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## **Standing Committee on Transport, Infrastructure and Communities**

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**EVIDENCE**

**Thursday, June 11, 2009**

**Chair**

**Mr. Merv Tweed**

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## Standing Committee on Transport, Infrastructure and Communities

Thursday, June 11, 2009

• (1530)

[English]

**The Chair (Mr. Merv Tweed (Brandon—Souris, CPC)):** Thank you, and good afternoon, everyone. Welcome to meeting number 25 of the Standing Committee on Transport, Infrastructure and Communities. Orders of the day, pursuant to Standing Order 108 (2), are a study of the management and operation of Canada Post.

Joining us today from Canada Post Corporation is Ms. Moya Greene, president and chief executive officer, and Marc Courtois, chairman of the board. Welcome.

You've been here before. I'm sure you are familiar with the process. If you want to make an opening statement, we'll move to questions afterward.

**Ms. Moya Greene (President and Chief Executive Officer, Canada Post Corporation):** Mr. Chairman, we do have a short opening statement.

**The Chair:** Please proceed.

**Mr. Marc Courtois (Chairman of the Board, Canada Post Corporation):** Mr. Chairman, members of the committee, I am pleased to be here today to assure the committee that actions taken by Canada Post were appropriate and done with the approval and oversight of the board. Specifically, a key role of the board is to ensure proper governance for transactions above a certain threshold. I can confirm that the contract to move domestic mail by air, which was awarded to Purolator Courier, was awarded appropriately and with the full oversight and approval required by the board of directors of Canada Post.

The contract was negotiated in accordance with Canada Post's commercial mandate. All applicable rules, laws, and regulations were followed. This was discussed at three board meetings. We approved the strategy, as required by our governance process, because we believed that the steps being taken by the company were in the best interests of Canada Post, the Government of Canada, and all Canadians.

[Translation]

Canada Post's board of directors understands and embraces the importance of good governance, transparency and accountability. We also understand that as a crown corporation, this company is held to a higher standard. We have all the necessary processes and checks and balances in place to ensure that money is spent appropriately and in the best interest of Canadians.

[English]

**Ms. Moya Greene:** Canada Post has, first and foremost, a very big mission and a mandate to deliver the mail to every Canadian in every part of Canada every business day. It's a huge operation. About 45 million pieces of mail have to get to 15 million mailboxes every day.

This is an immense country, and we therefore rely on a very extensive and complex transportation network in order to deliver on that mission. In fact, it's probably the biggest and the most complex transportation network in the country operated by any provider of service, and transportation by air is a critical component. Without planes, the mail does not get delivered and our service obligations to Canadians do not get met.

For decades Canada Post has had a business relationship with Air Canada to transport domestic and international mail. On April 30, 2008, we received an e-mail from Air Canada. I have copies of that e-mail that I'd like to share with you, and you can read it the way I did. The e-mail demanded that we change the existing agreement that Air Canada had with Canada Post to include five new provisions: first, to change the fuel surcharge from 25% to 100%; second, to increase base rates by 2.5% annually; third, to discontinue a well-established volume rebate that had been in place; fourth, to guarantee them 75% utilization, meaning that they wanted us to pay for space on their planes whether we used it or not; and finally, to increase international volumes on Air Canada.

We were told to "respond, agree, or negotiate" by May 16, or Air Canada would give Canada Post a notice of termination. These demands would have driven a significant cost increase in our air network system; in fact, there would have been about \$15 million in additional costs per year. This is, of course, prohibitive. As our shareholder, you know the financial condition of Canada Post.

On May 16, 2008, we received a fax from Air Canada. The fax began, "Dear Sir/Madam". It was to formally advise that we were being given 120 days' notice of termination of the contract, so we had until September 13, ladies and gentlemen, to recreate the entire air network that we need to get the mail out every day. Normally, something like this would take well in excess of six months, maybe even a year, given the breadth and scale of Canada Post's operation.

We met with Air Canada. Our people discussed and tried to extend the notice period, but it became obvious from the tone and specifics of our exchanges that Air Canada no longer wanted Canada Post's domestic business.

An interim extension of our Air Canada contract would have required significant additional financial commitments. This was neither reasonable nor viable, and it was pretty clear that our differences were irreconcilable.

As a company, we have an obligation to Canadians to get them their mail. It is up to us to work out how to do it, but our obligation to them is plain, and it is understood by all: deliver the mail. We had to act very quickly and we had to act appropriately to avoid a major disruption in mail service. It is very important to note, Mr. Chairman, that when this actually happened, we were headed into our busiest time of the year, which is from September to the peak of the Christmas season.

We turned to Purolator Courier. Purolator Courier is a very important member of the Canada Post group of companies. It is 92.96% owned by Canada Post. It has already been an established and well-regarded supplier of transportation services to Canada Post; in fact, it's been a supplier since 1993, and we had a great deal of confidence in our subsidiary's ability—Purolator's ability—to keep the mail moving.

• (1535)

Because Purolator is part of the Canada Post group of companies, its profit is, of course, consolidated into Canada Post. Purolator continues to contribute very significantly to the overall business of Canada Post. It is not just the air network, which is a critically important component in our ability to fulfill our mission; Purolator also has access to tarmacs, and its air network management capabilities are excellent. They can actually orchestrate a lift of this magnitude every business day. We're talking about 150,000 pounds of mail every business day, going all across the country. Canada Post transports 72 million pounds of mail by air every year, and we need aircraft that are large enough to meet those needs.

• (1540)

[Translation]

It is standard business practice for companies to enter into business transactions with their subsidiaries. That is commonplace. These transactions provide efficiencies, economies of scale and cost savings to one or both parties and can be a source of value-creation for shareholders.

[English]

Before we entered into the contract with our subsidiary, Canada Post engaged in a request for information. We are in the business. We have been in this business for decades. We know who participates in this business and we know who can supply to these very demanding requirements that we have to get the mail out. Nevertheless, we like to update our market intelligence, so we engaged in a request for information to investigate whether other solutions were feasible in the very short timeframe that we're talking about here.

The request for information was sent to four qualified air cargo suppliers: Cargojet, Esposito Logistics Services, First Air, and Purolator. Because we were in a high-risk situation, we selected companies that we do business with now. This is a major component of our ability to fulfill our mission.

Our conclusion at the end of this process was that Purolator could best meet all of our operational requirements within these restricted timeframes.

