

THE POST MODERN: IT'S TIME FOR SERIOUS POSTAL REFORM

Robert M. Campbell

Technological, international and ideological changes have altered the range of postal policy possibilities in the 21st century. Prodded by deregulation and liberalization, many Posts have developed an international reach, taking over private-sector companies and entering into alliances with former competitors. These changes unfolded within the neo-conservative agenda, which insisted on them. But a national postal system remains important for both economic and social reasons. It can be a source of competitiveness, as well as a large employer and the provider of a universal public service. The Canadian postal regime contains a mix of elements, but remains firmly within a "political" as opposed to "market" or "economic policy" mode. This threatens both its own future viability and the strength of Canada's communications infrastructure.

De nombreux changements technologiques, idéologiques et internationaux ont modifié l'éventail des politiques relatives aux services postaux du XXI^e siècle. Sous l'effet de la déréglementation et de la libéralisation économique, beaucoup d'entre eux ont pris une ampleur mondiale en acquérant des sociétés privées et en formant des alliances avec d'anciens concurrents. Ces changements s'inscrivent dans une politique néo-conservatrice dont ils sont un élément clé. Il faut pourtant maintenir les services postaux publics pour des raisons aussi bien sociales qu'économiques. Ils peuvent en effet induire une réelle compétitivité tout en restant un employeur important et en fournissant un service universel. Au Canada, le service postal combine divers éléments mais demeure très attaché à un fonctionnement « politique » plutôt qu'« économique » ou « néo-libéral ». Ce qui menace à la fois sa survie et l'infrastructure des communications canadiennes.

National postal systems—or simply Posts—do not draw the critical attention they once did. Better management and reduced government interference have improved their performance and pushed them into the policy background. But while governments focus on the more glamorous high-tech sector the Posts do remain an important public policy concern. Around the world every day over one billion letters and ten million parcels are mailed, through one of the world's most extensive networks: three million street letterboxes and 770,000 permanent post offices. Over 80 per cent of mail is business mail. Postal activity is ubiquitous, representing two per cent of GDP in industrialized countries. Mail is a mature market, but a medium-term assessment by the Universal Postal Union anticipates 2.5 per cent annual growth, which is a long way from decline. Posts are amongst the largest consumers of transportation services, are involved in complementary retail and commercial activities, and are amongst the largest civilian employers. They remain a vital component of the communications market, offering potential economic efficiency and productivity benefits, and they have a symbiotic relationship with technological change. The

Posts' policy significance, which derives in part from their size, ubiquity and importance, is enhanced by their social and national character and public service roles. They have played an historic nation-building role, particularly in frontier, marginal and low-population nations. They have extended markets and communities and integrated nations, while serving democratic development. The idea of a universal postal service, with delivery to all addresses at one low price, continues to have resonance as a public service.

Notwithstanding the neo-conservative wave, there has been but modest postal privatization around the world. The Dutch government retained 45 per cent of the shares including the "golden share" (a veto over all consequential decisions). The Germans followed with a similar partial privatization, while neither Margaret Thatcher nor Ronald Reagan seriously considered postal privatization. Most Posts therefore seem destined to remain within the public domain. The reason governments are averse to postal privatization is simply that it is not in their interest. The universal postal service has enormous popular support, particularly in rural or outlying areas. It remains attractive to business, particularly small and medium sized firms, which fear that privatization will frag-

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ment an effective, inexpensive, universal delivery system. Business of all sizes has become increasingly supportive as the Posts have become more customer-friendly and efficient. Postal trade unions constantly remind governments of the employment issue. Finally, even when privatization is contemplated, the conditions that typically are imposed on it—maintaining universal service, honoring labour contracts, and post-privatization re-regulation—either scare away potential buyers or lower the sale price. Governments have other motivations, as well. Many Posts are profitable and generate reliable revenue. Posts therefore provide governments with the best of both worlds: they further social equity without costing anything. Governments see the Posts as an emblem of the nation and of national prestige, for, despite globalization, Posts remain intensely national.

Four institutional and governance approaches to postal policy are identifiable, reflecting differences in culture, institutions and goals:

- A mercantile model (typical of Germany and the Netherlands) sees governments advance their Posts as national champions.
- A market model (as practiced in New Zealand, Finland and Sweden) involves full deregulation of the postal system.
- A national or public model (along Canadian or French lines) encourages postal matters to remain embedded in politics.
- A hybrid model (as in the U.K. and Australia) leaves fundamental policy tensions unresolved.

