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GAO

Briefing Report to the Chairman
Subcommittee on the Postal Service
Committee on Government Reform
and Oversight
House of Representatives

March 1997

POSTAL REFORM IN CANADA

Canada Post Corporation's Universal Service and Ratemaking

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GAO

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March 5, 1997

The Honorable John H. McHugh
Chairman, Subcommittee
on the Postal Service
Committee on Government
Reform and Oversight
House of Representatives

Dear Mr. Chairman:

This briefing report responds to your request that we provide certain information on Canada's 1981 postal reform initiative, which created the Canada Post Corporation (CPC). Our discussions with your staff revealed that knowledge about Canada's experience with postal reform would be useful to the subcommittee's current efforts to reform the U.S. Postal Service. As agreed with the subcommittee, this report, which follows our briefing of the Subcommittee on February 25, 1997, presents information on selected aspects of (1) universal mail service in Canada, (2) CPC ratemaking, and (3) key events affecting CPC since its creation in 1981.

Background

The Canada Post Corporation Act (CPC Act) established CPC as a Crown Corporation[1] and gave it broad authority to address problems reported to exist in the Canadian postal system. However, the CPC Act also provided that the Canadian government will select the CPC Board of Directors, designate a minister to oversee CPC, and approve proposed CPC regulations. The government also is to approve CPC's 5-year plans and annual operating and capital budgets, and CPC is subject to Canada's antitrust law, which is administered by Canada's Bureau of Competition Policy.

The CPC Act requires CPC to strive to operate on a self-sustaining financial basis. CPC incurred operating losses each year through fiscal year 1988, and reported its first profit (totaling Can$96 million, or U.S.$81 million)[2] in fiscal year 1989. CPC subsequently reported profits in 4 of the 7 fiscal years 1990 through 1996. In some recent years, CPC paid dividends and, since 1994, has been subject to federal income tax.

[1]Crown Corporations are parent corporations or wholly owned subsidiaries owned by the Crown that are commercial functions operating for public purposes in areas such as energy, communications, and transportation.

[2]We converted Canadian dollars to U.S. dollars using the average 1989 exchange rate of Can$1.1842 = U.S.$1.

Results in Brief

The CPC Act does not use the term universal service but states that "while maintaining basic customary postal service" CPC must consider several factors in carrying out the act's objectives. One such factor is providing a standard of service that will "meet the needs of the people of Canada and that is similar with respect to communities of the same size." Although not required by the CPC Act, CPC policy is to provide basic letter mail services at a uniform rate. Under the CPC Act, CPC has the "exclusive privilege" (i.e., a statutory monopoly) to collect and deliver most letter mail in Canada. This letter mail accounted for about 50 percent of CPC's operating revenue in fiscal year 1996. Since its creation in 1981, CPC has made some changes that affect the extent of mail service. For example, while taking certain steps to improve mail service, CPC also reduced the frequency of mail delivery to rural areas from 6 to 5 days per week and also gradually reduced the delivery of mail to urban businesses from several times a day to once a day.[3] From 1981 through 1994, CPC also converted about 50 percent of its post offices to privately owned, franchised operations that offer retail postal services, such as stamp sales and post office box rentals, and also closed some post offices. (See br. section II.)

With regard to postal ratemaking, CPC sets some postage rates through regulations. Under the CPC Act, interested parties must be afforded a reasonable opportunity to comment on such regulations, and the regulations are subject to government approval. At the time of our review, CPC used regulations to set postage rates for basic domestic and international single-piece letters and some other categories of mail. CPC sets postage rates for other mail services by agreement, without issuing regulations or obtaining government approval. Under CPC policy, the nonregulated rates must be approved by the CPC Board of Directors or others within CPC, depending on the particular mail service involved. (See br. section III.)

Since reform, several key events have affected CPC's business practices. For example, CPC's customers raised concerns, and legal challenges were made, regarding CPC's closure of rural post offices and its conversion of others to private ownership. In 1994, in response, the Canadian government imposed a moratorium on further rural post office closings and conversions. Further, in 1993, the Bureau of Competition Policy reviewed CPC's plan to acquire a large interest in a competitor, PCL Courier Holdings, Inc. During the review, CPC's competitors expressed concerns about CPC's cross-subsidization of the prices of its courier services with

[3]Some portions of northern Canada receive mail service less often than each work day. This situation continued after the 1981 postal reform.

monopoly revenues and whether CPC should compete with the private sector. In response, the Bureau reported that CPC had not cross-subsidized in this case and that it was not within its purview to examine whether a Crown corporation should compete with firms in the private sector because the Competition Act encouraged competition.

Additionally, the Canadian government has made several reviews of CPC, some of which have resulted in recommendations for additional government oversight of CPC. At the time of our review, the Minister Responsible for Canada Post was still considering most of the recommendations resulting from the 1995-96 review and had taken action on two of the recommendations (1) continuing the moratorium on post office closings and (2) discontinuing delivery of certain advertising mail. (See br. section IV.)

Scope and Methodology

The scope of our review encompassed the period from the creation of CPC in October 1981 through November 1996. We provide information on selected aspects of Canadian laws and practices for universal mail service and ratemaking but do not compare these with those followed in the United States.

To accomplish our objectives, we reviewed relevant Canadian legislation and implementing policies and procedures, which we obtained from CPC as well as from the Canadian Treasury Board and Bureau of Competition Policy, entities that have CPC oversight responsibility. We also reviewed a number of government and private studies on Canadian postal reform. For information on court cases involving CPC, we relied on CPC's summary of these cases. We interviewed various CPC executives and Canadian government officials responsible for overseeing CPC, including the Treasury Board and Bureau of Competition Policy.

We did our work from March 1996 through November 1996 in accordance with generally accepted government auditing standards.

Agency Comments

We provided a draft of this report to the Postmaster General of the U.S. Postal Service and to officials of the Canada Post Corporation for comment. We received written comments from the Controller of the U.S. Postal Service dated February 14, 1997, and from officials of the Canada Post Corporation on January 10, 1997. They suggested specific technical changes or updated information, which we have incorporated in the report where appropriate.

We are sending copies of this briefing report to the Ranking Minority Member of your Subcommittee, the Chairman and Ranking Minority Member of the Senate Committee on Governmental Affairs, the U.S. Postal Service, the Canadian Minister Responsible for CPC, the Canada Post Corporation, and other interested parties. We will also make copies available to others on request.

The major contributors to this report are listed in appendix II. Please contact Michael Motley on (202) 512-8387 if you have any questions about this report.

Sincerely yours,

J. William Gadsby

J. William Gadsby
Director, Government Business
Operations Issues

Contents

Abbreviations

CEO	Chief Executive Officer
CPC	Canada Post Corporation
CPI	Consumer Price Index
FAA	Financial Administration Act
GDP	Gross Domestic Product
GIC	Governor in Council
MEC	Management Executive Committee
POD	Post Office Department
USPS	United States Postal Service

Introduction

GAO **Briefing Objectives**

To present information on

- Universal mail service
- CPC ratemaking in Canada
- Key events affecting CPC

Briefing Objectives

The objectives of our review were to obtain information on selected aspects of (1) universal mail service in Canada, (2) Canada Post Corporation (CPC) ratemaking, and (3) key events affecting CPC since 1981.

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Knowledge About Canada's Postal Reform Would Be Relevant to U.S. Postal Reform

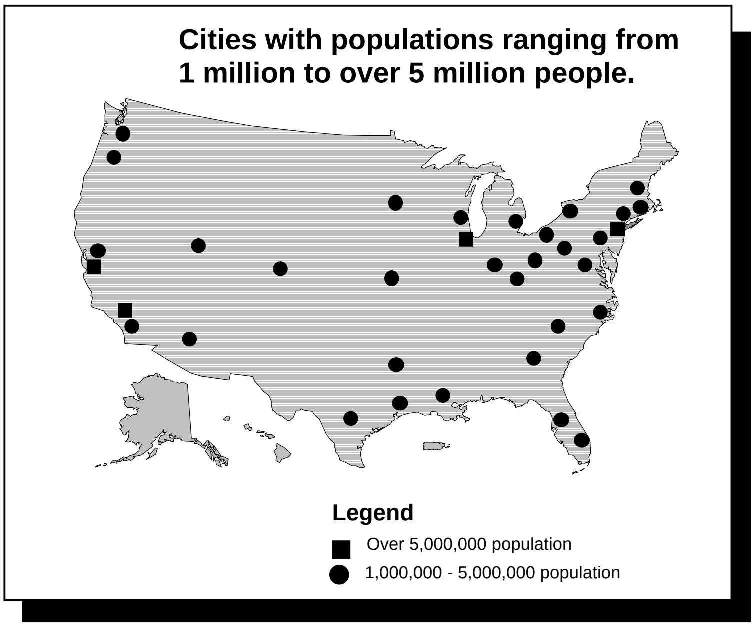
- CPC has operated 15 years with both increased commercial freedom and the obligation to maintain "basic customary postal service"
- Proposed U.S. postal reform would
  - give USPS greater operating flexibility
  - keep universal service requirement

Knowledge About Canada's Postal Reform Would Be Useful to U.S. Postal Reform

In June 1996, Chairman John McHugh, Subcommittee on the Postal Service, House Committee on Government Reform and Oversight, introduced the Postal Reform Act of 1996 (H.R. 3717). The Subcommittee held four hearings on the proposed legislation between July and September 1996. That proposal, among other things, would have given the U.S. Postal Service more flexibility in setting postal rates and introducing new products and services. Also, if this bill had been enacted, the requirement for providing mail service to all communities, and at uniform rates for certain letter mail, would have remained intact. In January 1997, Chairman McHugh reintroduced a similar bill (H.R. 22).