I'd also like to remind the committee, Mr. Tweed, that we have been moving mail by air for a very long time, so we have a lot of experience that enables us to first articulate our demanding requirements and then assess who is going to be capable of meeting them. I'm pleased to report that the transfer from Air Canada to Purolator was handled seamlessly. I don't think any of our customers knew what an extensive change in our operation we managed to orchestrate, and it was a very big change indeed. We were dedicated to doing it properly because of our obligation to get those 45 million pieces of mail out every day. We were able to reconstruct our entire transportation network inside the 120 days. I cannot really imagine the implications for Canadians if there had been disruptions in mail delivery as a result of the break in this air services contract.

It is now six months into the operation of our new air transportation network. The movement of domestic mail by air is more efficient, and Canada Post's overall costs are now lower than they would have been with Air Canada. We now have control over our whole lift process.

I believe that the process we followed in this contract with Purolator was appropriate, as was the outcome. They resulted in continued excellent service and value for Canadians. We're very satisfied with the result. We feel our approach has created value for Canadians; value for our shareholder, the Government of Canada; and value for Canada Post.

Thank you, Mr. Chairman.

**The Chair:** Thank you, Madam Greene.

Go ahead, Mr. Volpe.

**Hon. Joseph Volpe (Eglinton—Lawrence, Lib.):** Thank you, Madam Greene, for coming to share some of those views with us. You speak very strongly on the behalf of the corporation; I offer my compliments, but the issue has never been about whether Canada Post actually does a good job or not. If I might be so bold as to refer to an article in the *Globe and Mail* today, it says:

In 2007, the Canadian International Trade Tribunal ruled that there was a "serious deficiency" in Canada Post's handling of the tendering process for the \$150-million contract to bring food to northern communities.

If I could draw your attention to the second line of the last paragraph of Mr. Courtois' presentation, it's really about transparency and accountability, so let us go to transparency and accountability.

Six of your senior executives are on the board of Purolator. They make up six out of the ten. I believe that of the other four, two are associated with Kelowna Flightcraft, or at least one of them is from there. Let me ask you, does six out of the ten really determine what will happen with that board of directors? Am I wrong with the numbers?

• (1545)

**Ms. Moya Greene:** No, except that there's only one representative of Kelowna. There aren't two.

**Hon. Joseph Volpe:** In your presentation you talked about the relationship between Canada Post and Purolator, but this contract actually eventually ended up with Kelowna Flightcraft, did it not?

**Ms. Moya Greene:** No. Our contract is with Purolator. Purolator contracts generally for its services and any other air supply services that it manages for others, including Canada Post, with Kelowna Flightcraft. Our contract is with Purolator.

**Hon. Joseph Volpe:** There's an indication in the annual report that Purolator acquired two DC-10-30s for the eventual contract, but those were actually acquired by Kelowna Flightcraft. Is this a situation in which Purolator takes into account the business relationship it has with other providers when it lists 15 aircraft as part of its delivery system?

**Ms. Moya Greene:** I don't understand your question, Mr. Volpe.

**Hon. Joseph Volpe:** Okay. Who bought the planes? Was it Purolator or Kelowna Flightcraft? Who got the contract, Kelowna or Purolator?

**Ms. Moya Greene:** Purolator has the contract with Canada Post, and Purolator is our subsidiary. Purolator has a requirement to lift its own delivery requirements, ours, and in fact other companies as well that it lifts for. It has an air services agreement with Kelowna Flightcraft. That is correct.

**Hon. Joseph Volpe:** In this particular instance, the board of Purolator approved the handing off of the Canada Post contract with Purolator over to Kelowna, did it not?

**Ms. Moya Greene:** No, there's no handing off, Mr. Volpe. It is very important to get the contractual relationships clear. We have a contract with Purolator. Purolator organizes air transport for itself, for Canada Post, and for others. In the organization of its airlift requirements, it uses Kelowna Flightcraft. Kelowna Flightcraft obviously has to demonstrate to Purolator that it has the capacity to meet the requirements of the jobs that Purolator is doing.

**Hon. Joseph Volpe:** Ms. Greene, you sit on both boards, both the Canada Post board and the Purolator board—

**Ms. Moya Greene:** That is correct.

**Hon. Joseph Volpe:** —and the people who depend on you....

Five of the members from your operation sit on the board that was going to make the decision on which carrier was going to provide service—

**Mr. Marc Courtois:** If I may, Mr. Volpe, Purolator is a subsidiary of ours. I would expect nothing else, since we have a majority of directors—

**Ms. Moya Greene:** That's a normal—

**Hon. Joseph Volpe:** I understand all that. What I said was I wanted to get to—

**The Chair:** We just need one person speaking.

**Hon. Joseph Volpe:** Right. I wanted to get to the issue of transparency and accountability, okay?

I see six members of Canada Post sitting on the Purolator board. Purolator decides to contract with Kelowna Flightcraft for the contract that is no longer with Air Canada.

Forget Air Canada. The issue is whether in fact there was an open and transparent system for this type of contract. We're talking in excess of \$100 million—

**Ms. Moya Greene:** Absolutely there was. Absolutely there was, Mr. Volpe.

**Hon. Joseph Volpe:** But you have six of your members on the Purolator board. They had already made the determination that the carrier was going to be Kelowna Flightcraft, and in your statement just a moment or two ago you said that what you wanted to do was update your market intelligence, so you really didn't have any interest at all in seeking out any other provider. You were just trying to update your market intelligence. Is that it?

● (1550)

**Ms. Moya Greene:** We had a service commitment, Mr. Volpe, that we had to meet. In response to the situation that was given to us by Air Canada, we had a service commitment that we had to meet, and that was uppermost in our minds.

We know the market. We are in the business. We have been in this business for many decades. Our people at Canada Post, the people who operate in the transportation section of our company, know who's out there and who can provide the necessary level of service.

**Hon. Joseph Volpe:** Well, then, why issue a request for—

**Ms. Moya Greene:** It was because we needed to update. We wanted to update our intelligence.

**Hon. Joseph Volpe:** Ms. Greene, I go back to the two words “accountability” and “transparency”.

The other board on which you sit, Purolator, also applied the same practices that Air Canada applied. In fact, in their annual report they talk about increasing their fuel surcharge by 34%.

