilege would fatally undermine the ability of CPC to respond to the technological and competitive challenges which lay ahead.

Under the terms of the Canada Post Corporation Act the corporation has the exclusive privilege of collecting, transmitting and delivering letters to the addressee thereof within Canada. Competitors are prohibited from delivering letters weighing less than 500 grams unless they charge at least three times the postage rate set by Canada Post for a 50 gram letter. At the current 2008 rate of postage competitors must charge \$2.88 (CAN) per piece if they wish to enter into competition with Canada Post for the delivery of addressed letters. Since the current rate of postage charged by CPC for a letter up to 30 grams is 52 cents (CAN) Canada Post has an effective monopoly on addressed lettermail.

The exclusive privilege was included in the CPC Act to ensure that competitors cannot reduce CPC revenues by undercutting the corporation in the lettermail service in the lucrative large city markets. In 1981, when the legislation was being debated, it was estimated that the average cost of delivery to areas north of the southernmost 200 mile band across the country was “six to ten times” the cost of the prevailing first class letter rate⁶. Given the size of the country it was somewhat surprising that the scope of the exclusive privilege in Canada was considerably more restrictive than most European countries.

⁶ Statement of Deputy Postmaster General James Corkery to the Transportation and Communications Committee, April 23, 1981

Figure 5: Importance of Exclusive Privilege Products 2000-2008

| | 1999/2000 | 2007 | 1999/2000 | 2007 |
|-----------------------|--|--|------------------------------|------------------------------|
| | Transaction (1 st Class) | Transaction (1 st Class) | Total Exclusive Privilege | Total Exclusive Privilege |
| Volume (millions) | 4,544 | 5,399 | 6,029 | 6,924 |
| % Total Volume | 48.10 | 45.80 | 63.80 | 58.80 |
| Revenue (\$ billions) | 2.36 | 3.21 | 2.85 | 3.83 |
| % Total Revenue | 41.80 | 42.90 | 50.60 | 51.20 |

Source: Canada Post Corporation Annual Reports

It is important to note that the exclusive privilege has never been a factor in the decisions of individuals to send personal mail in Canada. Personal mail and individual mailings would never be contested by potential competition to Canada Post. It is actually only business mail and large volume mailings, which are affected by the exclusive privilege, as these are the only types of mail that would be subject to competition in the event of postal liberalisation.

In recent years there has been a tendency on the part of commentators and CPC management to play down the ongoing importance of the exclusive privilege. In 1996, in its brief to the mandate review Canada Post stated that the electronic erosion of letters would be tantamount to the abolition of the exclusive privilege.⁷ In 2005, the recently appointed President of CPC, Moya Greene, communicated a very similar message to employees stating that the “exclusive privilege doesn’t guarantee our success in today’s market where electronic means of communications are offering faster, cheaper and more direct options for our customers and private-sector delivery providers are offering more flexible logistics

⁷Ensuring Universal Service at Affordable Rates, The Mandate of Canada Post Corporation for the 21st Century, Canada Post Corporation, February 1996, page 33

solutions. Exclusive privilege seems far less exclusive today than it was even five years ago.”⁸

Far from declining in importance the exclusive privilege remains centrally important to the financial viability of CPC. As seen in Figure 5 on page 31, a comparison of the composition of Canada Post’s mail products indicates that from a financial perspective, the exclusive privilege products, especially transaction mail, are more important today than seven years ago.

Not only have the revenues and volumes of the exclusive products grown during this age of heightening electronic competition but the relative financial importance of these products within the post office has also increased.

Most Countries Continue to Have a Mail Monopoly

The vast majority of countries continue to have a mail monopoly for letters of 50 grams or less. The most notable exceptions are Sweden (1993), Finland (1994, although licensing requirements have precluded any competition), New Zealand (1998), the United Kingdom (January 1, 2006), and Germany (January 1, 2008). In Europe, letter post over 100g has been subject to competition since 2003. On January 1, 2006, the weight limit was lowered to 50 grams. Recent EU Parliamentary approval of the Third Postal Directive (published officially on February 28, 2008) requires the complete elimination of exclusive rights or reserved areas for the designated postal operators in 2011 or 2013 at the latest. In Europe, Spain is truly the exception as the monopoly power of Correos is defined in an unusual way. The reserved services in Spain include collection, distribution, and transportation of letters between cities and villages (i.e., inter-urban mail); while the delivery of letters within cities (i.e., intra-urban mail) is open to competition. The scope of the postal monopoly was reduced in 1997 to inter-urban services up to a maximum of five times the stamp price. There is also no uniform

⁸ Moya Greene weblog, May 30, 2005

rate in Spain. The price of mailing a letter depends on whether it is delivered to the same urban area or to another urban area within Spain.

In most Asian countries, a broad reserved area is still assigned to the national postal service. In Japan, the Correspondence Delivery Law, was enacted in 2003. It paved the way to enabling private operators to deliver correspondence items, provided that they establish uniform rates, collection and delivery six days a week, delivery within three days and universal installation of collection boxes under certain business restrictions. To date, no operators have applied for a nationwide “general” category license and Japan Post continues to have an effective monopoly for lettermail. In 2005, Japan’s parliament passed a package of bills to privatize and deregulate its postal service over a 10-year period. To date, there has been no movement on the deregulation initiative.

Australia has one of the most restrictive regulatory regimes. Australia Post has the exclusive right to deliver letters weighing less than 250 grams. Each year, the Australian Competition and Consumer Commission (ACCC) issues a report assessing cross-subsidy in Australia Post. In 1994, amendments to the Postal Act provided some additional opportunities for the private sector with respect to bulk mail, time sensitive mail, document exchange, and internal company mail. Outbound international mail was exempted from the exclusive privilege which was also reduced from ten to at least four times the basic postage rate. These changes had virtually no impact on volumes or Australia Post’s market share. There was a serious attempt to liberalise Australian postal services between 1998 and 2001, however this failed due to public and political opposition. It should be noted that this initiative would have maintained a reserved area for letters of less than 50 grams.

Many Reasons to Maintain the Exclusive Privilege

CUPW believes there are many reasons to maintain the exclusive privilege as it is.

1. Previous independent reviews have acknowledged the importance of the exclusive privilege and recommended its preservation.
2. The public and small businesses support the exclusive privilege and most large volume mailers support the status quo.
3. The exclusive privilege is necessary to maintain uniform postage rates.
4. Postage rates for the public and small businesses would increase without the exclusive privilege.
5. Elimination of the exclusive privilege would lead to cutbacks in service to the public especially in rural and remote locations.
6. By increasing delivery density the exclusive privilege promotes efficiency and lower costs.
7. The exclusive privilege is good for the environment.
8. The exclusive privilege promotes security of the mail.
9. The exclusive privilege supports decent jobs.
10. Deregulation has not worked where it has been tried.

Previous Reviews Supported Exclusive Privilege

The issue of the exclusive privilege was examined in the 1985 and 1996 CPC Mandate Reviews, both of which were chaired by individuals from the private sector. In 1985, the federal government appointed a five person Review Committee to examine the mandate and productivity of Canada Post and to make recommendations. Alan Marchment, president of Guaranty Trust Co., chaired the committee. Not surprisingly, the issue of deregulation was not a primary focus of the Review Committee, which focused instead on issues of service, finances and

labour relations. Likewise, none of the groups and individuals who made presentations dealt at length with the issue of deregulation.

In its report the 1985 Review Committee did address the negative impact that deregulation would have on employees, the public and Canada Post Corporation. It noted: "If the corporation is to survive and if universal service at uniform rates is to be maintained, the exclusive privilege is a requisite." The report further stated: "Removal of the exclusive privilege would permit competing services to challenge the revenue base of Canada Post Corporation. The result would be a marked reduction in the corporation, severe dislocation for its employees and greater public reliance on the private sector to move goods and information."⁹ The Review Committee recommended that the exclusive privilege be maintained for five years with further extensions to be depended on CPC's ability to provide reliable, efficient and effective service and achieve financial self-sufficiency. It also suggested that the exclusive privilege should be suspended for the duration of any strikes or lock-outs.

In Canada, the 1996 Canada Post Mandate Review, chaired by George Radwanski, adopted a similar approach to liberalisation. In his report Radwanski argued there was no guarantee the introduction of competition would reduce overall prices. Instead it was very likely cream-skimming by competitors would result in higher postage rates, an end to universal service and the fragmentation of the national service. The review also noted that proponents of both deregulation and privatization appearing before the committee had not been able to provide any answer when asked how their proposals would benefit ordinary Canadian citizens. Noting that deregulation was really a solution in search of a problem, the 1996 review concluded; "Removal of the exclusive privilege would be tantamount, in effect, to tossing Canada's postal system up into the air, allowing it to smash into a random assortment of pieces, and hoping that those pieces would somehow

⁹ Report of the Review Committee on the Mandate and Productivity of Canada Post Corporation, November 1985, Canadian Government Publishing Centre, page 21

rearrange themselves into a coherent whole that was better or at least as good as the current system.”¹⁰

The Public, Politicians, Small Businesses and Large Volume Mailers

In Canada, public opinion is strongly in favour of Canada Post maintaining its exclusive privilege. Recent polls reveal that a majority of both the general public and the small business community in both urban and rural areas oppose permitting private sector competition in lettermail. Opposition to deregulation and support for the exclusive privilege have both increased significantly during the last decade. The polling also indicates that the more that Canadians understand about the potential consequences of deregulation, the more they oppose it.

An August 2008 poll, conducted by Ipsos Reid found that 69 per cent of respondents opposed allowing private companies to deliver lettermail in Canada as opposed to 27 per cent who supported the concept. Those opposing deregulation tended to hold stronger views on the subject. Fully 46 per cent of respondents indicated they strongly opposed private sector delivery as opposed to 9 per cent who indicated strong support. When the 27 per cent supporting deregulation were asked to consider the possibility that introducing private sector competition would threaten CPC's ability to deliver universal service at a single price for all Canadians, 44 per cent of those supporting competition changed their opinion to oppose it.

The 2008 Ipsos Reid poll can be compared to a poll conducted in 1996 by Angus Reid. Concerning competition, the 1996 poll found that initially, 48 per cent of the population supported the idea of extending the exclusive privilege to private sector competitors. After considering the possibility that elimination of the

¹⁰ The Future of Canada Post, Report of the Canada Post Mandate Review, Ministry of Public Services, Government of Canada, 1996, page 70

exclusive privilege would threaten CPC's ability to deliver universal service at a single price for all Canadians, fully one-half of those supporting competition changed their opinion to oppose it. The 1996 poll also found that 91 per cent of respondents supported the concept of universal postal service at a uniform price.

The small business community is also in favour of CPC maintaining its exclusive privilege. Knowledge of their economic self-interest and the benefits of the exclusive privilege appear to be reflected in a recent poll conducted by the Canadian Federation of Independent Business (CFIB) and reported in April 2008. When asked if Canada Post should be allowed to keep its mail monopoly, 52 per cent of respondents answered yes and 35 per cent said no, with 13 per cent undecided or not interested. Over 11,000 CFIB members participated in this poll. These results indicate a significant shift in favour of CPC's exclusive privilege from a previous survey conducted by the CFIB in October 1996, when their members actually favoured CPC losing its monopoly by a margin of 58 per cent to 33 per cent with 9 per cent undecided.

Both the Ipsos Reid and CFIB polls revealed that urban and rural residents were equally opposed to permitting private sector competition in lettermail.

If eliminating the exclusive privilege is such a good idea one would think that more politicians would openly support it. None of the major federal political parties are on record as supporting deregulation. Both the Liberal and New Democratic Parties officially oppose deregulation and support the continuation of the exclusive privilege. The Conservative Party has taken the position that "no changes to Canada Post's exclusive privilege would be considered without thorough policy analysis." The Bloc Québécois is against the privatization of Canada Post. In their opinion, the Crown Corporation must remain a public institution in order to maintain a universal service with uniform rates across Canada. Concerning deregulation the Bloc Québécois considers that before reducing or eliminating Canada Post's exclusive privilege, the government must carry out a comprehensive public review of the issue, including its impact on Canada Post's mandate to provide universal service. The Green Party strongly

supports the current exclusive privilege and has stated that private sector competition would be a recipe for drastic service cuts to public postal services and increased costs to Canadians in rural and remote areas.

The advisory panel will doubtlessly hear from many large volume mailers concerning their views on the exclusive privilege. In the 1996 CPC Mandate Review, most large volume mailers either advocated for the status quo or did not comment on the issue.

The National Association of Major Mail Users (NAMMU), representing the largest number of users of transaction mail, supported the maintenance of the exclusive privilege except during labour disruptions. It argued that removal of the monopoly would require reliance on “geographical fragmented carriers at disparate geographic based pricing, varying standards of service and in remote regions no service, or at best, unaffordable pricing. Business mailers would be forced to weigh alternative means of national communications with their customers (rendering the cost to the individual Canadian) and accessing a ‘web’ of fragmented carriers – even more onerous once business volumes dramatically decline.”¹¹

The Canadian Marketing Association representing users of both CPC’s addressed and unaddressed admail delivery channels as well as CPC’s competitors such as community newspapers, took no position with respect to the exclusive privilege. The Canadian Magazine Publishers Association also did not take a position on the exclusive privilege but advocated that CPC’s mandate should be clarified and CPC should operate on a cost recovery basis.

In Canada, non profit organisations have been very supportive of public postal services. Noting that competition is not always in the best interest of consumers and the need to preserve good jobs in the postal sector, the National Anti-Poverty

¹¹ NAMMU submission to the Review Committee on the Mandate and Productivity of Canada Post Corporation

Organization supported maintaining the exclusive privilege. The Council of Canadians, Canada's largest citizen's organisation and itself a large volume mailer, also supported public ownership and maintenance of the exclusive privilege as did the Council of Yukon First Nations, the National Farmers Union, the Canadian Federation of Students, the National Network for Mental Health, Rural Dignity, the Congress of Aboriginal Peoples, the National Pensioners and Seniors Citizens Federation, the National Council of Persons with Disabilities, and Solidarité Rurale du Québec.

