

Brief for Submission to:

**The Canada Post Corporation
Strategic Review Advisory Panel**

**From the
Canadian Union of Public Employees**

September 2, 2008

CUPE / *Canadian Union
of Public Employees*

Table of Contents

Brief for Submission to: The Canada Post Corporation Strategic Review Advisory Panel

<u>Subject/Title</u>	<u>Page</u>
Introduction	2
Summary	2
Why a public monopoly makes sense: Public Policy Objectives.....	3
• Community Programs	
• Environmental Initiatives	
• Good Jobs and Good Labour Relations	
Deregulation: The wrong road for Canada’s postal service	5
• Higher Costs for Customers and for Canada Post	
• Compromising Safety and Security	
• Relinquishing Regulatory Power: Trade Agreements and Corporate Rights	
Evidence from other sectors	7
• Electricity Deregulation	
• Airline Industry Deregulation	
Recommendations	9
Conclusion	9
Appendix.....	11

**Brief for Submission to:
The Canada Post Corporation Strategic Review Advisory Panel**

Introduction:

The Canadian Union of Public Employees (CUPE) is Canada's largest union, representing more than 570,000 workers. Our members deliver quality public services like energy, library services, social services, health care, municipal roads maintenance, education and more.

Our union is very familiar with the benefits of strong public services and we've had our share of experience learning about the harm that can come to communities as a result of privatization and deregulation.

CUPE is a key stakeholder of the Canada Post Corporation. Our members and their families represent over a million postal users. We have 70 regional and area offices across the country in addition to local union offices in communities from coast to coast to coast.

CUPE's National Office in Ottawa alone sent out 92,186 pieces of regular mail and 10,000 parcels from August 2007 to August 2008. Our expenditures on Canada Post services during that one year period totalled \$284, 557. That is an average of 9000 pieces of mail per month and \$25,000 per month in spending on public postal services.¹

CUPE is very clear about the value and importance of public services and the services provided by the Canada Post Corporation. Our objective with this submission is to ensure that they are protected and improved. CUPE's 1979 National Convention passed a resolution supporting the creation of a crown corporation based on the principles eventually contained in Bill C-42 that set up Canada Post as a crown corporation in 1981.

Summary:

This brief explores the implications of eliminating Canada Post's exclusive mail collection and delivery privilege, which would in essence mean deregulating the postal sector by opening it up further to competition.

We look at the benefits of 'monopoly' to the extent that it has been maintained including, price regulations, universal service delivery, equality, safety, and the important community programs that Canada Post supports as a result of these exclusive rights which benefit all people in Canada.

A discussion of the downfalls of deregulation is followed by examples from two sectors familiar to CUPE from the electricity and airline industries. Finally, some recommendations are made for the Advisory Panel to bring forward to the federal government coming out of this review.

¹ See Table 1 in Appendix A

Why a public monopoly makes sense: Public Policy Objectives

A public monopoly makes sense for postal services in Canada given numerous considerations, including the geographic spread of Canada's population. It means that resources are more likely to be invested in improving quality, adapting to change and keeping services universal. Canada Post's monopoly keeps good jobs in local communities and benefits local economies. It allows Canada Post to keep costs low.

Canadian businesses benefit from controlled rates and reliable service. In fact, the business sector was an important player, demanding price controls when the corporation was first established in 1981.

Keeping exclusive mail collection and delivery with Canada Post ensures accountability. The corporation is accountable to the public and to parliament, as opposed to disinterested shareholders of private companies. It also means that services are reliable and efficient, whereas a competitive market means unstable services, doubling up on services and leaves potential for gaps in service. Once a particular service that is being provided by a competitor becomes unprofitable, for example, there is nothing stopping that player from pulling out of the game altogether, leaving the public sector to pick up the slack.

Community Programs

Canada Post provides important community services that are not revenue generating – in fact they cost. This is made possible by the exclusive mail collection and delivery privileges.

In cooperation with the department of Canadian Heritage, the *Publications Assistance Program* helps offset mailing costs for Canadian magazines and weekly newspapers. Canada Post contributes \$15 million per year toward the program.

This program is critical to an industry that struggles to survive in the face of media concentration, as the internet dominates as an information source, and American magazines line Canadian store shelves. The continuation of this program is critical for the growth and proliferation of Canadian independent arts and journalism.