**Ms. Moya Greene:** It's not 100%.

**Hon. Joseph Volpe:** You're giving us a range from 25% to 100%, and I agree with you. You make a good, solid business position, but my understanding of the contract that Purolator then issued with Kelowna Flightcraft is that it was cost-plus, so it's not at just 100% now; it's any number—any number—over 100.

**The Chair:** I'm going to ask—

**Ms. Moya Greene:** Mr. Volpe, I'm not going to get into the commercial details of contracts, either with Canada Post or with Purolator. There is a commercial sensitivity here. I have to be careful, and if you want to talk to Purolator about their contracts, of course you are always free to do so, but I do want to—

**Hon. Joseph Volpe:** You're on that board. I'm talking to Purolator right now, Ms. Greene—

**Ms. Moya Greene:** If I may just finish, Mr. Volpe, I do want to assure you and this committee that the processes that are followed for contracting inside Canada Post are fair and impartial. They are subject to audits. They are reviewed by our board.

In the case of the contract with Purolator, all of the laws, procedures, and processes inside our company and inside Purolator were followed. It delivered great service to Canadians in a very demanding situation, a situation in which we had 120 days to recreate an entire air transport network. It delivers better service today, and it was completely open and above board—

**The Chair:** I'm going to go to Mr. Laframboise now—

**Hon. Joseph Volpe:** We're not talking about your performance; we're talking about accountability and transparency—

**The Chair:** Order—

**Hon. Joseph Volpe:** —and you didn't address that.

**The Chair:** Order, please. Order.

Go ahead, Monsieur Laframboise.

[Translation]

**Mr. Roger Gaudet (Montcalm, BQ):** Hold on. Only one person can speak at a time, otherwise the interpreters cannot understand what is being said.

[English]

**The Chair:** That's what I'm trying to do. Thank you, Mr. Gaudet, and I would ask members to respect the chair. When I ask for order, I would expect that all voices would become silent.

Go ahead, Monsieur Laframboise.

[Translation]

**Mr. Mario Laframboise (Argenteuil—Papineau—Mirabel, BQ):** Ms. Greene, you have your opinion on transparency. But let us have ours. True, you are a shareholder in Purolator, but the owner of Kelowna Flightcraft is also a Purolator shareholder. That is the reality.

You said that you had dealt with four suppliers in the industry: Cargojet.... I am referring to an article by Mr. Leblanc published in the *Globe and Mail* on May 30. The head of Cargojet said that he was not given a chance to tender a bid. He was told that arrangements had been made with Purolator and Kelowna Flightcraft. You talk about transparency, but people in the industry are questioning how this all came about.

**Mr. Marc Courtois:** If I may, I would like to go back to what Ms. Greene said.

First, Air Canada gave us 120 days' notice of termination of the contract. So we began by devising a strategy. I am talking about Canada Post, not the Canada Post Group. The first thing to do was to study the market. We asked four companies for references, including Purolator and Cargojet. Based on the information received, we determined that Purolator was the only one capable of giving us what we needed by September 13, 2008.

• (1555)

**Mr. Mario Laframboise:** But the owner of Cargojet disagrees with you on that.

**Ms. Moya Greene:** Yes, but that happens all the time, Mr. Laframboise. There will always be....

[English]

**The Chair:** Order, please.

[Translation]

**Mr. Mario Laframboise:** Ms. Greene, please let me speak. You will have a chance to respond.

It does happen, yes, but the fact remains that in Purolator's case, your joint shareholder is the owner of Kelowna Flightcraft Air

Charter Ltd. According to what I have been told, the contract that Purolator awarded to Kelowna Flightcraft is a cost plus contract. Is that correct?

**Ms. Moya Greene:** I can assure you that the contract complies with industry standards. Based on standard contracts of this nature, an analysis is always conducted to forecast costs and the rate of profit.

As for transparency, Mr. Laframboise, I can also assure you that everything was totally above board. Mr. Lapointe and Kelowna Flightcraft were not at all involved in the group's deliberations, as far as both Purolator and the Canada Post Corporation were concerned.

[English]

In English, we would say for these contract matters he had to recuse himself. He was not involved at all.

[Translation]

**Mr. Mario Laframboise:** That does not change the fact that, with Air Canada, the cost plus contract did not work.

**Ms. Moya Greene:** With Air Canada, it was the “plus” part that was the problem. That business relationship had existed for decades. In my view, we could have really taken issue with how the relationship with Canada Post was managed. Yes, the costs were incredible; it meant at least another \$15 million. But they wanted to make changes in the middle of the contract. The approach they took created a variety of problems. We did not feel that the relationship between these two companies would be beneficial to Canadians.

**Mr. Mario Laframboise:** I think that their approach caused problems for you and that things will run more smoothly with Purolator and Kelowna Flightcraft. However, I think that the amount of your cost plus contract may go up and that you may end up having to pay Kelowna what you were not willing to pay Air Canada. That is my problem. I repeat: the transparency of the process is in doubt because you are doing business with Kelowna, a company that is a shareholder in Purolator, alongside Canada Post. You have a business relationship.

You are trying to tell me that Mr. Lapointe was not involved in the discussions. Indeed, he was probably smart enough to know better. He refrained from taking part, as anyone in a conflict of interest would do. The fact remains, the outcome speaks volumes: he is the one who got the contract.

**Ms. Moya Greene:** And the outcome is very good.

**Mr. Mario Laframboise:** The people at Cargojet are not very happy. They say that they were not treated fairly.

Mr. Courtois, you can say what you like, but given that you are on both the Canada Post Corporation's board of directors and Purolator's, I am inclined to believe the owner of Cargojet. He feels that the process was not transparent in one way or another.

**Mr. Marc Courtois:** If I may, I want to clarify two things.

First, our relationship with Kelowna Flightcraft is indirect and is completely different from the relationship we had with Air Canada. Air Canada transported our mail, whereas, under the indirect relationship that we have established with Kelowna Flightcraft, Purolator has chartered two of Kelowna Flightcraft's airplanes, pure and simple. We are talking about pilot, cargo and operational responsibilities. The cost plus contract that you, Mr. Volpe and the journalist refer to comes from Purolator. The extent of the relationship between Kelowna Flightcraft and Purolator is nothing more than two chartered aircraft.

**Mr. Mario Laframboise:** So, it does not bother you to award a cost plus contract to Purolator, your subsidiary, but it does bother you to do so with Air Canada.

Our job is to protect air transport across Canada. Therefore, we want things to be more transparent. I understand that as far as business relationships go, Ms. Greene prefers to do business with her subsidiaries than with outside companies.

