

Postal deregulation: Its impact on postal workers and the response of a postal union

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By Geoff Bickerton *

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Introduction

‘Political and academic discussion on the impact of liberalization or privatization of public services has primarily focused on quality and accessibility for different groups of citizens. Little attention has been paid, so far, to the impact on employment’.¹

Public debate on the deregulation of postal services is usually focused on the potential impact of introducing competition as it pertains to issues such as efficiency, price, and quality of service for the businesses and individuals. Rarely is there any consideration given to the welfare of the millions of workers who daily work to process and deliver the mail to addresses spanning the globe. As liberalization proceeds, in Europe and other countries, postal unions are developing their policies and entering into the public debate. For post office workers, and the unions that represent them, the stakes are high and the future is uncertain.

Postal deregulation poses very profound challenges for postal sector unions. Many postal unions were established in the late 19th or early 20th centuries. Unlike their private sector counterparts postal unions were largely insulated from the impact of economic fluctuations. They did not have to be organizing unions. The growth of the post office departments, the expansion of postal services and increased mail volumes guaranteed an ever-increasing membership base.

Growth in membership numbers did not reflect success with respect to wages and working conditions. Although they represented primarily blue collar workers, postal unions were often restrained by restrictive public sector labour legislation and government personnel policies designed to meet the needs of government employees rather than industrial workers. Likewise postal administrations were often under-funded and postage rates were artificially suppressed to meet political needs.

The relative stability that had characterized industrial relations in the postal sector ended in the 1960s and 1970s. Rising mail volumes, declining real wages, and the introduction of new work methods and new technology all combined to create eruptions of industrial unrest in numerous countries including the United States, the United Kingdom, Ireland and Canada. The drama of strikes and industrial conflict transformed the unions both organizationally and ideologically. It did not however provoke the postal unions to organize beyond the parameters of their employers. For most postal unions the postal service remained an industry unto itself. The statutory monopoly for letters, combined with the universal service obligation, provided protection and growth, even in times of rising productivity. Instead of organizing workers in the expanding parcel delivery companies and the newly developing communications industries, the postal unions, for the most part, remained content to be ‘servicing unions’ addressing the

direct needs of their existing members, post office employees. In the absence of direct competition for their largest product, lettermail, most postal unions did not devote significant resources to organizing new members. It would be left to other unions, based in the transportation sector, to organize courier workers. The high technology workers employed in the new electronic communications sector would largely remain unorganized.

Postal unions continued to exercise considerable bargaining power at the bargaining table. The ability to shut down an economically important national service, or even the threat to do so, enabled them to negotiate the decent wages and benefits that had eluded them in the past. When disputes were not resolved through negotiations, arbitration awards tended to provide compensation packages that were at least comparable with the private sector.

In the current era, the deregulation of postal services has the potential to turn this established order upside down. Competition in the lettermail market constitutes a direct threat to the bargaining power of postal unions. Faced with the prospect of significant reductions in union density in their sector, postal unions are required to undergo enormous institutional and cultural changes to transform themselves into ‘organizing unions’ capable of dealing with private sector employers existing under competitive market conditions. The unions must develop new strategies and organizational structures if they are to maintain union density and preserve their bargaining power in order to effectively represent the interests of their membership.

Postal deregulation, coupled with the privatization of several large postal administrations, has also served to open a debate about the relevancy of the universal service obligation in an era of electronic communications and increased competition.

Deregulation presents challenges to the unions at both the levels of policy and organization. In Europe, where the EU has encouraged the movement toward deregulation, the unions have been required to cooperate together to an unprecedented degree. In North America, where the move toward deregulation is not as advanced, the unions have an opportunity to prepare their interventions in the public policy debate which will inevitably occur.

Most postal unions oppose deregulation of postal services because they believe it will have a negative impact on employees, the public, and the post office. For many unions deregulation raises the spectre of massive job loss coupled with reduced bargaining power and a resulting decline of income, benefits and working conditions for the employees that they represent. Unions also believe that competition will necessarily lead to reductions in postal services and undermine the ability of postal administrations to fulfil the universal service obligation.

Are these concerns well founded? Do the negative consequences of deregulation outweigh the commercial advantages for investors and large volume mail users?

This paper addresses the policy and organizational responses that have been developed by the Canadian Union of Postal Workers (CUPW) to address the potential threat of the deregulation of Canada Post Corporation.

It examines several questions:

1. What have the experts said about the role of the ‘exclusive privilege’ in Canada and the likely consequences of deregulation?
2. Are there lessons that can be learned from existing experiences with postal liberalization?
3. What would the impact of postal deregulation in Canada be on employees, the postal service, customers and the public?
4. How should the union respond to the prospect of deregulation?

The players in Canada

CUPW represents approximately 55 000 workers, 98 per cent of whom are employees of Canada Post Corporation. The urban operations unit at Canada Post includes 48 000 employees and has been under the Canada Labour Code since 1981. Most of the provisions of Part III are not applicable to this unit as the

standards of employment have been superseded in negotiations. The rural operations unit covers 6600 rural and suburban mail carriers. They are currently covered by their first collective agreement and many of the employment standards in Part III continue to apply to these workers.

CUPW also represents 23 bargaining units, representing 800 couriers, call center workers and mailing house employees, most of whom are covered under the Canada Labour Code. The union is currently organizing car and bicycle couriers in most major cities in Canada.

Canada Post Corporation (CPC) is a federal crown corporation wholly owned by the Government of Canada. It employs 71 400 workers and is the sixth largest employer in Canada. It has revenues from operations of \$6.9 billion (Can) and has been profitable for eleven consecutive years. In 2005 CPC earned net profits of \$199 million (Can) with a 15 per cent return on equity. CPC delivers a total volume of 11.1 billion pieces, of which 69 per cent are addressed products and 2.5 per cent are parcels. In recent years there has been a very slight increase in addressed letters, almost equal to the overall increase in points of call. Business mail accounts for 90 per cent of CPC's revenues while personal correspondence between individuals represent two per cent. CPC also owns Purolator Courier, Canada's largest courier company.²

The Canada Post Corporation Act, passed unanimously by Parliament in 1981, was the product of lengthy negotiations between the postal unions, the business community, opposition parties and the government. The objectives of Canada Post Corporation, as included in the Section 5 of the legislation, address the issues of finance, service, and labour relations.

With respect to service, the Act requires the postal service to maintain basic customary postal service and to provide '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'. The Act also goes much beyond the offering of traditional postal services. It also instructs CPC to improve and extend its 'products and services in light of developments in the field of communications'. Concerning finances, the Act instructs CPC to 'have regard to the need to conduct its operations on a self-sustaining financial basis...'.³

With respect to rates, the original law provided for a regulatory process that was largely eliminated in 1989. To ensure that Canada Post's monopoly power would never be used to impose a form of indirect taxation on postal users the law provides for rates to be set at a level that will provide revenue sufficient to defray the costs incurred by CPC to conduct its operations.⁴ The rate for first class, regular letters in Canada is the second lowest in the G7 group of nations.

CPC was provided with an 'exclusive privilege' to carry letters in order to finance the universal service obligation. Competitors are prohibited from delivering letters unless they charge at least three times the postage rate set by Canada Post for a fifty-gram letter. At the current 2006 rate of postage competitors must charge \$2.69 (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 \$0.51 (Can) Canada Post has an effective monopoly on addressed lettermail.

In developing its policy concerning deregulation the union draws from various sources including the views of independent third parties who have investigated the Canadian postal service, statements of government officials, the perspectives of private sector users, competitors and the experience of other postal administrations which have experienced deregulation.