The Canadian Chamber of Commerce also argued in favour of maintaining the exclusive privilege stating, "It is essential to the viability of our members located in remote communities, as well as to our members located in large urban centers but who must communicate with others in remote areas, that the cost of lettermail service remain low and the quality of the service not be compromised."¹² It also noted there was no demonstrated evidence that discontinuing the exclusive privilege Canada Post presently enjoys in the distribution of lettermail would be of any significant benefit to the public.

In Canada, the greatest advocates of deregulation have been the utilities and right-wing think tanks such as the Fraser Institute and the C.D. Howe Institute. In 1996, hydro utilities in Alberta and Ontario proposed that utilities be exempted from the exclusive privilege so that they could utilize other delivery modes. A more recent 2007 report of the CD Howe Institute entitled *Rerouting the Mail: Why Canada Post is Due for Reform* argues that Canada Post is on its last legs and needs radical reform. A summary of the report claims that Canada Post, with its low postage rates, 13 consecutive years of profitability and more than a decade of contributing dividends and income tax payments (about a billion dollars combined in the last ten years alone) is "anachronistic and incapable of responding to the worldwide changes that are transforming the postal sector." It says, "Failure to rethink the

¹² Submission of the Canadian Chamber of Commerce to the Canada Post Mandate Review Committee, February 14, 1996, page 1

role and mandate of Canada Post, given the dramatic technological transformation that is occurring in the communications sector, would be ...to acquiesce in a slow-motion train wreck.”¹³

The Exclusive Privilege and Uniform Rates

Public opinion polls reveal that the provision of universal service at a uniform rate is the single most popular aspect of Canada Post. This popular expression of egalitarianism would eventually be destroyed by the introduction of competition.

With the second largest land mass in the world and the smallest population of the G8 countries, Canada Post faces an enormous differential between the costs of urban and rural operations. The exclusive privilege is essential if Canada Post is to continue to service all points of call with regular lettermail at a uniform rate. The introduction of competition would, in a very short period of time, force CPC to lower prices for customers that had competitive options and correspondingly raise rates for the public, small businesses and single piece users. Should low-wage competitors contest transaction mail of individuals or groups in large cities CPC would be required to respond by matching prices. This would mark the end of uniform rates. Failure to respond would only hasten the loss of volumes and subsequent financial crisis.

When they voted unanimously to establish the exclusive privilege in 1981, the members of the Canadian parliament were aware that it represented a financial subsidy from the urban cities to the rural farms and villages and isolated communities. Since then, there has been additional research that indicates that uniform postage rates also provide cross subsidization within urban cities from high to low density areas. The “economic distortion” created by uniform prices is a burden that Canadians appear to be totally willing to bear.

¹³ Rerouting the Mail, Why Canada Post is Due for Reform, CD Howe Institute Commentary, February 2007, page 11

As noted in the final report of the Price Waterhouse Coopers 2006 study entitled *The Impact on Universal Service of the Full Market Accomplishment of the Postal Internal Market in 2009*, commissioned by the European Commission, Internal Market and Services Directorate General, the Universal Service Provider (USP) “will find itself combating two problems of uniform pricing: the first from its single-piece letter rate and the inherent cream skimming possibilities between low-cost and high-cost areas; and the second the compounded effects of providing subsidized access to its high-cost areas, while entrants deliver to the high-margin, low-cost areas.”¹⁴

Postage Rates for the Public and Small Businesses Will Increase

Competition will dramatically alter the price structure of postal services. Competitors will enter the markets where it is possible for them to offer reduced prices. Typically this would include large volume products to be delivered in large urban centres without stringent time frames. An example of this business model is City Mail in Sweden. City Mail delivers large volume business mail to urban addresses twice per week. The postal administration would be left with the option of reducing prices to compete or losing the market. This inevitably would result in lower prices for business mail within urban centres.

To compensate for the loss of revenue from large volume mailings the post office would be required to raise prices for non-contestable mail such as individual letters and small volume mailings. The example of the 90 per cent increase in postal rates in Sweden, following deregulation, is instructive.

In addition to raising postage rates, CPC would also likely seek increased revenues by introducing higher charges for services such as the re-direction and forwarding of mail, post office boxes, change of address, holding the mail and

¹⁴ *The Impact on Universal Service of the Full Market Accomplishment of the Postal Internal Market in 2009* Price Waterhouse Coopers, page 151

other retail or delivery services. Other non-contestable products, such as signature items in rural areas may witness considerable price increases.

It is very possible the experience in Canada would resemble the disastrous experience of Sweden following deregulation in 1993. In Sweden, the postage rate for a piece of transaction mail (1st class letter) is 93 cents (CAN) or 79 per cent greater than the rate in Canada. Since deregulation, the postage rate for large volume business mailers has declined considerably while the rate for the public has increased enormously.

Competition in Sweden has achieved an unbundling of cross-subsidies and the provision of discriminating services. The result has been higher prices for consumers and small businesses. Following deregulation, in reaction to the arrival of City Mail, a competitor offering lower prices, Sweden Post cut its pre-sorted mail postage rate by 47 per cent. This was in response to a market entrant who had secured only a tiny market share. To compensate for this, Sweden Post increased its unsorted mail prices. In the ten years following 1993 the price increase for the popular domestic overnight 20 gram letter was 90 per cent. Even considering that approximately one third of this increase was due to the imposition of value added tax (VAT) on postal services the increase far outstripped the accumulated national inflation rate of 14 per cent. Postage rate increases for some other products were even higher. For example, postage for 20 gram letters to the neighbouring Nordic countries increased by 129 per cent.

It is also instructive to note the comments of the report of the May 2008 independent review of the UK postal services sector which examined the impact deregulation and competition had on prices and services in the UK. The report stated: "There have been no significant benefits from liberalisation for smaller businesses and domestic consumers. They believe that Royal Mail's service offers good value for money as it stands. But they have no choice in provider and are paying higher stamp prices. The introduction of a pricing methodology based on weight and dimensions makes life more difficult. While Royal Mail's performance against its quality of service targets is at record levels, the abolition of the Sunday

collection and the move to a single daily collection have been more visible to small business and domestic consumers. Both changes are perceived as a reduction in service, particularly for small businesses who want earlier and more predictable delivery times. Competition is based predominantly on price. While the open market is still very new, there has been less innovation than might have been expected.”¹⁵

Even strong advocates of postal deregulation acknowledge that deregulation will adversely impact on postal rates and quality of service for ordinary citizens. Consider the comments of the Price Waterhouse study into the impact of deregulation of the Swiss postal service. “If Switzerland is to implement Free Market Opening (FMO) it must clearly continue to achieve a balance between the USO and the opportunities available to provide the services foreseen in the USO by Swiss Post and the market. The basic ingredients to achieve the new balance under the FMO would be to reduce the scope of the USO itself (for example reducing the number of counters with full financial service delivery and franchising the other counters) and gradually to downsize Swiss Post to fit with the smaller role and market share it would have in the Swiss postal market following FMO. There would be necessary regulatory changes to accommodate the changes in the structure of the market and to ensure a level playing field for new entrants. Customers would have to become accustomed to the culture of the market in postal services. For large customers this would likely mean decreases and more customized product offerings; for households and small businesses this would likely entail increases in prices of universal services as well as some cutbacks from existing levels of services as the price, value and cost of all postal services becomes better aligned through the usual forces of the market.”¹⁶

¹⁵ The Challenges and Opportunities Facing UK Postal Services, An Initial Response to Evidence, Richard Hooper, CBE, May 2008, page 6

¹⁶ Evaluating the Impact of a Full Market Opening on Swiss Post, Report, Price Waterhouse Coopers, November 2006, page 28

Interestingly none of the experts or advocates of deregulation suggest that citizens and small businesses will benefit from reduced prices. Instead, there is an overwhelming consensus that deregulation will result in higher prices for the public.

Deregulation Leads to Service Cutbacks

It is difficult to attribute motivation behind cutbacks in the quantity or quality of postal services. There can be a host of reasons that lead to decisions to close post offices, cutback on hours of service or relax delivery performance standards. However, there is overwhelming evidence that elimination of the exclusive privilege would lead to cutbacks in both the quality and quantity of postal services to the public. Likewise, there is no evidence from any of the deregulated post offices that the new entrants offer superior services to the general public.

Again the experience of Sweden illustrates the dangers of deregulation. In Sweden, since deregulation in 1993, the number of full service Sweden Post counter services has been reduced by more than 67 per cent while the postal administration has embarked on a massive program of franchising its retail network. Between 1995 and 2000, Sweden was second to Germany in terms of cutbacks in post offices on a per population basis. In 1996, Sweden Post had 1,117 post offices and 630 other privately run outlets. By 2007, the number of directly run centres had declined to 361 with 1,600 private sector outlets located in supermarkets, gas stations and retail stores in addition to stamp agents located in convenience stores and offering a very limited range of products.

Likewise, the U.K. post office has embarked in a massive program of 2,500 post office closures in response to rising financial losses due to deregulation. In Germany Deutsche Post announced in March 2008 that it planned to franchise 850 post offices as a measure to maintain competitiveness after being deregulated in January 2008.

The inevitability of service cutbacks as a consequence of deregulation is recognized by many of its advocates. In presentations before the 2003 President's Commission, both the Mail Order Association of America and Readers Digest opposed the continuation of the monopoly and also argued that the frequency of mail delivery should be reduced in high cost areas. Other advocates of deregulation, such as Charles Kenny of the World Bank, have already proposed the prospect of reducing delivery frequency.

In Canada, the removal of the exclusive privilege would likely result in cutbacks to those services which do not directly add value to the 200 largest business customers identified by management as the most important corporate clients. We would quickly revert to the disastrous days of the 1980s when hundreds of retail counters were cutback in hours of service, contracted out, or eliminated altogether, especially in the rural areas. At the delivery end, there would be increased pressure to transfer the costs and effort of delivery to the receiver of mail through the introduction of community mail boxes or by carding more items to be picked up at centralized delivery points or postal stations. Faced with financial difficulties, Canada Post would be under pressure to adjust its delivery frequency based on mail volumes and overall cost of delivery.

The Exclusive Privilege Promotes Efficiency and Lower Costs

By increasing delivery density the exclusive privilege promotes efficiency and lower costs. Competition would change the composition of mail and reduce the overall volumes handled by Canada Post. The result would be a reduction in the overall efficiency of postal services and an unnecessary increase in unit processing and delivery costs.

It is difficult to estimate the entire impact that the elimination of the exclusive privilege would have in Canada. Other countries which have undergone deregulation, such as Sweden and New Zealand, have experienced a loss of market share in the vicinity of 10 to 20 per cent. However, there are several reasons to believe that the loss of volumes would be much greater in Canada. In

its studies of European postal deregulation, Price Waterhouse Coopers has observed that the penetration by competitors will correspond directly with the ratio between the labour costs of new entrants and those of incumbents. A larger ratio will generate a greater loss of volumes than can be expected by the incumbent.¹⁷ In Canada, although the wages of postal workers are not very much above the average industrial wage, the absence of adequate minimum wages and labour standards present an opportunity for competitors to pay very low wages. As a result, the volume loss in Canada can be expected to be much greater than that in Sweden or other European countries.

In 1995, as part of the mandate review process, Coopers Lybrand conducted an examination of the impact on CPC's letter volumes should it lose its exclusive privilege. The study, entitled Choices for a Self-Sustaining Canada Post predicted that CPC would lose a considerable volume of letters beginning almost immediately as messengers, admail distributors and other suppliers quickly organized to deliver pre-scheduled invoices and publications from utilities, municipalities, charities, retailers and the financial services sectors. The study forecast that within five years CPC would lose between 10 per cent and 50 per cent of household to household mail and between 25 per cent and 75 per cent of other mail.¹⁸ It estimated that more than half of CPC's employees would lose their jobs although some would be hired by the new low wage competitors. It concluded that CPC would not be sustainable for any length of time. In short, loss of the exclusive privilege would be a catastrophe for CPC, severely reducing the economic efficiencies gained by economies of scale.

From a quality perspective it is likely that competitors will focus on the high density, well-prepared and addressed business mail leaving the postal

¹⁷Price Waterhouse Coopers, The Impact on Universal Service of the Full Market, Accomplishment of the Postal Internal Market in 2009 Final Report, May 2006

¹⁸Choices for a Self-Sustaining Canada Post; Cooper Lybrand; November 9, 1995; p.40

administrations with a higher proportion of mail originating from individuals or small businesses. This would reduce the volume of pre-sorted mail and increase the proportion of poorly addressed letters. As a result the postal administrations would be left with letter volumes that require more time and energy in the mail processing process. Peter Andersson examined this pattern when he studied the Swedish Post Office. He concluded: "Senders of only local mail are now better off because they get lower prices if they choose the local operator. This benefit is however more than counteracted, because the aggregate of mail consumers will be worse off. The mail streams now handled by new entrants with inferior technology reduce the economies of scale and scope of Sweden Post."¹⁹

Reduction in letter volumes would have significant and negative impacts on the efficiency of current postal administrations such as Canada Post. Concerning the delivery functions there is a direct relationship between delivery density and economic efficiency. According to CPC's letter carrier route measurement system, approximately 70 per cent of all residences with two or less points of call receive mail each day. Any reduction in volumes transmits directly into a reduction of this percentage of coverage and triggers adjustments in the number and work content of letter carriers during the regular restructuring process that occurs in all letter carrier facilities at regular intervals. Through this restructuring mechanism, reduced volumes would increase the ratio of delivery time to sortation time for letter carriers. It would increase the delivery time per product and also increase the proportion of their work day spent delivering products. This is likely to increase work pressure and result in more injuries. Similarly, greater volumes of mail permit greater efficiencies in collection, preparation and processing of lettermail. Any significant reduction in volumes would result in reduced efficiency with respect to the use of the equipment in large mail processing plants. The prospect of reduced volumes might also serve as a deterrent for Canada Post to invest in new delivery and mail processing technologies.