Although there are differences between the two countries and their postal systems, knowledge about Canada's experience with postal reform would be relevant to ongoing postal reform efforts in the United States. CPC was created as a Crown corporation in October 1981 to provide it with commercial freedom in delivering and maintaining customary postal services.

GAO **Selected U.S. Demographics**



- **Population:** 263.8M
- **Square miles:** 3.7M
- **GDP:** U.S.$6.738T

Source: CIA World Fact Book.

The United States and Canada are similar in geographic size, both having just under 4 million square miles. However, as of July 1995, the U.S. population was 264 million, or about 9 times Canada's 28 million population. Also, the U.S. economy was about 10 times larger than Canada's.

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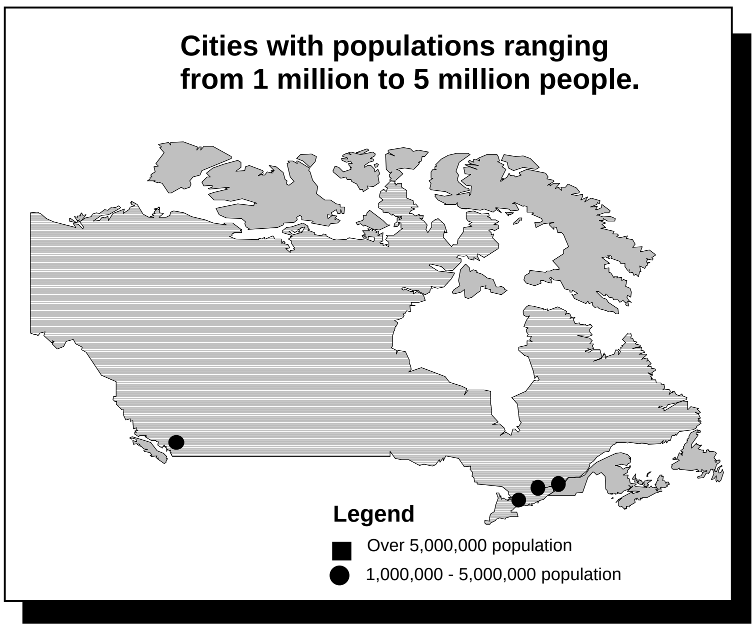
Selected Canadian Demographics



- **Population:** 28.4M
- **Square miles:** 3.8M
- **GDP:** U.S.$639.8B

Source: CIA World Fact Book.

The Gross Domestic Product (GDP)—presented using purchasing power parity, a standard method used when comparing the size of two countries' economies—of the United States was about U.S.$6.7 trillion, compared with about U.S.$640 billion for Canada.

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Selected Statistics for the U.S. and Canadian Postal Systems

	Canada		United States	
	1981	1996	1981	1996
Volume (billions of pieces)	6.5	11.8	110.1	182.7
Revenue (billions of dollars U.S.)	1.3	3.6	20.9	56.6
Number of employees (full and part time)	62,600	63,500	670,200	886,000
Post offices and other retail outlets	8,275	7,604	39,457	38,212

Note: CPC revenue for 1981 was converted to U.S. dollars using the 1981 average rate of exchange of Can$1.1990 = U.S.$1. The 1996 revenue was converted using the Dec. 30, 1996, rate of exchange of Can$1.3698 = U.S.$1.

Source: CPC and USPS data.

Selected Statistics for the U.S. and Canadian Postal Systems

The postal systems of the United States and Canada differ greatly in size and resources. For example, in 1996, the United States Postal Service (USPS) had approximately 14 times the number of postal employees and 5 times the number of post offices and other retail outlets, as compared with CPC.

CPC's mail volume totaled 11.8 billion pieces in the fiscal year ending March 30, 1996.[4] In contrast, USPS had 182.7 billion pieces in the fiscal year ending September 30, 1996. By comparison, since 1981, CPC's mail volume has grown by about 82 percent, compared to a 66-percent growth in the USPS' mail volume over approximately the same period.

Revenues in fiscal year 1996 totaled U.S.$3.6 billion for CPC, compared to U.S.$56.6 billion for USPS. USPS revenues were 16 times that of CPC's.

The total number of postal employees for CPC, which includes about 9,300 employed by Purolator, was about the same in 1996 as it was in 1981. USPS experienced a 32-percent growth in the number of its employees in about the same period.

CPC and USPS both have slightly reduced the number of retail outlets that provide products and services to the public during the same period.

[4]CPC's mail volume and revenue includes that of Purolator Courier, Ltd., which CPC acquired in 1993.

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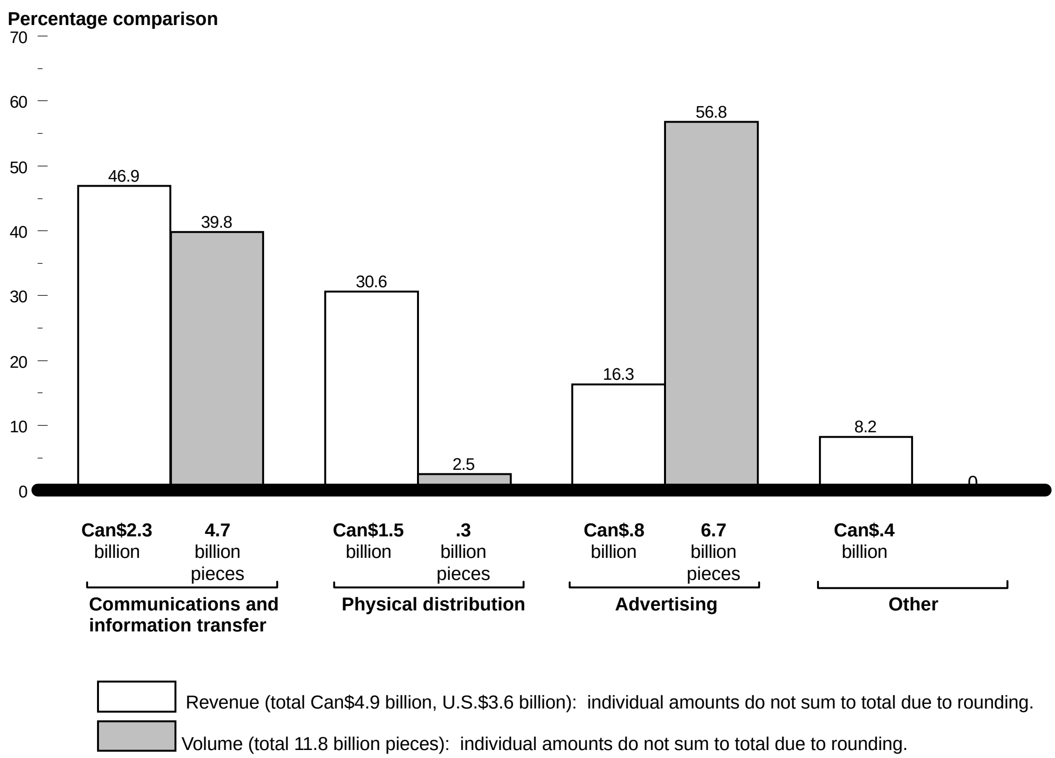
1996 Revenue and Mail Volume by Canadian Market Segments



Source: CPC.

1996 Revenue and Volume by Canadian Market Segments

CPC groups its products and services into three primary market segments:

- Communications and information transfer, which is hard-copy letter mail and electronic services.
- Physical distribution, which is expedited delivery and parcel services.
- Advertising, which includes addressed and unaddressed letter mail as well as publications.

CPC's reported total revenue was Can$4.9 billion (U.S.$3.6 billion) from 11.8 billion pieces of mail, of all types, for its fiscal year that ended March 30, 1996. Of this total revenue, information transfer and communications generated Can$2.3 billion (U.S.$1.7 billion) from 4.7 billion pieces; physical distribution generated Can$1.5 billion (U.S.$1.1 billion) from 300 million pieces; and advertising generated Can$805 million (U.S.$588 million) from 6.7 billion pieces. CPC reported that other revenue sources generated Can$373 million (U.S.$272 million).[5]

[5]Conversion to U.S. dollars is calculated using the Dec. 30, 1996, rate of exchange of Can$1.3698 = U.S.$1.

GAO Several Events Led to Canadian Postal Reform

- Labor union strikes interrupted delivery service
- Customers dissatisfied with postal services
- Annual postal deficits up to Can$500 million
- Insufficient letter-mail rate revenue to fund universal services

Source: CPC; Campbell, Robert M, The Politics of the Post: Canada's Postal System from Public Service to Privatization, (Broadview Press, 1994).

Several Events Led to Canadian Postal Reform

In the 1970s, Canadians had grown increasingly frustrated with the postal system. This period was marked by labor strikes and service disruptions caused by, among other things, postal mechanization. Postal employee unions were concerned over employees' limited collective bargaining rights in areas such as technology change. Labor-management relations were constrained by having to ensure comparability of wages and conditions of postal employees with those of certain other government employees. Customer dissatisfaction with the reliability of postal services was a continuing problem.