What the experts say about postal deregulation in Canada

In Canada, with the exception of the Canada Post Corporation Mandate Reviews, the issue of postal deregulation has not been the subject of rigorous analysis and debate.

The success of Canada Post Corporation, with respect to low prices for quick and reliable delivery remains the major obstacle for advocates of postal deregulation. The postal system is clearly not broken and advocates for major changes have a difficult challenge to demonstrate that radical alternatives, such as deregulation, would provide significant improvements for much of the population.

Even such vigorous advocates of privatization and deregulation as The National Post have sidestepped the issue of the 'exclusive privilege' choosing instead to focus their energies on convincing the Canadian government to restrict Canada Post from offering competitive services.⁵

The National Post's editorial reflects the objective of the major opponents of the public postal service that has been to try to restrict Canada Post from offering competitive services such as parcel and unaddressed airmail delivery. The most sensational effort in this direction has been the legal action taken by United Parcel Services (UPS) against the Government of Canada under the North American Free Trade Agreement (NAFTA). In their action UPS is claiming \$160 million (US) in damages claiming that Canada Post Corporation engages in discriminatory practices by providing advantages to its courier products that are not available to those of UPS. UPS also alleges that CPC has engaged in anti-competitive conduct, such as cross-subsidization and predatory practices.

Neutral third party perspectives on the 'exclusive privilege'

Since 1981 there have been three separate Reviews that have examined the issue of postal services and the mandate of Canada Post Corporation including the issue of the 'exclusive privilege'. In each case representatives from the private sector chaired the reviews. In every case the reviews opposed any weakening of Canada Post's 'exclusive privilege'. The 1985 and 1996 reviews noted that elimination of the postal monopoly would jeopardize the revenue base of the Corporation resulting in severe cutbacks of services and major negative consequences for employees and the postal service. All of the reviews recommended that the management of CPC should rebalance corporate objectives to place a greater emphasis of service to the public.

The 1985 Mandate Review Committee

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 deregulation.

The postal unions addressed the issue of deregulation in less than one half of a page in their brief of fifty-six pages.

The 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'.⁶ 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'.⁷ 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'.

The Review Committee also suggested that the 'exclusive privilege' should be suspended for the duration of any strikes or lock-outs.⁸

The Review Committee also recommended the establishment of a regulatory body based on the model of the United States and Australia. Although it noted that such a regulatory body would be expensive it stated that the value of such an agency would be to insulate Canada Post from political intervention so that it would have greater flexibility to tailor its rate structure to its revenue requirements and to market forces. It further recommended that there should be no appeal to Cabinet of any decisions of the regulatory agency.⁹

Concerning the issue of competitive services the Review Committee recommended that Canada Post be prohibited from making any investments in the parcel delivery business, which would require a payback of more than three years duration. The implementation of this recommendation by the government resulted in the cancellation of CPC's plans to greatly expand its parcel delivery services.¹⁰

The 1989 Postal Services Review Committee

In response to the 1985 Review Committee's recommendation for the establishment of a regulatory agency the federal government, in 1989, established the Postal Services Review Committee (PSRC) as a permanent, independent, national board to review Canada Post Corporation's plans for rates and services. The government also established a network of local Customer Councils to provide customer feedback directly to regional managers. Alan Marchment, now formerly of Guaranty Trust Co., also chaired the PSRC.

This attempt at regulation of Canada Post proved to be a complete fiasco. In July 1989 Canada Post made proposals for numerous changes in postage rates and also requested to have several product lines exempted from any regulatory process. The PSRC was tasked with reviewing CPC's proposals and to report to the government. It examined the issues and held hearings in seven cities to seek public input. However it was steadfastly stymied by the refusal, or failure, of Canada Post Corporation to provide information concerning volumes, costs, and revenues. Additionally Canada Post refused to submit any economic evaluations of major service changes or of planned investments. The PSRC noted that 'Deficiencies in information have limited the ability of the public to participate and the Committee to perform an effective review'.¹¹

In addition to being very critical of the failure of CPC to provide the basic information necessary to evaluate issues such as cross-subsidization, the impact of rate changes and productivity performance, the Review Committee's report also criticized the practice of Canada Post to obtain 'efficiency gains' at the expense of service to the public. Specifically the Review Committee took issue with CPC's decision to service new points of call with community mailboxes as opposed to door-to-door delivery. The Committee also examined CPC's 'rural conversion' program, which involved closing post offices and opening private sector retail franchises. It noted that the conversion program 'has had an adverse impact on customers across the country'.¹²

In its report the Committee called upon Canada Post to rebalance its corporate objectives. It commented that the 'exclusive privilege' of Canada Post carries with it a mandate to serve the public and not only its large private sector customers.¹³

For its part Canada Post Corporation argued strongly that the regulatory process and the information requirements envisioned by the Review Committee would inhibit its ability to introduce new services and products. In its response to the Committee's recommendations it stated: 'The regulatory process to which CPC could be subjected, as evidenced by this proceeding, is a very onerous one. It is costly, not only in terms of the process itself but also and perhaps most importantly, in terms of loss of flexibility due to the rigid and lengthy timeframes required in order to effect a change in service features or in rates'.¹⁴

Following the publication of Canada Post's response to the Committee the federal government announced its decision. Almost all of the recommendations of the Committee were discarded and the Committee was dissolved in 1990. From this date forward Canada Post has effectively existed as an unregulated monopoly subject to political oversight.

The 1996 Canada Post Mandate Review

In 1996 the federal government established a mandate review to conduct an analysis of the services provided by Canada Post Corporation and examine the functions that should be provided in the future. The Review was asked to determine if the 'exclusive privilege' of the corporation should be adjusted or

discontinued. The Review involved extensive consultations with stakeholders and the public. Altogether the Review received 440 formal submissions and a total of 111 presentations were heard in 14 days of public hearings not including the presentations of CPC and CUPW.

The report of the Review, entitled *The Future of Canada Post Corporation* dealt extensively with the issue of the 'exclusive privilege'. It noted that the only submissions in favour of the elimination of the 'exclusive privilege' were those from utility companies, the Competition Bureau and the Fraser Institute, a right-wing think tank dedicated to the privatization of all public services.

For its part Canada Post argued strongly to retain the 'exclusive privilege'. It noted that Canada, with its large land mass and low population density had a greater need than other countries for a universal postal service to strengthen the nation's commercial infrastructure and social fabric. Summarizing its role in society CPC stated: 'CPC's central public policy function is to provide Canadians with universal letter service at affordable uniform rates. CPC's lettermail service is distinguished by five characteristics – universal service and reach, uniform rates, reliability, affordability, value, and security'.¹⁵

In its brief Canada Post Corporation highlighted the improvements in service performance that had occurred since the previous review. It also placed great emphasis on the remarkable efficiency gains that had been achieved between 1982 and 1995.¹⁶

The Corporation also suggested that the erosion of lettermail, due to electronic substitution would, over time, ultimately eliminate any impact of the 'exclusive privilege' as all products would eventually be subject to market competition. In the short term it proposed that CPC could survive as the sole provider of universal letter service if its labour costs were significantly reduced.