¹⁹ Deregulating the postal sector, the Swedish model, Peter Andersson, Linköping University, page 11

An example of the impact of lower density on efficiency can be seen in the deregulated German postal market. It is estimated that the productivity of labour of the new entrants in delivery is less than 30 per cent of the average productivity of Deutsche Post delivery staff. While letter carriers employed by competitors typically deliver 30 to 40 letters per hour, Deutsche Post letter carriers are estimated to deliver 137 letters per hour. In large part, this explains why the new entrants are so opposed to the postal minimum wage in Germany. They require cheap labour to compensate for their inefficiency.²⁰

The Exclusive Privilege Is Good for the Environment

Greater competition in letter delivery would create more environmental problems. There is a direct and inverse relationship between increased delivery density and use of fossil fuels, pollution and traffic congestion. From an environmental perspective, it not only makes sense to maintain the letter monopoly but also to extend it to the parcel market.

The union asks the advisory panel to consider the environmental consequences of the current organisation of the overnight urban parcel delivery sector in major urban centres. Deliveries to residential customers in suburban areas are divided between several competing national, regional and local carriers which operate simultaneously in the same markets usually offering the same services at the same prices. Some of the larger national carriers are sufficiently developed to use sophisticated technology to ensure efficient delivery routing in order to maximize the potential for delivery density. The smaller companies are usually inefficient and require their drivers to drive long distances needlessly.

The same-day courier sector is much worse. It can be characterized as a complete disaster from an environmental perspective. In this sector, many small companies

²⁰Competition, wages and politics in the delivery sector, The case of postal minimum wages in Germany Alex Kalevi Dieke, WIK, Bad Honnef, Germany Ralf Wojtek, Heuking Kühn Lüer Wojtek, Hamburg, Germany

employ contractors on an ad hoc basis to deliver parcels as the opportunities arise. There is little, and often no attempt to use sequence deliveries to maximize delivery density. Frequently, drivers criss-cross cities delivering in entirely different areas during a single day. These practices result in an unnecessary use of non renewable resources and create air pollution and traffic problems.

Introducing competition in the letter market would replicate the negative environment practices that exist in the current parcel delivery operations. The same number of letters would be delivered to the same points of call by more vehicles. The reduced delivery density would result in unnecessary use of fuel, more pollution and more traffic problems.

Introducing competition into the letter market would also reduce the potential for postal administrations, such as Canada Post Corporation to deploy financial resources into environmental innovations and investments. Instead there would be increased pressure on CPC to engage in anti-environmental practices such as replacing residential and rural lot line delivery with community mail boxes (CMB) which frequently result in citizens driving to the CMB location to retrieve their mail.

Just as the space program was used to stimulate the high-tech industries, the postal service can be used to develop and test environmental practices that could be extended to other industries. In Canada there is enormous scope for Canada Post to improve its environmental practices with respect to its fleet, buildings and the manner by which it transports mail. This would not be possible if the postal service was subject to the competitive pressures which would result from the elimination of the exclusive privilege.

Concerning the parcel delivery operations in rural areas, there have been some very positive developments from an environment perspective. Recently, CPC has entered into an arrangement with FedEx Ground Canada whereby CPC will provide last-mile parcel deliveries for rural and small town communities in Canada on behalf of FedEx. We believe this agreement should be used as a

template throughout the parcel delivery sector, beginning in lower density rural areas and expanding to the urban areas as CPC ramps up its delivery capacity so that it can provide last-mile service to the industry.

The Exclusive Privilege Promotes Security of the Mail

Currently in Canada, it is a federal offence for anyone to open or tamper with mail without the permission of the recipient or without a judicial warrant. To guarantee the promise of privacy and security, CPC employs a large, highly trained security force whose primary responsibility is the security of the mail. Major postal facilities are equipped with elaborate security systems. Senders and recipients of mail have every reason to believe that the nature and even the very existence of their business or personal correspondence will be held in complete confidence. And indeed Canadians do trust CPC to deliver on this promise. A recent survey conducted by The Strategic Counsel for the Globe and Mail and the CTV Television Network found that Canada Post ranked as the most trusted Canadian institution surpassing the Canadian Military, the Supreme Court, the RCMP and the Canadian Broadcasting Company (CBC).

The introduction of competition will jeopardize the guarantee of security and privacy of the mail. With the introduction of competition it would be impossible for the Canadian government to effectively ensure that correspondence would be secure and private. With a myriad of private sector delivery providers legislation or regulations requiring confidentiality would be impossible to enforce.

Although we are not familiar with any Canadian polling data we ask the advisory panel to note the polling that was conducted for the President's Commission on the United States Postal Service in 2003 by Peter D. Hart Research Associates Inc. Currently the United States Postal Service has a mailbox monopoly which prohibits anyone from delivering mail, including unaddressed admail to a residential mailbox. When asked their opinion on a proposal to allow private companies to compete with the Postal Service for the opportunity to deliver advertising mail to their home mailbox 71 per cent of Americans opposed the

initiative and only 24 per cent agreed. Of those opposing 36 per cent cited their primary reason to be home security or the possibility of identity theft.

Consider the recent debate in France. In France, 120,000 apartment buildings are equipped with a controlled access system of entry called VIGIK that was developed by La Poste. In 2006, the reserved area was reduced to letters weighing 50 grams from 100 grams. Several companies entered the delivery market and demanded equal access to these apartment buildings. There was a considerable debate over the advisability of allowing employees from competitors the right to access these facilities. Many residents voiced security concerns. Eventually, a compromise was reached and the technology was modified to enable the employees of these competitors to enter these apartments while additional security practices were imposed on the competitors. These include:

1. Employees assigned to delivery functions must carry a professional identification and a distinctive insignia identifying themselves as postal service providers, in order to assure the tranquility of private premises to which they have access;
2. Standard operating procedures must be established to assure the proper accomplishment of assigned delivery routes;
3. Operational procedures must be established to guarantee the confidentiality of mail, the integrity of its contents, the protection of personal data, and the respect for the privacy of users of postal services;
4. The activities proposed must be accompanied by a management system to correct problems identified, and any provider handling mail items must be able to be identified by an indicia on the items handled;
5. Postal operators must make information available to their customers on their commercial offering and they must establish a procedure for managing complaints which is simple, transparent and free.

All of these conditions are to be monitored by the regulator.

Today, two years after the reserved area was reduced to 50 grams, La Poste still commands 99 per cent of the lettermail market. There are very few competitors to be monitored by the regulator. No one knows how large a staff of lawyers and investigators the regulator will require to be able to monitor the proliferation of national and regional companies that enter the market following 2011. None of this investigative and enforcement activity would be required if the postal monopoly were to be maintained.²¹

The union asks the advisory panel to contrast the situation in France with the current reality in Canada. In Canada, it would be much more difficult to develop a system which would allow competitors access to lock boxes. Only Canada Post employees have access to the keys which open the locks to community mail boxes (CMBs) and apartment lock boxes. In cities such as Vancouver letter carriers are often required to carry between six and twelve sets of keys, each of which can open a number of apartments in a defined area. Whenever a key is lost or stolen the locks for all of the apartment buildings must be changed. Vancouver leads the country in cases of stolen mail, part of an epidemic of identity theft according to authorities. There have even been cases of letter carriers being attacked and pepper sprayed by criminals intent on obtaining their lockbox keys. Canada Post security officers frequently assist police in investigations concerning identity theft which has initially involved theft of mail. Permitting an unknown number of competitors to copy and use lock box keys would greatly aggravate the security situation in cities such as Vancouver.

In Canada, apartment lock boxes are viewed as an important security measure. The proliferation of keys resulting from competition would undermine the entire concept of security of the mail. It would be impossible for a regulator to effectively enforce the security of the mail.

²¹ The French Postal Market in the Wake of the Postal Law of 2005* Catherine Gallet-Rybak, Cécile Moreno, Daniel Nadal, Joëlle Toledano

In Europe, as part of the debate surrounding deregulation, the exclusive access to the mailboxes has been transformed from a positive security feature to an unfair barrier to entry for the new competitors. We cannot allow the same thing to happen in Canada.

In Canada, the issue of privacy would also be compounded by the fact that many competitors would likely be American-based companies and subject to the terms of the United States Patriot Act. Under the terms of the United States Patriot Act any US subsidiaries delivering mail in Canada may be required to provide the American government with any records they may have concerning the sending or receipt of mail. Section 215 of the Patriot Act authorizes the FBI to obtain orders from a secret intelligence court (the Foreign Intelligence Surveillance Court) requiring any person or organisation to disclose “any tangible thing”. This could include any records in their possession. The British Columbia Privacy Commissioner has concluded that there is a reasonable possibility the US Foreign Intelligence Surveillance Court that issues orders for the FBI would require American companies to produce records held in Canada by Canadian subsidiaries.²²

The Exclusive Privilege Supports Decent Jobs

The exclusive privilege provides the economies of scale and delivery density that enable CPC to provide high quality services at low postage rates while supporting decent jobs. In Canada urban postal workers earn slightly more than the average industrial wage which, in turn, is more than twice the rate of the minimum wage. The vast majority of hours are worked by regular staff, which has benefit costs of approximately 40 per cent of wages. Rural postal workers are paid significantly less and have a benefit rate closer to 20 per cent of wages.

²²Outsourcing in British Columbia & the USA PATRIOT Act, A Primer, Sara A. Levine and Sarah Gingrich, Ontario Bar Association.

Postal workers have every reason to assume that both the number and the quality of jobs and the wages and benefits of workers in the postal and courier sectors would decline should the exclusive privilege be eliminated and low wage competition introduced.

1. The financial crisis resulting from reduced volumes and revenues will leave fewer funds available for wages and benefits.
2. The work force of the competitors would receive much less pay and benefits and be required to work in inferior conditions.
3. Service reductions will reduce career opportunities for employees.
4. Increased competition coupled with reduced volumes and financial losses would create insecurity and greater resistance to negotiate provisions such as pensions and retiree benefits that require long-term stability in the sector.
5. The experience of other countries such as Sweden, New Zealand, the United Kingdom and Germany shows that deregulation is primarily about putting pressure on the wages, benefits and protections of the postal workers.

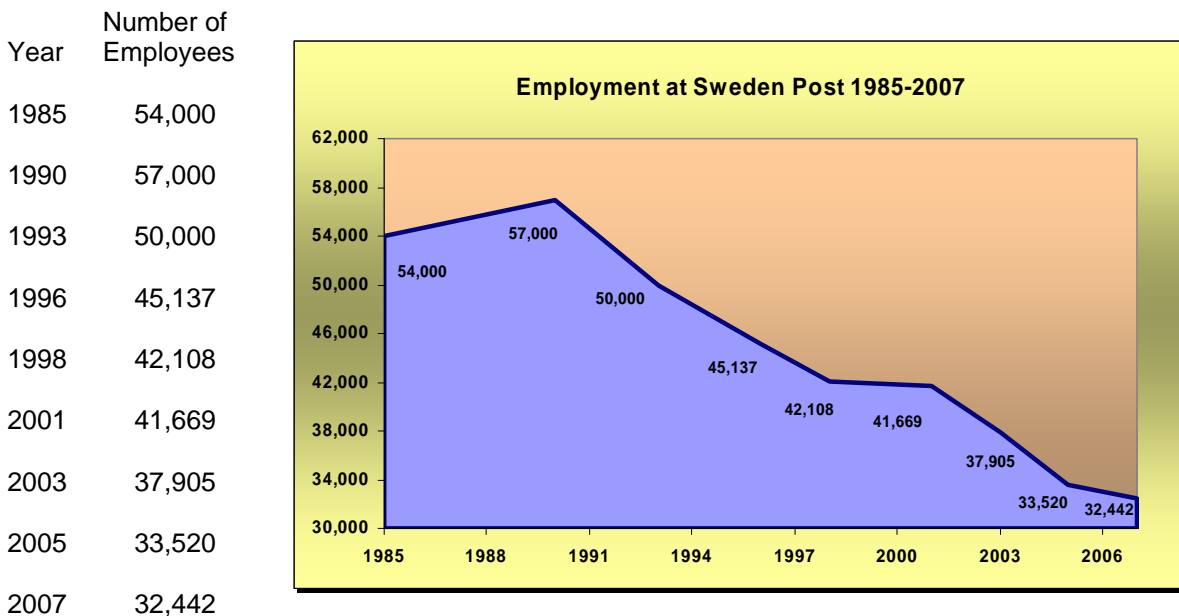
As previously noted Price Waterhouse Coopers has observed that the penetration by competitors will correspond directly with the ratio between the labour costs of new entrants and those of incumbents. A larger ratio will generate a greater loss of volumes from the incumbent.

In Canada the fact that very few benefits are stipulated by labour standards, minimum wages are very low, and unionized employees usually have wage and benefit plans that are significantly better than non-union firms guarantees that any new entrant into the postal business would expect to pay wages and benefits significantly lower than those currently in place at Canada Post. For larger competitors this may change over time as the employees would unionize and negotiate improvements.

As we will see in the next section it is very difficult to draw comparisons between Canada and the deregulated posts of Sweden, New Zealand, the United Kingdom and Germany. Nevertheless the experience of these countries does provide valuable insights into the impact of postal deregulation on post office employees.

Sweden: In Sweden competitors cannot compete on the basis of cheap wages as the rate of unionization in the postal sector, including the new entrants is approximately 100 per cent. In fact SEKO, the Swedish postal union has negotiated a wage benefit package for employees in the new entrants such as City Mail that is roughly equal to that enjoyed by employees in the post office. In Sweden, the major impact of deregulation in 1993 on employees has been the dramatic loss of jobs in Sweden Post. While Sweden Post has lost more than 17,000 jobs, less than 2,000 jobs have been created by the competition.