Each model exhibits some common tendencies, signifying a degree of policy convergence. These are corporatization, liberalization, deregulation, re-regulation and internationalization, which I now examine in turn.

Corporatization involves granting Posts corporate autonomy from governments. Successful Posts have assertive boards of directors made up of top people from the business, public and international worlds. They can be recruited only if the job looks interesting—i.e., if the board has real autonomy. Once established, independently minded boards can create an ambitious postal agenda. This in turn requires strong, experienced managers, who can be recruited only if they, too, are given interesting opportunities. The public policy framework that characterizes this approach must allow a strong board and strong management to construct their own corporate plan, subject to the limits imposed by integrity and good sense. The government must ground

this commitment to corporate autonomy in an accountability regime that insists on profitability. For the shareholder, profitability is a test that the Post is using its capital investment and opportunities effectively. For management and the board, it is a test of the government's good faith in allowing the Post to act as a corporation.

Liberalization limits or even eliminates the exclusive privileges usually granted to the Post. In all jurisdictions, international competition, technological advances, new products and changing customer tastes have all weakened the postal monopoly. Beyond this, formal postal liberalization represents a commitment by management and the shareholder to be sensitive to price, market and customers. It also mitigates concerns that the Post may possess unfair advantages in the marketplace. A process of postal liberalization raises the issue of proportionality—of how much protection is needed to finance the universal service. Some countries have found that the cost is less than assumed and that the Post's dominant market position may generate all the revenues needed to defray universal service costs.

Deregulation of the Posts complements liberalization and corporatization. Many governments have allowed Posts to diversify to become broad-based communications organizations in which mail plays only a minor role. Posts lever sorting, delivery, logistics and retail networks to capture complementary markets. Mercantile Posts have purchased private companies in order to build cross-sectoral and even international partnerships. Concern that new activities would be subsidized by monopoly profits can be neutralized if the exclusive privilege is lessened or eliminated. If the Post is simply another market actor, why shouldn't it be allowed to act like its private competitors? Because leveraging these networks generates new sources of revenue, deregulation and diversification can allay concerns that lower monopoly revenue may weaken the Post's capacity to maintain the universal system.

Re-regulation has generally been the handmaiden to corporatization, liberalization and deregulation—however strange that may seem. In Britain, Scandinavia, the Netherlands, Germany and elsewhere, the trend has been toward third-party postal regulation. There are several reasons for this: To begin with, once a Post increases its autonomy, its financial performance has to be tracked. To be kept accountable, Posts are made subject to contract-type arrangements with respect to corporate performance. Re-regulation also addresses concerns about the maintenance of

universal service in the face of these heightened financial expectations. Public contracts set out performance and service standards against which the regulator evaluates the Post.

Internationalization has also been characteristic of successful Posts, which have become increasingly sensitive to developments outside their home jurisdictions. Domestic policy has been informed by concerns about comparative advantage, productivity and international trade. An internationalized framework has bolstered liberalization and deregulation and has created a need for boards with international experience. In sum, the Posts' horizons have expanded. Governments have encouraged international expansion through partnership arrangements with public and private corporations or by the purchase of private companies (for example, DHL in Germany and TNT in the Netherlands). Posts have become prime competitors in each other's markets.

Recent Canadian experience shares some of the characteristics of developments in other countries, but only some. Between 1986 and 1993 the Conservative government of Brian Mulroney effectively corporatized Canada Post Corporation (CPC), though this was an incomplete accomplishment. It was imposed from the top as an act of political will, and it was not accompanied by any formal new governance process, as became clear once the Tories were ousted from office. The Conservatives emphasized commercial over social objectives, and seemed to assume that only downsizing could meet these commercial objectives. Economic performance improved, but this situation was not sustainable. A political and service backlash was inevitable. Upon the Liberals' return to power in 1993, the "public" dimension was injected back into discussion of the postal system and a period of policy uncertainty followed. The Liberals initiated a mandate review, which resulted in the 1999 "Framework Agreement." The review generated confusion and uncertainty while the agreement was tentative, insubstantial and implicitly assumed an antagonistic relationship between commercial and public objectives. It set financial targets at a modest level to allow the Post the financial space to pursue non-commercial activities determined by the government. The mixed policy message and consequently confused postal environment led to negligible improvements in quality and service combined with low rates of financial return.