CPC also argued that the elimination of the 'exclusive privilege' would be a disaster for the postal service and CPC's employees. Based on a study by Coopers Lybrand CPC argued that all of the projected scenarios examined by Coopers Lybrand indicated the CPC would not be sustainable for any length of time should the 'exclusive privilege' be eliminated.¹⁷

The Coopers Lybrand study was based on the assumption that the 'exclusive privilege' would be eliminated on April 1, 1997. It rejected the view that the experiences of postal deregulation in Sweden, Finland or Argentina would be applicable in Canada. It assumed that competition would quickly capture significant volumes from Canada Post due to cream skimming. The report stated: 'Many messenger, admail distributors and other suppliers could quickly organize to deliver pre-scheduled invoices and publications from utilities, municipalities, charities, retailers and financial services sectors. It is safe to assume that there would be a loss of market share in the business-to-business and business-to-household volumes in the high density markets'.¹⁸

Coopers Lybrand predicted that any move such as eliminating the 'exclusive privilege' would almost certainly lead to unprecedented confrontations between government, management and unions. It also projected that 18 000 and 22 000 of CPC's employees would lose their jobs by the year 2000 although it might be possible for some of them to transfer to the alternate delivery providers.¹⁹

The report of the Mandate Review echoed the perspective of the 1989 Postal Services Review Committee that Canada Post placed too great an emphasis on commercial success as opposed to public service. It noted that the legislated mandate of CPC internalized the tensions between a public policy orientation and a commercial one without implying any relative hierarchy of importance. The Review concluded that the federal government's instructions to CPC to give absolute priority to financial objectives had resulted in commercial orientation becoming the overriding focus of CPC management with the result that CPC had been deflected from its core public policy responsibilities. It noted that the internal 'privatization' of Canada Post appeared to be the root of many of its problems.²⁰

Like the 1989 Postal Services Review Committee the 1996 Review recommended that CPC place more emphasis on improving postal services to the public. The Review also highlighted the importance of postal services as the day-to-day face of the government of Canada. Noting the importance of rural postal services the Review recommended an indefinite extension of the moratorium on rural closures that had been instituted by the Liberal government in 1994 following its election victory. It also recommended that CPC improve its delivery standards and replace community mailboxes with door-to-door delivery whenever finances permit.

The report of the 1996 Mandate Review was also unqualified in its support for a continuation of the 'exclusive privilege' for Canada Post. It recognized that the circumstances of countries where the postal monopoly had already been abolished 'are so different from Canada's that their experience is not applicable'.²¹

The Report concluded that cream-skimming by competitors would result in higher postage rates, an end to universal service and the fragmentation of the national service.²²

The Review also argued that, considering the very low postal rate in Canada, there was no guarantee that the introduction of competition would reduce overall prices. 'The suggested removal of the 'exclusive privilege' strikes the Review, in any event, as a solution in search of a problem. Our current postage rate is among the lowest in the world, and even any foreseeable increase would not make the current system prohibitively expensive. It is not at all clear, consequently, why the introduction of competition – whose main theoretical purpose would be to reduce prices – would in this case be worth all the attendant disruption and risks. Nor is it clear that the result would be lower prices'.²³

The Review noted that proponents of 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. It noted: '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 re-arrange themselves into a coherent whole that was better or at least as good as the current system'.²⁴

The 1996 Mandate Review also opposed deregulation on the basis that it would inevitably require the establishment of a regulatory agency to try to ensure that an increasingly fragmented postal system did not descend into chaos. Although several submissions argued that Canada Post should be made subject to third party regulation the Review opposed establishing a regulatory framework citing four reasons. The previous experience of the Postal Services Review Committee in 1989 and Canada Post's refusal to provide it with information did not bode well for any future attempt to create a regulatory body. Existing regulatory agencies, such as the Canadian Radio-television and Telecommunications Commission (CRTC) had problems, especially considering their decisions were being regularly appealed to Cabinet. The Review also believed the establishment of a regulatory agency would unnecessarily complicate the relationship between Canada Post and the federal government as government decisions might come into conflict with the need to maintain an arms length relationship towards matters subject to regulation. Finally the Review opposed the establishment of a regulatory body because it believed it would follow the American example of the US Postal Rate Commission and be too time-consuming and costly and really only open to powerful self-interested parties with large sums of money to spend.²⁵

The Review stated that the setting of the basic postage rate is ultimately a policy/political decision by its nature. Consequently it recommended continuation of the current process requiring Order-in-Council approval for changes in the basic letter rate.

Proponents of deregulation in Canada

As stated in the 1996 Mandate Review there are few proponents of outright liberalization of the postal market in Canada. However events in Europe and the election of a Conservative government may put the issue on the political agenda.

The major advocates for outright deregulation of lettermail delivery are some of the larger utility companies and right-wing think tanks such as the Fraser Institute. The utility companies argue that since they could deliver their bills cheaper if not prohibited under the terms of the 'exclusive privilege' they are effectively subsidizing rural mail service.

The Fraser is the foremost right-wing think tank in Canada. It advocates privatization of virtually all public services including healthcare. It also supports the complete legalization of marijuana and establishing a voucher system for education. The Institute has made the most comprehensive ideological arguments in favour of postal deregulation.

In June 1989 the Fraser Institute held a symposium on Canada Post. It subsequently summarized its arguments in favour of postal deregulation in a study written by Douglas K. Adie entitled *The Mail Monopoly; Analysing Canadian Postal Service*. In a 284 page blistering attack on Canada Post, the postal unions and the federal government Adie argued for a three pronged process of privatization which would include the deregulation of mail services, divestiture into smaller entities (as was done in the US with AT&T) and privatization via a public stock offering.²⁶

The thrust of Adie's argument is that the Canadian postal service is inefficient because it is publicly owned and has a monopoly over its major product. 'The irony is that the monopoly, more than anything else, is responsible for the continuation of the poor record of productivity'.²⁷ According to Adie 'Innovation plus competition, not regulated monopolies, afford the best possibility for providing goods and services to the public'.²⁸ In his book Adie detailed many examples of poor service performance and inefficient practices of Canada Post. He argued that improvements would not be possible as only the profit motive and competition can provide incentives for management to improve efficiency.²⁹

Even such a strong advocate of deregulation as Douglas Adie recognized that the removal of the 'exclusive privilege' would create considerable disruption, including cutbacks in rural service and would inevitably lead to the removal of the obligation for uniform rates. To 'calm the fears' of rural residents Adie recommended that special measures be undertaken. 'If mail delivery is an essential service the government can invite private companies to bid against each other for the right to provide rural delivery for the least subsidy'.³⁰

The publication of Adie's book was not without controversy. One of the most outspoken critic of Adie's analysis was Ralph Hancox, President of Reader's Digest, one of the largest mailers in Canada. Hancox was also President of the National Association of Major Mail Users, the major lobby group for the large volume mailers in Canada. Hancox disputed Adie's suggestion that a public sector institution could not increase productivity and be run in a very efficient manner. Hancox described Adie's work as follows: In my view Adie's book is so full of inaccuracy and idle bias...that it should be withdrawn from circulation. The author has totally misrepresented the development of the crown corporation to its present position as the most efficient postal service in the western world. I found the quality of data, research and conclusions to be largely derisory'.³¹

The Importance of the 'exclusive privilege' in Canada

Both the proponents and opponents of the elimination of the 'exclusive privilege' seem to agree that over time, due to greater competition from electronic communications, the 'exclusive privilege' is losing its importance. 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'.³² In 2005 the new President of CPC communicated to employees a very similar message 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 solutions. 'Exclusive privilege' seems far less exclusive today than it was even five years ago'.³³

There is no doubt that electronic communications have grown and pose a direct challenge to mail volumes. Yet has this external competition changed the structure of the mail volume so that the 'exclusive privilege' is less important today than five years ago?

A comparison of the composition of Canada Post's mail products indicate that the 'exclusive privilege' products, especially communications or first class letters, are in fact more important today than five years ago with respect to both their revenues and volumes. The year 2005 witnessed a record number of letters being sent and received in Canada.