Figure 6: Employment at Sweden Post 1985-2007



Source: Posten Year End Reports; Stellan Mattsson; SEKO

The proportion of full-time jobs has also declined from 79 per cent in 1994 to 72 per cent. The greatest impact of job loss has been on women's jobs. Prior to

deregulation the majority of employees at Sweden Post were women. Now women only comprise 40 per cent of the workforce. The job loss in Sweden has also been much greater than other postal administrations in Europe. Of the ten major European postal administrations Sweden Post experienced the greatest decrease in worker compensation as a percentage of total costs between 1995 and 2000.

Not only has the number of jobs declined, but the pace of quality of work has declined for the employees that remain. In the fall of 2001, a study team from SEKO, the union representing postal employees in Sweden, visited 800 places of work at Swedish Post and City Mail. These visits confirmed problems such as stress and heavy workload. However, the most distressing observation was the anxiety for the future expressed by most employees. "All this taken together also shows up as increasing long term absence due to illness, increasing number of occupational illness and high employee turnover."²³ The annual turnover at City Mail was reported to be 60 per cent of employees.

New Zealand: In New Zealand the wages for post office workers are significantly below the average national wages. This leaves little scope for competitors to compete on the basis of cheap labour. As a result the difference between the labour costs of new entrants and labour costs of New Zealand Post are not as great as would be expected if New Zealand Post had labour costs equal to the industrial average.

In New Zealand the major impact on New Zealand workers during the period of deregulation has been low wage increases. Major staff reductions occurred immediately prior to deregulation. During the period between 1987 and 1989, for example, the combined staff numbers of the three entities making up the New Zealand Post Office fell from 40,000 to 33,000. Since deregulation, in 1998, the number of employees at New Zealand Post has actually increased due to the

²³ Stellan Mattsson, Presentation to Global Union Conference, Cornell University, January 2006

introduction of new product lines and services such as banking and international operations. However, the decline of wage levels, relative to other workers has been dramatic.

Figure 7: NZ Wage and Salary Average, Median and Actual NZ Post Wage

| Year | 1997 | 1998 | 2000 | 2002 | 2005 |
|--|---------|---------|---------|---------|---------|
| Postal Workers - Actual Pay Rate Top of Scale | \$11.83 | \$12.07 | \$12.31 | \$12.93 | \$14.06 |
| Average NZ Wag (full time and part time workers) | \$14.63 | \$15.10 | \$15.64 | \$16.70 | \$19.30 |
| Median NZ Wage - Salary per hour (full time and part time workers) | \$12.55 | \$13.30 | \$13.60 | \$15.50 | \$16.10 |

Source: Dept of Statistics and EPMU.²⁴

As seen in figure 7 on page 57, between 1997 and 2005, New Zealand postal workers' pay rates increased by 18.9 per cent whereas average wages in New Zealand increased by 31.9 per cent, and median wages increased by 28.3 per cent.

The United Kingdom: The impact of deregulation on employees of the Royal Mail has been well documented in newspapers around the world. The Communications Workers Union was forced to call its first national strike in a decade during the summer of 2007. The strike was in response to the attempt of management to react to competitive pressures by cutting jobs, eliminating work rules, freezing wages and attacking the workers' pensions.

Several weeks of rotating strikes across Britain followed news stories that revealed that Royal Mail management planned to respond to the loss of business resulting from deregulation by cutting up to 30 per cent of its full-time workforce in the letters division or 48,000 workers. Royal Mail also told the postal unions that four mail centres would likely close because of the loss of business to competitors in

²⁴ Wage chart, Beyond the Propaganda, Postal Deregulation in New Zealand., Anna Kenny, 2006

the mail market. This is in addition to job loss due to the closure of 2,500 post offices.

Prior to the strikes Nigel Stapleton, chairman of the UK regulator Postcomm, launched a fierce attack on Royal Mail saying that the root causes of Royal Mail's problems was its failure to control its high labour costs.

Germany: Anyone who doubts that deregulation is really all about allowing inefficient operations to use cheap labour to compete in the postal market need look no further than Germany.

In Germany, the postal monopoly was repealed effective January 1, 2008. On the same day, a special minimum wage for the postal sector was introduced to ensure that competition would be based on quality, reliability and innovation instead of low wages. The legal minimum wage was set at the same level as the wage agreement which had been reached between the union Vereinte Dienstleistungsgewerkschaft, or ver.di as it is commonly known, and the association of postal services (AGV Postdienste). It ranges between 8 Euros for sortation in the former East Germany to 9.80 Euros for delivery in the west.

Currently, the wage levels for letter carriers at Deutsche Post range from €10.14 an hour for employees hired after September 1, 2003 to €16.40 an hour for employees hired prior to that date. There are no regional rates. For competitors, prior to January 1, 2008 the average wage for letter carriers was €7.28.

The establishment of a minimum wage was a shock to companies that had hoped to compete with Deutsche Post on the basis of low wages and no benefits. The initial response was to take the government to court and to scale back, or eliminate altogether, their plans for expansion.

In court, the competitors argued that even though the minimum wage was set considerably below wages paid by Deutsche Post it would make it impossible for competitors to offer nationwide mail services as the cost increase could not be absorbed by competitors acting outside metropolitan or other high wage areas.

The government argued that the mandatory minimum wage was necessary in order to avoid wage dumping and that companies relying on wage dumping were not worth surviving in a liberalised market. The government took the position that the minimum wage was based on the terms of an agreement negotiated by parties representing more than 50 per cent of all employees in the postal business and that it is, therefore, truly representative of the working conditions in the entire industry.

On March 7, 2008, the administrative court of Berlin rendered a judgment declaring the decree null and void. In its judgment, the court relied mainly on the argument that the government had no power to issue a decree which declared minimum wages to be mandatory. The government immediately appealed the decision.

Also in anticipation of the new minimum wage law, newspaper publisher, Axel Springer, announced in December 2007, that it would sell or close the PIN Group, which at the time was Germany's second largest postal carrier after Deutsche Post. More than 1,000 employees were laid off. A joint venture between TNT and Hermes was also cancelled.

In a response to the German minimum wage, the Dutch government abruptly postponed the planned deregulation of its own postal market, which had been scheduled for July 1, 2008. In June 2008, the Dutch economic affairs state secretary, Frank Heemskerk stated that he would not propose full postal liberalisation in the Netherlands until fair competition existed in the German and British postal markets.

The impact of deregulation on wages and working conditions has not been limited to the postal administrations that have already lost their letter monopolies.

The Netherlands saw its first postal strike in 25 years in May 2008, as TNT management sought a wage freeze for two and half years to limit planned job cuts to between 6,500 and 7,000. Management had threatened the unions that if they

did not agree to the wage freeze it might sack 11,000 workers in order to compete with rivals in a future liberalised market.

Canada: In Canada there is every reason to believe that the introduction of competition into the postal sector would exert significant downward pressure on wages and benefits of current post office employees as it has in the already deregulated countries. The 1996 Coopers Lybrand study concluded there would be a very massive loss of volumes and a massive reduction of positions at Canada Post. Even if volumes are not as significantly reduced as foreseen by Cooper Lybrand, we have reason to expect massive job losses should CPC lose its exclusive privilege.

The union asks the advisory panel to consider the situation that exists in the same-day courier industry. With limited volume, an oversupply of companies and labour, and low fixed costs of labour, it is a recipe for inefficient and non-rationalized operations. As a result, courier workers in the same-day section of the industry drive from one end of the city to the other, wasting time and gas on few deliveries. The costs of these inefficiencies are borne directly by the workers, who incur the major operating costs in the industry. There is no corresponding penalty for the employers because they do not comply with the minimum standards of employment under Part III of the Canadian Labour Code. A study of the wage compensation and benefits for same-day courier workers found that after expenses, the average full-time car courier worker in the same-day sector earned less than \$14,000 per year. Workers in the same-day industry receive no overtime, holiday or vacation pay, and do not receive any of the minimum employment standards.²⁵ A deregulated postal industry would likely resemble the courier industry in many respects.

²⁵ Straddling the World of Traditional and Precarious Employment, A Case Study of the Courier Industry in Winnipeg, The Canadian Centre for Policy Alternatives, Manitoba, 2004

It is likely that women workers in Canada would be the greatest losers in a deregulated postal service. The loss of good jobs in the post office would likely be disproportionately concentrated in rural areas because these high cost operations would receive the brunt of cutbacks. This would affect women the most. The 1996 Canada Post Mandate Review noted that any reduction of rural services would especially adversely affect women workers, as the post office is one of the few secure, good paying jobs available to women in rural areas. Indeed, 86.9 per cent of rural counter workers and 71.5 per cent of rural route mail delivery staff are female. As noted in the mandate review, "Jobs in rural post offices are of special importance to women, because the local economies of rural areas are primarily resourced-based and offer them comparatively few employment opportunities."²⁶

Deregulation Has Not Worked Where It Has Been Tried

Advocates of postal deregulation argue that it is too early to judge the results. Given the recent failures of deregulation in the real world this is an understandable approach. However, ignorance should not form the basis of public policy and the actual performance of deregulation should not be overlooked even if it must be acknowledged that the countries that have experienced deregulation are not necessarily very comparable with Canada or Canada Post.

Advocates of deregulation claim that it will lead to innovation and greater efficiency. Yet there is little, if any, evidence in the real world that deregulation has helped achieve either of these objectives. Instead of serving as an incentive for innovation, deregulation has served as an ideological cover used to justify unpopular decisions, such as rate increases and service cutbacks, which would be otherwise politically impossible for governments and public postal services to make.

²⁶ Ministry of Public Services, Government of Canada , 1996 Mandate Review, page 76

At the outset, it should be stated that there are some conclusions that are consistent with the experience all of the major countries that have fully liberalised their postal markets.

1. Deregulation has not provided any benefits to the general public and small businesses with respect to prices or innovative services.
2. There is no evidence of competition on the basis of technological innovation.
3. The vast majority of new entrants are less efficient than the incumbent postal services.
4. Where it is legally possible, new entrants rely on cheap labour to survive.
5. Employees of incumbent postal services have suffered job losses and pressures on wages and benefits.
6. The only beneficiaries of deregulation have been some large volume mailers and shareholders of new entrants.
7. From an environmental perspective, deregulation is irresponsible as it contributes to greater use of fossil fuels and traffic congestion.

It is important to also examine some of the specific characteristics of the postal services in the countries where deregulation has been adopted.

Sweden: The amount of competition in Sweden has been mitigated by the inability of new entrants to pay significantly lower wages and benefits than the incumbent postal service Posten. The major competitor, City Mail, has established itself in a few major markets by offering service to large volume mailers who were prepared to accept a lower level of delivery service in exchange for slightly cheaper postage rates. However, even this minor degree of competition has been used by Posten as justification to restructure its postage rates, cutting prices for large volume mailers and imposing massive price hikes on the public and small businesses.

Recently Posten has been profitable although they have been several years in which it experienced considerable financial losses.

New Zealand: New Zealand Post was deregulated in 1998. At that time, in order to dispel opposition from the rural areas and farmers organisations, the government and New Zealand Post signed a “Deed of Understanding”.²⁷ This agreement required New Zealand Post to fulfil social obligations, such as holding the price of a standard letter to no more than 45 cents for two years, continuing to provide at least, a six-day-a-week postal service to more than 95 per cent of addresses and not re-introducing its rural delivery fee.

Between “Corporatization” in 1987 and deregulation in 1998, New Zealand Post underwent a very significant turnaround. It modernized its technology, transportation network, and retail facilities and invested in subsidiary businesses, all funded by retained earnings and the sale of surplus assets. Between 1987 and 1995, letter volumes rose 30 per cent, costs were reduced by 30 per cent, and labour productivity doubled.

Since the expiry of the “Deed of Understanding”, postage rates increased to 50 cents. This is a high rate of postage by international standards, given the very low wage levels in New Zealand.

As previously mentioned, the exceptionally low wages paid to New Zealand postal workers has acted as a considerable deterrent to new entrants. Since deregulation there have been about 45 competitors that have attempted to establish themselves and 30 have survived. Generally, they deliver their own mail in five geographical regions and use New Zealand Post for the remainder. None of the competitors have any significant market share. One of the companies is owned by rural delivery contractors who make rural deliveries for New Zealand Post and another makes personalized stamps that tourists put on post cards. Different

²⁷ NZ Deed of Understanding: http://www.med.govt.nz/templates/Page___1387.aspx

estimates exist as to the impact of these new entrants with estimates of volume losses to New Zealand Post ranging from 8 to 20 per cent.

In 2007, ratings agency Standard & Poor's affirmed its ratings on New Zealand Post, but revised its outlook to negative from stable because of slowing growth in its postal business.

In recent years, New Zealand Post has relied on banking and international activities to maintain its financial viability. It has entered into joint ventures and acquired companies across the spectrum of mail, express delivery, bulk business mailing and logistics. Perhaps its most notable achievement was the establishment of its very profitable banking business (Kiwibank) in 2002. Through that bank, the Post has ventured into credit cards, retail store gift cards, personal loans, insurance, foreign exchange, online bill payments, business lending and further into the home mortgage market through its 51 per cent stake in New Zealand Home Loans. Now the largest bank in New Zealand, Kiwibank is responsible for a considerable portion of New Zealand Post's net income. The successful integration of its retail postal and banking services was, in part, responsible for New Zealand Post winning the 2008 World Mail Award for its retail transformation.

Diversification of its business lines has been a good strategy for New Zealand Post. The establishment of a public sector bank owned and operated by a publicly owned postal service was a brilliant strategy that could, and should be copied by postal administrations around the world. But none of these decisions are necessarily the result of deregulation. In fact, there is no evidence that deregulation has been responsible for any positive developments with respect to postage rates, postal services or financial results of New Zealand Post.