Compared to experiences in countries as different as Finland and New Zealand, Canada's

postal policy approach appears irrational and uneconomic. A large number of countries have now created a competitive postal environment with ambitious financial and postal performance targets while still maintaining their universal systems. Tough-minded postal thinking suggests that Posts must be financially successful in order to generate the capacity to maintain the universal system. Protecting the Posts or limiting their ambitions will lower this capacity. By contrast, the relationship between social and commercial goals in Canada has played out as an either/or scenario fought out in behind-the-scenes dealing because the principals feared generating political controversy or embarrassment. In fact, successful postal regimes have never "resolved" the social/commercial tension in the unequivocal way that Canadian stakeholders seem to expect. Rather, governments have worked with Posts to articulate both social and commercial expectations, and they have then let their Posts go out and try to attain them. Because that approach has never been tried here, Canada's postal regulatory system is confusing, with little public accountability. As in other policy areas, we seem stuck in a traditional postal world, and we continue to discuss issues from perspectives that were common decades ago. However satisfying this may be to some participants in the process, it will produce a small, self-reflective and financially declining postal world that can survive over the long term only as a deliverer of last resort in an increasingly subsidized system.

What should be done? Here is a top ten list of policy actions that would improve postal performance and accountability.

- First, the postal sector should be taken out of the political shadows and placed in the policy spotlight. Canada Post is an important public asset that is currently managed as a policy afterthought. It should shake off its traditional defensiveness and assert its policy importance. Notwithstanding international and technological changes, no government in the world has abandoned this sector or plans to do so. The popularity of the universal postal system remains largely intact.
- The government must be clear about which postal strategy it is going to adopt. There are three broad options: a market approach, a mercantile (or leading-sector) approach and a national/public approach. Canada has adopted the last approach, although only in an implicit way, for we want to eat our postal cake and have it, too. Although re-injecting political objectives into the Conservatives' market-style structure is

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ultimately unsustainable—social obligations are bound to affect commercial performance—the government has not yet provided a governance framework that recognizes that fact of life. It can direct the Post to serve both political and economic goals, but the Post’s capacity to serve these two masters depends on its financial capacity—which must therefore be the top policy priority. Postal policy should be grounded in discussions about international trade, comparative advantage, and national productivity and efficiency. The postal sector can make infrastructural and service contributions to economic performance, but it should be developed like any sector in the transportation and communications markets. And if the shareholder does decide to use the Post for political purposes, it should do so in a democratically accountable manner.

● These considerations have governance and institutional implications, starting at the top. In many postal regimes, boards are made up of accomplished corporate, institutional and international leaders. Many countries (for example, the Netherlands) spell out the characteristics required of board members, emphasizing international qualifications. Other countries (for example, New Zealand) select board members through a politically impartial mechanism. Boards composed this way have then pursued assertive agendas, established their corporate autonomy (often after lively battles with government), and attracted top-quality managers. Unfortunately, this has not been the Canadian experience. In this country, appointments to the board have been motivated by considerations of regional balance and the needs of the governing party. Canada Post’s board has therefore not played as substantial a role or added as much value as boards abroad. It is time to do better than this. As in New Zealand, primary responsibility for appointments to all commercial Crown corporations should be assigned to a government unit with broad oversight responsibilities for the state’s assets. This unit would make recommendations to the responsible minister concerning appointments. The minister and the board should draw up a list of objective qualifications for potential board members, as well as a list of areas of expertise that should be covered by the board.

There is another reason to strengthen both boards and management. At the start of the postal reform process, governments that were badly squeezed by rising deficits and customer service demands downloaded reform on to postal management. Now that the postal situation has

improved and further policy change looks as if it may require cuts in jobs and service, governments have become even more reluctant to intervene. The postal agenda must now be pushed by management and boards who have an inherent interest in postal development. Without a lively board and ambitious management, reform will stagnate.