The *Library Book Rate* is another program that is invisible to most Canadians but is of critical importance for literacy in our communities. It permits libraries to send books to one another at lower than normal shipping rates. This expands the number of books that any given library user has available to them, strengthening our public libraries significantly.

The *Food Mail Program* is delivered in cooperation with the Department of Indian and Northern Affairs Canada, who provide funding to Canada Post to cover part of the cost of sending food shipments by air parcel service to about 140 northern communities. Without this program, the cost of this service would be prohibitive.

Materials for Use of the Blind are sent free of charge, thanks to Canada Post's public policy obligations.

Environmental Initiatives

Improving on services requires a public monopoly. We cannot rely on nor can the private sector competitors be forced to take initiatives that are sometimes costly at first, or whose benefits are broader than their own bottom line. Once the industry is deregulated, the government will be unlikely to require postal service competitors to improve their environmental record. Meanwhile, Canada Post is in a unique position to become a sustainable operation, by greening its fleet, buildings and using conservation practices in mail delivery.

The more service providers are operating in a sector, the more trucks are on the road, sometimes even on the same street, burning more fossil fuels and contributing to pollution and traffic congestion. Smaller companies are less efficient as they do not have the infrastructure to deliver locally and thus drivers would go longer distances to deliver mail. It is especially unsustainable to deliver mail to suburban and rural areas by multiple service providers.

Good Jobs and Good Labour Relations

Postal service is a human service. Canada Post employs over 70,000 people in good jobs. This is especially important in rural communities where there are few secure jobs with benefits and decent wages. Canada Post creates good jobs for women, especially in rural areas where 79.2% of postal workers are female.²

Deregulation on the other hand means fewer jobs. In recent years, more than 160,000 North American workers have been cut from the electricity sector as it spiraled downward into the era of deregulation

Canada Post can and should be a leader in establishing what has come to be known as 'just transitioning' for workers. This means protecting workers rights in the context of technological and other changes that impact the nature of work. This can be done right if public regulation and control is maintained over the service.

² CUPW, Fact Sheets, (www.cupw-sttp.org August, 2008.)

Deregulation: The wrong road for Canada's postal service

Experience shows that deregulation and the invitation of private sector competitors into a public sector market, leads to prioritizing profit-making at the expense of public services. Deregulation may in fact be more appropriately called 're-regulation' since it is a different set of rules that apply in a competitive service environment – the rules of the market.

Higher Costs for Customers and for Canada Post

Two clear implications of introducing some letter mail delivery and collection into a "competitive environment" will be higher prices and reduced reliability of services. In addition, the government will be required to subsidize postal services in order to keep rural rates reasonable and services accessible.

Basic economic principles support that larger buying power produces economies of scale. Far from making it more affordable to meet the universal service obligation, deregulation will reduce Canada Post's capacity to fund the more expensive elements of the current package of services that it offers.

A predictable outcome of deregulation is 'cream skimming.' In this common scenario, independent contractors without service obligations are more than pleased to take over the more lucrative services, leaving those more expensive or harder to deliver ones to government. Meanwhile the public sector has given up its access to income generation that would have made it feasible to address those needs.

In the Postal Sector, competing contractors will be happy to take advantage of Canada Post's infrastructure, while leaving them to service the hard to reach and more expensive parts of Canada without the revenue stream that comes from having a monopoly on letters.

Compromising Safety and Security

Postal workers have one of highest rates of injury in the country.³ With deregulation this is likely to increase because there would be enormous pressure to increase workload and length of the workday. In addition, competition would create incentives to reduce investment in improving working conditions. Competitors are not known to enforce health and safety legislation, which will create additional pressure on Canada Post to cut corners in these areas in order to remain competitive.

The public's security and privacy may also be in peril in a deregulated environment. It would be very difficult for the government to enforce standards that parallel the stringent regulations and enforcement of security apparatus

³ Bickerton, Geoff, 2006, 'Postal Deregulation: Its impact on postal workers and the response of a postal union', Presentation prepared for 14th Conference on Postal Delivery and Economics.

currently operating at Canada Post. Further, competitors that are American-based would be subject to the terms of the US Patriot Act. The act states that any company delivering mail in Canada may be required to turn over documents that it handles to the American Government.⁴

Because of its monopoly on letter mail delivery, Canada Post is able to prioritize safety. For instance, in response to workplace health and safety complaints Canada Post has initiated a rural mail safety program.⁵

Relinquishing Regulatory Power: Trade Agreements and Corporate Rights

Policies like the General Agreement on Trades and Services (GATS), the North American Free Trade Agreement (NAFTA), the more recent Security and Prosperity Partnership (SPP) enshrine and protect corporate rights and profit-making opportunities at the expense of public policy in the public interest.