The United Kingdom: It is difficult to imagine a scenario more disastrous than that experienced by the Royal Mail in recent years. It has experienced gigantic financial losses, major service reductions, strikes, staff cutbacks and open political warfare between postal management, the regulator and government ministers. Is it all the fault of deregulation? Or is it enough to recognize that deregulation of

what was one of the great postal services of the world has done nothing to solve any of the problems and has very likely exacerbated all of them. It is enough to quote again the May 2008 independent review of the UK postal services sector which examined the impact that deregulation and competition have had on prices and services in the UK. The report stated: “There have been no significant benefits from liberalisation for smaller businesses and domestic consumers.”²⁸

Germany: It is too early to tell what the impact of deregulation will be in Germany. Several potential new entrants are waiting until the minimum wage legislation is finally decided by the courts. The German experience to date has helped to reveal to the world that innovation, technological advances, entrepreneurship, and new service offerings have nothing to do with the success of postal competitors. It is all about low wages — very, very low wages.

Deregulation is Not a Requirement for Success

Although it is impossible to identify any positive results directly attributable to deregulation, it is very easy to observe many successful transformations of postal services that have been achieved within the context of a postal monopoly. A reserved area certainly does not prohibit innovation or efficiency. In fact, the economies of scale derived from the exclusive privilege may be required to generate financial surpluses required for investment and the delivery density necessary to promote successful transformations of the posts.

Consider the examples of Canada Post and Australia Post. Both of these post offices face the daunting task of providing universal service in large geographic expanses with very low population densities. Both of these post offices have achieved a track record of profitability despite their very low postage rates. Both have been identified as the most trusted organisations in their countries by the

²⁸ The challenges and opportunities facing UK postal services, An initial response to evidence, Richard Hooper, CBE, May 2008

citizens. Both had post office managements who fought against deregulation in the 1990s. Both of these postal administrations have transformed themselves into modern efficient high quality postal services. Most importantly both of these post offices have an exclusive privilege that protects them from low wage competitors who would service only profitable markets leaving the public institutions to bear the cost of servicing high cost constituencies and areas. For a thorough examination of how a public sector postal service with an exclusive privilege can transform itself the advisory panel can read the submission of Australia Post to the 2004 World Mail Awards.²⁹ Australia Post won the Transformation award for successfully transforming themselves from an old-fashioned slow moving bureaucracy (their words) to an organisation that has achieved excellent results across the full range of key measures including service quality, prices and financial results.

Concluding Remarks on the Exclusive Privilege

There are very convincing arguments for maintaining the exclusive privilege of CPC to collect transmit and deliver letters in Canada.

CPC currently offers low-cost, high-quality services and it is difficult to see how the loss of the exclusive privilege would benefit the population.

Deregulation, where it exists, has been associated with service reductions, cutbacks in employment, low wages, and increased postage rates for individuals and small businesses. There is no evidence that it has inspired greater innovation from either a technological or service perspective. Likewise, there is ample evidence that postal administrations that have maintained a monopoly for letters

²⁹ Australia Post Submission to the World Mail Awards
http://www.auspost.com.au/GAC_File_Metatile/0,,2497_worldmailawards,00.pdf

have been capable of transforming their operations and providing efficient, high-quality and low cost postal services.

The environmental impact of deregulation has also not been sufficiently examined. Intuitively one would consider that the reductions in delivery density resulting from deregulation would cause an unnecessary increase in use of vehicles.

Likewise, the issue of security of the mail has very unique dimensions in Canada and these also have not been seriously examined.

As part of a much greater process of economic integration, many major countries in Europe are scheduled for full liberalisation in 2011, with the remaining European countries to follow no later than 2013. The impact of this policy is very uncertain. Also, it is not clear that the experience of other countries would be entirely relevant for Canada given the size of the country, the low cost of postage and the specific situation of the labour market.

For all of these reasons, we believe it would be a serious error for the advisory panel to make any recommendation that would place us on a path to postal deregulation.

We will end this section of our brief with the words of Arthur Cordell, former Science Advisor to the Science Council of Canada:

“Many of the ideas and arguments of the deregulators can be persuasive, but in our quest for efficiency, competitiveness and preparing for globalization we should be cautious. The gains of deregulation may be illusory. I suggest that when all costs and benefits are brought together in society's balance sheet—the social bottom line, we may find that the great privatization and deregulation effort has been one that has created more

losers than winners and that the biggest loser of all has been the public interest.”³⁰

Recommendation #3: CPC should maintain its exclusive privilege for collecting, transmitting and delivering letters.

Recommendation #4: The issue of exclusive privilege should not be revisited until 2018.

International Mailers

As noted previously, the advisory panel has been asked to make proposals as to which activities or services currently provided by Canada Post should be preserved as exclusive privileges. The work currently being illegally performed by international remailers must be examined as it falls under the current exclusive privilege.

As indicated earlier, Canada Post has the exclusive privilege or right, under law, to collect transmit and deliver letters in order to finance the corporation’s universal service obligation. This right includes both domestic and international letters.

Canada Post’s exclusive privilege to handle letters has received remarkably little attention over the years. But international mailers have recently taken issue with this privilege and waged a campaign to undermine our post office’s right to handle international letters. The mailers, who are currently carrying international letters in violation of the law, want the right to handle this mail.

³⁰ Cordell, Arthur A. (1996), *Deregulation, Universality and the middle class*, unpublished internet communication.

International mailers or remailers, as they are commonly known, collect and ship letters to other countries where the mail is processed and remailed at a lower cost. Some ship letters to the United States (US) – much of it destined for US addresses – so that they do not have to pay the Canadian international postage rate. Some ship to developing countries that have even lower costs as a result of a two-tier international mail system that is designed, in part, to address the differences between developed and developing countries. Many remailers exploit the two-tier system of terminal dues that was adopted at the Beijing Congress of the Universal Postal Union Congress in 1999. Terminal dues are the fees paid by one postal administration to another to cover the cost of delivering inbound international mail. The terminal dues system adopted at the Beijing Congress makes a distinction between postal administrations that operate in countries that are classified as “industrial countries” and postal administrations that are classified as “developing countries.” Critics argue that the exploitation of the terminal dues system undermines the universal service obligation, distorts international postal markets, and raises legal issues under international trade rules.

The most common types of remail are known as ABC, ABA and ABB. Canada Post describes ABC, ABA and ABB remail as follows:

ABC Remail

- mail items produced/collected in Canada (country A)
- are inducted in the infrastructure (either physically or virtually) of the postal system of a second country, such as Singapore (country B);
- for delivery to addresses in a third country, such as the USA (country C).

ABA Remail

- mail items produced/collected in Canada (country A)
- are transported with commercial customs clearance, as paper product; and inducted, as local originating mail, in the postal system of another country, such as the US (country B);

- for delivery to addresses in Canada (country A).

ABB Remail

- mail items produced/collected in Canada (country A), with a return address in country A
- are transported and inducted, as local originating mail, in the postal system of the destination country, such as the US (country B);
- for delivery to addresses in another country, such as the US (country B).

Canada Post estimates that international mailers currently siphon off \$60 to \$80 million dollars per year in business.

The corporation's concerns with remailers have grown as the international mail business has grown and as remailers have unfairly competed for international mail by exploiting the terminal dues system adopted by the Universal Postal Union in 1999.

Canada Post has attempted to address its concerns with international mailers through negotiations and finally through legal action against two of the largest companies, Spring and Key Mail.

The corporation won its legal challenges all the way to the Supreme Court of Canada.³¹ Notably, a ruling by the Ontario Superior Court of Justice gave the remailing company Spring six months to get out of the business. A ruling by the Court of Appeal for Ontario stressed the importance of the exclusive privilege in serving rural and remote communities and noted that international mailers such as Spring Canada are not required to bear the high cost of providing services to the more remote regions of Canada.³²

³¹ Summary of legal decisions relating to international mailers.

³² Canada Post Corporation v. G3 Worldwide (Canada) Inc., The Court of Appeal for Ontario, 2007 ONCA 348, page 5

After Canada Post's legal victory, a coalition of private Canadian and international mail companies called the Canadian Association of International Mailers (CIMA), hired a lobbyist in an attempt to convince parliamentarians to remove international letters from Canada Post's exclusive privilege to handle letters. CIMA launched its lobby campaign during the 2006 election with a media release demanding a parliamentary review of the exclusive privilege provisions of the Canada Post Corporation Act. The government initially defended the importance of the exclusive privilege but it was not long before it started to reconsider its position, presumably because of the CIMA lobby.

On July 25, 2006, the office of the Minister of Transport, Infrastructure and Communities appeared to be ready to take action against the remailers. He stated "Parliament granted this exclusive privilege to ensure that Canada Post could provide Canadians, no matter where they lived, with equal access to national and international postal services at universal postal rates...The activities of international remailers cost Canada Posts millions of dollars each year and erodes the corporation's ability to maintain a healthy national postal service and provide universal service to all Canadians."³³

As late as January 12, 2007 the office of the Minister of Transport, Infrastructure and Communities stated that "no changes to Canada Post's exclusive privilege would be considered without thorough policy analysis...the Canada Post Corporation Act defines Canada Post's exclusive privilege; thus, any changes to that privilege would require legislative amendment and public debate in Parliament."³⁴

³³ Letter from Paul Terrien, Chief of Staff, Office of the Minister of Transport, Infrastructure and Communities to Deborah Bourque, National President, Canadian Union of Postal Workers, January 25, 2006.

³⁴ Letter from Paul Terrien, Chief of Staff, Office of the Minister of Transport, Infrastructure and Communities to Deborah Bourque, National President, Canadian Union of Postal Workers, January 12, 2007

However, by May 2007, the Conservative government, with the support of some Liberal MPs had responded to the lobby of the remailers. After much debate and some compromise, the Standing Committee on Transport, Infrastructure and Communities passed a motion recommending that the Minister issue a directive to Canada Post to cease legal action against remailers until the committee had the opportunity of reviewing the exclusive privilege provisions in the Canada Post Corporation Act and formulating recommendations to the government and Canada Post. The motion called for the review to be completed by the end of the year. The government did not act on this recommendation and there was no review because Parliament prorogued in September of 2007.

On October 29, 2007 the federal government introduced Bill C-14, an Act to amend the Canada Post Corporation Act. This bill would, if passed, remove international letters from Canada Post's exclusive privilege to collect, transmit and deliver letters. Bill C-14 is currently at second reading.

It would appear that the government preferred to proceed with legislation rather than having the Standing Committee on Transport conduct a review and make recommendations in connection with international mail and the exclusive privilege. There is absolutely no evidence that the government conducted a significant review of the issues, let alone its promised "thorough policy analysis".

Strangely, the government has decided to press forward with its legislation to remove international letters from Canada Post's exclusive privilege while simultaneously requesting this CPC Strategic Review advisory panel to look at what should and should not be part of the corporation's exclusive privilege.

It is difficult to understand why the government has become so intent on removing international letters from Canada Post's exclusive privilege to handle letters. Certainly, the central arguments that international mailers have made in support of reining in the exclusive privilege and Canada Post have not been particularly robust.

International mailers have argued that all they want is the right to do what they have been doing for many years and that Canada Post should not prevent them from carrying out their business by expanding the exclusive privilege to include international mail delivery.

Remailers have stated that, "...Canada Post had to use a French translation of the legislation because the English version simply does not give it the expanded monopoly powers it was seeking."³⁵ In other words, remailers had the audacity to argue that the French version of the Canada Post Corporation Act carried no weight and that the English version should prevail.

This argument did not bear up in court, nor did the other legal arguments advanced by remailers. As stated earlier, courts have ruled that Canada Post does, in fact, have an exclusive privilege to handle international letters. They have concluded that international mailers are violating the law. Remailers do not get to interpret the law in the way they wish, nor does Canada Post or any other group. This is the job given to the Canadian courts.

In addition to arguing that Canada Post's exclusive privilege does not cover international mail, remailers have argued that Canada Post's legal actions against remailers will "effectively kill thousands of Canadian jobs" and that they should be allowed to continue to do business to save these jobs.³⁶ They have steadfastly refused to back up this claim with any convincing evidence. An examination of the actual situation indicates that there may be a few hundred jobs at risk, not thousands.

Canada Post has only taken legal action against two of the largest remailers, Spring and Key Mail. Spring is a global joint venture combining the expertise, systems, networks and products of TNT, the Royal Mail Group and Singapore

³⁵Canadian International Mail Association, January 16, 2006.

³⁶Evaluating the Impact of a Full Market Opening on Swiss Post, Report Pricewaterhouse Coopers, November 2006, page 28

Post. Responsibility for Spring's customers, limited capital assets and future business in the United States were assumed by Pitney Bowes in March 2007. The Spring website says they are the world's largest private international mail provider. Key Mail says it is a global agency network which provides local service in key cities around the world before transferring mail to international associates. It has access to over 280 countries worldwide.

Key Mail has about 40 employees while Spring has approximately 70. The Canadian International Mail Association (CIMA) says there are only five or six businesses in Canada like Key Mail and Spring that simply handle international mail.³⁷ It is reasonable to believe, based on the number of people employed by Key Mail and Spring, that there are about 300 to 400 people employed by international mailing companies in Canada.

In addition to these companies, there are other businesses such as printers, mail houses and envelope makers that remailers like to include when they refer to the international mail industry. It is difficult to tell because there is so little hard information, but the associated businesses appear to work with mail that is destined for the United States. As well, most of the associated businesses do not appear to be entirely or primarily engaged in the international mail business.

CIMA claims that the so-called international mail industry is losing and will continue to lose jobs if Bill C-14 does not pass. The Association uses anecdotal information about businesses that have been forced to cut jobs without providing any evidence that these job losses are due to Canada Post's legal challenge or instability in the industry due to this challenge. It is quite possible that the rising value of the Canadian dollar has been the main cause of the downturn in the so-called international mail industry. It is also worth noting that Canada Post has not taken legal action against small businesses in this industry.

³⁷ Figures provided by Gwyneth Howell, Executive Director of the Canadian International Mail Association and Evan Zelikovitz of APCO Worldwide at a meeting with the Canadian Union of Postal Workers on January 17, 2007.