The former Post Office Department was generating annual operating deficits, totaling about Can$500 million (U.S.$428 million)[6] in 1980, that were being funded by the government through annual appropriations.

By 1981, the 17-cent first-class stamp was well below the level needed to cover the cost of providing universal service to all Canadians, and this underpricing was contributing significantly to the deficit.

[6]Conversion to U.S. dollars is calculated using the 1980 average exchange rate of Can$1.1693 = U.S.$1.

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CPC's Mandate Includes Broad Commercial Freedom

- CPC has "commercial freedom" to address
  - labor-management relations
  - customer service
  - operating deficits
- CPC Act defines three objectives to be achieved by CPC

CPC's Mandate Includes Broad Commercial Freedom

According to CPC and other documents we reviewed, members of Parliament wanted CPC to have the "commercial freedom" and tools to (1) repair labor-management relations, (2) improve customer service, and (3) eliminate operating deficits. After some debate on how the law should be written to give CPC this commercial freedom, the CPC Act simply provides the corporation with the "capacity, and subject to this Act, the rights, powers, and privileges of a natural person." According to CPC, Parliament provided CPC with this broad authority rather than providing a long list of specific powers, so that CPC would be free to develop new businesses not mentioned in the legislation and not contemplated at the time of reform.

The CPC Act provides three broadly defined objectives of CPC. The objectives are to (1) establish and provide a postal service to collect, transmit, and deliver messages, information, funds, and goods both in and outside of Canada; (2) provide products and services that CPC believes are necessary or incidental to its postal service; and (3) provide to or on behalf of various governmental entities, including Canadian government departments and corporations, or to any person, services that CPC believes can be conveniently provided in the course of carrying out CPC's objectives.

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Factors To Be Considered While Maintaining Service

- Improve products and services
- Operate on self-sustaining basis
- Provide mail security
- Use CPC employees to achieve objectives
- Maintain corporate identity

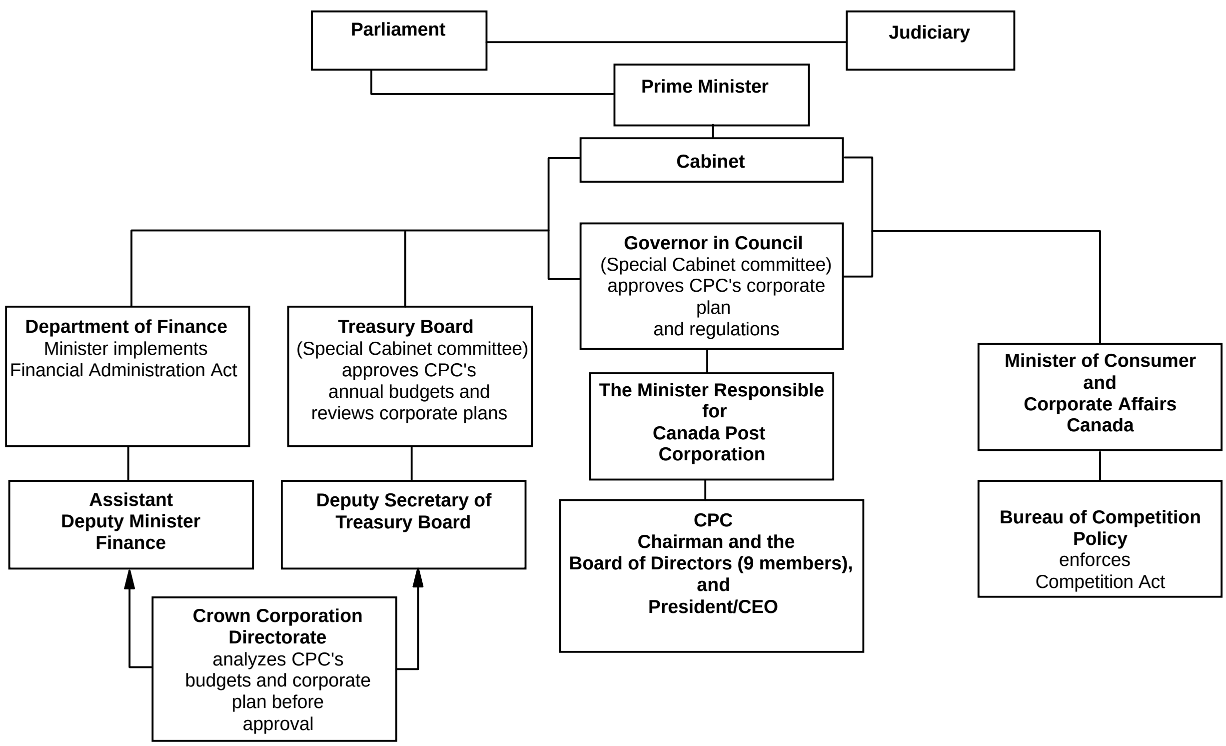
Factors to Be Considered While Maintaining Service

Under the CPC Act, CPC is to "have regard to" five factors in carrying out its legislative objectives. CPC is to consider these factors, which are summarized below, while maintaining "basic customary postal service":

- Improve and extend CPC products and services in light of developments in the field of communications.
- Conduct operations on a self-sustaining basis while providing a standard of service that will meet the needs of Canada's people and that is similar for communities of the same size.
- Conduct CPC operations to best provide mail security.
- Use human resources both to attain CPC objectives and to ensure the commitment of CPC employees to those objectives.
- Maintain a corporate identity program, approved by the Governor in Council (GIC),[7] that reflects CPC's role as an institution of the Government of Canada.

[7]GIC is a special committee of the Cabinet with responsibility for approving government regulations, including regulations for postal rate changes. GIC provides oversight of CPC.

GAO Canadian Government Structure for CPC Oversight



Source: CPC; Canadian Treasury Board.

Canadian Government Structure for CPC Oversight

CPC is owned by the Canadian government and, through the CPC Act and other laws, the government can influence CPC policies and operations in several ways. Under the CPC Act, GIC appoints the CPC board chairman and president, and approves CPC's corporate plans and regulations. A minister, whom the Prime Minister designates as responsible for the corporation, appoints the remaining nine directors, with the GIC's approval, and each director holds office for a term not to exceed 3 years.

In addition to the CPC Act, CPC is subject to Canada's Financial Administration Act (FAA) and Competition Act. FAA governs spending and administration of all federal agencies, and contains specific provisions including, among other things, the requirement for an annual financial audit applicable to CPC and other Crown corporations. Under this act, the Minister of Finance and the Treasury Board, a special committee of the Cabinet, must approve CPC's annual capital and operating budgets. A Crown Corporation Directorate assists the minister and board with their oversight responsibilities.

The Competition Act is Canada's antitrust law that applies to all private businesses as well as to Crown corporations regarding those activities open to competition. The purpose of the act is to maintain and encourage competition in order to promote the efficiency and adaptability of the Canadian economy. The act prohibits practices such as abuse of dominance, predatory pricing, and price discrimination. The act is administered and enforced by the Bureau of Competition Policy.

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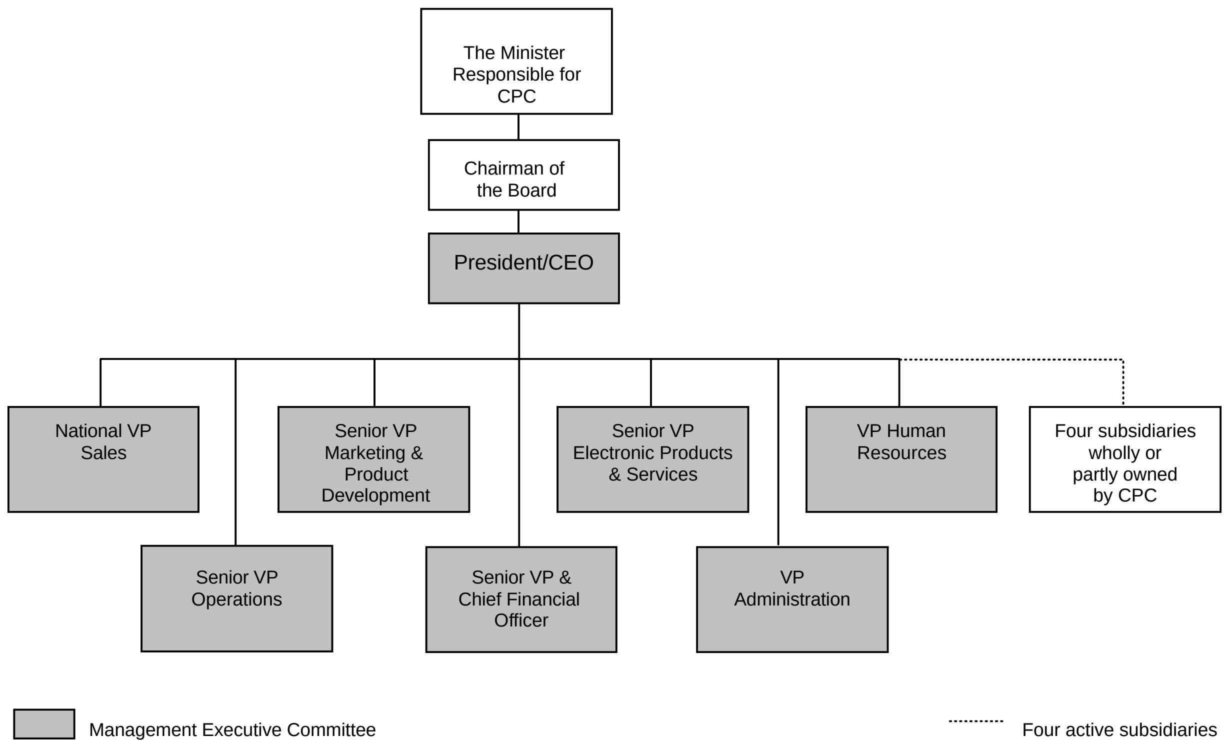
CPC's Corporate Structure and Subsidiaries



Source: CPC.

