

Food Mail Program Review
Findings and Recommendations of the Minister's Special Representative



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NOTICE TO READER

Mr. Graeme Dargo was appointed as the Minister's Special Representative for the Food Mail Program review in August 2008.

This report is intended to provide independent information and advice to the Minister of Indian and Northern Affairs and Government of Canada who are familiar with the terminologies, policies and operations of the Food Mail Program.

The content of the report is founded on a review of documents and data, discussions with select stakeholders and the observations of the author during the review. The analysis, views, opinions and recommendations contained in this report are those solely of the author.

The author has no vested interest in any organization, airline or retail chain associated with this review.

EXECUTIVE SUMMARY

I have been entrusted as the Minister's Special Representative to complete an independent review of the Food Mail Program. In my program evaluation experience the tendency for any program review is to emphasize the problems, and this report is certainly no exception. However, from the onset of my assignment, it became clear to me that any program that encourages nutrition while ensuring that the costs of fresh food are affordable is important to northerners. If the current Program was terminated the retail prices of fresh foods in most northern communities would increase substantially. As an example, if the Program was eliminated, a 10lb bag of potatoes would increase from \$18.29 to \$64.49 in Pond Inlet. Program elimination would clearly threaten the availability, freshness and affordability of fresh and nutritious foods being accessible to families living in Canada's most isolated communities.

As readers will note I conclude that although the Program is clearly needed and has met with some success it is burdened with many problems. There is an array of complex issues that in my view result in a Program that has lost its focus and vastly exceeds the budget available. I predict that the current Program costs will continue to soar and with limited program performance results the Department will be challenged to justify continued investment without significant change.

I have provided nine recommendations that I feel would address the identified issues. My recommendations cumulate that a complete renovation of the Program is required as I feel that modifying the existing program will not be sufficient or affordable. My recommendations include the following;

1. Develop a partnership and new delivery model with retailers.

The existing Food Mail Program should be replaced with a new program that is developed in partnership with retailers. My review presents that a partnership agreement with retailers to develop a new food subsidy initiative will ensure that the Program is delivered to intended recipients in a much more direct, effective and efficient manner. It is my opinion that if the new Program is managed by retailers by ways of contract agreement it will result in improved transparency, accountability and recognition of Canada's investment.

2. Develop a program costing model to establish a new base budget.

It is clear that the current base budget of \$27.6 million allocated to the Department for the existing Program is insufficient and needs to be reconsidered. The new budget should be based on calculated costs of a partnership with Retailers. I recommend that a costing exercise be completed to establish a revised annual base budget estimate and thereafter adjusted annually according to consumer price indices.

3. The Department develops new and effective administrative systems.

Attention needs to be given to how Retailers would be refunded for the subsidies they would provide to consumers on behalf of Canada. This will require the Department to develop effective administrative systems.

4. The Department reviews the eligible list of communities.

There are currently 31 communities that are eligible to participate in the Program but have historically chosen not to as the regular cargo rates to these communities are substantially less than the Food Mail subsidy rate. I recommend that the eligible list of communities be reviewed.

5. The Department refines the current list of eligible items allowable under the Program.

I believe that if the new Program is to become more sustainable and achieve better results that the existing list of eligible products needs to be significantly refined and focused on achieving the core objectives of the Program. This should be achieved in consultation with major retailers and Aboriginal organizations.

6. A new Country Foods initiative is developed.

The current Food Mail Program does not consider country food items. The consumption of country foods is particularly important to Aboriginal communities and it is a well documented fact that locally harvested country foods hold higher nutritional values than comparable store purchased meats. The costs to harvest country foods is an expensive activity, particularly in Inuit regions, and I recommend that the new Program invest in a pilot project in the most isolated regions. Such an initiative should be developed in partnership with Inuit organizations.

7. The Department revises Food Mail subsidy rates.

The current Food Mail subsidy rates have not increased since 1993 while the costs of air cargo have increased substantially. The Department has suggested interim changes to increase the Food Mail subsidy rates and I agree that some moderate increases are justifiable and I recommend that the rates be revised.