• (1600)

**Mr. Marc Courtois:** If it is in the company's best interest.

**Ms. Moya Greene:** If it is in the company's best interest and if it saves a lot of money.

**Mr. Mario Laframboise:** We will have to see. But for now, I have my doubts.

[English]

**The Chair:** Thank you.

I will just advise the committee that I have the two documents that were referred to. They weren't in both official languages so we have sent them out to be translated. Members will get them as soon as that's done.

Mr. Bevington.

**Mr. Dennis Bevington (Western Arctic, NDP):** Thanks, Mr. Chair.

You say here that Canada Post's overall costs are now less than they would have been with Air Canada. The bid from Air Canada came in April of 2008 when fuel prices were escalating dramatically. Does your statement stand up if Air Canada was dealing with the same fuel costs today as Purolator? In other words, does the total cost bear the fact that the fuel cost went down dramatically shortly after you signed the contract with Purolator?

**Ms. Moya Greene:** Yes, because there were several features of cost increase in the Air Canada demand, Mr. Bevington.

Secondly, the contract with Purolator, as Mr. Courtois has explained, is for an array of services. The airlift is critically important, but also, the tarmac services are very important. The movement of the mail from the various cities to our facilities, so the—

**Mr. Dennis Bevington:** What percentage of the extra \$15 million that Air Canada was going to charge you for the contract could have been taken up with the greatly increased fuel prices that were in place in April of 2008?

**Ms. Moya Greene:** I don't have that information, but I will get it for you.

**Mr. Dennis Bevington:** Okay, but that's a very critical part of this whole analysis.

**Ms. Moya Greene:** Well, I've just been given a bit of information from my colleagues at Canada Post. The fuel portion is actually a complete pass-through. There's no markup with Purolator.

**Mr. Dennis Bevington:** There's no markup with Purolator for...?

**Mr. Marc Courtois:** You pay for the cost of fuel.

**Ms. Moya Greene:** You just pay for whatever is the cost of the fuel.

**Mr. Dennis Bevington:** But Air Canada's bid with you was based on 100%—

**Ms. Moya Greene:** Well, they put a range. They put 25% to 100%, so we never got to the point of negotiating all of the—

**Mr. Dennis Bevington:** So how could you then determine that it was going to cost you \$15 million more—

**Ms. Moya Greene:** Well, that's right. We—

**Mr. Dennis Bevington:** —if you didn't know what the fuel cost was going to be?

**Ms. Moya Greene:** Well, we know what the fuel costs were going to be at that time, and certainly everybody was bearing the same fuel cost risk. But on the basis of all of the terms of the increase in the contract, of which there were five, it was a \$15 million difference.

**Mr. Dennis Bevington:** My colleague mentioned this briefly, but there's been a concern raised about the food mail program and the way the contract was issued for the food mail program. In that case, you were administering a contract for INAC, but wasn't there a court case in which CITT said this wouldn't stand up under normal circumstances?

**Ms. Moya Greene:** Well, in fact, the CITT decision was quashed by the Federal Court of Appeal. The Federal Court of Appeal found that CITT had no jurisdiction whatsoever in the matter. Air transport matters are not subject to NAFTA or the regulations.

**Mr. Dennis Bevington:** Isn't that only because you were fulfilling a contract for INAC? I mean, INAC would normally—

**Ms. Moya Greene:** No, it's because it's an air—

**Mr. Dennis Bevington:** The Government of Canada would be under—

**Ms. Moya Greene:** No, Mr. Bevington. With respect, it's not because we were fulfilling a mission on behalf of INAC. It is because air transport is an excluded category of contract under NAFTA, so the CITT has no jurisdiction whatsoever.

**Mr. Dennis Bevington:** Okay. So in fact the practices that you started with this, carrying on with Air Canada—

**Ms. Moya Greene:** I would just like to add something. Cargojet is in fact a client and a supplier to Air Canada. We have...sorry, Canadian North is a supplier to Canada Post. We have relations with Canadian North, but for the contract you are referring to, Canadian North has a tendency to be litigious. If it doesn't win, it certainly exercises its right to complain to the various bodies and organizations to which it can complain, and unfortunately, for this contract we found that the Inuit-owned airline, First Air, had all of the capacity to meet the needs of DIAND.

• (1605)

**Mr. Dennis Bevington:** Yes, well, of course, the Inuvialuit own Canadian North, as well as a significant player in the field, and certainly, I think, should have been given consideration—

**Ms. Moya Greene:** And they were.

**The Chair:** Mr. Jean.

**Mr. Brian Jean (Fort McMurray—Athabasca, CPC):** Thank you, Mr. Chair.

Thank you for your attendance today.

The shareholder of Canada Post is who?

**Ms. Moya Greene:** The Government of Canada.

**Mr. Brian Jean:** Right. And the shareholders of Purolator...?

**Ms. Moya Greene:** Canada Post and the employees of Purolator and Kelowna Flightcraft, and Canada Post owns 90.96% of Purolator.

**Mr. Brian Jean:** So the people of Canada would be indirect owners—

**Ms. Moya Greene:** Indirectly.

**Mr. Brian Jean:** —of Purolator.

I want to congratulate Canada Post. In fact, as a member of the Purchasing Management Association of Canada in Fort McMurray, which has the largest chapter, I believe, of industrial purchasers, as well as the largest chapter of engineers in the country, I can tell you that Syncrude and Suncor and many of the other large corporations in that area buy on a cost-plus basis. They found that not only is that particular practice very beneficial for both the supplier and the purchaser, but the product and the quality of the service are much better. That's been proven time and time again, for about 20 years as far as I'm aware, so I would like to congratulate you on moving forward on that particular method.

I just see that the real beneficiaries of this are the people of Canada. That is my only comment. I'm going to turn this over to Candice Hoepfner.

**Ms. Candice Hoepfner (Portage—Lisgar, CPC):** Thank you very much.

I want to go back to your presentation. You said that on April 30 you received the e-mail from Air Canada in which they outlined the demands and some of the different stipulations they wanted to change in the existing agreement. Were you expecting this? Was the contract up for renewal? What were the timelines?

**Ms. Moya Greene:** No. I'd have to check, but we were about mid-contract. It was not a renewal period. It was basically “give us this or

we're going to exercise our right to terminate the contract on 120 days' notice”.