CPC's Corporate Structure and Subsidiaries

The CPC Act established a Board of Directors for CPC, consisting of a chairman, the president, and nine other directors. The CPC Act states that "the Board shall direct and manage the affairs of the Corporation and may for such purposes exercise all the powers and perform all the duties of the Corporation." The board is assisted by CPC's Management Executive Committee (MEC). The Committee comprises the president, also known as the chief executive officer (CEO), and the most senior managers in the Corporation to direct the day-to-day management of postal operations. At present, seven managers, in addition to the president/CEO, serve on MEC.

At the time of our review, CPC wholly or partly owned four active subsidiaries through which it markets its products and services in domestic and international markets. Canada Post Systems Management Limited, a wholly owned subsidiary, markets CPC's management system and postal technology to other postal administrations. It had contracts to provide these services in several countries, including Germany, Italy, Sweden, New Zealand, South Africa, and Argentina. A second wholly owned subsidiary, Canada Post Holdings Limited (and its subsidiaries), holds a 75-percent controlling interest in PCL Courier Holdings, Inc., which owns all the shares of Purolator Courier Limited. Purolator provides overnight delivery services.

Two CPC subsidiaries are involved with a consortium, called "UBI," formed by CPC and six other companies. UBI is developing interactive television technology to include home shopping, bill payment, home-energy management, messaging, games, and yellow pages.

GAO Scope and Methodology

- Covered period since 1981 Canadian postal reform
- Reviewed Canadian legislation, CPC reports, and various government studies
- Interviewed CPC and other Canadian government official

Scope and Methodology

The scope of our review encompassed the period from the creation of CPC in October 1981 through November 1996. We provide information on selected aspects of Canadian laws and practices for universal mail service and ratemaking but do not compare these with those followed in the United States.

To accomplish our objectives, we reviewed relevant Canadian legislation and implementing policies and procedures, which we obtained from CPC as well as from the Canadian Treasury Board and Bureau of Competition Policy, which have CPC oversight responsibility. We also reviewed a number of government and private studies on Canadian postal reform. For information on court cases involving CPC, we relied on CPC's summary of these cases.

We interviewed various CPC executives and Canadian government officials responsible for overseeing CPC, including the Treasury Board and Bureau of Competition Policy.

GAO **The CPC Act Requires Mail Service to All Canadians**

- The CPC Act requires
  - "Basic customary postal service" to be provided
  - Standard of service to be similar for "communities of the same size"
- The CPC Act does not require uniform rates

The CPC Act Requires Mail Service to All Canadians

The term "universal service" is not used in the CPC Act nor was it used in the Post Office Act of 1867, which the CPC Act superseded. However, the CPC Act requires CPC to maintain basic mail service to all Canadians by providing that

> "While maintaining basic customary postal service, the Corporation, in carrying out its objects, shall have regard to...(b) the need to conduct its operations on a self-sustaining financial basis while providing a standard of service that will meet the needs of the people of Canada and that is similar with respect to communities of the same size." [Underscoring supplied.]

Further, the CPC Act does not require that letter or any other mail service be provided to all communities at a uniform rate. Nevertheless, CPC has provided a uniform letter rate as part of its universal service. At the time of postal reform, the former Post Office Department also provided a uniform letter rate.

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CPC Has Exclusive Privilege for Letter Mail Delivery

- The CPC Act retained exclusive privilege from former Post Office Act
- Exclusive privilege definition: CPC has sole and exclusive privilege of collecting, transmitting, and delivering letters
- Exemptions to exclusive privilege
- Exclusive privilege revenue totaled about 50 percent of CPC's FY 1996 operating revenue

CPC Has Exclusive Privilege for Letter Mail Delivery

As was the case under the former Post Office Act, the CPC Act provides for the sole and exclusive privilege of delivering most letter mail. This privilege is also referred to as the statutory mail monopoly. Newspapers, magazines, books, catalogs, or goods are not included in the letter monopoly. In addition, there are a number of exceptions to exclusive privilege, including letters of an urgent nature, which are transmitted by messenger for a fee of at least 3 times the 50-gram letter rate.

The CPC Act also provides CPC with authority to issue regulations defining a letter for the purposes of the act. These regulations define a letter as one or more messages or information in any form not exceeding 500 grams.[8] They include 13 exceptions to the exclusive privilege, including those originally listed in the CPC Act.

According to CPC, about 50 percent of its operating revenue in fiscal year 1996 was from services covered by the statutory monopoly.

[8]Letter Definition Regulations. Canada Post Corporation Act and Regulations Manual (94-03).

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CPC Reduced Frequency of Some Deliveries to Reduce Cost

- In 1982, mail delivery reduced from 6 to 5 days per week in rural areas
- Over time, multiple daily deliveries to businesses reduced to once a day
- In 1986, on-time delivery standards relaxed

CPC Reduced Frequency of Some Deliveries to Reduce Cost

CPC used its flexibility under the CPC Act to make certain changes in mail service delivery intended to reduce its operating costs and permit it to become self-sufficient. In some cases, certain changes began before CPC was established. For example, in the late 1970s, the former Post Office Department reduced mail delivery to urban centers from 6 to 5 days a week, eliminating Saturday delivery. In 1982, CPC also reduced the frequency of mail delivery from 6 to 5 days a week in rural areas. According to CPC officials, this was not a sweeping, immediate change but was evolutionary. In 1996, CPC's policy was to deliver mail 5 days a week (Monday through Friday) throughout all portions of Canada except certain difficult-to-serve communities in northern Canada (discussed later in this section).

The former Post Office Department had delivered mail up to 5 times a day to some businesses in urban areas, such as Toronto. CPC gradually reduced delivery to all businesses to once a day. The last multiple deliveries to businesses in an urban area (Winnipeg) were in 1992.

To further reduce operating cost, in the 1980s, CPC changed its on-time delivery standards for basic letter mail from 1 to 2 days for local areas, 2 to 3 days within a province, and 3 to 4 days for national mail. This change in delivery standards had been recommended in a 1985 report on the government's review of CPC's mandate.[9] According to CPC, its customers were more interested in having CPC improve the reliability of mail delivery than the speed of delivery. CPC arranged for independent measures of its delivery performance. These measurements showed that 2-, 3-, and 4-day on-time delivery performance for basic letter mail service improved from 87, 84, and 89 percent, respectively, to 97 percent for all three standards between 1988 and 1996. CPC also provides overnight letter mail delivery service. However, this is a different category of service and is available at a higher price than that for CPC's basic letter service.

[9]Alan R. Marchment, Chairman, Report of the Review Committee on the Mandate and Productivity of Canada Post Corporation, (Canadian Government Publishing Centre, Nov. 1985), p. 19.

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Less Frequent Delivery in Remote Areas Continued After Reform

Before and after reform, frequency of mail delivery to about 200 remote northern communities varied

- CPC does not apply usual delivery standards due to limited access
- Northern Air Stage Program provides contract mail delivery
  - Can$15.6 million remote area subsidy for 1997

Less Frequent Delivery in Remote Areas Continued After Reform

Compared with other places in Canada, CPC provides mail delivery less frequently to about 200 remote northern Canada communities. Delivery to some of those communities can be as infrequently as once a week. Like the former Post Office Department, CPC does not apply normal delivery standards to these areas because of limited access caused by infrequent air flights, circuitous routes, long distances, and uncertain weather conditions.

CPC maintains the Northern Air Stage Program to provide contract mail delivery of parcels containing perishable objects and foodstuffs to remote areas. This service has been provided since the late 1960s. Parcels, letters, and other materials are transported to more than 60,000 addresses in the 200 communities that are without road access and are spread over more than 70 percent of Canada’s land mass. According to CPC, the postage paid by commercial shippers of parcels in these areas does not fully cover the cost involved, and the Canadian government appropriates money to cover the difference.

In 1989, the revenue from postage paid by these shippers covered about 40 percent of related CPC costs, and the government’s appropriation for this service was Can $17 million (U.S.$14 million) during that year. In 1986, the government planned to reduce the subsidy by Can$1 million (U.S.$720,000) each year until it was eliminated in 2006. However, in 1991, after a study of the program, the government decided to (1) provide an annual appropriation of about Can$15 million (U.S.$13 million); (2) restrict the range of products to be transported (primarily nutritional food supplies); and (3) provide the service to communities with no year-round surface transportation. The government’s appropriation for this service is budgeted at Can$15.6 million (U.S.$11.4 million) for fiscal year 1997.[10]

[10]Conversion to U.S. dollars is calculated using the Dec. 30, 1996, rate of exchange of Can$1.3698 = U.S.$1. Conversion of 1986, 1989, and 1991 Canadian dollars to U.S. dollars is calculated using the 1986 average exchange rate of Can$1.3896 = U.S.$1; the 1989 average exchange rate of Can$1.1842 = U.S.$1; and the 1991 average exchange rate of Can$1.1460 = U.S.$1.