Once a service is deregulated and competition is allowed into the market, companies can use trade agreements to interfere with the government's ability to set regulations and standards. Governments may be penalized for enacting programs and policies to improve environmental performance, to make choices that benefit local communities, protect health and safety of workers and the public, or provide subsidies to ensure that less profitable services are maintained at an acceptable quality and standard.

GATS

The General Agreement on Trade in Services (GATS) in particular places restrictions on governments' regulatory authority. This poses a great risk for the postal sector, especially given the approach that Canada has taken in GATS talks in recent years.

Canada has advocated importing into the GATS exactly the deregulatory provisions in other World Trade Organization (WTO) agreements that have produced the most controversial rulings ever made by WTO panels. If challenged, a government would have to prove, to the satisfaction of a WTO dispute panel, that their regulations were "necessary" and that there was nothing else they could have done that was "less trade restrictive."

NAFTA

Several years ago, the United Parcel Service (UPS) filed a complaint based on the North American Free Trade Agreement (NAFTA) under its Chapter 11, which allows corporations to challenge governments if they think their investments are restricted by government measures. The US parcel delivery company demanded \$185 million in compensation. It argued that Canada Post's network of public mailboxes and post offices is an "unfair" advantage.

⁴ Bickerton, 2006

⁵ www.canadapost.ca (August, 2008).

In July 2005, Ontario Superior Court Justice Sarah Pepall dismissed a constitutional challenge to NAFTA investment rules launched by the CUPW and Council, thereby upholding the unprecedented rights given to corporations under NAFTA.

In June 2007, the UPS complaint under NAFTA was rejected by the tribunal hearing the case. UPS lost on all grounds. This was a huge victory for Canada's public postal system.⁶ But it is also evidence that competitors will do what they can to limit and control public operations in the interest of their own profits, and trade agreements provide them with the tools to do so.

Limiting competition in the sector is an important way to protect services from the purview of trade agreements.

Evidence from other sectors

Electricity Deregulation

We can look to Canadian, US and other experience in the electricity market as an example of what happens when a public service is deregulated.

Similar to the role of Canada Post nationally, Ontario Hydro's electricity transmission network once delivered reliable and quality service and at the same time maintained a fair degree of rate equity. That is, the province instituted a "postage stamp" rate so that different classes of customers and in different regions would be treated with similar rates.

The Tories, elected in 1995, undertook to privatize and deregulate Ontario Hydro's system with disastrous results and several colossal u-turns. In May 2001, the Conservatives opened up Ontario's power market to competition. In less than six months, the market was in chaos, prices were skyrocketing and there were threats of power shortages.

In recent years, New York, Massachusetts, Pennsylvania and Montana have all suffered huge price increases as a result of opening up electricity to market forces. In the United Kingdom, the market-driven solution failed miserably and now there are new attempts to overhaul the system and restore prices to a reasonable level for citizens.

In the year 2000, the government of Alberta deregulated electricity and from June to October, the price of electricity rose from 5 cents to 25 cents per kWh. The government subsequently instituted a rebate program for businesses and

⁶CUPW Campaigns – Free Trade, http://www.cupw.ca/index.cfm/ci_id/6454/la_id/1/dp/doc_pub/ft0/1212/ft1/2303.htm , (August 2008).

householders, costing taxpayers \$2.3 billion. Dr. Marjorie Griffin Cohen summed up the situation in Alberta as follows:

“Before deregulation Alberta had one of the cheapest and most reliable electricity systems in North America. After deregulation it experienced regular brown-outs and was the third most expensive jurisdiction in North America after California and Hawaii.”⁷

Airline Industry Deregulation

Canada’s experience with deregulation in the airline industry is also instructive. Privatization and deregulation of Air Canada, once a Crown Corporation, resulted in a lose – lose – lose scenario for the industry, the public and for workers.

Deregulation began in the domestic airline industry in 1984. The two major carriers became debt ridden after unbridled competition was introduced. As a result, regional services were reduced, the company was no longer profitable and 16,000 jobs were lost.⁸ Passengers became exposed to greater safety risks, and consumers had less reliable service.