**Ms. Candice Hoepfner:** So they asked you to please respond, agree, or negotiate by May 16.

**Ms. Moya Greene:** That's correct.

**Ms. Candice Hoepfner:** Did you contact them at all before May 16 when they sent you a fax?

**Ms. Moya Greene:** Well, as soon as we got the fax, I did not personally, but our people who are responsible for the transportation arrangements of Canada Post absolutely did. Yes, we did. We actually tried to get a delay because we were very worried: “Oh, my goodness, what are we going to do in that timeframe?” Even to get a delay, it would have been very expensive. So yes, we contacted them right away. Obviously, it got our attention.

**Ms. Candice Hoepfner:** You contacted them before May 16?

**Ms. Moya Greene:** Before May 16.

**Ms. Candice Hoepfner:** It would have been like—

**Ms. Moya Greene:** I'd have to check the exact date for you; I think “pretty smartly” is how I would put it, but I'd have to check the exact date for you.

**Ms. Candice Hoepfner:** Right, because if you didn't, and if it took you quite a while to contact Air Canada, I would think there might be some concern on their part, with them wondering if you actually want to negotiate with them and see if you can find some agreement. So that's why I'm—

**Ms. Moya Greene:** No. I will check with my colleagues at Canada Post and get you the exact day, but I think we contacted them pretty smartly.

**Ms. Candice Hoepfner:** Thank you.

There's another question I'm just wondering about. When the board was meeting and you were looking at the direction you were going to take, were there any concerns? Did you say then that there may be a perception of conflict of interest?

**Mr. Marc Courtois:** The first concern was the timeframe in which to move the network.

Do I remember specific discussions on conflict of interest? No, but I remember specific instructions to management to determine who would be able to replicate the Air Canada network. That's why the RFI went out.



I remember specific questions by the board at the second meeting, when a recommendation was made by management that Purolator was the only player that had the lift necessary or could find the lift necessary, that was capable of meeting our needs, and that we were confident of. There was a lot of discussion and there were a lot of questions of Purolator and perhaps relations that Purolator had. There were concerns, but at the end of day, the board believed that we took the right business decision at that time. At the third meeting, I think it was proved out, in that the third meeting discussion took place after the transfer took place, and I would say to you today that based on the facts we have today, I don't think we would have changed the process.

I think management—and I'm not management—on the network side did an outstanding job.

• (1610)

**Ms. Candice Hoeppner:** So you believe and discussions would prove that due diligence was given to both—

**Mr. Marc Courtois:** Most definitely.

**Ms. Candice Hoeppner:** —negotiations with Air Canada to try to resolve this and to awarding the contract as it was awarded.

**Mr. Marc Courtois:** Yes.

**Ms. Moya Greene:** As well, Ms. Hoeppner, it's important to note with respect to Air Canada that at that time Air Canada was really thinking about whether they wanted to be in the domestic cargo business, because it's very hard for them. They were moving to smaller aircraft. They don't have a lot of space in the belly of their aircraft. They need the space for passengers' luggage. Customers like us, like Canada Post, are pretty demanding customers in the sense that we need to move that mail every day. It's a vast network. It's over 300 different flights a day.

As I was trying to explain to Mr. Bevington, Air Canada's whole approach was quite different. With the reconfiguration of their fleet and their concentration on reserving whatever space they had for passengers' baggage, they were having difficulty accommodating any cargo, especially cargo as demanding as getting the mail out every day.

**Ms. Candice Hoeppner:** Well, I'm sure—

**Ms. Moya Greene:** I think they feel differently today.

**Ms. Candice Hoeppner:** Yes, I'm sure they want the business.

But I would be very interested in knowing when you did respond after April 30.

**Ms. Moya Greene:** I will get that for you.

**Ms. Candice Hoeppner:** Thank you very much.

**The Chair:** Mr. Dhaliwal.

**Mr. Sukh Dhaliwal (Newton—North Delta, Lib.):** Thank you, Mr. Chair.

Again, thank you to the panel members. Welcome.

You said that the CPC and Barry Lapointe did not recuse themselves. In the interests of clarity and for us to understand and have a better sense of the board and its governance practices, could you explain why they didn't do that?

**Ms. Moya Greene:** What I said was that they did recuse themselves. He was not involved in the discussions of that Kelowna Flightcraft contract with Purolator at all, and for that reason—because he is on the board of Purolator.

**Mr. Sukh Dhaliwal:** How about the CPC, the Canada Post Corporation?

**Ms. Moya Greene:** We certainly were involved.

**Mr. Sukh Dhaliwal:** But that's what I'm saying. Because for the —

**Ms. Moya Greene:** It's quite normal. Canada Post owns Purolator 90.96%. It's normal that the shareholder would be represented to that extent on the board. That's quite normal.

Also, it's normal that this sort of arrangement of the supply of services would be constructed inside the Canada Post group of companies to the extent possible, obviously making sure that you are being careful to adhere to all the rules and necessary processes that you have to in this situation, which we did.

**Mr. Sukh Dhaliwal:** When we look at the standard practice within the crown corporations, to screen the context, you gave it by a letter, you said. Why did you not go through the whole bidding process?

**Ms. Moya Greene:** Because we didn't have time. We know the business. We've been in the business a long time—

**Mr. Sukh Dhaliwal:** But how can you assure the committee that you did not have enough time?

**Ms. Moya Greene:** Well, we did want to update our intelligence. You know, things can change. But we do know the business and we have relationships with all four participants in our process.

As for just the real constraint of the time pressure that was put on us to reconstruct the entire air transport network capable of moving 72 million pounds of mail a year over 300 different lanes, involving coordination with our handling procedures and our mail treatment facilities, it was a very big undertaking. We just simply did not have time to go through the whole RFP process, and we felt that we were very well positioned because we know the capabilities of Purolator, and we generally knew the capabilities of the other three participants because they work with us.

But to update our market intelligence, we did an RFI, and we gave all four participants an opportunity to tell us exactly how they would meet the requirements of Canada Post to deliver the mail to Canadians across this network, and how they would do it inside that timeframe of being ready to start at the end of August.

• (1615)

**Mr. Sukh Dhaliwal:** Canada Post is subject to the agreement on government procurement—is that correct?

**Ms. Moya Greene:** I'm not sure. I'd have to check that for you.

Canada Post is a commercial crown corporation, Mr. Dhaliwal. We're not a government department. We do adhere to very strict procurement processes. And I can tell you that they have been audited, evaluated, and assessed every which way to Sunday in the past few years.