While CUPW takes the possibility of job loss very seriously, the union does not think that the exclusive privilege should be sacrificed to save the jobs of businesses operating in violation of the law. The union also believes that there may be alternative ways of dealing with the issue of jobs. With this in mind, the union would make the following recommendations:

Recommendation #5: The government should immediately withdraw Bill C-14.

Recommendation #6: The government should shut down the five or six international mail companies that are violating the law. Canada Post and CUPW should consult about offering alternative employment opportunities for workers.

Recommendation #7: The government should examine the business and jobs concerns of small businesses that produce or collect ABB remail and consult with stakeholders, including unions, with a view to devising solutions to problems revealed by this examination.

Reorganisation and Regulation of the Courier Industry

The exclusive privilege for letters has allowed CPC to obtain greater efficiencies of scale in processing and a sufficient delivery density to permit CPC to offer low prices while also maintaining profitability. There are ample reasons why the benefits derived from an exclusive privilege in letters should also be extended to the nation's parcel delivery industry.

The inefficiencies in the same-day courier industry lead to high prices, low wages and unnecessary use of vehicles and fossil fuels. Low wages and violations of labour standards are the major ways courier companies compensate for inefficiency and low density. The lack of organisation of the industry not only

drags down the wage levels of the workers, it also effectively undermines the efficiency of the larger, more technologically advanced operations that exist in the overnight courier industry.

The overnight industry may be more efficient but it is also characterized by too many trucks delivering too few parcels. International companies, such as DHL, engage in international cross subsidization of their Canadian operations, hoping that their pockets are deep enough to enable them to outlast the competition. The result is low profitability and higher unit processing and delivery costs.

The industry is in desperate need of reorganisation and regulation. The objective should be to promote efficient use of resources through fostering greater delivery density and proper route structuring.

We believe that the CPC Strategic Review is an opportunity to begin the process of rationalizing the courier industry. We have already referred to a recent arrangement between CPC and FedEx Ground Canada whereby CPC will provide last-mile parcel deliveries for rural and small town communities in Canada on behalf of FedEx. We believe that this agreement was a good first step as it recognizes the advantages of consolidating parcel deliveries within the current operations of Canada Post.

We believe that the time has come for the courier industry to undergo a much more sweeping and fundamental change. We recommend the advisory panel propose that the government reorganize the courier industry through a very significant expansion of the parcel delivery services of Canada Post Corporation. The objectives of this initiative would be to promote greater efficiency by increasing delivery density, reduce unnecessary use of fossil fuels, lower prices to consumers and improve the wages and working conditions for the workers in the industry.

The government should begin this process by bringing all of the stakeholders in the industry, including labour, service providers, major customers and

representatives of the public together to work out the details of the new regulatory framework, how the companies would be amalgamated and the basis upon which shareholders would be compensated.

We realize the advisory panel may believe this proposal is beyond the scope of your mandate or that it requires more study. If so we hope you will encourage CPC to build upon the FedEx initiative and enter into agreements with other courier companies to provide a “last-mile” delivery function for the industry.

We also hope that advisory panel will consider the negative impact that the anti-competitive practices of some of the international courier companies have on CPC. Canada Post is effectively prohibited from cross subsidizing its parcel services by the terms of the North American Free Trade Agreement (NAFTA), it prohibit government agencies from using profits from monopoly products to subsidize competitive activities. Consider the practices of DHL, a subsidiary of Deutsche Post AG. It entered the North American market in 2003 and immediately attempted to obtain significant market share by undercutting prices of established operators. During the past five years they have had over \$3 billion in losses subsidized by their parent company. Recently, the company announced it would definitely not break even before 2010. Compare the ability of DHL and Deutsche Post to engage in international cross subsidization with the restrictions placed on Canada Post by NAFTA. How can one explain the UPS complaint against Canada Post in the context of the behaviour of DHL? Surely there should be a level playing field within the industry. At a minimum, the government should introduce regulations that would prohibit international courier companies from cross subsidizing their operations and undermining CPC in the process.

Recommendation #8: The federal government should reorganize the courier industry through a very significant expansion of the parcel delivery services of Canada Post Corporation. The objectives of this initiative would be to promote greater efficiency by increasing delivery density, reduce unnecessary use of fossil fuels, lower prices to consumers and improve the wages and working conditions for the workers in the industry.

Recommendation #9: Canada Post Corporation should serve as a last-mile delivery agent for other courier companies

Recommendation #10: Private competitors must be prevented from cross subsidizing their competitive operations in Canada from revenues gained internationally or through revenues from businesses not in competition with CPC.

Financial Objectives of CPC

The advisory panel has been asked to examine the financial and performance targets contained in the 1998 Multi-Year Policy and Financial Framework. The federal government approved a Multi-Year Policy and Financial Framework for Canada Post in December 1998 as a follow up to the report of the 1996 mandate review and the TD Securities report of 1997.

Almost all of the major provisions of the Multi-Year Policy and Financial Framework are in opposition to the recommendations of the 1996 mandate review and were imposed on Canada Post without any substantive public input or debate.

The union will not comment on all of the aspects of the Multi-Year Policy and Financial Framework. Instead, we will limit our comments to the following issues:

the price cap formula, the earnings target, return on equity, dividend policy, debt-to-capital ratio and cost as a percentage of revenue.

The Price Cap

The Multi-Year Policy and Financial Framework contains a price cap providing for rate increases to be held to two thirds of the annual inflation rate measured by the Consumer Price Index. Additionally rate increases are to be announced six months in advance and implemented no more than once annually, effective in January.

As seen in Figure 3 on page 27, even prior to 1999, rate increases for transaction mail had averaged close to two thirds of the increases in the Consumer Price Index. In part this low rate of increase was due to political interference. Twice during the period 1982-1999 government ministers intervened to cancel or lower rate increases that had already been approved by cabinet.

The union does not object to the principle of some form of price cap. We note that price caps are in place in the United States, Australia and many European countries. We also believe that a price cap, based on reasonable parameters, is far preferable to the establishment of a large bureaucratic regulatory agency or the meddling of politicians seeking to appease large volume mailers and the direct marketing industry.

The union also asks the advisory panel to consider that the current postage rate, which is a consequence of the Multi-Year Policy and Financial Framework, is in fact too low. It is low by international standards (see Figure 4 on page 29) and is very low when one considers the significant costs that have resulted from increases in fuel and related transportation costs.

The low postage rate has had a detrimental impact on the quality of postal services provided to the public, especially with respect to the provision of door-to-door letter carrier delivery. Section 19(2) of the CPC Act states that postage rates shall be fair and reasonable and consistent, so far as possible with providing a revenue, together with any revenue from other sources, sufficient to defray the costs

incurred by the corporation in the conduct of its operations. The intent of the Act was to ensure that CPC would have sufficient revenue to fully support its customary postal services and finance necessary investment. Instead the price cap has served to artificially suppress revenues, requiring CPC to cutback on the quality of services in order to maintain profitability.

The 1996 mandate review recommended an immediate increase in postage rates of 5 cents or 11 per cent of the 1996 postage rate. At the time, it noted that quantitative and qualitative opinion analysis conducted for the review by Decima Research showed that Canadians would accept such an increase without changing their use of the postal system provided that such an increase was accompanied by a commitment to improve service. We believe the advisory panel may wish to comment on the appropriateness of the current postage rate.

Concerning the criteria for a price cap the union believes that the all items Consumer Price Index (CPI) is not an appropriate instrument to use as it does not reflect CPC's actual input costs. CPC should be able to fully cover all input costs such as fuel, facilities, labour etc. The price cap should be constructed to reflect the relative importance of these inputs and ensure CPC is fully protected from external events over which it has no control. The only exception to the new price cap we are proposing would be for qualified non-profit organisations.

The union also proposes that the advisory panel examine the system currently in place in the United States for postage rate discounts for qualified non-profit organisations. We believe that the postal service plays a vital role supporting necessary fundraising activities of many non-profit organisations in Canada. The union proposes a separate price cap, representing three-quarters of the CPI, should govern postage rate increases for these non-profit organisations.

We also recommend that some of the funds currently being paid in dividends should be redirected to partially subsidize the mailing costs of Canadian publications. Furthermore, we support the proposal from Magazines Canada that CPC should provide a longer term rate schedule for publications to provide

greater stability in the industry.

The Earnings Target

The current earnings target of \$175 million before interest and taxes (EBIT) was taken directly from the recommendations of the 1997 TD Securities Report. Through a Herculean twist of logic, TD Securities concluded this was the minimum EBIT required to achieve financial self sufficiency. It should be noted that the TD Securities Report did not assume a price cap based on two thirds the rate of inflation. Instead TD Securities base case EBIT assumed rate increases of 2 and 3 cents per year with a basic letter rate of 55 cents by 2001.

The union believes the earnings target of \$175 million should be abandoned. Instead there should be an appreciation that the actual financial potential of Canada Post Corporation depends greatly on a blend of postage rates, volume growth, external cost pressures and the level of services it is expected to provide for the population.

Return on Equity

Establishing a target return on equity may make sense for a private sector enterprise, which is required to earn profits for its investors. However, it does not make sense for a public sector institution that performs a valuable public service and where improvements in the quality of service do not necessarily result in greater revenues.

The guiding principles of this Strategic Review, as established by the government, reflect the duality of the public service and commercial mandates, which are included in Section 5 of the current Canada Post Corporation Act. The government has stated Canada Post must maintain a universal, effective and economically viable postal service. It must continue to act as an instrument of public policy through the provision of postal services to Canadians while operating in a commercial environment and is expected to attain a reasonable rate of return on equity. Given this complex public policy mandate the union believes it is

inappropriate to impose any overall rate of return on equity.

The issue is further clouded by the manner in which CPC has been reporting its equity. As seen in Figure 8 on page 85, CPC's equity declined by 33 per cent during the five years 1989-1994 and then increased by 63 per cent during the five years 2001-2006. Considering the volatility of CPC's reported equity, it is difficult to see the usefulness of evaluating the financial performance of CPC operations as a percentage of such a moving target.

If the advisory panel concludes that it must make a recommendation which would establish a target return on equity, the union proposes that this should be limited to only those operations of CPC that exist in a truly competitive market. We do not believe that the letters operations should be subject to a commercial rate of return. We believe that the current legislation is clear that the financial mandate of the corporation is only to be financially self-sustaining. If there is to be any exception to this mandate, any financial target should be restricted to the commercial operations of CPC that exist in a competitive market and should reflect the general rate of return being realized by the competition.

Dividends

The issue of CPC's payment of dividends has been the subject of a longstanding dispute between CUPW and the government. The union believes there is no requirement for CPC to pay dividends to the federal government. The dividend requirement contained in the Multi-Year Policy and Financial Framework is contrary to both the letter and spirit of the CPC Act and the understanding reached by all of the stakeholders at the time of the passage of the legislation in 1981.

Since becoming profitable in 1989, CPC has returned \$623 million to the federal government in the form of dividends. We believe the surplus generated as a result of CPC's operations should have been retained by the corporation and used to finance improved postal services for the public. It should also be noted that in

addition to dividends CPC paid \$496 million in income taxes and generated more millions in GST for the federal government.

The CPC Act clearly requires CPC to be financially self-sustaining. During the discussions and parliamentary debates that occurred leading up to the passage of the Act, there was a consensus that self-sustaining referred to the ability of CPC to conduct its operations, including investment, without funding from the federal government except where the corporation was required to perform specific services at less than cost. Section 19(2) of the Act was included specifically so that monopoly postage rates would not be used to extract additional federal taxes from large volume mailers in the form of postage rates.

Section 130 of the Financial Administration Act provides for a Crown Corporation to pay dividends to the government when there are funds in excess of the amount required for the purposes of the corporation. Although there is an expectation that Crown Corporations may pay dividends and there is a requirement for Crown Corporations to submit a dividend proposal, in the event that they have surplus funds, there is absolutely no requirement to pay any dividends much less the magnitude of dividends included in the Multi-Year Policy and Financial Framework. It is instructive to note that the other Crown Corporations included in the same Schedule under the FAA pay little in the way of dividends to the government. There is also the issue of whether CPC should be required to pay off all of its debt prior to paying dividends to the government.

Both the 1985 and 1996 mandate reviews agreed with the union's perspective that CPC should not be required to pay dividends to the government.