8. The Ministers of Health and Indian and Northern Affairs Canada discuss the pros and cons of transferring the Program to the Department of Health.

9. The Department reviews the policy intentions and establishes measures to gauge the performance of the Program.

REVIEW OBJECTIVES

The Department of Indian and Northern Affairs Canada is responsible for sponsoring the Food Mail Program. The principle objective of the Program is to subsidize a portion of the cost of transporting nutritious perishable and non-perishable foods to remote northern communities. By doing so the Program seeks to lower the cost of food for consumers and improving nutrition, health and well-being.

INAC is provided a base budget of \$27.6 million per year to support the Program. Over the past decade various INAC Ministers have been required to submit for additional annual appropriations to ensure that sufficient funds are available to meet expenditures in excess of the base budget. Current estimates by the Department indicate that Program costs will climb to at least \$60 million this fiscal year resulting in a potential base budget shortfall of approximately \$32 million.

In August 2008, Minister Strahl appointed me as his Special Representative to provide an independent review of the Food Mail Program and I was tasked with the following objectives;

- Assess whether the Program is meeting its objectives;
- Identify Program issues;
- Identify and research best alternatives to address issues;
- Meet with key stakeholders to discuss the Program and its future;
- Provide advice and recommendations on the future of the Food Mail Program.

Methodology

To complete my assignment multiple sources of evidence were used, including;

- Examination of Program documentation and administrative data;
- Appraisal of related research initiatives conducted by the Department;
- Discussions and meetings with;
 - various Federal departments and consultants engaged by the Department;
 - residents of northern communities;
 - major retailers;
 - air shipping companies;
 - Canada Post Corporation;
 - Leadership of regional and national Aboriginal organizations.

Limitations of our review included:

- short time frame;
- unable to meet with stakeholders over the election period;
- lack of data relating to program results and impacts.

FOOD MAIL PROGRAM OBJECTIVES

My initial review task was to understand the Department's responsibilities and become familiar with the policy intent and operations of the Program. The stated principal objective of the Program is to:

Reduce the cost of nutritious perishable and non-perishable food and other essential items, thereby improving nutrition, health and well-being in isolated communities that do not have year-round surface transportation.

The Department is responsible for establishing which goods are eligible for subsidy. These are broadly categorized in the following areas:

- Nutritious Perishable Food (includes fresh and frozen)
- Non-Perishable Food
- Priority Perishable Food (Pilot project communities only)
- Essential Non-Food Items

The Department is responsible for identifying which Northern communities are eligible to participate in the Program. There are currently 135 communities deemed as eligible across nine jurisdictions. The Department contracts with the Canada Post Corporation (CPC) to manage the delivery of the Food Mail Program. The Department is responsible for overseeing the contract and providing direction to the CPC on the Program.

The Program is provided by means of a freight subsidy that covers a portion of the cost of transporting eligible foods to isolated communities. There are numerous terminologies used in various documents to describe the freight subsidy rate, including transportation rate, air stage rate, postage rate and Food Mail rate. Through-out this document I refer to the portion of freight cost subsidized by Canada as the Food Mail subsidy rate.

The Department is responsible for setting the Food Mail subsidy rate and the designated points where the subsidy begins. The current Food Mail subsidy rate for nutritious perishable foods is harmonized at \$0.80 per kilogram across all Provinces and Territories. The rate is set at \$0.30 per kilogram for three pilot and Beaufort Delta communities. Non-perishable food and non-food Food Mail subsidy rates are set at \$1.00 per kilogram in the Provinces and \$2.15 per kilogram in the Territories. An additional charge of \$0.75 for each parcel is charged by the CPC, regardless of size, contents or destination. Users are responsible for the costs of shipping to the designated entry points and any delivery charges from the eligible community airport to final delivery location.

