

Tuesday, August 1, 2000.

Hon. Alfonso Gagliano  
Minister of Public Works and Government Services and  
Minister Responsible for Canada Post  
435-S Centre Block  
House of Commons  
Ottawa, Ontario  
K1A 0A6 By Fax and Post

Dear Minister Gagliano:

On behalf of the Canadian Taxpayers Federation (CTF), I write to you today with respect to the scope of Canada Post's (CPC) activities and the detrimental impact that these could have on Canadian taxpayers.

As you are no doubt aware, the Government of Canada is currently the defendant in a Statement of Claim filed by American courier giant UPS this past spring. Specifically, UPS is seeking \$230 million in damages from the Government of Canada for breaching its responsibilities under the North American Free Trade Agreement.

Our contention is that Canada Post continues to operate in a fashion that invites further legal action from American or Mexican firms filing NAFTA claims or domestic action through complaints to the federal Competition Bureau.

Canada Post's continued expansion into areas outside its core mandate of first-class letter mail delivery runs contrary to:

- Government policy as articulated in the February, 1995 federal budget;
- Recommendations of the Canada Post Mandate Review (July, 1996); and
- NAFTA provisions as evidenced by the UPS lawsuit.

Enclosed with this letter is a document released today by the CTF that details our concerns with various facets of Canada Post's operations. Specifically we raise questions with respect to the legality of CPC's tax loss carry forwards, the performance and continued viability of Purolator Courier, and two recent examples of continued abuses of CPC's first-class lettermail monopoly protection through cross-subsidization of other business units.

Given the technical and specific nature of the tax loss carry forward issue, we have also contacted your colleague the Minister of National Revenue, Hon. Martin Cauchon for his assistance.

Turning to CPC's continuing ownership of Purolator, we have grave concern. An independent analysis conducted by respected accounting firm BDO Dunwoody concludes that the Government of Canada (read: Canadian taxpayers) would have been better served if CPC had purchased federal government bonds during the last seven years instead of acquiring Purolator Courier from ONEX Corporation. We urge you to study this BDO report (enclosed) carefully and hope that you will conclude, as we have, that the most prudent course of action for CPC to follow would be to divest itself of Purolator Courier. In addition, given the current NAFTA lawsuit, it may well be

advisable for Canada Post to also wind down its non-core competing in-house courier-type services.

Finally, it appears that Canada Post is continuing to cross-subsidize its activities. In the last 30 days alone, the option of purchasing Purolator packages has now been made available in Canada Post retail outlets across the country and media reports indicate that first-class lettermail personnel were employed to engage in a non-core special weekend delivery of a much anticipated children's book.

When one combines these activities with Canada Post's continuing forays into areas such as e-commerce transactions, personal banking and international consulting, the potential for future lawsuits and massive losses to be incurred by Canadian taxpayers is mammoth and very real. Minister Gagliano, it is time to exhibit political leadership and rein in a runaway Crown Corporation that has moved far beyond the letter, and indeed the spirit, of its enabling legislation, the *Canada Post Corporation Act*.

I trust that you comprehend the seriousness of these matters we raise and look forward to hearing from you at your earliest possible convenience. Should you require more information, please do not hesitate to contact us at 613-234-6554 or 1-800-265-0442.

Sincerely,

Walter Robinson  
Federal Director

cc: Rt. Hon. Jean Chretien  
Hon. Martin Cauchon