● Canada’s postal regime should pursue both liberalization and deregulation. Liberalization should gradually remove the exclusive privilege. Any transitional protection must be justified by precise quantitative studies of the subsidy implicit in maintaining the universal service. A commitment to liberalization will demonstrate the government’s seriousness of purpose in wanting the Post to increase its competitive capacity. On the other hand, deregulation has been part of a *quid pro quo* in postal regimes around the world. Liberalization does force Posts to improve capacity, productivity and efficiency, but in a competitive environment even the most efficient firm may lose market share. The Post requires a level of financial capacity to maintain the universal system. If liberalization weakens financial performance, the Post should be allowed to seek alternative revenue sources. If the government wants the Post to act like an efficient corporation, it should give it the autonomy to participate fully in the economy and to develop as any private corporation would do in similar circumstances.

Increased postal autonomy raises two well-known issues. The first is how to “compensate” the Post for pursuing policy objectives that may not be economic. Direct subsidies tend to be unpopular and have been explicitly rejected in many countries (for example, Australia and Sweden). Although countries with partially liberalized markets have often opted for a level of exclusive privilege sufficient to pay the costs of the non-economic tasks, those that have liberalized completely have often found that the Post’s dominant market position provides it with advantages sufficient to carry these costs. Still other countries have allowed Posts to generate the necessary revenues by diversifying in an uninhibited way. The related concern that the Post will use monopoly earnings to cross-subsidize and compete unfairly in non-postal sectors should be allayed by the elimination of the exclusive privilege. If any restricted area is retained, then the Post should be required to construct a financial firewall between its competitive and protected activities.

● Ownership should be formally separated from regulation. Having the same people both reg-

ulate service and determine the level of financial performance is an obvious conflict of interest. If the Post is directed to increase its service performance or become more competitive, its net income may fall; if it has to make more money, service may suffer. The governance challenge is to balance shareholder with regulatory responsibilities. Countries like New Zealand and Australia have followed a twin-ministry model. One department is assigned regulatory responsibilities, another shareholder responsibilities. Each pursues its own remit as the corporate plan and service and performance documents are constructed. An alternative approach is to house ownership and regulatory functions within different sectors of the same department—as is done in Sweden, Finland, Germany and the Netherlands—with an independent, third-party regulator overseeing the state’s regulatory responsibilities. The regulatory body typically reports to the ministry, but its degree of independence reflects national traditions.

In Canada, by contrast, ownership and regulation have been hopelessly entangled and the two functions often merge into each other in policy discussions. The Post has been assigned to different departments and its ownership and regulatory relationships have been with a minister rather than a government unit. The regulatory process has been insubstantial and hidden from public view. The normal shareholding functions and responsibilities have been fragmented and exercised through a gauntlet running from board, to minister, to Treasury Board, to Cabinet. The lines of responsibility and accountability have been unclear. The system needs to be rethought and simplified. The Prime Minister’s recent decision to shift authority for Crown corporations away from Public Works to Deputy Prime Minister Manley is a first step. Ultimately, the Post should be assigned to a department, with shareholding responsibility given to Treasury Board and the Department of Finance.

- The Post should be assigned to a separate department with a wider economic orientation. The Post’s administrative location often seems to determine the government’s attitude toward it. Typically, Canada Post has been assigned to service departments like Consumer and Corporate Affairs or Public Works, which are not in tune with the technologically changing, globalized postal world. Buried within a service department, the Corporation serves government interests rather than broader economic objectives. Re-assigning responsibility to a department that deals with the modernization of the economy

and the adaptation to globalization would encourage the development of postal policies to strengthen Canada Post’s capacity to perform in the new economy. This department could build postal intelligence with which, combined with a stronger board, it could develop a more inspiring and rational policy framework.