To illustrate the application of the Food Mail subsidy rate we will follow a case of apples from Winnipeg to Repulse Bay. The user pays for costs of shipping from Winnipeg to Churchill. Churchill is an entry point and where the application of the Food Mail subsidy begins. If the cost of air cargo from Churchill to Repulse Bay was \$5.00 per kilogram then the user would pay \$0.80 per kilogram and Canada would pay the difference of \$4.20 per kilogram. The user would pay a CPC handling fee and any costs of local delivery from the airport at Repulse Bay to the final place of delivery.

The Food Mail subsidy rates have not increased since 1993 even though costs of air cargo rates have risen substantially.

In 2007-08 a total of 18 million kilograms of Food Mail was shipped to all eligible communities, of which 82% was Nutritious Perishable, 13% Non-Perishable Foods and 5% Essential Non-Food items. Nunavut received the majority of shipments at 58% of total volume shipped.

SUMMARY OF FINDINGS

The integrity of the Program has eroded

The origins of the Program go back to the 1960's. I gather that the primary intent of the Program was to provide subsidy to ensure that a limited amount of fresh perishable goods were available at an affordable price to isolated communities that had no road access. The in-vogue wording used these days for the same is Food Security.

The initiative has since evolved considerably by increasing the types of perishable items available and including non-perishable foods and essential non-food items. There are essentially two separate objectives implied in the current policy statement, providing for food security while promoting increased consumption of nutritional foods.

Program documentation provides lists of goods that are deemed eligible for the subsidy within each category, apart from the essential non-food items category. This category provides a short list of items that are not eligible for shipment, but does not provide an exclusive list of what is allowable under the Program. This is confusing to all that I met with. At a recent regular quarterly meeting that I attended between the CPC, INAC, shippers and retailers, the retail participants asked for clarification if toasters and coffee makers were deemed as eligible essential non-foods. The response from INAC officials is that they are. The retailers informed the CPC and INAC officials to expect increased shipments through the Program as, until the clarification by INAC officials, they were unsure of what goods were eligible under the essential non-foods category. There is no written criteria that I am aware of that was used to establish how such items were deemed as eligible. It appears that many dry goods one would find in a retail outlet are eligible to ship as a non-essential item, from men's socks to fishing rods to baby's designer sleepwear to ladies jeans. I question how such items meet the stated aims of the Program.

In reviewing the perishable and non-perishable list of items I question the eligible inclusion of items such as frozen ready dinners, pizza and ice-cream. Although such items may contain some nutritional content they are near convenience foods and I do not believe that these are on the top of the list of nutritious foods that Canada wants to influence consumers to purchase. I have endured more than one argument with well intentioned policy developers on the extensive list of items that are eligible. The vast majority of Northerners does not buy avocados, whole wheat flour, organic red leaf lettuce or soya protein meat and will always prefer to buy basic staples.

My thoughts on the eligible lists of goods were mirrored by Aboriginal leadership. Aboriginal Stakeholders that I have met with are confused between the two intentions of the policy. They do not agree that the Program should be so heavily influenced to meet Canada's Food Guide. Aboriginal leaders state that there are many items that Northerners buy and use that on their own are not deemed as nutritious. Lard is not a nutritious item but is a top seller as a key ingredient required to make Bannock, a staple food item on the tables of many Aboriginal families. Aboriginal leaders feel strongly that the eligible food items should be focused on food security and the Program should be aligned to provide a better subsidy on core basic items.

The Aboriginal stakeholders agree that eligible dry goods items, such as socks and toasters, should not be considered as eligible items. All Aboriginal leaders that I met with state an issue that the Food Mail Program subsidizes southern supplied meats, such as pork chops, chicken and hamburger meats, but does not consider the country food meats preferred by Aboriginal residents. It is a well documented fact that locally harvested country foods contain high nutritional value.