The 1985 mandate review stated: "In this case financial self sufficiency means the discontinuance of the corporation's reliance on the public purse except insofar as

the corporation is directed to provide services that it would not otherwise provide or charge less for services than it is required to meet its needs.”³⁸

The 1996 review directly addressed the issue of dividend payments. It stated: “It would make little policy sense in this context for Canada Post to pay dividends to the government at the inevitable expense of either having postage rates higher than they would otherwise be, or having correspondingly less money to spend on providing Canadians with the best possible postal services.”³⁹

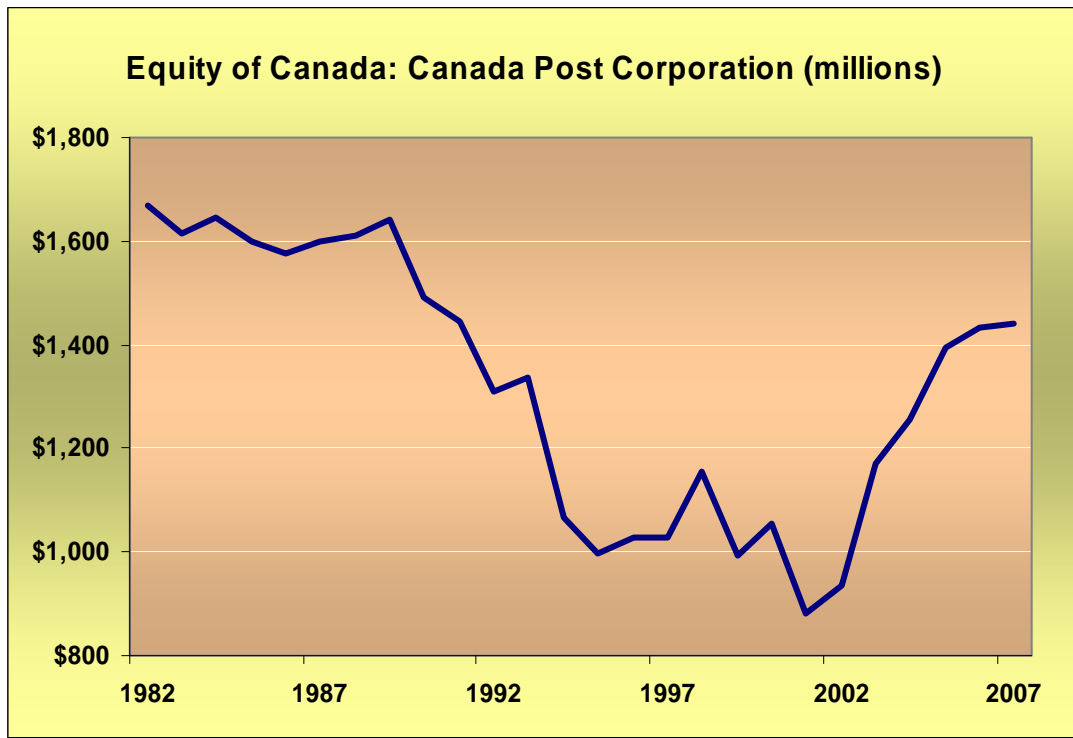
In 2006-2007, over 500 municipalities passed a resolution that asked the government to change the financial and policy framework it uses for Canada Post so that the corporation does not have to provide commercial profits and dividends. The resolution also asked the government to instruct the corporation to use more profits on public postal services, including maintaining and expanding home mail delivery in rural and urban areas.

The union recommends an end to the practice of CPC paying dividends to the government. Instead this money should be used to expand postal services and also provide partial subsidies of the mailing costs of Canadian publications.

Should the advisory panel conclude that it must recommend that CPC be required to pay dividends to the government the union believes the dividend requirement should be restricted to the commercial operations of CPC that exist in a competitive market. The amount of the dividend should reflect the general rate of dividends being realized by the competition.

³⁸ Report of the Review Committee on the Mandate and Productivity of Canada Post Corporation, November 1985, Canadian Government Publishing Centre, page 25

³⁹ The Future of Canada Post, Report of the Canada Post Mandate Review, Ministry of Public Services, Government of Canada, 1996, page 102

Figure 8: Equity of Canada: Canada Post Corporation (millions)

Source: CPC Annual Report

Debt-to-Capital Ratio and Cost as a Percentage of Revenue

The union believes that both of these measures of financial performance should be eliminated from the Multi-Year Policy and Financial Framework.

The debt-to-capital ratio of 40 per cent is derived from the 1997 TD Securities Report. It originally recommended a ratio of 50 per cent as a means of achieving financial self sufficiency and also as a step towards preparing CPC for privatization through a public offering of shares. The original scheme proposed by TD Securities involved CPC going massively into debt at the same time that it paid the federal government a special dividend of \$541 million. Fortunately sanity prevailed and this hare-brained scheme never materialized. It is time to finally put this idea to rest and eliminate this provision from the Multi-Year Policy and Financial Framework.

The cost percentage of revenue, set at 97 per cent in the Multi-Year Policy and Financial Framework does not add anything to the evaluation of CPC's financial performance and in fact, serves to obscure reality. The 97 per cent may make sense for a postal administration based on low-cost and low-margin products such as letters and admail. However, as parcel delivery assumes a greater part of CPC's overall business, the cost to revenue ratio should diminish. It is unnecessary.

Recommendation #11: Adjust the price cap to permit rate increases necessary to fully recover input cost increases.

Recommendation #12: Institute a reduced rate for non-profit organisations.

Recommendation #13: Eliminate the targets for earnings, return on equity, debt-to-capital ratio and cost as a percentage of revenue in the Multi-Year Policy and Financial Framework.

Recommendation #14: End the practice of CPC paying dividends. Any financial surplus should be used to finance service improvements and public policy programs such as support for publications.

Postal Services and the Universal Service Obligation

The government has asked the advisory panel to examine both the costs and the social impacts of the universal service obligation (USO). The government has also stated that you are to be guided by the principle that CPC must maintain a universal, effective and economically viable postal service.

While it is generally accepted that Canada Post offers universal postal services to the entire population, there is no clarity as to what exactly comprises the USO. Although much has been written about universal postal services and the universal service obligation, there is no single simple definition that is universally accepted. Different definitions have different degrees of specificity.

Prior to examining both the costs and the social impacts of the USO, the advisory panel will have to determine what exactly it is in the Canadian context. What services should CPC be obligated to provide to the public, the government, non-governmental organisations and businesses?

The United States Postal Regulatory Commission (PRC) has identified six service elements which, when taken together, constitute the characteristics of universal service. The PRC acknowledges this list is imprecise and open-ended but it is a useful beginning point for the discussion of the services that should be included in the USO for Canada Post.

1. **Geographic scope:** Provide services throughout the country, serve all areas and all communities, especially rural areas, and as nearly as practicable the entire population and also provide service to or from military personnel abroad.
2. **Range of products:** Transmit a range of postal items including written and printed matter, parcels, and like materials suited to the needs of different categories of mail and mail users.
3. **Access:** Provide mailers ready access to the postal system through an appropriate level of post offices and other access facilities consistent with reasonable economies, for both urban and rural areas.
4. **Delivery services:** Provide for the receipt, transmission, and delivery of postal items.

5. **Rates and affordability:** Charge prices that are fair, reasonable, non-discriminatory, and based on a fair and equitable apportionment of costs.
6. **Quality of service.** Provide for the prompt, reliable, efficient, and adequate transmission of postal items, with particular attention to the most expeditious transmission of letters.

In its discussion paper on the USO, the PRC asked if the security of the mail should be considered a part of universal service quality. We would suggest that given the prominence provided to security of the mail in Section 5 of the CPC Act, it should be added as a seventh element.

7. **Security:** Provide for the safe delivery of mail and protect the privacy of the sender and recipient.

It would be tempting, and easy, to simply list the current services provided by CPC and argue they constitute the benchmark that would form the minimum definition of the universal service obligation for the future. After all, as previously stated, the population appears to be broadly satisfied with Canada Post's performance including price, delivery performance and security.

However, the union believes there are several aspects of CPC's services, and practices that need to be further examined in the context of the universal service obligation (USO).

We believe the definition of the universal service obligation should be set at a level that requires CPC to institute significant improvements in its current level of services with respect to door-to-door letter carrier delivery. Likewise, retail services need to be defined, especially in the context of access and quality of retail services. Finally the issue of the quality of delivery in rural areas needs to be examined in the context of access and quality of service.

Scope of Delivery Products

The union believes that the USO should include the collection, processing, transmission and delivery to all points of call, five days per week, of the products currently processed and delivered by Canada Post, including national and international letters, admail, newspapers, periodicals, packets, parcels and express mail. We recognize that most of these products are not covered by the exclusive privilege and competitors provide some of these services in some selected markets.

However,, it must also be recognized that no other organisation offers the range of comprehensive coverage as that offered by Canada Post Corporation. There is, for example, no effective competition to Canada Post for regular parcel delivery in much of the country, although this product is not covered by the exclusive privilege. Likewise, the enormous volume of unaddressed admail delivered by CPC is a testament to the importance of this service to the many thousands of small businesses that rely on the service to promote their services in their communities.

The United States Postal Service (USPS) recently asked the United States Congress to exempt some of its competitive products such as Priority Mail and package services from the universal service obligation. Doing so would allow USPS to cut back on service in sparsely populated areas when volumes decline. We believe this approach to be mistaken for two reasons. First there are international treaty obligations that require the delivery of international packets and parcels to all regions. But more important, offering a complete range of services in all regions is a cornerstone of the basic principles of the obligation to provide universal services. It is the quid pro quo for the exclusive privilege.

Recommendation #15: The universal service obligation should include the collection, processing, transmission and delivery to all points of call for a minimum of five days per week for all of the products currently processed and delivered by Canada Post including national and international letters, admail, newspapers, publications, packets, parcels and express mail.

Urban Door to Door Letter Carrier Delivery

The union believes that the delivery service element of the USO should include door-to-door delivery by letter carriers in all urban and suburban communities of 2,000 or more points of call. The union asks the advisory panel to note that door-to-door delivery by letter carrier is one of the most important services provided by Canada Post to the population.

Today approximately 15 per cent of points of call are serviced by urban community mailboxes. These residents are denied equal service by CPC simply on the basis that their homes were built more recently than 1975, when CPC first began to substitute letter carrier delivery by CMBs.

The issue of community mailboxes began in 1975, when the Post Office Department, facing large financial losses, formally ended its practice of automatically providing door-to-door letter carrier delivery to all households in communities of 2,000 or more points of call. Between 1975 and 1985, CPC extended door-to-door letter carrier delivery on an ad hoc basis. In 1985 CPC restricted door-to-door letter carrier delivery to existing points of call and fill-ins.

The 1985 mandate review, chaired by Alan Marchment, recommended communities in urban areas be given the choice between alternative day door-to-door letter carrier delivery and daily service through CMBs. However, in his 1989 report, as Chair of the Postal Services Review Committee, Marchment changed his perspective and proposed that the then profitable CPC rebalance its objectives in favour of improving services. In addition to stopping the closure of rural post offices, he recommended that CPC consider offering door-to-door letter carrier

delivery to the 405,000 urban and suburban residences that were then serviced by CMBs at a total cost of \$42 million.

The 1996 mandate review also addressed the issue of CMBs and door-to-door letter carrier delivery. The review noted those were problems of fairness and uniformity caused when some people have door-to-door letter carrier delivery while their neighbours are relegated to using CMBs. It also raised the concern about the problems created when elderly and/or disabled people are denied door-to-door letter carrier delivery and the safety hazards CMBs pose for women accessing them at night in isolated areas.

Altogether the 1996 review made three recommendations concerning CMBs and door-to-door letter carrier delivery.

1. CPC should provide exceptional door-to-door letter carrier delivery to disabled and elderly people who have difficulty accessing CMBs.
2. CPC should review all CMB locations from the viewpoint of women's safety and relocate those found to be hazardous.
3. CPC should replace CMBs with door-to-door letter carrier delivery in urban areas as resources permit.

Despite earning massive profits since 1996, Canada Post has yet to implement any of these recommendations.

The union asks the advisory panel to note that there is every reason to believe that given the chance, an overwhelming majority of the population would prefer door-to-door letter carrier delivery over CMBs. In 2006, in Burlington, CPC and CUPW conducted a joint survey of residents in 98 suburban residences who had been converted from CMB to door-to-door letter carrier delivery. The result was 83 per cent favouring door-to-door letter carrier delivery with 10 per cent favouring the CMB and seven per cent without a preference.

Finally, the union believes that this issue should also be considered from an environmental perspective. Door to door letter carrier delivery requires much less

use of fossil fuels than the practice of customers driving to pick up their mail at neighbourhood CMBs, leaving their engines running while they empty their compartments. The union believes that the objective of expanding door-to-door letter carrier delivery should be included in the description of the delivery element of the USO. We recognize the financial situation of CPC does not lend itself to an overnight resolution of this problem. Instead, we propose the recommendations of the 1996 review be followed with elderly and disabled residents being offered door-to-door letter carrier delivery immediately and further expansion as finances permit.

Recommendation #16: Door to door letter carrier delivery service should be included in the universal service obligation. Elderly and disabled residents should be offered door-to-door letter carrier delivery immediately and further expansion should occur as finances permit.

Retail Services and the Moratorium

The government has asked the advisory panel to examine how the public policy obligations imposed on Canada Post, such as the moratorium on rural post office closures, meet the needs of Canadians. The moratorium covers 3,479 post offices represented by the Canadian Postmasters and Assistants Association (CPAA) and 359 post offices represented by CUPW.

Community post offices continue to play an important role in the lives of Canadians. This is especially true in rural areas and smaller towns where the post office is the sole manifestation of the Canadian federal government. In many regions the post office is also an important source of stable employment, especially for women. It was the belief in the importance of postal services, and especially retail post offices, that led over 800 municipalities in 2006 to adopt resolutions opposing the closure of the Quebec City plant and other facilities.

The current moratorium on rural closures announced on February 17, 1994 by the newly elected Liberal government, was a direct result of a decade of struggle by

rural Canadians aided and supported by the postal unions. Understanding the nature of this struggle is central to evaluating the depth of support that rural Canadians have for their post offices.

In May 1986, CPC President Don Lander informed a Parliamentary Committee that the federal government was pushing Canada Post to privatize postal counters. He stated that this “was not a Canada Post plan.” In November 1986, the CPC Five-Year Business plan called for the elimination of all 5,200 rural post offices and the opening of 3,500 franchises. The remaining 1,700 post offices were to be replaced by community mailbox service.

During the next seven years, rural communities and the postal unions participated in a campaign against the cuts to rural postal services. Massive public opposition delayed the government’s timetable for closures. Opposition took many forms including resolutions passed by hundreds of municipalities, the establishment of “franchise-free” zones, petitions and demonstrations. In some cases resistance to post office closures was dramatic and emotional. For example, in 1993 in St. Clement, Quebec, residents blockaded the post office with farm implements, tractors and trucks for 59 days. The campaign received considerable support from urban areas including both the Liberal and NDP political parties. Liberal leader John Turner highlighted the need for security of the mail as a primary reason to maintain corporate outlets as opposed to franchises.

Between 1987 and 1994, considerable damage was done to rural postal infrastructure. Altogether 68 staff offices, 1,374 revenue offices and 274 semi-staff offices were closed.

The moratorium was not only a victory for rural community activism, it was recognition of the importance of federal postal services as a needed connection between the populace and their government. The preservation of the rural network has maintained an important federal presence in rural communities. It also ensures that CPC has much greater ability to train staff in new operational techniques and provide new product offerings to the public.