GAO 1986 Corporate Plan Focused on Cutting Costs and Improving Service

- Largest CPC rural post offices would be converted to private retail outlets
- Other post offices would be consolidated or closed
- Various changes to be made to improve service
  - privately owned outlets were to have longer operating hours and a wider range of services

1986 Corporate Plan Focused on Cutting Costs and Improving Service

Before reform, the former Post Office Department owned and operated post offices but also had "sub-post offices" that private parties owned and operated on a commission basis. In 1986, CPC developed, and the Canadian government approved, a plan which, among other things, provided for CPC to make greater use of the private sector to market its retail services. CPC had continued to incur operating deficits well into the 1980s. In 1984, the newly elected government focused greater attention on CPC's economic goals. Subsequently, the Treasury Board and Finance Minister worked closely with CPC in the formulation of its 1986 strategic plan to devise ways to reduce costs and improve postal services. The resulting 1986 CPC corporate plan formalized operational goals that included long-range, cost-cutting measures as well as certain service improvements.

Among other initiatives, the plan proposed to expand private sector involvement by transforming the large rural post office network to private ownership over a 10-year period (1986-1995). The largest of these post offices were to be transformed into privately owned retail outlets, with the anticipated benefits of both reducing operating costs and improving service. Other rural post offices were to be consolidated with other post offices, or closed.

CPC intended that these changes would improve customer service. Under the plan, the privately owned outlets, typically located in existing commercial operations like pharmacies and grocery stores, would have longer operating hours each day, operate 7 days a week, offer a wider range of services, and be more conveniently located. Further, the commercial operators were to meet more stringent requirements for training, equipment, and service hours than were the existing privately owned sub-post offices.

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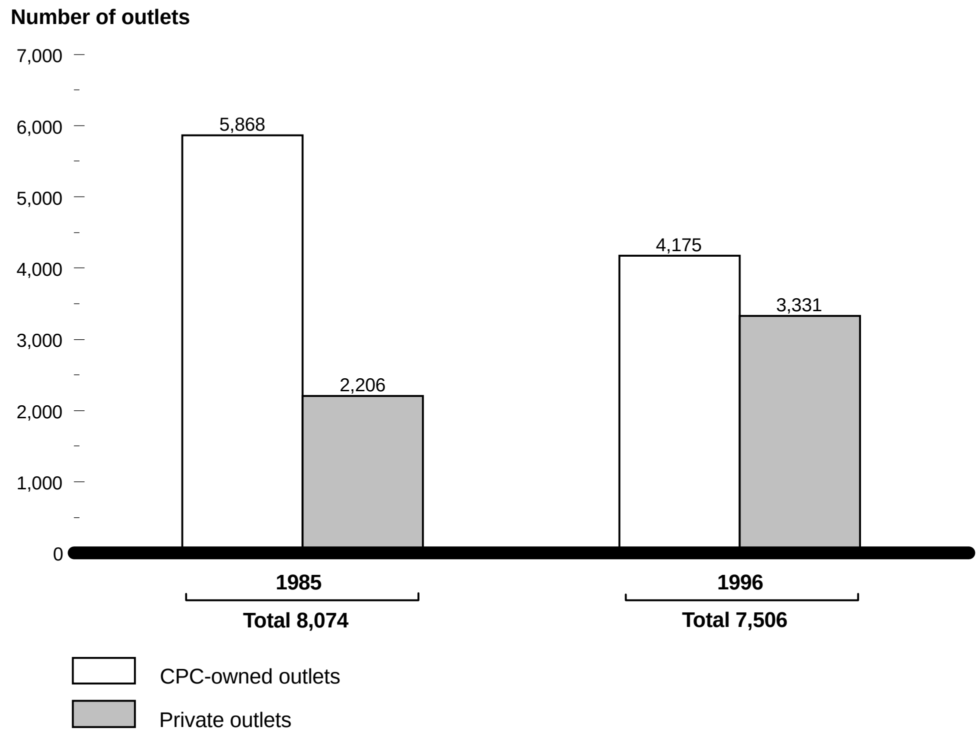
Number of CPC-Owned Post Offices Reduced Between 1985 and 1996



Source: CPC. Canada Post Corporation: Standards of Service and Network Operations. Prepared by CPC for the Mandate Review.

Number of CPC-Owned Post Offices Reduced Between 1985 and 1996

CPC increased the number of postal retail outlets owned by the private sector, from 2,206 in 1985 to 3,331 in 1996, or about 50 percent. At the same time, the total number of outlets owned by CPC decreased from 5,868 to 4,175, or 29 percent. Along with converting post offices to private ownership, CPC closed some post offices during this same period, reducing the total number of outlets from 8,074 to 7,506, or 7 percent. Most of these post office closures and conversions took place prior to February 1994, when the government placed a moratorium on CPC's conversion program. CPC also increased the number of businesses where customers could purchase postage stamps, from about 6,300 in 1986 to about 11,000 in 1996, or 75 percent.

GAO

The CPC Act Provides for Regulated and Nonregulated Rates

Regulated: Domestic and international single-piece letters, international printed matter, literature to the blind, and some registered mail products

Nonregulated: All bulk mail discounts off the basic letter rate, parcel rates, and certain other rates

Most CPC rates set without regulations and government approval

Source: CPC.

The CPC Act Provides for Regulated and Nonregulated Rates

The CPC Act provides general authority for CPC to issue regulations, with the approval of GIC, for the efficient operations of its business and for carrying out the purposes and provisions of the act. Specifically, with regard to postal ratemaking, the act provides authority for CPC to issue regulations prescribing rates of postage and providing postage discounts on mailable matter prepared in the manner prescribed by the regulations.

In 1996, the only postal rates established by regulation—regulated rates—were those for basic domestic and international single-piece letters; international printed matter, including newspapers and periodicals; literature for the blind; and some registered mail products.

The CPC Act allows CPC to set certain postage rates by agreement rather than by issuing regulations—nonregulated rates. Such agreements may relate to (1) variations of postage rates based on bulk mailings or the preparation of the mail in a manner that facilitates processing or (2) the provision of experimental services for periods not exceeding 3 years. Based on these provisions, CPC has, over time, sought and received government approval to remove numerous rate categories from the regulatory process. Consequently, most of CPC's postal rates have been established without issuing regulations and without government approval. Such rates cover letters submitted in bulk to CPC with certain preparation by the mailer to facilitate processing; "courier" (overnight or urgent delivery) services; unaddressed advertising mail; and parcels.

GAO Detailed Criteria and Methods for Ratemaking Not Prescribed in Act

- The CPC Act contains few ratemaking provisions
- CPC has established pricing objectives/ principles and taken other steps to comply with the Competition Act

Detailed Criteria and Methods for Ratemaking Not Prescribed in Act

The CPC Act provides that postage rates issued by regulation must 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. . ." CPC has established a pricing policy that is intended to comply with both the CPC Act and the antitrust provisions of the Competition Act. CPC's overall pricing objectives are to

- achieve a 12-percent return on equity;[11]
- ensure that prices for products covered by its monopoly are not cross-subsidizing nonmonopoly prices; and
- ensure that universal basic letter rates are being extended to its customers within Canada, in compliance with the social obligation to provide nondiscriminatory and affordable access to a national and international system of letter mail.

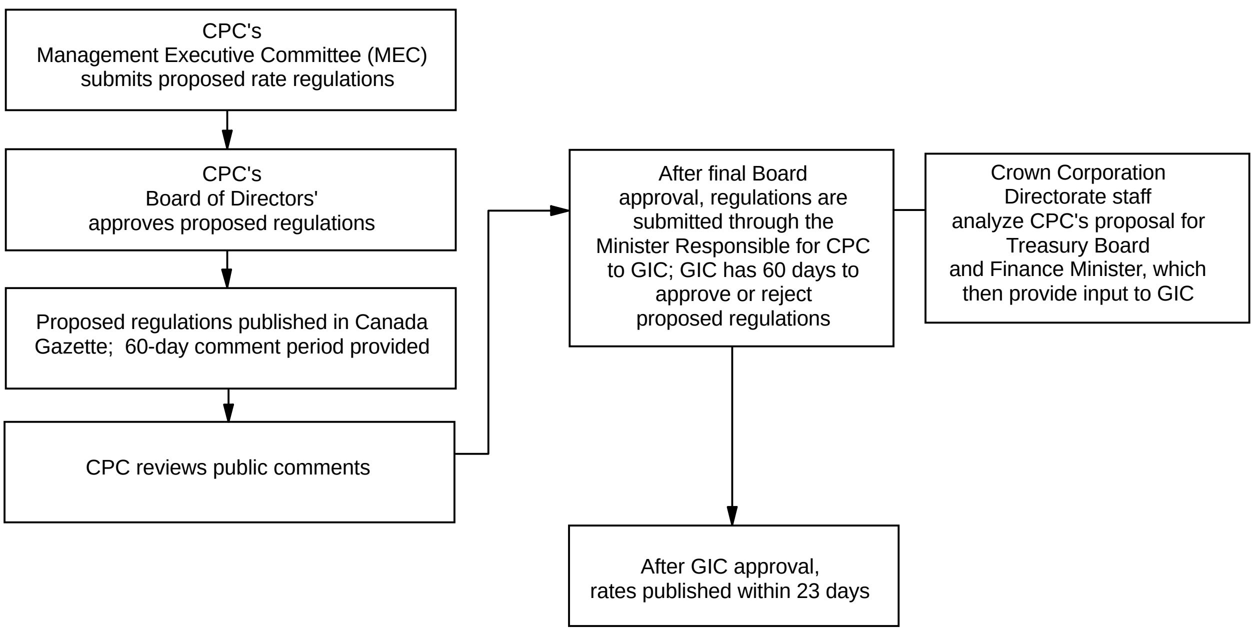
CPC follows certain principles in developing postal rates: nonregulated products will be priced to maximize their contribution in a competitive environment, government-subsidized services will be priced according to appropriate government policy, all rates will comply with the Competition Act, and CPC's basic customary service obligation will be taken into account. Other principles include providing uniform basic letter rates and limiting such rates to the level necessary to compensate for inflation, as measured by the Consumer Price Index (CPI).