In considering the objectives and policy practices of the Program it is my opinion the integrity of the initiative has eroded. Aboriginal organizations, retailers and residents are confused on the intention of the Program. I question the scope and inclusive nature of the eligible items and how these confuse and compete against the objectives of the Program. In my judgment the Program has been allowed to evolve as a cost of living subsidy rather than its intended focus on providing for affordable access to perishable foods. Northern residents do receive benefits from other Canada and Provincial\Territorial Programs that are specifically designed to provide for cost of living benefits. I believe that the loss of focus of the Food Mail Program has resulted in significant costs to Canada.

The performance of the Program has not been measured sufficiently

One cannot ignore the fact that some 18 million kilograms of eligible goods were shipped this past year, of which approximately 80% was deemed as nutritious perishable foods. Nor can one disregard the fact that the impact that the Program has on reducing the costs of goods to Northerners. If the Program was eliminated a 10lb bag of potatoes would increase from \$18.29 to \$64.49 in Pond Inlet. These are good indicators that the Program has had a positive impact.

However, a critical area of any Program review is to evaluate performance against the aims of the stated policy. To my knowledge there have been no measures established to gauge the performance of the Food Mail Program and there is no information on specific results relating to improving nutrition, health and well being.

In their separate review exercise the Department made efforts to quantify Program success. This has been limited to three pilot communities and research organizations provide various caveats on the lack of data and methodology employed in their studies. The recent studies only indicate that the Food Mail subsidy is passed on by retailers and that there is an increase in consumption of nutritious foods in some of the pilot communities, but not all. I do not view these recent efforts as dependable or sufficient measurement efforts from a Program wide perspective. I had hoped to gain better Program impact information from the pilot projects, which were initiated in 2001. I am unaware of the terms of reference for the pilot projects. Evaluation of the stated objectives, the areas of measurement, the duration of the pilots or agreement between Health Canada and INAC would have been useful.

The data that the CPC has been asked by the Department to collect is related to volumes of product shipped by Food Mail category. Although the volume of shipments has increased this is not on its own an appropriate measure of Program performance as factors such as population increase and new retailers joining the Program can attributed to volume growth.

The Department travels to communities to gather retail prices and produce a report that compares retail prices by community. Officials claim that this exercise is critical to ensuring the Program is passed on at the local level. I do not see how they can prove that a retailer is passing on the subsidy or not. The landed freight rates are different in every community and retail chains employ differing purchasing powers and pricing strategies. Comparing the retail price of 10lbs of potatoes between Kuujuuak, at \$13.79 and Pond Inlet, at \$18.29, will only indicate that potatoes are more expensive in Pond Inlet. Furthermore, the price checking information is not collected on a frequent basis or in all of the eligible communities. This information may be interesting but does little in the way of informing on Program accountability or performance. In the event that officials do deem that a retailer is not passing on subsidies there is no written agreement with retailers on actions or penalties to remedy the situation.

I can appreciate why the Department has not collected some types of performance information. Measuring improvements in areas of nutrition, health and well-being is complex and requires numerous types of study that would need to be completed on a consistent basis over a multi-year period. The Department has no expertise in measuring such areas and is certainly not resourced to do so. Measurement of nutrition, health and well-being falls within the mandate and capacities of the Department of Health but there is no agreement between the Departments on the role of Health Canada or how they can gain access to the information required to measure such impacts.

Stated performance targets and appropriate measures to gauge against targets would be useful to help make decisions about the Program. Such information would tell whether, and in what important ways, the Program is working well or poorly, and why. In today's fiscally challenged times and heightened demands for program performance and accountability I feel that it is important to establish performance targets and measures of any public program.

Program demands will continue to escalate and place pressure on Program funding.

An important area of my review is related to the fiscal conditions of the Program.

Since 2004-05 the Program costs have climbed from approximately \$36 million to an anticipated \$60 million for 2008-09, a significant increase of some \$24 million over 4 years. One has to consider the reasons for such a substantial increase are over such a short period and what will be the future budget demands of the Program.

Apart from natural population growth, and some demand due to increased consumption of nutritious foods, there are a range of additional factors that contribute substantially to such significant increases in Program costs.