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

Table: Importance of 'exclusive privilege' products 2000-2005

Mail Product	Volume	% total Volume	Revenue	% total Revenue
1999/2000	(millions)		(\$ billions)	
Communications (1 st Class)	4544	48.1	2.48	42.8
Total Exclusive Privilege	6029	63.8	2.80	50.0
2005				
Communications (1st Class)	5469	49.2	3.09	44.4
Total Exclusive Privilege	6870	61.8	3.62	52.1

Source: Canada Post Corporation Annual Reports

Furthermore changes in the composition of letter volumes have resulted in the 'exclusive privilege' being more relevant and important than ever. The 'exclusive privilege' has never played a factor in the decisions of individuals to send personal mail in Canada. Personal mail 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 liberalization. In recent years it has been these markets, which have been growing as a proportion of the total of first class mail (known as communications market in Canada). Today the 'exclusive privilege' applies to a larger proportion of first class volumes which themselves are the greatest in the history of Canada Post.

Is the experience of other countries relevant to Canada?

To date there are few countries which have long-term experience with postal deregulation. Everyone appears to be in agreement that the British experience is still too recent to draw any firm conclusions. Although Finland has been fully liberalised since 1994, there has not in fact been any competition because of the requirement of a very high contribution to a universal service fund that is asked of entrants.³⁴ That leaves Sweden and New Zealand as the main examples of postal deregulation. Supporters of deregulation claim that the experience of Sweden and New Zealand demonstrates that deregulation will not have a devastating impact on the Canadian postal service. Opponents point to the very negative developments that have occurred in these countries with respect to the conditions of employees, rates and services. Still others, such as the 1996 Canada Post Mandate Review and the Coopers Lybrand study rejected the view that the experiences of postal deregulation in other countries such as Sweden would be applicable in Canada. Unfortunately neither of these studies provided any rationale for their assessment that the foreign examples would not be useful in predicting the potential impact of postal deregulation in Canada.

Background to deregulation in Sweden: In Sweden the letter monopoly was abolished in 1993. Sweden Post remains owned by the government, which has the power to cap its prices. It has a universal service obligation. It receives payment for the delivery of Braille but not for the cost of service to sparsely populated areas. Sweden Post says that it would deliver universally, even without an obligation, but might require grouped mail boxes in sparse areas. About 50 competitors serve local areas, and the major competitor, City Mail, delivers business mail, twice weekly in the three major metropolitan areas. City Mail has taken about 6.6 per cent of total letter volumes and the others an additional 0.5 per cent. There

has been considerable litigation over Sweden Post's pricing, which some new entrants have claimed to be predatory.

Background to deregulation in New Zealand: New Zealand Post was deregulated in 1998. At that time the government and New Zealand Post signed a 'Deed of Understanding'. 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, maintaining a network of at least 880 Post Shops and Post Centres and continuing to provide at least, a six-day-a-week postal service to more than 95 per cent of addresses. There are about 30 competitors, which have taken about ten per cent of the market from New Zealand Post. They use a range of options in order to move their mail. Generally they deliver their own mail in 5 geographical regions and use NZ Posts service for the remainder.³⁵

Can Canadians learn any lessons from the experiences of postal deregulation in Sweden and New Zealand?

Undoubtedly yes. However it is important to recognize that the circumstances in Canada are very different from those in Sweden and New Zealand with respect to the potential for competitors to compete on the basis of lower labour costs. Also the impact of deregulation may be greatly affected by the ability of competitors to access all delivery points, especially lock boxes and post office boxes.

Ability for competition to use 'cheap labour': With respect to labour costs it is clear that the situation in Canada would be very different than that of Sweden or New Zealand. In Canada postal workers earn slightly more than the average industrial wage that 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. In Canada very few benefits are stipulated by labour standards. Unionized employees usually have wage and benefit plans that are significantly better than non-union firms. In Canada any new entrants 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 would change over time as the employees would unionize and negotiate improvements. 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 and the union has negotiated a wage benefit package for employees in the new entrants that is roughly equal to that enjoyed by employees in the post office. In New Zealand the wages for post office workers are significantly below the average industrial wages. 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.

There are very significant difference between Canada and Sweden and New Zealand concerning the ability of new entrants to compete on the basis of 'cheap labour'.

Ability of competitors to have access to delivery points: In Canada the vast majority of apartment points of call are serviced by lock boxes in the apartment lobby. Any potential competitor wishing to deliver to residential addresses would have to negotiate access to these apartment lock box facility. In Sweden many apartments provide for delivery to the door. Also Sweden Post and the special interest organization for the private postal operators (FPF) have entered upon an agreement where the conditions for the access of their respective post office boxes are set out. According to this agreement, an operator has to pay SEK 0,75 for each letter delivered to another operator's boxes.³⁶ In this manner it is possible for competitors to have access to points of call located in apartments and in post office boxes. In New Zealand about 50 per cent of all mail goes to business and household delivery points and the bulk of the remaining goes directly to box lobbies. Box lobbies are the exclusive domain of New Zealand Post. The legislation requires New Zealand Post to provide competitors with 'access to its network on terms and conditions no less favourable than those offered to equivalent customers'. Competitors wishing to provide nationwide service must negotiate access agreements with postage rate discounts' with NZ Post for use of its delivery network including delivery to box lobbies. Rules governing the access to apartment lock boxes and post office boxes will have a significant impact on the degree to which competitors can capture

markets for the delivery of residential mail. It is uncertain what the situation would be with respect to delivery access in the event of deregulation in Canada.

Using these criteria it is clear the examples of Sweden or New Zealand may not be very useful in helping to understand the impact that postal deregulation might have in Canada. However it is useful to examine the experiences of both Sweden and New Zealand from the perspectives of impact on employees, postal rates, service to customers and profitability. It is important to note that the developments in these countries may have occurred in the absence of deregulation.

Impact on Employees

In New Zealand the major impact on workers during the period of deregulation has been low wage increases. Major staff reductions did occur 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 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.

Table: 2: NZ Wage and Salary Average, Median and Actual NZ Post Wage

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

Source: Dept of Statistics and epmu.³⁷

As seen above, 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 during the same period, and median wages increased by 28.3 per cent.³⁸

In Sweden the major impact has been the dramatic loss of jobs in Sweden Post, While Sweden Post has lost more than 16 000 jobs, less than 2000 jobs have been created by the competition.

Table 3: Employment at Sweden Post 1985-2005

Year	Number of Employees	Year	Number of Employees
1985	54 000	1998	42 108
1990	57 000	2001	41 669
1993	50 000	2003	37 905
1996	45 137	2005	33 520

Source: Posten Year End Reports; Stellan Mattsson; SEKO³⁹

The proportion of full-time jobs has also declined, from 79 per cent in 1994 to 72 per cent. It should also be noted that 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 10 European postal administrations Sweden Post experienced the greatest decrease in worker compensation as a percentage of total costs between 1995 and 2000. Of the seven publicly owned, regulated postal administrations the average labour costs were 70.6 per cent of total costs. For Sweden Post it was 52.1 per cent. For all European postal administrations it was 66.1 per cent.⁴⁰

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 some 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'.⁴¹ The annual turnover at City Mail was reported to be 60 per cent of employees.

Impact on Postage Rates:

In Sweden, the postage rate for a piece of communications mail (1st class letter) is \$0.84 (Can) or 65 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 City Mail offering lower prices, Sweden Post cut its pre-sorted mail postage rate by 47 per cent.⁴² 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 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.⁴³

In New Zealand, adherence to the 'Deed of Understanding' has stopped New Zealand Post from imposing any major postal rate increases.