- Successful postal regimes typically involve public “contracts” between Posts and governments, with quantitative and qualitative expectations as to the standard against which the shareholder evaluates performance. These explicit policy objectives define the character of the country’s universal system. The contract also demonstrates the government’s ultimate responsibility for the postal sector. If the public feels that targets are over- or under-stated, they can tell that to the government, and, of course, neither the government nor the public can insist on performance that is not part of the agreement. This creates an accountability regime. The government can remove the board if it does not take the arrangement seriously, and management can be changed for under-performance. By contrast, Canada’s postal Framework Agreement is a slight and tentative document. Compared to, say, New Zealand’s Statement of Corporate Intent and Deed of Understanding, which is the model we should follow, it looks like a set of rough notes. Every year, the shareholding department should work with Canada Post to produce a detailed declaration of corporate objectives. This could be a variant on the existing corporate plan, but more elaborate, accessible and meaningful, and it should include anticipated rates of return, the amounts of capital and labour to be employed, and so on. The regulatory department should work with Canada Post to construct a “service charter,” with targets including: delivery speed and rates of performance; the extent of the network; the total number and composition of retail outlets, together with formulae for their closing; and so on. Each department should carry out a public evaluation of performance against these commitments.

- Canada should follow the lead of countries that have used third-party regulation to oversee their postal services. Given the traditionally highly political character of our postal regime, extra caution is required to distance our government from regulatory practice. The exclusive privilege is likely to be maintained for some time, and third-party regulation can assure competitors and customers that the restricted area is not abused.

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government currently "regulates" Canada Post in a manner that, despite being informal, is no less inhibiting. A second customary objection to regulation focuses on complexity and expense, as exemplified in the regulation of the United States Postal Service (USPS). But detailed regulation is required in the U.S. only because there is almost no legislative or executive scrutiny of USPS. A number of other countries have modest, almost passive regulation, in which the regulator evaluates performance against guidelines set in the contract. Financial performance remains the concern of the shareholding minister. The shareholder and the Post, not the regulator, establish targets. Postal prices can be altered by formula, without regulatory scrutiny, and postal outlets can be closed in the same way.

- An effective postal regime must clarify how governance responsibilities are divided and executed. For example, the shareholding ministry and the board should be given authority to devise financial performance plans, targets and evaluation methods, while service and public targets and objectives should be set by the regulatory ministry in conjunction with the Post, and executed and evaluated by a separate regulator. Social obligations should be given legislative form and widely publicized to create the public backdrop to financial and performance targets. Separate organizations, personnel and processes would be responsible for each of these activities. At the outset, the Post itself could handle complaints about service or other operational questions. If a resolution cannot be realized internally, an agency external to the Post should be available, though one from outside of the direct machinery of government. The recent development of a postal ombudsman speaks to this need, but as currently conceived, the ombudsman is too close to the Post. He or she should report, not to the board, but to the regulatory minister.

- Finally, Canada should adopt a postal accountability regime to maintain public accountability and scrutiny of the state enterprises that remain in existence after reform. This is especially important in Canada's public model, given its political goals. Outside Canada, a "representative" model of accountability has gathered favour only in France, where the postal regime is also deeply political. The accountability and planning processes the French have devised guarantee that political and public goals remain at the centre of postal experience. In other countries, the accountability regime is far more functional. The service or contract arrangements between governments and

Posts are public documents, which are widely distributed, openly viewed and discussed, and form part of the Post's annual review. The Canadian postal regime does have accountability mechanisms, but they are directed inwardly to the state and the corporation rather than outwardly to the public. The evaluation of delivery performance is carried out by the Post (with a consultant) but is forwarded to government authorities, not to the public, and it typically gets only a few lines in the annual report. Few highlights of the five-year plan are released; those that are released are presented in a low-key way, and they are not reported in most media. The recent Framework Agreement was presented in a secretive, almost furtive way, and it provides no mechanisms for public follow-up. There is a brief ombudsman's report in the annual review, but, as mentioned, the ombudsman himself reports to the chair of the board.

This lack of effective review is out of tune with the times. It speaks to a political sensibility that talking too openly about postal matters might generate greater scrutiny and encourage unattainable expectations and is therefore dangerous. We need to get past that approach to postal policy. As a complement to moving the postal sector into the policy spotlight, strengthening the board, separating ownership from regulation, setting contract and service agreements and introducing third-party regulation, the government should adopt a democratic accountability regime that would give assurances to the general public and to customers about the Post's performance and the use of its assets. It would also boost morale and productivity. The government and the Post should together prepare a list of performance objectives that include, at a minimum, the expectations contained in the service or contract arrangements. These should be elaborated in the annual report, where the Post's performance against them should also be reported.

Without these ten policy changes, the postal system is unlikely to continue to contribute to Canada's economy or provide universal service in a democratically accountable manner.

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