A major factor is that the current Food Mail subsidy rates have not increased since 1993. Cargo rates have climbed sharply over the past few years, largely due to fuel cost increases. By maintaining Food Mail subsidy rates at 1993 levels the Government of Canada has assumed a growing portion of charges due to increases in regular cargo rates. The Food Mail subsidy rates are fixed and apart from forcing increases in Food Mail subsidy rates there is no risk sharing with users when cargo costs increase.

Retailers inform me that some new eligible communities have joined the Program which has contributed to increased Program demand. There remains 31 eligible Northern Retailers who have chosen not to subscribe to the Program as their current transportation costs are less or equal to the existing Food Mail subsidy rates. Rising air-line and other cost increases will continue to drive escalations in freight costs and it only makes sense that if the Program remains unchanged that even more non-participating communities will be attracted to begin using the Program for the first time.

When comparing the volume of goods shipped between regions for 2007-08 I observed that Nunavik received 5.3 million kilos of goods and Nunavut 5.8 million. I found this odd as the population in Nunavut is higher by 5,000 residents. Does this mean that people in Nunavik eat more? I have found that this is predominantly related to shipments of non-perishable and non-foods items. The major retailers indicate that as the rates have not increased since 1993 they have diverted from using annual resupply modes of transporting goods, such as by way of sealift. This is particular to the Provinces where the non-perishable food rate of \$1.0 per kilogram, versus \$2.15 in the Territories for the same, which has been justified due to apparent lack of supply storage in the Provinces. This provides an attractive opportunity to receive goods at well below sealift rates, while reducing annual inventory carrying and storage costs. This is an unintended and unforeseen policy issue as the Program was never intended as an inventory subsidy program and adds to Program costs. I am unaware of any requirement to pass on any "savings" from reduced inventory or carrying costs to the consumer.

The design and practices of the current Program do not provide the Department with appropriate budget control opportunities and predicting future Program costs is akin to using a cloudy crystal ball. The Department can never be quite sure on Program costs until the CPC issues their invoices. In June 2008 Canada Post estimated that the current Program would require INAC to provide \$50 million for this fiscal year. They also project a requirement for \$58 million for 2009-10 and \$64 million for 2010-11. I perceive that the projections of the CPC are considerably understated. Based on a review of 2007-08 shipping data analysis I predict that costs will be between \$60 and \$63 million this year and between \$66 and \$69 million the 2009-10 fiscal year.

I believe that the practices of the current Program, when coupled with any increase in shipping costs and expected population and economic growth, will place continued pressures on available Program budgets. The design of the current Program, and lack of measurement, does not provide sufficient opportunity to easily foresee future budget requirements that are dependable. If these conditions prevail the Department can expect challenges in attracting sufficient investment and be forced to re-allocate scarce funds from other INAC program areas.

The Program lacks transparency and accountability

During my community visits it became apparent that Canada receives no credit for its investment and that community residents are unaware of the Program.

During my meetings with community residents and Aboriginal organizations I found that the majority of Northern residents are unaware of the Program. Although the CPC submits budgets for the costs of preparing, printing and distributing public information about the Program I did not observe any such information in retail outlets during my travels to communities. The CPC informs me that it is beyond the scope and intent of their communications Program to provide for in-store marketing materials that show the value of applied subsidy on products purchased by consumers.

Individuals and organizations that are aware of the Food Mail Program express strongly held perceptions that the subsidy is not being passed on by their local retailer. The consulting firms engaged by the Department to complete recent reviews indicate in their reports that the subsidy is passed on by retailers. During my observations of the point of sales systems of the Northwest Company and Co-operatives I learned how subsidized freight rates are applied when establishing retail rates. However, it does not matter what I say or how many studies indicate that the subsidy is passed on, as long as residents are unable to see how subsidies are applied at point of purchase they will continue to perceive that retailers do not pass on the Food Mail subsidy.

There are no contracts or agreements of any kind with retailer's, either with the CPC or INAC, that state how retailers will pass on the subsidy, how they will market the Program or how they will report on types and volumes of products sold.