Impact on Services:

In Sweden, since deregulation, the number of full service Sweden Post counter services has been reduced by more than 50 percent. Instead 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.⁴⁴ In 1999, Sweden Post reviewed their network strategy and set out a ten year plan for post offices. Sweden Post aimed to close all post offices and to re-open two low cost outlets to replace each one. In 2005 Sweden Post's counter network consisted of 436 directly run post centers, 2039 outlets in supermarkets, gas stations and retail stores, and 816 letter service outlets located in convenience stores and offering a very limited range of products. In 2005 the number of staff working at counters was reduced by 17 per cent.⁴⁵ Further cuts are expected.

The negative impact on services, coupled with price increases, has contributed growing public opposition to deregulation. Originally when deregulation was introduced it enjoyed considerable public support. Current public opinion polls indicate that the number of Swedes that support re-regulation is three times greater than the number that wants more deregulation.⁴⁶

In New Zealand there has not been many visible signs of cutbacks in postal services due to New Zealand Post's obligation to maintain services subject to the 'Deed of Understanding'. However in 2000 during a time of declining volumes and profitability, there were instructions by management for delivery staff to stop 'over-performing' and adjust operations to meet the minimum 2-3 day standards.

Impact on Volumes:

Neither Sweden Post or New Zealand Post publishes information on volumes for comparative purposes. At a time of increased potential for electronic substitution it would be difficult to determine the precise impact of deregulation on mail volumes. However it is generally accepted that the competition has captured about ten per cent of the volume in New Zealand and about seven per cent in Sweden.

Impact on Profitability:

There are many factors, which can influence profitability, and it is impossible to determine the influence of deregulation on financial performance. Sweden Post has had two consecutive years of profitability. However during the past decade it has lost money on operations during five years. During the years immediately following deregulation New Zealand Post witnessed modest profits. However 2004-2005 proved to be a very good financially with New Zealand Post recording a profit of \$137.2 million.

CUPW's Perspectives on Deregulation

There are several reasons why CUPW and other postal unions should vigorously oppose efforts to deregulate postal services.

Throughout history all of the experts that have examined postal issues in Canada have been unqualified in the belief that deregulation would be a disaster for the Canadian post office, its employees and for the public, especially the 25 per cent that live in rural areas.

The experience with deregulation in Sweden and New Zealand reveals that it has not benefited the workers or the public. It may have benefited businesses and large volume mailers, at least in the short term.

There are even reasons to believe that the consequences of deregulation would be even more drastic and negative in Canada.

First, the opportunity for competition based on lower wages is greater in Canada. Swedish labour law, and high unionization rates, serves to effectively block the establishment of small, inefficient operations that survive only because they can pay subsistence wages. In New Zealand it is hard for new entrants to compete on the basis of 'cheap wages' as post office workers already earn significantly less than the average wage.

Secondly there is little chance that Canada Post would be able to diversify into other revenue generating activities such as banking to make up for financial losses resulting from greater competition. The banks have already successfully resisted efforts to this effect and the federal government has not been supportive of new competitive ventures of Canada Post.

There are many reasons for Canadians to oppose deregulation of postal services.

Deregulation

Deregulation destroys jobs and transforms good jobs into bad jobs.

The advocates of deregulation argue that increased competition will result in more jobs in the postal and courier sectors. Indeed the Communications International, the predecessor to Union Network International, the current Global Union representing postal workers once speculated that increased union membership might be one of the positive results of deregulation.

For post office workers and their unions this argument is unconvincing for several reasons. In fact we have every reason to assume that both the number and the quality of jobs in the postal and courier sectors will decline with deregulation and the introduction of competition.

There are several reasons to believe that the quality and wages and benefits of postal workers jobs will decrease.

1. The financial crisis resulting from reduced volumes and revenues will leave less funds available for wages, benefits and to finance improvements in working conditions.
2. The work force of competitors will likely receive less pay and benefits and be required to work in inferior conditions.
3. Service reductions will reduce career opportunities for employees.
4. Competition will create insecurity in the postal administrations resulting in greater resistance to negotiate provisions such as pensions and retiree benefits that require long-term stability in the sector.

In 1996 the 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. The experience of Sweden Post indicates that postal administrations, when threatened with competition, will cutback on jobs wherever possible. In Europe the vast majority of experts expect a migration from the Universal Service Providers to the Competing Postal Operators once the third and final stage of European liberalization occurs. They are predicting more employment but fewer full-time jobs as they expect part-time and temporary employment to replace full-time jobs. Indeed the Final Report on Employment Trends in the Postal Sector provides evidence that postal administrations in Europe are already restructuring and increasing part-time and temporary employment at the expense of full time jobs.⁴⁷ The study also indicates that 52.5 per cent of postal administrations expect a slight or significant reduction in employment once full deregulation occurs in the EU. Fully 25 per cent of the administrations estimate that there will be significant job losses.⁴⁸

There is every indication that depending on the unemployment rate, labour legislation and minimum standards it is possible that many of the new jobs created in a deregulated postal sector would be much lower paid and receive inferior benefits than the current employees of the postal administrations.

Consider the situation that exists in the already deregulated courier industry. In Canada, in the parcel and package delivery sector there are two quite distinct labour markets at work.

The core companies include big players such as Canada Post, UPS, Purolator, and Federal Express. The need for large distribution networks and high levels of technology to compete in this sector creates significant entry barriers for new businesses. These efficient firms represent about 80 per cent of the employees in the sector. They tend to be unionized and pay decent wages and benefits.

At the other end of the spectrum there is the same-day courier industry with limited volume, an oversupply of companies and labour, and no 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 a few deliveries. The costs of these inefficiencies are borne directly by the courier, who incurs the major operating costs in the industry. There is no corresponding penalty for the employer because they do not comply with the minimum standards of

employment under Part III of the 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. Workers in the same-day industry receive no overtime, holiday or vacation pay, and do not receive any of the minimum employment standards.⁴⁹

A deregulated postal industry is likely to resemble the courier industry in many respects.

Like the case with Sweden Post, 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 as it would likely be these high cost operations that 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'.⁵⁰

In Canada there is also every reason to believe that the advent of competition into the postal sector will exert a significant downward pressure on wages and benefits of current post office employees. The example of the relative wage performance of post office workers in New Zealand is certainly cause for concern.

Deregulation would jeopardize universal service

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 in Canada.

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.

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. At that time it was estimated that the cost of servicing rural and isolated areas was 'six to ten times' the existing postage rate for a first class letter.

If CPC was expected to continue to offer universal service at a uniform rate for 'public' mail without monopoly protection the following scenario would likely occur:

1. Cutbacks in both urban and rural services.
2. Attempts to lower labour costs with resulting strikes and lockouts.
3. Price increases for individual mail and mail not contested by the competition.
4. Price reductions for products contested by the competition.
5. Reduced profits and eventual financial losses.
6. Further cutbacks in delivery services and rural services.
7. Increased user fees for non-contested products.

Eventually, if the government chose to maintain the universal service obligation it would be necessary to provide subsidies, something that has not occurred since 1995.

Of course this scenario would not occur immediately. It would likely be a slow, incremental process depending on a number of factors including the ability of competitors to organize their operations and obtain access to apartment lockboxes and permission from municipalities to establish their own receptacles and mailboxes.

Deregulation would result in higher prices for the public:

Competition will dramatically alter the price structure of postal services. Any pricing structure based on market forces will undermine the ability of the postal administration to ‘cross subsidize’ and finance high cost individual mailings and rural delivery with the surplus generated from large volume urban mailings.

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. The example of this would be the business model of City Mail in Sweden that 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, holding the mail and other retail or delivery services. Other ‘non-contestable’ products, such as signature items in rural areas may witness considerable price increases.

It is also possible that low wage competitors might also attempt to contest communications (1st class) mail of individuals or groups in large cities. If CPC responded by matching prices it would mark the end of uniform rates. Failure to respond would only hasten the loss of volumes and subsequent financial crisis.