CPC has used an independent auditing firm to help ensure that the corporation is properly allocating and distributing costs for ratemaking purposes and is in compliance with the Competition Act. CPC considers its detailed cost and revenue data to be commercially sensitive and, therefore, has only released data for "bundled" product categories to the general public.

[11]Return on Shareholders Equity is defined as net income (after interest, taxes, and dividends) divided by the corporation's equity (capital less any deficit). The Canadian government is the only shareholder of the corporation. The CPC Act authorizes the corporation to issue to the Minister Responsible for CPC shares of the corporation, which are held in trust for Her Majesty in right of Canada.

GAO

Process for Approval of Regulated Rates



Source: CPC and the Canadian Treasury Board.

Process for Approval of Regulated Rates

The CPC Act requires that proposed regulations to be issued by CPC be published in the Canada Gazette[12] and a reasonable opportunity provided for interested persons to comment on them prior to their approval.

According to CPC, it first presents information relating to future postage rates in its corporate plan, which is submitted each year to the Minister Responsible for CPC and the President of the Treasury Board for their review and GIC approval. The approved plan forms the basis for developing specific future postage rate changes. When new postage rates are to be established by regulation, CPC's MEC presents proposed regulations to the CPC Board of Directors for approval. When approved, the proposed regulations are published in the Canada Gazette; a 60-day period is provided during which interested parties may respond by written comment. The publication includes CPC's rationale for the new rates but does not include cost data. The CPC Act does not prescribe how the public comments are to be addressed. However, according to CPC officials, they analyze all comments received. The review process is not public, but results of the CPC analysis are provided to the Minister Responsible for CPC. Then, the proposed regulations are sent to the Board of Directors for final approval.

After the board's approval, the regulations are submitted through the Minister Responsible for CPC to GIC, which has 60 days to approve or disapprove of them. The Crown Corporation Directorate reviews the proposed regulations to advise the Treasury Board and the Minister of Finance about the proposal prior to GIC approval. According to Directorate officials, their analysis includes a comparison of the proposed rate increases to changes in the CPI. They said that they do not perform a detailed analysis of CPC's costs relative to the rates proposed for specific products and services because CPC provides cost data for only broad categories of products and services. If approved, the new rates are published in the Canada Gazette within 23 days.

[12]The Canada Gazette is a government publication, similar to the U.S. Federal Register, in which proposed and final government regulations are made public.

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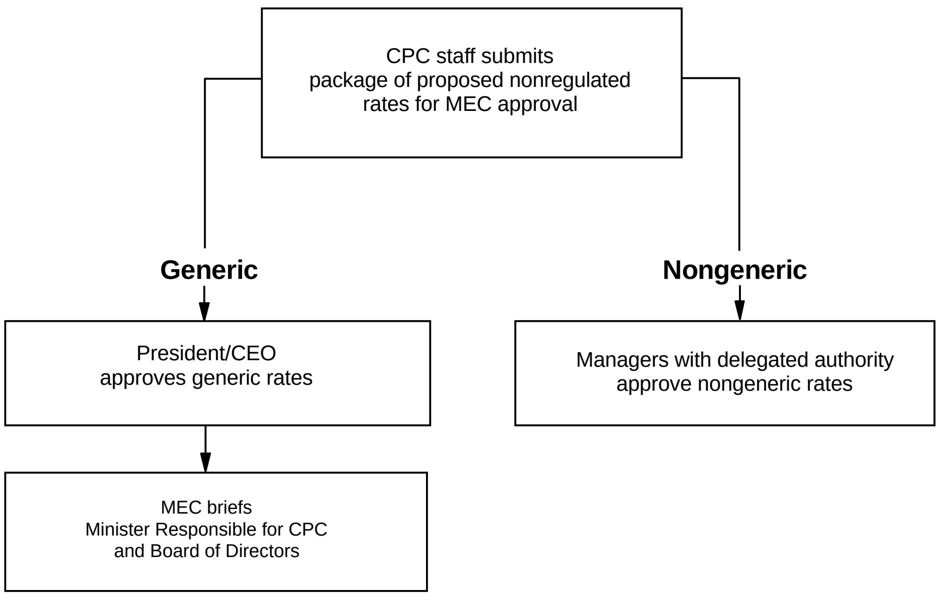
Process for Approval of Nonregulated Rates



Source: CPC.

Process for Approval of Nonregulated Rates

CPC's nonregulated postage rates fall into two categories: generic and nongeneric. According to CPC, its procedures for establishing the two categories of postage rates differ slightly, but neither requires Canadian government approval.

Generic rates are rates that apply to discounted bulk-business letter mail, advertising mail, parcels, or courier services that are generally available to CPC business customers. CPC develops specific, product-by-product generic rates that are discounted from the basic letter mail postage rate. These rates are available to anyone who meets bulk mail requirements established by CPC regulations. New generic rates must be approved by CPC's President/CEO in consultation with MEC. The Board of Directors and the Minister are briefed on proposed changes in generic rates, but the President/CEO is authorized to approve such rates. CPC officials said that customer associations are briefed on the proposals to change generic rates about 6 months before the rate changes take effect.

Nongeneric postage rates are established through negotiated, confidential agreements that are customized for individual, large-volume business customers. Such agreements are approved by CPC officials below the President/CEO level through authority delegated by the Board of Directors. These agreements are primarily for types of mail other than letters, such as parcels and unaddressed advertising mail.

GAO

Basic Letter Rates and Public Comments Received, 1982-1995

Date	Cents (Can$)	Cumulative percent increase	Public comments
Jan 1982	30	Base	9,136
Feb 1983	32	7	2,467
June 1985	34	13	4,000
Apr 1987	36	20	291
Jan 1988	37	23	75
Jan 1989	38	27	45
Jan 1990	39	30	11
Jan 1991	40	33	26
Jan 1992	42	40	24
Jan 1993	43	43	9
Aug 1995	45	50	108

Source: CPC.

Basic Letter Rates and Public Comments Received, 1982-1995

Through November 1996, CPC had raised the basic letter mail rate 11 times since 1981. When CPC was created in 1981, the basic letter mail rate was 17 cents, which CPC officials said was too low to cover the cost of providing letter mail services. Therefore, CPC's first rate change, in January 1982, raised the basic letter rate by 13 cents to 30 cents, about a 75-percent increase. Subsequently, postage rate for letter mail has increased by 1 or 2 cents in each instance.

The number of comments received by CPC on proposed rate changes has varied greatly from a high of 9,136 in 1982, at the time of the highest increase since reform, to a low of 9 in 1993. In 1995, the number of comments increased from those of the previous years. In reviewing the most recently proposed rate change, a newly elected government closely scrutinized CPC's rationale for the rate increase. CPC officials said the closer scrutiny by the Minister Responsible for CPC and the Treasury Board resulted in a 10-month delay in obtaining government approval for the rate increase. They believe that public statements about the increase stimulated public interest, resulting in an increased number of comments.

CPC's pricing plan calls for increasing basic letter mail rates at a rate that is within changes in the CPI. From 1982 to 1996, the basic letter rate had increased a total of 50 percent, while the CPI had increased 71 percent.

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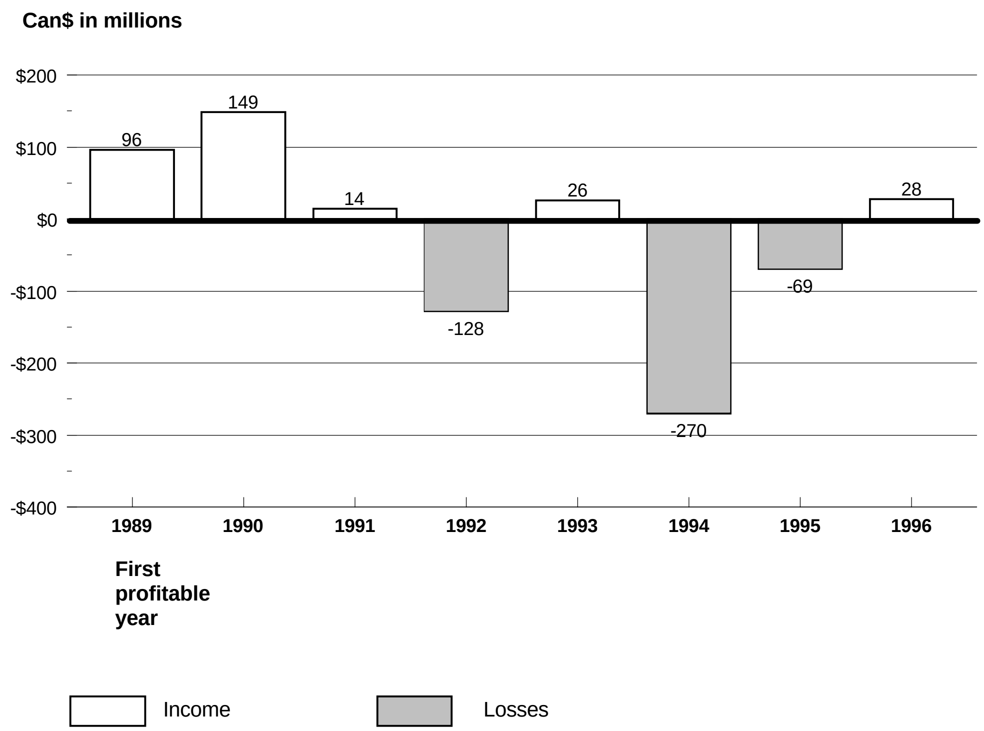
CPC's Income (Loss) Since Its First Profitable Year



Source: CPC.