Between, 1987 and 1993 full fare economy ticket prices increased between 74% and 169% depending on the routes. Meanwhile, inflation increased by only 31% in the same time frame.⁹ The federal government was powerless to intervene to boost the weakening industry and decades of public infrastructure investment was wasted.

Air Canada was privatized in 1988. Following in the footsteps of numerous big players in the North American airline industry, Air Canada sought protection from its creditors in 2003. In the 27 years before airline deregulation, no airline ever went bankrupt. Since 1978, 160 airlines have come and gone. In the last quarter-century, the rate of bankruptcy among air carriers has been as much as 10 times higher than that of the general business community.¹⁰

Once the airline industry is deregulated economically, the deregulation of public safety quickly follows. Bill C-7 is an act currently under consideration by Canada’s Parliament that authorizes self-regulation through a “Safety Management System” or SMS in the airline industry – a form of deregulation for safety of operations. This legislation relieves Transport Canada of its safety oversight role and dismantles the system of checks and balances. It would exclude important government inspection reports of airline operations from the purview of the Access to Information Act.¹¹

⁷ Sources: Marjorie Griffin Cohen, “Pulling the Plug”, Report by the BC Citizens for Public Power, 2002; and CUPE Research, Deregulation, Privatization and the Ontario Power Failure, September 2003.

⁸ Funding Universe, ‘Air Canada, A Company History’, <http://www.fundinguniverse.com/company-histories/Air-Canada-Company-History.html>

⁹ CUPE Research, Submission to George Radwanski, Canada Post Mandate Review, February 15, 1996.

¹⁰ The High Price of Airline Deregulation, David Morris, Alternet, September 15, 2005 (www.alternet.org)

¹¹ ‘Secrecy In the Skies,’ Ottawa Citizen, January 19, 2008.

This new model relies on employees to report safety problems to their employer to take corrective action, but in a competitive business environment the profit motive is incentive for covering up safety risks and punishing employees who choose to speak up.¹²

Under deregulation (also known as self-regulation) safety and profits are pitted against one another. To avoid repeating the same mistake in the postal sector, Canada Post's exclusive mail collection and delivery should be maintained.

Recommendations:

If the federal government aims to make Canada Post more profitable, deregulation will accomplish the opposite. Instead, bringing services back in-house that have been contracted out, and becoming increasingly competitive with last minute services and package delivery, will create an environment where Canada Post can continue to expand and improve.

Therefore, we advise the following:

- Exclusive privilege to letter service should be maintained
- Exclusive privilege should be extended to parcels to make Canada Post even more economically viable.
- Canada Post should continue to provide new and innovative services in respect of the collective agreements with its employees
- If not financially sustainable, Canada Post should be allowed to reduce the dividends paid out to Government (\$400 million over past 10 years.)
- Bill C-14, an Act to amend the *Canada Post Corporation Act*, would partially deregulate Canada Post by removing international letters from Canada Post's exclusive privilege to deliver letters. Bill C-14 should be withdrawn.

Conclusion:

We are very doubtful that Canada Post will be able, given the loss of revenue, restrictions posed by Canada's economic trade commitments, and loss of regulatory powers, to meet its public policy objectives and responsibilities in a deregulated context.

Eliminating the 'exclusive privilege', in essence deregulating, will put the corporation's ability to abide by the very principles of the review in jeopardy. In order to maintain a 'universal, effective and economically viable postal service', and to use Canada Post as 'an instrument of public policy', public control and regulation is required.

¹² "Whistling in the Dark..." Allan Cutler, Ottawa Citizen, January 30, 2008.

Canada Post is a strong symbol of Canadian identity. Let us protect and improve it. Eliminating the exclusive privilege clause will inevitably result in the erosion of the service and could potentially force Canada Post to withdraw from the industry altogether.

We urge the review panel not to float with the tide of deregulation and competition, but instead to take the high road in its recommendations – Canada can be a leader through improved public services to the advantage of all.

Appendix A

**CUPE Expenditures on Canada Post Services
August 2007 to August 2008**

	monthly average pieces	2007/08 pieces	monthly spending	2007/08 spending
Regular Mail	8,381	92,186	16,883	185,715
Parcels	698	10,337	8,237	98,842
Total	9,079	102,523	\$25,120	\$284,557