Deregulation will result in a deterioration of service

In some instances new competitors may obtain market share by offering new or improved services to customers depending on the performance and efficiency of the current postal administration. However the experience of deregulation in Sweden and New Zealand provides no evidence that new entrants will offer superior services. Indeed the basis of competition is usually reduced services for reduced prices.

Experience also indicates that the financial crisis created by reduced prices and reduced market share will result in postal administrations being required to reduce the levels of postal services provided to the population.

The primary targets of cutbacks will be those services, which do not directly add value to the business customer. If CPC were to follow the example of Sweden Post we would see retail services cutback in hours of service, contracted out, or eliminated altogether, especially in the rural areas. At the delivery end there will 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. There is also the possibility that Canada Post might reduce the frequency of delivery. Canada Post already has more than 150 rural delivery routes in which residents receive mail delivery less than five times per week. Faced with financial difficulties Canada Post would be under pressure to adjust its delivery frequency based on mail volumes and overall cost of delivery. Advocates of deregulation, such as Charles Kenny of the World Bank, have already proposed the prospect of reducing delivery frequency, or even abandoning delivery altogether in poor countries.⁵¹

Deregulation is the denial of democracy

Most postal administrations are mandated to fill the dual roles of providing a public service to the population and acting as a commercial entity. Frequently these objectives come into conflict. Being a visible public service impacting on everyone on a daily basis, the postal service often serves as a ‘proxy’

for larger political debates between those favouring public ownership and state planning and those supporting private enterprise and the market.

Deregulation aims to put an end to this debate and with it the ability of the state to determine issues such as prices and service levels to be offered to the population. Under pressure from private sector competitors it is inevitable that the postal administration will be required to adjust its pricing formula to meet the competition. The only debate for elected policy makers will be between raising rates for non contestable mail, such as personal correspondence, cutting back services, or reverting to the old days of public subsidies. There will be no debate on the rate for the large volume mailers who will now have the ability to take their business elsewhere.

The existence of the monopoly presupposes that the state has the right to determine who will pay what amount of postage even if it results in some portion of the population being required to cross-subsidize the cost of servicing others.

In Canada the 1996 Mandate Review supported the view that ‘the setting of the basic postage rate is ultimately a policy/political decision by its nature’.⁵² Deregulation would undermine the ability of the public to use the pricing system to finance its desired objectives with respect to postal policy.

Maintaining the post office as a public sector monopoly allows the public to debate the issues of what rates and services they are entitled to as citizens, and as owners of the public postal system. It keeps open the potential for citizens to include postal services as one of the elements to be considered in the broader socio-economic trade offs that go into nation building in a large country such as Canada, where the cities are so dependent on the extraction of rural wealth.

The 1996 Mandate Review recognized the legitimacy of regarding the post office as a service to the people rather than as a business. It also reflected the view that all citizens should be entitled to equal services regardless of their residency or economic status. ‘With regard to price the principle of uniformity is founded on the sound premise that, in a country as far-flung as Canada, people should not be financially penalized in their access to a core federal public service solely by virtue of living elsewhere than in large urban centres’.⁵³

It is also clear that the Canadian public believes that the post office remains an important public service. Polling conducted for the Mandate Review indicated that fully 82 per cent of respondents agreed with the proposition that ‘the post office is an important federal government presence in a community’. Fully 80 per cent of those living in communities of 10 000 or less agreed with the statement ‘when a post office closes the community it used to serve loses some of its identity and distinctiveness’.⁵⁴ Deregulation would undermine the ability of the public to use the pricing system to finance its desired objectives with respect to postal policy.

Deregulation is not only about efficiency and competitiveness. It is about society’s values.⁵⁵

Deregulation would create worse working conditions and result in more injuries

The Canadian post office already has a terrible record concerning injuries and workplace illnesses. In 2005 over 9000 operational workers, or one in six, were injured on the job at Canada Post. Approximately half of these injuries were classed as disabling, requiring on average a recovery period of three weeks.

This would get worse with deregulation because:

1. The density of delivery would decline resulting in a higher proportion of outside delivery time for letter carriers.
2. There would be less funds available to improve working conditions.
3. There would be enormous pressure to increase workload and extend working time in line with competitors.

There is also the issue of the health and safety of the employees of the competitors. Consider the working conditions of the workers in the non-union parcel delivery companies and the workers that deliver unaddressed admail. In these sectors there is no enforcement of health and safety legislation or regulations.

Competitors would also likely follow the model of the courier industry and designate the employees as contract workers so that they would not be covered by health and safety legislation or workers compensation.

The emergence of competition will also significantly affect the ability of CUPW to represent postal workers and address health and safety and workload problems. The union would be required to devote considerable energies into organizing the workers of the competitors. In some countries that might be an easy task but in Canada it would be extremely difficult due to the labour legislation and political culture. There is also the prospect that other unions might enter the sector reducing the overall effectiveness of trade union representation in the industry.

Deregulation will reduce efficiency at Canada Post

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.

From a quality perspective it is likely that competitors will focus on the high density, well prepared and addressed business mail leaving the postal 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 sortation process. Reduced volumes at Canada Post would also result in less efficient use of resources. 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'.⁵⁶

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. 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 (see below). Similarly greater volumes of mail permit greater efficiencies concerning collection, preparation and processing of letter mail. Any significant reduction in volumes would result in reduced efficiency with respect to the use of the equipment in large sortation plants. The prospect of reduced volumes might also serve as a deterrent for Canada Post to invest in new delivery and sortation technologies.

Deregulation will hurt regional economic development

Historically postal services have assisted in the economic and cultural development of countries. Today, by providing inexpensive letter and parcel delivery to the 25 per cent of the population that live in smaller towns and rural areas the modern postal services assist in the economic development, and in some cases the very survival, of many communities. Increasingly small, rural based cottage industries depend on Canada Post to deliver the products that they market over the Internet.

Deregulation of the postal service will create enormous pressures for Canada Post to cutback services to rural areas. While deregulation may result in greater choice in urban areas there is no reason to suggest that rural areas will witness anything but cutbacks. The decision of UPS to close many of its small town offices in Ontario and Quebec does not inspire confidence that the private sector competitors will make the necessary investments required to provide sufficient postal infrastructure in rural areas. It was the failure of the private sector to service rural Canada that lead the 1996 Mandate Review to state: 'It is clear to the Review that meeting the needs of rural areas should be regarded as a crucial element of Canada Post's public policy responsibilities'.⁵⁷

It should be noted that in the parcel delivery sector, where there is no monopoly protection, it is Canada Post which currently services much of the rural and isolated areas. In fact it is common for private sector courier companies to 'piggy-back' on CPC's infrastructure to send their products to rural areas.

Deregulation will hurt the environment

Deregulation and greater competition would create more environment 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 current parcel delivery services operating in large North American cities are a disaster from an environmental perspective. Several competing national, regional and local carriers operate simultaneously. 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.

For residential deliveries to suburban areas the situation, from an environmental perspective is completely unacceptable. Since total deliveries to residential customers in suburban areas are divided between several major carriers the delivery density is extremely low. The same day courier sector is even worse and can be characterized as an environmental disaster. In this sector many small companies employ contractors on an adhoc 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 on a given day. These practices result in a 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 governments to act in order to require the postal services to operate in a more environmentally friendly manner. 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 the United States the government owned post office has become a leader in numerous environmental practices concerning its fleet and buildings. In Sweden the Post Office has been mandated to lead the messaging and logistics industry when it comes to addressing environmental concerns. 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.

Introducing private sector competition would create financial pressures on Canada Post. This would reduce the capacity of the postal service to deploy resources into environmental innovations. There would also be increased pressure for the post office to replace 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.