CPC's Income (Loss) Since Its First Profitable Year

The Canadian government reformed its postal system in 1981 to, among other things, eliminate the annual operating deficits of the former Post Office Department, which were funded by the government. The deficit totaled about Can$500 million (U.S.$417 million*) in 1981.[13] CPC made progress in reducing the annual deficits in the 1980s and recorded its first net profit of Can$96 million (U.S.$81 million*) in 1989. CPC reported losses in 3 of the 7 years after 1989. For example, in 1994, corporate restructuring and capital investments led to a loss of Can$270 million (U.S.$198 million*). In 1996, CPC recorded a net profit of Can$28.0 million (U.S.$20 million*). The Canadian government had expected CPC to pay dividends to the government totaling about Can$300 million (U.S.$253 million*) for the 5-year period ending in 1994.[11] The corporation paid dividends in only 2 years—Can$60 million (U.S.$51 million*) in 1990 and Can$5.7 million (U.S.$4.7 million* in 1992). In addition to paying dividends, since 1994 CPC has been subject to federal income tax. For 1996, CPC estimated that it would pay Can$4.0 million (U.S.$3.0 million*) in federal income tax to the Canadian government.

CPC's net profit in 1989 marked the end of government funding of its operating deficits. The government continues to subsidize mail service for members of Parliament, magazines and newspapers, the blind, and customers in remote areas of Canada. For fiscal year 1996, this government's appropriation was Can$97 million (U.S.$71 million*).

[13]Conversions to U.S. dollars on this page were calculated using the following average exchange rates: (1)U.S.$417 million (1981 average rate: Can$1.1990 = U.S.$1); (2)U.S.$81 million (1989 average rate: Can$1.1842=U.S.$1); (3)U.S.$198 million (1994 average rate: Can$1.3644=U.S.$1); (4)U.S.$20 million (12/30/96 rate: Can$1.3698=U.S.$1); (5)U.S.$253 million (1989 average rate: Can$1.1842=U.S.$1); (6)U.S.$51 million (1990 average rate: Can$1.1668=U.S.$1) and U.S.$4.7 million (1992 average rate: Can$1.2085=U.S.$1); (7)U.S.$3.0 million (2/30/96 rate: Can$1.3698=U.S.$1); (8)U.S.$71 million (12/30/96 rate: Can$1.3698 = U.S.$1).

Key Events Affecting CPC

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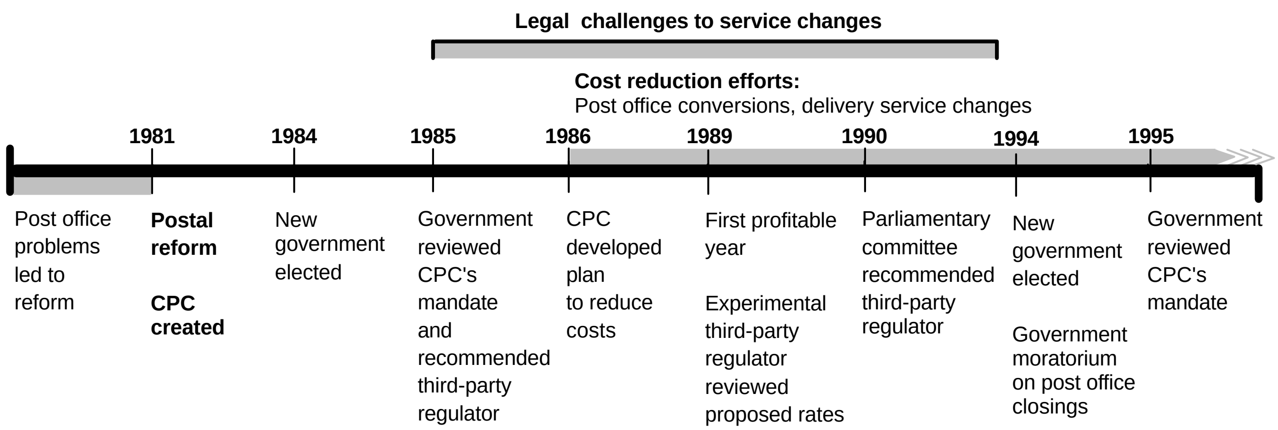
Historical Perspective: Key Events Affecting CPC's Business Practices



Historical Perspective: Key Events Affecting CPC's Business Practices

This chart is an overview of key events and government interventions that have shaped CPC's business practices since its creation in 1981.

These actions include changes made to services since reform, public reactions to those changes and to CPC's competitiveness, and government involvement in CPC's activities. For example, of particular concern to customers was CPC's closure of rural post offices, its conversion of others to private ownership, and its implementation of community mail boxes rather than an expansion of door-to-door mail delivery. These efforts have been criticized by communities, members of the public, and labor unions, and have resulted in a number of legal challenges to and government scrutiny of CPC's mandate. In response, the Canadian government imposed a moratorium on further rural closings and conversions and a court in Canada has upheld CPC's decision to use community boxes.

In addition, competitors have criticized CPC's behavior in its competition with private business and have alleged that CPC cross-subsidizes the prices of its competitive products with revenues protected by the CPC Act's statutory monopoly provision. In response, the government has conducted several government studies of CPC since reform that contained recommendations for additional oversight, such as establishing a third-party regulator to address concerns about CPC's accountability.

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CPC's Maintenance of "Basic Customary Postal Service"

- In new communities, door-to-door delivery replaced with community boxes
- Dissatisfied customers argued
  - community boxes were different level of service for same-size communities
  - mandate to provide "basic customary postal service" was violated
- Court upheld CPC's right to decide on type of mail delivery

CPC's Maintenance of "Basic Customary Postal Service"

CPC's increased use of "community" mail boxes, rather than door-to-door mail delivery, has prompted concern among some customers, communities, members of the public, and labor unions representing CPC employees. These concerns have resulted in a legal challenge to CPC's practices and closer government scrutiny of CPC's mandate.

In the mid 1970s, the former Post Office Department introduced a group mail box concept for the delivery of mail.[14] In 1986, CPC adopted a new national delivery policy under which there would be no extension of door-to-door delivery in new areas beyond existing routes. Rather, in new areas, mail would be delivered to "community boxes." According to CPC, the cost to serve each community mail box was Can$28 (U.S.$20) per year compared with Can$113 (U.S.$83)[15] per year for service to each door. By March 1995, about 5 million, or 40 percent, of the 12.3 million delivery addresses served by CPC, received door-to-door delivery, while 15 percent received group and community box delivery.

Some customers argued that the boxes (1) were less convenient, particularly in the winter months; (2) were less accessible for disabled persons; (3) presented safety concerns; and (4) violated CPC's mandate to provide similar services to same-size communities. In 1985, a community brought a legal complaint against CPC, saying that use of community mail boxes, instead of door-to-door delivery, violated the concept of "basic customary postal service" required by the CPC Act.[16] The court upheld CPC's decision to use community boxes, and said that CPC's obligation was only "to have regard to" the factors set out in the act, and that there was no positive duty for it to provide door-to-door delivery.

[14]Group mail boxes were used primarily in rural collection and delivery situations where "clustered" delivery was considered to be a cost-effective delivery mode.

[15]Conversion to U.S. dollars is calculated using the 1985 average exchange rate of Can$1.3659 = U.S.$1.

[16]The Mandate of Canada Post Corporation and Its Development, Prepared for Mandate Review,(Nov. 8, 1995), and other CPC documents.

GAO CPC's Maintenance of "Basic Customary Postal Service" (cont.)

Legislation did not define "basic customary postal service"

- Post office closures and private ownership were challenged in the courts
- Government imposed moratorium on further post office closures and franchise conversions in 1994

CPC's Maintenance of "Basic Customary Postal Service (cont.)