It is the case that when you are a crown-owned entity it is not unusual for people who want to do business with a crown-owned entity, when they're not successful, to let their political representatives know their displeasure. So there is a lot more visibility to everything we do, and I think we meet the greater demands that are on crown-owned entities in every respect.

**Mr. Sukh Dhaliwal:** You also mentioned that CITT has no jurisdiction over you.

**Ms. Moya Greene:** It does not on air transport matters. Those are exempted from NAFTA.

**Mr. Sukh Dhaliwal:** Even though it doesn't, why wouldn't they exonerate you in that?

**Ms. Moya Greene:** We weren't even a party to that action. You have to understand that it was DIAND that was a party to that action, an action brought, unfortunately, by a disappointed supplier in the RFP. And it was a full RFP process, that food contract, because we do that for DIAND. We weren't even a party to that action.

**Mr. Sukh Dhaliwal:** Thank you.

**The Chair:** Thank you.

Monsieur Laframboise or Monsieur Gaudet.

[Translation]

**Mr. Roger Gaudet:** Thank you, Mr. Chair.

In February 2009, the postmaster in my riding resigned. I inquired with Canada Post to try to find out when the position would be open. I found out on April 3. I have a fax here to prove it. The competition closed on April 5.

You have talked a lot about transparency, but I would just like to know if anyone at Canada Post is able to give members answers.

**Ms. Moya Greene:** But of course, Mr. Gaudet.

**Mr. Roger Gaudet:** I do not want an answer that is not really an answer, that is, I do not want someone to pass the buck and say that it is the responsibility of the people in human resources. I want an answer, and I do not want to have to speak to every single person in Canada Post to get it. Otherwise, Ms. Greene, I will ask you for your telephone number and call you.

**Ms. Moya Greene:** I am sorry that you were not satisfied with the answer you were given, Mr. Gaudet. I will take care of it myself. I promise you. That is not how things are usually done. Normally, a group at Canada Post called the Community Outreach Program considers these matters very carefully. When there is a change in service delivery in a community, this group speaks with federal, local and other representatives to determine whether there are other options.

Certain things can happen, such as people resigning. Canada Post's mission is delivery. When a change has to be made, normally, this group studies the issue in the region in question and assumes all

of the responsibility that goes along with that. I will take care of it, myself, Mr. Gaudet. I am sorry that you were not satisfied.

• (1620)

**Mr. Roger Gaudet:** It was the people in my riding who gave me answers. I tried to reach the post office in Trois-Rivières, and I got human resources.

**Mr. Marc Courtois:** We owe you an answer. We apologize.

**Mr. Roger Gaudet:** That is the least you can do. Furthermore, I was the mayor of that municipality for 13 years. We were talking about transparency earlier. What I am talking about does not involve millions of dollars, but it is just as serious.

[English]

**The Chair:** Thank you.

Mr. Jean, and then Mr. Calandra.

**Mr. Brian Jean:** Thank you, Mr. Chair.

I have one very quick question, Ms. Greene.

Would Canada Post have sent a request for proposal if they were not under this time constraint, if there hadn't been such a quick cut-off time by Air Canada?

**Ms. Moya Greene:** Normally, yes. Normally that's how we would proceed.

**Mr. Brian Jean:** So is that a yes in this particular circumstance?

**Ms. Moya Greene:** Yes. It was the time issue here, Mr. Jean. We were very concerned. We knew it was going to be a very elaborate operation to recreate that air network.

**Mr. Brian Jean:** So what you were doing was taking into consideration the concerns of your shareholders, the people of Canada, who actually receive the mail ultimately and who are also your customers.

**Ms. Moya Greene:** Absolutely. We don't want to have any disruptions in service.

**Mr. Brian Jean:** Thank you very much.

I'd like to turn it over...

**Mr. Paul Calandra (Oak Ridges—Markham, CPC):** I have a question, and then I'll hand it over to Mr. Watson.

I just want a quick update on the rural mail delivery. As you may know, my riding is being impacted quite dramatically by this, so I'm wondering if you can give me an update.

**Ms. Moya Greene:** Yes. We have now reviewed about 300,000 of our rural mailboxes using the safety tool that was designed by experts outside of Canada Post. We are learning more and more as we go along. I think we have markedly improved our ability to communicate with every single householder, not only to let people know that we are going to be reviewing boxes in their region but also to let them know the result of the review.

I'm able to tell you now that according to our safety tool, on the average we're saving about 80% of the rural mailboxes, which represents an increase over time. It has moved from 70% to 80% as we have gathered more and more very specific intelligence. We still have a number of areas to do. As you can imagine, it's not practical to try to do this in the winter when the boxes are piled high, sometimes with snow from snowplows. It's not safe to try to do this review, because you have to actually be out of the car—you may have gone on one of the ride-alongs with our people who are reviewing the boxes—so we're really only able to do it in the months of the year when you have clear visibility and you can be standing on the side of the road measuring the traffic counts for 45 or 50 minutes.

I think we are making great progress. Certainly the number of calls to our call centres has diminished radically. So I think we're much more sensitive to our customers' and your constituents' concerns in that regard.

**Mr. Paul Calandra:** Thank you.

I'll pass it on now to Mr. Watson.

**The Chair:** You have two minutes.

**Mr. Jeff Watson (Essex, CPC):** Very good.

Ms. Greene, you're obviously satisfied with the end result of this process. I think there are several of us who are probably not “the end justifies the means” kind of people. I think we want to be satisfied by what happened or how we got to where we are.

Your brief is very detailed in terms of what happens after May 16. What's fuzzy is what was done from April 30, when they first served notice, up until May 16. I think we'd like a more detailed accounting of what transpired. Were there any negotiations that happened? When were meetings held?

**Ms. Moya Greene:** Let me answer that. We worked on two fronts. As soon as we got the notification, we were actually on parallel streams, Mr. Watson. First we went to Air Canada to see what was going to be possible and if we could get a delay, to understand more fully how much more money they wanted from us.

Then on the second front, parallel at the same time, we were starting to think about what we could do as an alternative if we were not able to continue this relationship with Air Canada.

So I can assure you that fax on April 30 got lots of attention.

• (1625)

**Mr. Jeff Watson:** I have another question. You're in the middle of a contract, and there's a unilateral termination offered. Was the contract such that either party, either Canada Post or Air Canada, could unilaterally say “meet the new terms or we're out of this”?