Deregulation will reduce the security and privacy of the mail

The introduction of competition will also jeopardize the guarantee of security and privacy of the mail. Currently, in countries such as 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.

In Canada the post office employs a 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.

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 agents legislation or regulations requiring confidentiality would be impossible to enforce.

The problem of privacy would also be compounded by the fact that many of the competitors would be American based companies and would be subject to the terms of the US Patriot Act. Under the terms of the US 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 organization to disclose 'any tangible thing'. 'Any tangible thing' could include any records in their possession. In Canada the British Columbia Privacy Commissioner has concluded that there is a reasonable possibility that 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.⁵⁸

How should CUPW respond to the threat of deregulation?

At the same time that the union takes action to prevent postal deregulation it must also be restructuring its operations to respond to the new challenges of competition should deregulation occur.

Policy: The union has long opposed deregulation and privatization of the post office. In 2005, delegates to the union's national convention unanimously endorsed a resolution instructing the union's leadership to 'oppose any attempt to take away Canada Post's exclusive privilege'.

Education: The union needs to engage its membership in a discussion of the potential implications of postal deregulation on postal workers, the post office and the public. Special attention should be paid to the function of the universal service obligation and its benefit to society.

Lobbying and political organizing: The union needs to ensure that members of parliament, the media, and others involved in public policy decisions are aware of the issues concerning deregulation. The union should also explore the potential to extend regulations to the courier industry in a similar manner to the regulation of taxis.

Work with allies: In addition to participating in the broader struggles against privatization and deregulation the union needs to incorporate the issue of postal deregulation into these campaigns. The union needs to enhance its international relationships to learn from the experiences of others and participate at the international level through Union Network International. (UNI)

Dialogue with large volume mailers: Recognizing that deregulation would result in winners and losers within the business community the union needs to maintain a dialogue with the associations of large volume mailers to seek out common ground and recognize areas of dispute.

Organize, organize, organize: Unionization of the workers of competitors is the best way to improve the standards of workers and ensure that competition does not occur on the basis of 'cheap labour'. This will require institutional, structural and cultural changes on the part of the union to accommodate the new members and deal with many private sector employers.

Conclusion

Supporters of deregulation will likely view the union's position as self-interested and misguided.

There can be no doubt that it is in the interests of postal workers to oppose deregulation. The real issue is whether the self-interest of postal workers also coincides with the public interest. After reviewing the arguments of experts, together with the actual experience of countries that have deregulated and those who are preparing to deregulate it would appear that postal deregulation is not in the public interest. It may be in the interests of competitors and it may be supported by pro liberalization academics. But adherence to economic theory is no substitute for rigorous analysis of the real world.

This paper does not pretend to be a rigorous analysis. It is a survey of the perspectives of experts in Canada and a review of some of the impacts that deregulation has had in Sweden and New Zealand. The experience of these countries is not likely to be that relevant to Canada. At most the paper raises some areas of concern and poses some difficult questions for anyone wishing to advocate postal deregulation in Canada.

The difficulties and problems associated with the reality of deregulation have shifted the burden of proof onto the shoulders of deregulations supporters. For many years there has been little scrutiny of the claims of pro business advocates who have promoted deregulation as a panacea to the supposed wastefulness and inefficiency of the public sector.

Consider the smug self-righteousness of the following statement contained in a 1995 editorial of the Economist; 'The predictable result of maintaining the monopolies is that state-owned postal and telecom services are a byword for inefficiency. Where competition has been introduced it has lowered the costs for almost everyone, while improving service'.⁵⁹ Contrary to the result predicted with such confidence by the Economist the postal monopoly in Canada is a model of efficiency. Competition in the postal sector, as it exists in the real world, has neither reduced costs for the majority of people nor improved service.

It would appear that to date deregulation has not provided the public with any real alternatives to the traditional postal administrations. Instead it has been used to justify a host of changes in prices, services, and employee benefits that would have been impossible to achieve with a public sector monopoly.

Is deregulation actually a Trojan horse designed to replace political decision making with the dictates of the market so that businesses can exempt themselves from their responsibilities to finance the cross-subsidization of postal services? Is it a means for politicians to wash their hands of the political fallout from supporting cutbacks in postal services and cheaper rates for businesses at the expense of the public?

Whatever it is there is no doubt that it is bad news for post office workers and there is no evidence that it is good for the public.

CUPW will continue to investigate and examine developments in the United Kingdom and other countries that are implementing deregulation. Ideology is no substitute for analysis. However the Union urges everyone to consider the long term social implications of deregulation. In the words of Canadian economist and science advisor Arthur Cordell:

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.

* The author is Director of Research with the Canadian Union of Postal Workers.

¹ EU study January 2005 Liberalisation and privatisation of public services and the impact on employment European Foundation for the Improvement of Living and Working Conditions.

² Canada Post Corporation Annual Report 2005

³ The *Canada Post Corporation Act*, Section 5.2.

⁴ The *Canada Post Corporation Act*, Section 19.2.

⁵ The National Post; Editorial, Just Deliver the Mail; April 28, 2006 A recent editorial of the National Post reads as follows:

In the past, it has gotten in the way of community newspapers by cornering the market on delivering advertisement supplements. And it competes with private couriers for package delivery customers. It is time for a reassessment of Canada Post's purpose. The postal service's attempt to limit competition, in areas where consumers would be better served by private businesses, benefits no one except its unionized work force and the occupants of its lavish Ottawa headquarters. Let Canada Post deliver the mail, and let the private sector do the rest.

⁶ Report of the Review Committee on the Mandate and Productivity of Canada Post Corporation; November 1985; Canadian Government Publishing Centre; p.21

⁷ Report of the Review Committee on the Mandate and Productivity of Canada Post Corporation; November 1985; Canadian Government Publishing Centre; p.21

⁸ Report of the Review Committee on the Mandate and Productivity of Canada Post Corporation; November 1985; Canadian Government Publishing Centre; p.22

⁹ Report of the Review Committee on the Mandate and Productivity of Canada Post Corporation; November 1985; Canadian Government Publishing Centre; p.28

¹⁰ Report of the Review Committee on the Mandate and Productivity of Canada Post Corporation; November 1985; Canadian Government Publishing Centre; p.43

¹¹ Report of the Postal Services Review Committee; November 1989; Ministry of Supply and Services, Government of Canada; p. 15

¹² Report of the Postal Services Review Committee; November 1989; Ministry of Supply and Services, Government of Canada; p. 23

¹³ Report of the Postal Services Review Committee; November 1989; Ministry of Supply and Services, Government of Canada; p. 25

The Committee noted:

It is quite normal for private sector corporations to concentrate on providing superior service to their major customers. The difference with Canada Post, however, is that it has a mandate and for a large part of its business, a monopoly to serve all of its users...It is quite clear that the 'exclusive privilege' granted to the Corporation carries with it an obligation to serve. As most Canadians have no alternative but to rely on Canada Post for most of their mailing needs, the Corporation's primary obligation should be to provide adequate service to all Canadians even though this may have an impact on its goal of earning a 14 per cent rate of return on equity by 1993-94.

¹⁴ Response of Canada Post Corporation to the Recommendations of The Postal Services Review Committee; December 1989; p.8

¹⁵ Ensuring Universal Service at Affordable Rates; The Mandate of Canada Post Corporation for the 21st Century; Canada Post Corporation; February 15, 1996. p. 31

¹⁶ Ensuring Universal Service at Affordable Rates; The Mandate of Canada Post Corporation for the 21st Century; Canada Post Corporation; February 15, 1996. p. 25
CPC noted that the Corporations average annual net productivity gains between 1982 and 1995 were twice that of the average for the private sector in Canada.