Since reform, there have been a number of challenges to CPC's efforts to convert post offices to private ownership and close others.[17] For example, with regard to CPC's conversions of post offices, in 1988, a postal union filed a complaint in court that CPC had operated outside its authority in creating a franchise outlet in a pharmacy. However, in 1994, the court dismissed the complaint, saying that CPC has the rights, powers, and privileges of a "natural person" to contract with others to act on its behalf in the collection or delivery of letters as long as it does not extend an exclusive license. With regard to closures, in 1991, residents of four rural communities filed a complaint in court to set aside CPC's decision to convert post offices to private ownership. The court held that CPC's mandate did not impose a duty to provide a local post office in each community as a basic customary postal service. In another case, a citizens' coalition and the Canadian Postmasters and Assistant Postmasters Association challenged the legality of CPC's closure of post offices without the issuance of a regulation. The court determined that the CPC Act allows, but does not require, CPC to issue regulations to close post offices.

In 1994, in response to customer concerns, the newly elected Canadian government imposed a moratorium on CPC's post office closure and conversion program. The Minister Responsible for CPC announced that there would be no further closures of rural post offices and that CPC would continue the conversion program in urban areas only after consultation with Postal Service Customer Councils. To offset financial losses caused by the operation of post offices that are not cost effective, the government agreed to make greater use of CPC services offered through its retail network. CPC officials said that they believe the conversions to private ownership did not degrade services and that CPC has adhered to the moratorium on rural closings.

[17]The Mandate of Canada Post Corporation and Its Development, Prepared for the Mandate Review, (Nov. 8, 1995), pp. A1, A2, A3.

GAO Concerns About Financial Accountability

Past government-sponsored reviews of CPC recommended a third-party regulator

- **1985** review led to experiment with third-party regulator (concerns about lack of cost data)
- **1988** government experimented with third-party regulator
- **1990** review called for regulator and eventual private ownership of CPC (public concerns about accountability)

Concerns About Financial Accountability

The Canadian government has made several reviews of CPC, some of which have resulted in recommendations for additional government oversight of CPC, including establishing a third-party regulator to oversee postal ratesetting. In 1985, a newly elected government requested that the Minister Responsible for CPC conduct an independent review of CPC's mandate to determine, among other things, whether a third-party regulator should be established.[18] The resulting report concluded that CPC did not have sound procedures for determining costs. Further, the Corporation was unlikely to achieve its self-sufficiency goal. The report recommended establishment of an independent third-party rate regulator, but the government did not adopt the recommendation.

In 1988, the Minister for Consumer and Corporate Affairs in Canada presented models for third-party regulation of certain CPC activities. The government directed that a newly created Postal Service Review Committee review CPC's rate and service proposals, request public comments on the proposals, and make recommendations supporting or rejecting CPC's proposals. In its review of CPC's 1990 proposed rate changes, the Committee said that CPC had not provided sufficient volume, cost, or revenue data to assess the proposed rates or to determine whether CPC cross-subsidized its competitive product prices with monopoly revenues. Even so, the government approved CPC's proposed rate regulations. The government later eliminated the Committee.

In 1990, a Parliamentary committee responded to public concerns about CPC's accountability by conducting a review of CPC.[19] The Committee was concerned that the Postal Service Review Committee had been unable to fulfill its mandate because of the lack of CPC data. Among other recommendations, it recommended the establishment of a third-party regulator. The government did not adopt the recommendation.

[18]Alan R. Marchment, Chairman, Report of the Review Committee on the Mandate and Productivity of Canada Post Corporation, (Canadian Government Publishing Centre, Nov. 1985).

[19]House of Commons Issue No. 53. Standing Committee on Consumer and Corporate Affairs and Government Operations. Moving The Mail: Canada's Postal Service in the 1990s, (Ottawa: Canadian Government Publishing Centre, Apr. 1990).

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Concerns About Pricing and Competitive Practices

Competitors allege cross-subsidization of prices and unfair competition

- Bureau of Competition Policy examination of CPC-Purolator merger found no basis for cross-subsidization allegations
- Bureau of Competition Policy did not address competition issue

Concerns About Pricing and Competitive Practices

In 1993, CPC acquired a competing overnight delivery service courier, Purolator Courier Limited, which provided CPC with about 40 percent of the small-parcel, express-mail market in Canada. The Bureau of Competition Policy examined the acquisition pursuant to its authority under the Competition Act to approve mergers of Canadian companies. Public comments obtained by the Bureau's investigators indicated concerns regarding (1) possible cross-subsidizing of CPC's prices of its courier services and (2) the appropriateness of allowing a Crown corporation to compete with the private sector.

Regarding the first concern, the Bureau investigated the cross-subsidization issue and reported it was satisfied that CPC had not cross-subsidized its courier service prices.[20] According to the Bureau's report on the investigation, CPC provided a substantial amount of information on its costs, costing methodology, and the procedures and policies in place to monitor the allocation of costs among its various products. The accuracy of this information was verified by an independent accounting firm.

Regarding the second concern, the Bureau determined that it was not in its purview to examine whether a Crown corporation should compete with firms in the private sector because the Competition Act was established to encourage competition.

[20]Bureau of Competition Policy. Backgrounder: "Canada Post Corporation/Purolator Courier, Limited" (n.p), Nov. 1993.

GAO

Government Requested and Conducted a Review of CPC

- CPC 's Minister conducted mandate review during November 1995 - July 1996
  - Staff received 440 submissions, 1,084 letters, and 1,116 telephone calls
  - Public meetings held in six Canadian cities

Government Requested and Conducted a Review of CPC

In November 1995, the Minister Responsible for CPC arranged for a "Canada Post Mandate Review" because of (1) concerns by competitors and others about CPC's mandate and practices and because (2) the government had not reviewed CPC's mandate since 1985. The review was done by a committee that consisted of a chairman, appointed by the government, and staff who examined various CPC-related financial and policy issues. After soliciting public comments regarding CPC, the review committee staff told us that they received 440 submissions, 1,084 letters, and 1,116 telephone calls with comments. The committee staff obtained additional information at public meetings held in six Canadian cities. Both CPC and the Bureau of Competition provided detailed written comments and analyses to the review committee. The mandate review was completed in July 1996.

GAO

Recommendations by the 1996 CPC Mandate Review

- Make universal service mandate explicit
- Retain post office closing moratorium and revise door-to-door service policy
- Revise delivery standards
- Establish rural delivery standards
- Retain exclusive privilege authority but no third-party regulator

Recommendations by the 1996 CPC Mandate Review

In the July 1996 report, the review committee Chairman made many recommendations covering a broad range of CPC policies and practices. Regarding universal mail service, he recommended that in any future CPC Act amendments, the obligation to provide universal service at a uniform rate for letter mail be explicitly included. The Chairman also recommended that

- the existing moratorium on post office closings and conversions be retained,
- CPC implement door-to-door service delivery for disabled and elderly customers, and replace community boxes with door-to-door service in those urban areas where some door-to-door delivery already exists, and
- CPC (1) improve the speed and reliability of mail delivery and return to the previous 1-, 2-, and 3-day letter mail delivery standards for urban areas that CPC had relaxed and (2) establish delivery standards for rural areas.

Regarding ratemaking, the Chairman recommended that the government retain the CPC exclusive privilege authority in the CPC Act and recommended that CPC and the government vigorously enforce this authority. In addition, several recommendations were made to increase revenues to help offset the cost of service improvements. The Chairman rejected third-party regulation as an option for CPC because, among other reasons, such regulation would require the government to redefine its relationship with CPC, and it would be too time consuming and costly. Also, he recommended that the required government approval of CPC regulations should be retained and CPC should provide at least a year's advance public notice of any changes in rates, rate discounts, and mail preparation standards for businesses.

As of November 1996, the Minister Responsible for CPC was still considering the recommendations, but had accepted two recommendations (1) continuing the moratorium on post office closings and (2) discontinuing delivery of certain advertising mail.

Information on Governance and Postal Ratemaking of Canada Post Corporation and the U.S. Postal Service

	Canada Post Corporation	United States Postal Service
Head of postal administration	President/Chief Executive Officer	Postmaster General/Chief Executive Officer
Government official who selects head of postal administration	Governor in Council, a special committee of the cabinet	Postal Governors
Oversight administration	Minister Responsible for Canada Post	Congress and the Postal Rate Commission
Government approval of operating and capital budgets	Treasury Board and Minister of Finance	None required
Subject to antitrust laws	Subject to the Competition Act, with respect to those activities open to competition	Not subject to antitrust laws
Legal financial mandate	Have regard to the need to operate on a self-sustaining financial basis	Operate on break-even basis
Financial goal	CPC plan for 12-percent return on shareholder equity	Operate on break-even basis
Postal rates that require governmental approval	Government must approve basic single-piece letters (domestic and international), international printed matter, literature for the blind, some registered mail)	Postal Rate Commission issues recommended decisions to USPS Governors on all proposed rates except international rates and nonpostal services; Governors may accept or reject decision, resubmit proposal, or unanimously modify a resubmitted decision
Uniform postal rates	Not legally required, but provided in practice for basic letter mail	Legally required and provided by USPS
Basic letter rate (as of Nov. 1996)	Can $0.45 (U.S. $0.33)[a]	U.S. $0.32
Last increase in basic letter rate	1995 from Can $0.43 (U.S. $0.31)[a]	1995 from U.S. $0.29
Frequency of mail delivery	5 days/week[b]	6 days/week
Delivery standard for local mail	2 business days	1 day

[a]Conversion to U.S. dollars is calculated using the Dec. 31, 1996, rate of exchange of Can$1.3698 = U.S.$1.

[b]Except in remote northern communities accessible only by air and difficult to serve in winter.

Source: CPC, USPS data.

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