Due to the lack of public information and marketing the Government of Canada receives no credit for sizable investment of public funds in the Program. Not one of the groups I met with had an inkling of the substantial investment that Canada currently provides to support the Food Mail initiative. Due to the lack of agreements with Retailers there is no point of sales materials on the value of subsidies and no retailer requirements to provide any type of proof of sale for items sold. I find it unacceptable that the Department invests \$60 million in a Program and simply assumes that the subsidy is being passed on. It is my view that the Program is not transparent to the people that it is intended to reach and that the lack of proof of the use of the subsidy challenges the test of accountability for use of public funds.

There are Program inequities.

The universal application of the perishable Food Mail subsidy rate of \$0.80 per kg brings forth considerable debate on Program success, costs and equality.

Some stakeholders view that harmonization of the Food Mail subsidy rate favors more southern locations as the retail price paid for an item is proportionally much less than in the high Arctic. For example 10lbs of Potatoes, with the Food Mail subsidy is \$21.39 in Gjoa Haven and the same bag is \$13.79 in Kuujjuaraapik. Some stakeholders argue that the harmonization rate is biased and that Program rates should be adjusted on a geographic basis.

One has to ask the reason why the non-perishable foods and essential non-foods Food Mail rate is not harmonized similar to perishable goods and why the rate for these categories differs between Provinces and Territories. Why does it cost Program users \$1.00 per kg to ship a bag of flour to Northern Quebec and \$2.15 per kg to ship the same item to the south Baffin? I am informed that these rates were never equalized and have been kept lower in the Provinces as there is less storage capacity to house annual re-supply items. I can assure the Minister that the retailers in the NWT, Yukon and Nunavut would state that annual storage costs are just as limited and expensive as those in the Provinces. I find this to be a vague justification, which I feel is open to challenges of inequality and most certainly adds to Program costs. The current 1993 Food Mail subsidy rate for non-perishable and non-foods is well below 2008 sealift rates. As previously discussed, this has invited and allowed diversification from annual re-supply modes of transportation.

During my review many Northern residents and Aboriginal organizations stated that the shipment of personal food orders is unfair and favors privileged individuals. To acquire personal orders users must have the ability to communicate to place an order, have a credit card to pay for goods and access to a private vehicle to collect their order. Personal orders have grown to be 7% of the total Program shipments, or approximately 1.25 million kilograms. First Air reports that between 300 and 400 personal orders are shipped to Iqaluit on a weekly basis. Personal orders currently require between \$4.5 and \$5.0 million of INAC's Program funds.

I asked the Department how personal orders came to be. The Department submits that allowing personal order shipments helps to encourage competition and that Northern residents should be provided with improved choices of goods at a lower price. The fact is that goods purchased from southern retailers will always be less than northern retailers as the costs of construction, operating, labor and shipping costs in the North are significantly higher. For example, the main Northwest Company outlet in Iqaluit pays just over \$1 million per year for power rates whereas a comparably sized retail outlet in southern Canada pays \$200k. Southern retailers do not purchase local Northern services, pay community taxes or employ local residents.

Allowing southern supplied personal orders does little to encourage northern retailers to invest or expand. This could have an adverse effect of increasing prices to ensure that sufficient revenues are raised to meet operating and labor costs when competing against a southern based retailer.

Many northern residents do not enjoy the same access to the Program as they cannot obtain a credit card, do not own a personal vehicle or cannot communicate in French or English to make personal orders. In my view allowing personal order shipments unintentionally benefits certain segments of the population and creates inequity. Most importantly I believe that this policy practice encourages market disruption and is at odds with the Minister's mandate of supporting northern economic development.

The interest and policies of the Canada Post Corporation are not aligned to support the Food Mail Program.

The CPC has a long history with food mail subsidy, as far back as the 1960s. When the Post Office became a Crown Corporation their policy decision was to cease providing subsidized Programs that were financed from CPC generated revenues. The current CPC policy is that it will only deliver subsidy type Programs by ways of agreement and funding from other agencies, such as from INAC for the Food Mail Program. I have reviewed the agreement between the CPC and INAC. It is clear to me that the CPC Management and staff involved in the program are knowledgeable and very committed to achieve what is expected of the CPC in the agreement as it is currently written.