**Ms. Moya Greene:** It was, with 120 days' notice.

**Mr. Jeff Watson:** My question then is, Ms. Greene, if you know it takes six months to 12 months to recreate the network, why would Canada Post ever have signed a contract that only gave them 120 days' termination notice?

**Ms. Moya Greene:** That's a good question. That was before my time. We've certainly protected ourselves a lot better in our current contract with Purolator.

**Mr. Jeff Watson:** Do you have six months' notice in that situation with Purolator now?

**Ms. Moya Greene:** No, they have no termination for convenience at all. We can terminate, but Purolator has no termination of convenience.

I don't actually know why it was only 120 days' notice, why that contractual provision was there. But we had a long-standing relationship with Air Canada. We had a relationship that went back decades. So you don't expect your contractor—

**Mr. Jeff Watson:** But you have a greater relationship with the taxpayers of Canada than with Air Canada.

**Ms. Moya Greene:** Yes, we agree with you.

**Mr. Jeff Watson:** Okay.

Thank you, Mr. Chair.

**The Chair:** Mr. Kennedy.

**Mr. Gerard Kennedy (Parkdale—High Park, Lib.):** Thank you, Mr. Chair.

What you're hearing from the members are concerns about business practices. Most of us have been contacted, not just in terms of the current event but for information about the northern subsidy that you handle. Because the review has just happened at Canada Post, and there is some part of that review that speaks to some concern about the ongoing viability of Canada Post, we're trying to ascertain the kinds of practices that are being followed. You have close dealing like this in the sense that you have related corporations, and we're not able to get commercial information. So far this has been an exercise in our sort of taking your word that due diligence happened.

Given that the people of Canada are the shareholders, is there some other mechanism that could arise? I don't think anyone around the table wants to cast aspersions on either management or direction, but it's very hard to form an opinion on behalf of the shareholders, whom we represent in the accountability sense, as to whether or not Canada Post practices are all right.

You had a review. We have raised concerns like this. What do management and the board think should be available as mechanisms so that legislators can get assurances when they feel they need them? I think otherwise that this exercise is not that productive.

**Mr. Marc Courtois:** I would just start. We had a review. That's one of the processes. One of the recommendations of the review was that there be a review every five years. All we ask is that it be five years from the time the previous review is agreed to as opposed to it constantly being in review.

Having outside experts look at us was a very valuable exercise to the shareholders, to the board, and to management. We do have, as one of our auditors, the Auditor General. We do go through a process every couple of years called the special examination by the Auditor General, which we are going through right now. You do, as shareholder, have the ability to nominate and name all the directors to the board of Canada Post. I think you have a lot more oversight, as you should, than the typical shareholders of a private enterprise.

**Ms. Moya Greene:** If I may comment, Mr. Kennedy, there are a number of other things I would add. Canada Post, since I have been at the company, does a public annual meeting where we stand up in front of anyone who wants to come, and we answer questions on anything that anyone wants to pose to us. We were the first crown corporation in Canada to do that.

We put out an annual report that is the most transparent and open document that our outside, very established and experienced directors on the Canada Post board have ever seen. At some points they ask me if I am worried that we're putting out too much commercially sensitive information. We also publish, warts and all, something called the Canada Post social responsibility report, which looks at every single one of our practices from hiring right down to environmental friendliness. It has measures and metrics in there for performance against almost anything you can think of. Most of the metrics are actually measured by outside, independent third parties. We have an outside auditor for Canada Post as well as the Auditor General as part of the audit team of Canada Post. Every major contract goes to the audit committee of our board. It goes to the full board for their discussion and deliberation. Inside the Canada Post group of companies, we have very elaborate processes and procedures for dealing—

• (1630)

**Mr. Gerard Kennedy:** Ms. Greene, I'm sorry to interrupt, but I want to give my last minute to Mr. Volpe.

I just want to say there is nothing I have heard yet that is different from the situation for a private corporation, and because of the public trust involved, I was looking more for the relationship between you and us in terms—

**Ms. Moya Greene:** It's much more elaborate, Mr. Kennedy.

**Mr. Gerard Kennedy:** Elaborate, though, makes it harder rather than there being a direct line so there is a special means by which certain things can be found out that don't compromise your commercial capability and yet give us some oversight.

I just leave that as a comment.

Mr. Volpe had a quick last question.

**The Chair:** Your time is up.

I'm going to Mr. Harris, and then we're going to do a one-minute round before this is over.

Mr. Harris.

**Mr. Richard Harris (Cariboo—Prince George, CPC):** Thank you, Mr. Chair.

I really don't need much time. I have been listening to all the conversation and the questions. It appears to me that in connection with the invitation to express interest that you sent out to the four parties—Cargojet, Esposito, First Air, and Purolator Courier—there wasn't a lot to choose from.

Of those four, I think the only one that really had the fleet or the ability to provide the service—as you've said, 300 flights a day, and Canada is a big country—would have been a company like Purolator in any case. I know very well what relationship they have with

Kelowna Flightcraft. I'm not familiar with Esposito, but at Cargojet, of course, they simply don't have the aircraft.

**Ms. Moya Greene:** Well, they certainly did not demonstrate to us that they would have been a choice preferable to Purolator, that's for sure.

**Mr. Richard Harris:** So based on your mandate, which is to provide uninterrupted mail service to each of the 15 million mailboxes across the country, it appears to me that you made a pretty prudent business decision in your choice. No one can argue the reputation of Kelowna Flightcraft or Purolator Courier, except when your parcel doesn't show up, but it seemed like a good business decision.

You've just gone over the list of transparency safety nets that are in place, and I have to say that it looks like you did the right thing. I certainly don't share any concerns about any covert type of bidding operation that some of my colleagues appear to think perhaps went on. That's all I have to say.

**Ms. Moya Greene:** Thank you.

**The Chair:** I'm going to give each party representative one minute. I will be very strict on the minute, because our guests have other commitments and have to be out of here.

Mr. Volpe.

**Hon. Joseph Volpe:** Unfortunately, that means, I guess, that we'll be making statements rather than asking questions. I find it difficult to accept that in the initial contract Canada Post would not have built in, in that 120-day period, an understanding of where to go and what to do next. I'm wondering why you didn't ask UPS and FedEx to respond to your request for information, since you were trying to update market intelligence, and since you already have a business relationship with both, according to your annual report.