The 1989 Postal Services Review Committee was very critical of the program to close rural post offices and noted in its report that CPC acknowledged the anticipated financial savings of the program had not materialized.

The 1996 mandate review conducted significant public opinion polling concerning this issue which revealed enormous support for rural postal services. The review opposed the closure of rural post offices and recommended to maintain the moratorium. It stated “Cost-cutting⁴⁰ cannot be the sole criterion for the decisions of a public sector entity like Canada Post, whose whole reason for existing is founded on its capacity to meet public policy needs. It is a finding of this review that maintaining the network of rural post offices is a crucial and necessary component of Canada Post’s public policy responsibility to contribute to national unity and our nation’s social development.”

The union recognizes extraordinary circumstances may necessitate the closure of a postal outlet. Indeed in recent years over 50 rural outlets have been closed. Currently when a closure is deemed to be unavoidable Canada Post contacts the Minister Responsible for the Post Office and his/her staff is supposed to inform the Member of Parliament in the area. Although there is a vague assurance that Canada Post will work with “local officials” to see if a post office can be reopened, the public, the postal unions and the major stakeholders are normally excluded from the process. We believe that there should be a requirement for a more inclusive and participatory process whenever a postal closure is being considered in spite of the terms of the moratorium.

The union also believes the moratorium is a means instead of an end. We believe the post office, communities and the unions should work together to expand the number and type of services that can be provided in post offices. Other countries offer banking, insurance, financial and other government services through their rural and urban post offices and we believe CPC should do the same.

⁴⁰ The Future of CPC, page 106

The union is requesting the advisory panel examine the issue of postal services on aboriginal reserves. Currently there are approximately 280 Contracted Postal Services (CPS) on reserves that offer full postal services. These are operated by Band Councils that receive compensation from CPC. It is our understanding that there is a program currently being undertaken to convert some of these outlets to franchises and to cutback on some service offerings. We do not have comprehensive information on this subject. The union is willing to work with CPC to explore means whereby postal services on reserves could be used more effectively for economic development.

Recommendation #17: The moratorium on rural closures should continue and be expanded to include urban offices.

Recommendation #18: CPC should develop a more inclusive and participatory process for consultations when a closure of a post office is being considered.

Recommendation #19: The hours and range of services offered at rural post offices should be expanded to include banking, insurance, financial services and other government services where these are not currently available in the community.

Recommendation #20: CPC should conduct an audit of all postal services offered to aboriginal peoples and consult with aboriginal organisations and the postal unions to improve service offerings and properly utilize CPC facilities on reserves.

Rural Delivery

The government has included rural mailbox delivery as one of the public policy obligations imposed on Canada Post.

As a result of legitimate safety concerns being raised by rural and suburban mail carriers, Canada Post is currently reviewing roadside mailboxes from a safety perspective. As a result of this review, the corporation has informed many rural residents they can no longer have roadside mail delivery because their mailbox is not in a safe location for delivery. In fact over 50 per cent of the rural boxes in the Atlantic Provinces and Quebec have failed the criteria for safety. In these cases delivery is relocated to a community mailbox that may be a considerable distance from the residence.

In many cases, it appeared that decisions were being made more out of a desire to save money as opposed to being made on the basis of safety criteria. In the course of reviewing mailboxes, the corporation does not always take the time to talk to rural residents or explore all available options before moving mail delivery to a community box, green box or a post office. Likewise, it does not consult with union representatives of rural delivery workers who have first-hand knowledge of the safety and delivery problems within a community. This unilateral approach has led to frustration and outrage among rural residents and difficulties for rural delivery workers.

The union believes that Canada Post needs to thoroughly consult and explore all available options with rural residents as well as local union officials, who represent rural and suburban mail carriers, prior to taking any action to permanently change mail delivery. Until there is a commitment to this form of open, inclusive and participatory consultation the Canadian Union of Postal Workers is calling for a moratorium relating to rural delivery.

This process should be subject to an exception in cases where a rural and suburban mail carrier has identified unsafe roadside mailboxes. In such cases, Canada Post, the rural resident and local union officials should work out an interim solution.

This may involve having the rural delivery worker drive up to the rural resident's door or having a neighbour accept the rural resident's mail on a temporary basis with permission from the resident.

We believe that Canada Post should return and review roadside mailboxes in cases where proper consultation did not occur and rural residents lost home delivery.

In some cases, the solution to an unsafe mailbox may be as simple as moving the box to a safe delivery location. Of course, in other cases, it may not be that simple.

The advisory panel has also been asked to evaluate the cost of the universal service obligation. With respect to rural delivery services, we do not think this will be possible until a thorough and legitimate review has been conducted.

We hope the advisory panel will agree that an inclusive process, designed to reconcile the requirement for safety with the need for rural mailbox delivery is far preferable to a process where safety is used as a pretext to cutback service and save money.

Recommendation #21: CPC should cease converting rural mailbox delivery to community mailboxes or other forms of delivery until an inclusive consultative process involving residents and union representatives is established.

Other Public Policy Obligations

The government has asked the advisory panel to examine the extent to which the public policy obligations imposed on CPC meet the needs of Canadians. The advisory panel's backgrounder identifies materials for the use of the blind, government free mail, the publications assistance program (PAP), the food program and the library book rate as services deemed to be obligations imposed by the government.

CUPW strongly supports the continuation of these programs. We believe that these types of services constitute the "basic customary services" referenced in Section 5 of the CPC Act. As a public institution, CPC has an important role to play to promote the cultural development and education needs of all of the population.

In a country that gains so much from the exploitation of natural resources in the north, we believe it is reasonable that all levels of government, and government agencies such as CPC, should contribute to improving the living and nutritional standards of our northern citizens.

We believe that CPC would have been able to improve these services had it not been required to pay over \$600 million in dividends to the federal government during the past two decades.

Recommendation #22: CPC should continue to offer programs such as materials for the use of the blind, government free mail, the publications assistance program (PAP), the food program and the library book rate.

Third Party Regulation

The union is opposed to the establishment of a third party regulatory agency to oversee Canada Post Corporation. If the exclusive privilege is maintained and CPC continues to be subject to some form of price cap, there is no reason to establish what would inevitably grow to be a large and costly bureaucracy.

Should the government agree to extend the exclusive privilege to parcels it may be necessary to have some type of regulatory process in the initial years in order to establish fair prices for all of the different packet and parcel product offerings. However, after this process is completed, the regulatory process could be replaced by a price cap mechanism.

We agree with the conclusions of the 1996 mandate review which examined the arguments in favour of a regulatory process and then rejected them for four reasons:

1. CPC's history of vehement opposition to regulation.
2. The problems associated with other Canadian regulatory processes.
3. The right of the government to direct the corporation would be undermined.
4. The regulatory process is by nature time consuming and costly.

The review noted that the setting of the basic postage rate is ultimately a policy or political decision and that the government is the appropriate body to make that decision. We believe that a price cap, which permits full cost recovery, is the most effective mechanism with parliament able to act in the event of extraordinary circumstances.

The union believes the CPC ombudsperson should be made completely independent of the corporation, and her or his role should be expanded to

investigating requests for additional services and improvements in existing services.

Should the advisory panel recommend to establish some form of regulatory body that would oversee CPC prices we believe it is absolutely necessary that such a body also oversee the prices of CPC competitors to ensure a “level playing field” within the industry.

Recommendation #23: No regulatory body should be established. If a regulatory body is established, it must have jurisdiction over private sector competitors.

Recommendation #24: Make the current ombudsperson independent and expand the role of the ombudsperson to investigate complaints and recommend service improvements.

Identifying and Reducing CPC’s Carbon Footprint

The union believes that the Strategic Review offers an opportunity to redirect CPC towards assuming a leadership position in environmental responsibility. We believe that an efficient, large-scale, high-density delivery service is an environmentally positive means of disseminating information and transporting goods. There are, however, concerns about the environmental consequences of paper-based communications and the impact of CPC’s large fleet of vehicles. We believe it is imperative that the issue of the overall environmental impact of postal services be examined so that the discussions can be based on fact. We also believe there should be a thorough examination of CPC’s operations to identify both immediate and longer term actions that can be taken to reduce CPC’s carbon footprint.

Recommendation #25: The government should sponsor a thorough examination of the overall environmental impact of postal services. CPC should conduct an environmental audit to identify measures that can be taken to reduce its carbon footprint.

Conclusion

This written brief is only one part of the union's presentation to the advisory panel. Our members have also been expressing their views to you through letters, postcards, petitions and audiovisual presentations.

In the final analysis, the postal service, like our union, is really all about the people. It is a service provided by people for people. Despite all of its flaws, Canada Post Corporation serves the people well. It can and should be improved. We trust the members of the advisory panel will make recommendations designed to improve our postal service and enhance its ability to serve the entire population for decades to come.

We are willing and ready to meet with you at any time to review the ideas contained in this presentation and any other issues you may wish to discuss.

Recommendations of the Canadian Union of Postal Workers to the Canada Post Corporation Strategic Review

Recommendation #1: The CPCSR process should be opened to public involvement with increased public notification. Public hearings should be held in several locations, and the deadline for submissions should be extended.

Recommendation #2: All recommendations and proposals for change by the advisory panel should be examined in the context of their impact on the environment.

Recommendation #3: CPC should maintain its exclusive privilege for collecting, transmitting and delivering letters.

Recommendation #4: The issue of exclusive privilege should not be revisited until 2018.

Recommendation #5: The government should immediately withdraw Bill C-14.

Recommendation #6: The government should shut down the five or six international mail companies that are violating the law. Canada Post and CUPW should consult about offering alternative employment opportunities for workers.

Recommendation #7: The government should examine the business and jobs concerns of small businesses that produce or collect ABB remail and consult with stakeholders, including unions, with a view to devising solutions to problems revealed by this examination.

Recommendation #8: The federal government should reorganize the courier industry through a very significant expansion of the parcel delivery services of Canada Post Corporation. The objectives of this initiative would be to promote greater efficiency by increasing delivery density, reduce unnecessary use of fossil

fuels, lower prices to consumers and improve the wages and working conditions for the workers in the industry.

Recommendation #9: Canada Post Corporation should serve as a last-mile delivery agent for other courier companies

Recommendation #10: Private competitors must be prevented from cross subsidizing their competitive operations in Canada from revenues gained internationally or through revenues from businesses not in competition with CPC.

Recommendation #11: Adjust the price cap to permit rate increases necessary to fully recover input cost increases.

Recommendation #12: Institute a reduced rate for non-profit organisations.

Recommendation #13: Eliminate the targets for earnings, return on equity, debt-to-capital ratio and cost as a percentage of revenue in the Multi-Year Policy and Financial Framework.

Recommendation #14: End the practice of CPC paying dividends. Any financial surplus should be used to finance service improvements and public policy programs such as support for publications.

Recommendation #15: The universal service obligation should include the collection, processing, transmission and delivery to all points of call for a minimum of five days per week for all of the products currently processed and delivered by Canada Post including national and international letters, admail, newspapers, publications, packets, parcels and express mail.

Recommendation #16: Door to door letter carrier delivery service should be included in the universal service obligation. Elderly and disabled residents should be offered door-to-door letter carrier delivery immediately and further expansion should occur as finances permit.

Recommendation #17: The moratorium on rural closures should continue and be expanded to include urban offices.

Recommendation #18: CPC should develop a more inclusive and participatory process for consultations when a closure of a post office is being considered.

Recommendation #19: The hours and range of services offered at rural post offices should be expanded to include banking, insurance, financial services and other government services where these are not currently available in the community.

Recommendation #20: CPC should conduct an audit of all postal services offered to aboriginal peoples and consult with aboriginal organisations and the postal unions to improve service offerings and properly utilize CPC facilities on reserves.

Recommendation #21: CPC should cease converting rural mailbox delivery to community mailboxes or other forms of delivery until an inclusive consultative process involving residents and union representatives is established.

Recommendation #22: CPC should continue to offer programs such as materials for the use of the blind, government free mail, the publications assistance program (PAP), the food program and the library book rate.

Recommendation #23: No regulatory body should be established. If a regulatory body is established, it must have jurisdiction over private sector competitors.

Recommendation #24: Make the current ombudsperson independent and expand the role of the ombudsperson to investigate complaints and recommend service improvements.

Recommendation #25: The government should sponsor a thorough examination of the overall environmental impact of postal services. CPC should conduct an environmental audit to identify measures that can be taken to reduce its carbon footprint.

Appendix “A”

CUPW’s Proposals for a New Multi-Year Policy and Financial Framework

Financial Performance

- Eliminate targets for earnings before interest and taxes as they are inadequate
- Eliminate return on equity (ROE). If there is to be any exception, financial target should be restricted to the commercial operations of Canada Post that exist in a competitive market and should reflect the general rate of return being realized by the competition.
- Eliminate requirement for dividends which allows the government to extract additional federal taxes from large volume mailers in the form of postage rates.
- Eliminate 40% debt-to-capital ratio which was established to prepare Canada Post for privatization.
- Eliminate cost as a percentage of revenue target which shifts depending on the mix of mail.

Lettermail Service Delivery Standards (Urban and Rural)

- Within same centre:
 - ◆ 2 business days
- Between centres in same province:
 - ◆ 3 business days

- Between centres in different provinces:
 - ◆ 4 business days

Rural Retail Service Standards

- Canada Post should consult with the public, postal unions and major stakeholders when making significant changes and developing community requirements.
- The moratorium on rural closures should continue and be expanded to include urban offices. CPC should develop a more inclusive and participatory process for consultations when a closure of a post office is being considered.

Price Cap Formula

The price cap should be constructed to reflect the relative importance of all input costs (fuel, facilities, labour etc.) and ensure Canada Post is fully protected from external events over which it has no control. The only exception to the new price cap we are proposing would be for qualified non-profit organizations, which could be fully or partially exempted from increases.

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