¹⁷ Ensuring Universal Service at Affordable Rates; The Mandate of Canada Post Corporation for the 21st Century; Canada Post Corporation; February 15, 1996. p. 32

The CPC brief stated:

Revenues would decline in high density areas without a proportionate reduction in network costs. Within a few years there would be annual losses in the \$500 million range and well over \$1 billion in the worst case. This in turn would force a choice between massive government funding and either huge cuts in the workforce or huge increases in the basic letter rate. Adoption of either of the latter two plans would in turn lead to a reduction in volumes, further exacerbating the situation.

¹⁸ Choices for a Self-Sustaining Canada Post; Cooper Lybrand; November 9, 1995; p.39

¹⁹ Choices for a Self-Sustaining Canada Post; Cooper Lybrand; November 9, 1995; p.45

²⁰ The Future of Canada Post, Report of the Canada Post Mandate Review; Ministry of Public Services, Government of Canada, 1996; p.53.

It stated:

When a public enterprise like Canada Post almost wholly adopts the values and priorities of the private sector, as has been the case, problems are virtually inevitable. Once the bottom line stands alone as the dominant consideration, the temptation becomes irresistible to favour lucrative business customers over individual citizens, large corporations over small businesses, or densely-populated urban centers over rural areas. Such behaviours, indeed, are the crux of many of the complaints that were brought to the attention of the Review.

²¹ The Future of Canada Post, Report of the Canada Post Mandate Review; Ministry of Public Services, Government of Canada, 1996; p.68

²² The Future of Canada Post, Report of the Canada Post Mandate Review; Ministry of Public Services, Government of Canada, 1996; p.69

It stated:

If Canada Post's 'exclusive privilege' were removed, private companies would concentrate on competing in high-density urban areas, perhaps with a special emphasis on local mail. They would ignore rural and remote markets, because the combination of sparse populations, low mail volumes, and numerous distribution points is one that offers little prospect of profitability. Because Canada Post's postage rate must blend the cost and revenue requirements of serving both urban and rural areas, and handling both local and forward mail, private firms serving only the most lucrative urban markets would be able to undercut the corporation's rate in those markets and siphon away business. Canada Post would find its lettermail volumes and revenues reduced, while still having to maintain the same exclusive network in order to provide universal service. The eventual result would be dramatically higher postage rates, an end to universal service or, most likely some combination of both. Even worse, our postal system would be irrevocably fragmented.

²³ The Future of Canada Post, Report of the Canada Post Mandate Review; Ministry of Public Services, Government of Canada, 1996; p.70

²⁴ The Future of Canada Post, Report of the Canada Post Mandate Review; Ministry of Public Services, Government of Canada, 1996; p.73

²⁵ The Future of Canada Post, Report of the Canada Post Mandate Review; Ministry of Public Services, Government of Canada, 1996; p.70

²⁶ The Mail Monopoly; Analysing Canadian Postal Service. The Fraser Institute, Canada, 1990; p.15

²⁷ The Mail Monopoly; Analysing Canadian Postal Service. The Fraser Institute, Canada, 1990; p.160

²⁸ The Mail Monopoly; Analysing Canadian Postal Service. The Fraser Institute, Canada, 1990; p.65

²⁹ The Mail Monopoly; Analysing Canadian Postal Service. The Fraser Institute, Canada, 1990; p.246

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- ³⁰ The Mail Monopoly; Analysing Canadian Postal Service. The Fraser Institute, Canada, 1990; p.187
- ³¹ Letter to Michael Walker from Ralph Hancox; March 22, 1991
- ³² Ensuring Universal Service at Affordable Rates; The Mandate of Canada Post Corporation for the 21st Century; Canada Post Corporation *ibid*: p. 33. CPC stated: Electronic and other substitutes are currently eroding the ‘exclusive privilege’ and that erosion will increase. CPC will, as a result, have to adjust over time to an environment that will in practice ultimately approximate that resulting from the abolition of the exclusive privilege.’
- ³³ Moya Greene Web Log; May 30 2005
- ³⁴ Meeting The Universal Service Obligation In Posts, Ian Reay and Frank Rodriguez University of Bath, 2001; p.40
- ³⁵ Beyond the Propaganda, Postal Deregulation in New Zealand., Anna Kenny, 2006
- ³⁶ Definition of the Postal Infrastructure in Sweden, National Post and Telecom Agency; August 2000, p. 4
- ³⁷ Wage chart, Beyond the Propaganda, Postal Deregulation in New Zealand., Anna Kenny, 2006
- ³⁸ Beyond the Propaganda, Postal Deregulation in New Zealand., Anna Kenny, 2006, p.13
- ³⁹ Stellan Mattsson, Presentation to Global Union Conference; Cornell University, January 2006
- ⁴⁰ Employment Trends in the Postal Sector Final Report; PLS Ramboll Management; 2002, p.83
- ⁴¹ Post to All; Report of the SEKO Study Team; March 2003, p.11
- ⁴² Meeting The Universal Service Obligation In Posts, Ian Reay and Frank Rodriguez University of Bath, 2001; p. 50
- ⁴³ The ‘Real’ Graveyard Spiral – Experiences from the liberalized Swedish Postal Market, Per Jonsson and Sten Selander, the Swedish National Post and Telecom Agency. Presented at the 13th Conference on Postal and Delivery Economics, Antwerp, Belgium, June 4, 2005, p.4
- ⁴⁴ Employment Trends in the Postal Sector Final Report; PLS Ramboll Management; 2002, p. 233
- ⁴⁵ Sweden Post Annual Report; 2005
- ⁴⁶ Stellan Mattsson, Presentation to Global Union Conference; Cornell University, January 2006
- ⁴⁷ Employment Trends in the Postal Sector Final Report; PLS Ramboll Management; 2002, p.258
- ⁴⁸ Employment Trends in the Postal Sector Final Report; PLS Ramboll Management; 2002, p.254
- ⁴⁹ 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
- ⁵⁰ Ministry of Public Services, Government of Canada , 1996 Mandate Review, p. 76
- ⁵¹ Kenny, Charles; Questioning the monopoly-supported USO in developing countries; in Progress Toward Liberalization of the Postal and Delivery Sector; Edited by Michael Crew and Paul Kleindorfer; Springer Publisher; 2005
- ⁵² Ministry of Public Services, Government of Canada , 1996 Mandate Review, p.115
- ⁵³ Ministry of Public Services, Government of Canada , 1996 Mandate Review, p.67
- ⁵⁴ Ministry of Public Services, Government of Canada , 1996 Mandate Review, p.147
- ⁵⁵ Arthur Cordell, A. 1996. Deregulation, universality and the middle class. Unpublished Internet communication

Cross-subsidization and regulation were harnessed to create a system where the strongest takes care of the weakest; the wealthier subsidize the poorer. With deregulation we are moving away cross-subsidization. We are moving away from universality. Our society is backing away from universality in a number of areas. The market agenda driven by the mantra of the need to “be competitive in a globalized world” is leading to an outcome that takes us back in time. To a time of class distinction. To a time of the rich and the poor. To a time before the broad middle class was created. The middle class upon which so much of the mythology of America and Democracy is based.

- ⁵⁶ Peter Andersson Deregulating the postal sector – the Swedish model; Linköping University, p.11
- ⁵⁷ Ministry of Public Services, Government of Canada , 1996 Mandate Review, p.105
- ⁵⁸ Outsourcing in British Columbia & the USA PATRIOT Act: A Primer; Sara A. Levine and Sarah Gingrich; Ontario Bar Association.
- ⁵⁹ The Economist; January 7, 1995

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