Secondly, I have here an affidavit which says that on May 30:

CPC expressed admiration and appreciation for providing such a detailed and qualified RFI response and requested that Cargojet submit a high-level rough cost estimate for our RFI submission. This response further summarized our capabilities, commitment to meet the proposed start-up date, and even offered to buy back any unused capacity that may be available on this new network to further lower unit costs to CPC. It would be difficult for any other service provider to meet the average price per pound offered to CPC on this basis, and CPC told us that we could fully expect to move on to the next stage of the process, the formal RFP-RFQ.

Are they lying?

• (1635)

**Ms. Moya Greene:** Well, they did not demonstrate in the RFI process, Mr. Volpe, in the timeframes that we needed it, capacity to carry a lift as extensive as this as well as Purolator did. I mean, we have a relationship with Cargojet. We think they're a fine carrier, but they did not demonstrate in the RFI process the same level of capacity and ancillary services ability and cost that Purolator did.

[Translation]

**The Chair:** Mr. Laframboise.

**Mr. Mario Laframboise:** I have a problem. You mentioned emails and faxes, but did you phone the president and CEO of Air Canada?

**Ms. Moya Greene:** Yes, I have his telephone number, as all the members do.

**Mr. Mario Laframboise:** Did you phone him about this matter?

**Ms. Moya Greene:** No, it is not my job to personally deal with all contracts. You have to bear that in mind. Since I have been the president and CEO, Canada Post has had some 20 million contracts with all kinds of suppliers. I do not deal with all the contract details. We have someone in charge of procurement, someone in charge of operations and someone in charge of finance. It is not my job to handle all of the negotiations. That is not possible. I have to be clear with respect to our processes and ensure that those processes are followed and their objectives, achieved. That is the role of a president and CEO.

**Mr. Mario Laframboise:** Ms. Greene, the company does not belong to you. It belongs to the Canadian people.

**Ms. Moya Greene:** That is true.

**Mr. Mario Laframboise:** If it was so important to you and the company was in danger, in my opinion, your role would have been to pick up the phone, to call Air Canada's president and CEO, and to tell him that the two of you had a problem. I know how you work. I have known you for a few years now. That is fine, but it does not surprise me. It does not surprise me that you did not call.

**Ms. Moya Greene:** Mr. Laframboise, with all due respect, those telephone calls were made. They were made by the people who deal with Canada Post's transport networks. They are Canada Post executives. They have extensive experience. That is their area of expertise.

[English]

**The Chair:** Monsieur Bevington.

**Mr. Dennis Bevington:** Thank you.

I just want to go back to the food mail for a minute, because that CITT ruling said you had put discriminatory practices forward on the food mail. On a particular technicality, that ruling didn't stand. If we see discriminatory practices at one level, does this give us an indication that your corporate practices in general are a bit high-handed? I—

**Ms. Moya Greene:** Mr. Bevington, I totally disagree with that premise, and we weren't even a party to that action. This was a disgruntled supplier. We were not even a party to it; DIAND was the party. We were not asked to appear. We presented no evidence.

This is one person's point of view, which is easy to say, particularly when you have no jurisdiction whatsoever in the matter, which CITT was found by the Federal Court of Appeal.... That is the reason why the Federal Court of Appeal quashed the decision.

**Mr. Dennis Bevington:** Well, it was quashed on a technicality, not really on—

**Ms. Moya Greene:** It's very easy to smear someone's reputation when they're not even there.

**A voice:** It was quashed.

**Ms. Moya Greene:** It was quashed.

**Mr. Dennis Bevington:** It was quashed on appeal. The original finding was that there were discriminatory practices. It was quashed on appeal because there was a technicality involved and that's—

• (1640)

**Ms. Moya Greene:** It was not a technicality. We were not even party to the action. We presented no evidence—

**The Chair:** Thank you very much.

I'm going to exercise my right now to ask a question before I let you go.

**Some hon. members:** Oh, oh!

**The Chair:** Obviously I would be remiss if I didn't bring forward my library bill with Canada Post. I just wonder if you have an opinion or a thought as to whether it is a good thing. Is it suitable to Canada Post? Is there anything else that could be done to enhance it? It's receiving a lot of support.

**Ms. Moya Greene:** Yes, I know. It is very important to many libraries out there. It is for this reason that we extended the original 2005 rate for several years. I understand the importance of it, Mr. Tweed, but it's also important that Canada Post adhere to our legislation. Our legislation says that we must be financially self-sustaining as well as deliver service.

Right now on the library book rate, I think we're probably short by \$6 million, so at a certain point.... I understand the importance of the government as our shareholder in maintaining this sort of break for the libraries across the country, but perhaps, Mr. Tweed, you would work with your colleagues to get us the compensation practice that we were supposed to have for that when Canada Post was set up.

**The Chair:** Well, that's a good point, and I've always said there has to be a fairness, but it has to be on both sides.

**Ms. Moya Greene:** Yes.

**The Chair:** Anyway, we thank you for attending today.

**Ms. Moya Greene:** Thank you. We appreciated the opportunity.

**The Chair:** I have a point of order from Mr. Volpe.

**Hon. Joseph Volpe:** This is really for you, Mr. Chairman. I just wonder whether you can pursue the following and then report back to the committee: number one, why the management at CPC asked the government of the day to exempt it from the Federal Accountability Act; and number two, whether the chairman of CPC actually advised the minister on this contract, given its size.

**The Chair:** You're asking me, as the chair, if I would advance that issue?

Mr. Jean.

**Mr. Brian Jean:** I've listened with great interest in relation to questions from Mr. Volpe and his colleagues on that side of the House, but let's be clear. This is a corporation that operates at arm's length from the government for a specific purpose, and that is so the government does not get involved in the day-to-day operations of the corporation, so they do it in the best interests of and use best practices for their shareholders, who are the people of Canada. I think today is a perfect example of that practice working well.

I don't see what benefit there is in the minister getting involved in day-to-day operations and whether or not he was actually advised of those day-to-day operations. I think it's totally out of order.

**Hon. Joseph Volpe:** Well, he'll be able to clear that up.

**The Chair:** Thank you.

I thank you for attending, and we look forward to future meetings with you.

We do have a subcommittee meeting going ahead immediately, so I would ask anyone who's sticking around...we have to move you out because we're going in camera.

We're adjourned for two minutes.

*[Proceedings continue in camera]*

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