The stated operating policy of the Canada Post Corporation is that the Food Mail Program is a basic freight delivery service with no add-on options such as on-time delivery or coverage against loss or damage. In simple terms, Canada Post does not guarantee product quality or service and will not accept claims for damage or loss when shipped goods are in their care. This is an accepted norm in the mail delivery business and users pay for insurance for their parcels and letter mail against risks of damage and loss. However, this is not a norm in the food distribution or shipping business. Food distribution and shipping companies typically provide a claims policy for damages while goods are in their care. Such companies ensure criteria and practices are established to minimize risk of damage and accept that they are accountable to ensure that goods arrive at their destination in good condition. The costs of such claims are burdened by the food distribution or shipping company.

In my various meetings with the major Retailers they consistently raised on-going issues of both spoilage and missing products that they are unable to claim from Canada Post. The major Retailers all state that lack of CPC accountability for loss and damage is a major issue and detriment to the Food Mail Program. Retailers do not simply absorb such losses and the costs of damage are typically passed on through average gross margins, which the consumer ultimately pays for at the till. CPC has been made aware of the issues of claims and has gone to some effort to educate and inform on proper product handling and storage. However, the CPC remains firm that it will not develop a claims policy unless Canada provides funding for a claims program or retailers pay for it through increased fees.

The CPC service standard is that perishable food items will arrive at their destination within 48 hours of delivery to an entry point. I am informed by numerous retailers in remote communities that this standard is regularly not achieved, resulting in spoilage and irregular supply to customers. I concur with this issue as I have observed goods being improperly stored in Iqaluit and Rankin Inlet during the last leg of shipping to their final destinations. The Department's review documents speak to these issues in detail.

I have reviewed documentation provided by the CPC on the level of fees charged to INAC. The CPC charges a management fee of approximately 3.4% of total Food Mail Program costs and in 2007/08 CPC fees billed to INAC were just over \$2.3 million. The CPC costs associated with their claim included portions of salaries and bonuses for 37 CPC staff. Of the 37 staff, 6 are full time and solely dedicated to Food Mail Program duties. The remaining 31 staff fulfills other CPC duties and their costs are accrued to the Food Mail Program on a pro-rated basis. The CPC charges for fully burdened shares of employee costs, plus administration and profit margins.

The six full time people are related to management, administration of CPC weigh billings and accounting. The 31 part time resources are predominantly employed to inspect goods at entry point systems. The duties of CPC inspectors are to ensure that goods are properly weighed and sorted by category and to check that goods shipped are eligible Food Mail items. Most of the part time resources are allocated to other CPC duties.

The CPC made a decision many years ago not to provide subsidized Programs unless it was compensated to do so. The core business of the CPC is not related to the food freight management business or the objectives of the Food Mail Program and their policies and practices are not aligned to support such efforts. Therefore, it is my opinion that the primary interests of the Canada Post Corporation are to maintain management of the Program that benefits the business interests of the Canada Post Corporation. My view is based on the fact that the CPC procurement process for air-line shipping services asked for quotes for both Canada Post mail and Food Mail services. As the Food Mail Program provides the CPC authority over shipping procurement it provides them with good leverage when negotiating with shippers for both Food Mail and regular mail to achieve a form of cross subsidy that benefits the CPC. The Food Mail Program provides the CPC the ability to retain a complement of staff, some of which are accrued to other CPC duties. Given that the costs of such CPC staff, plus margins, are billed to the Food Mail Program it is my view that the CPC benefits from a form of labor cross subsidy.

It is my opinion that the operating policies and interests of the CPC conflict with the interests of the Food Mail Program.

The Freight Distribution System is inefficient and ineffective.

The Department dictates entry points and the inspection requirements of the CPC.

Goods are shipped by the most affordable means to end of road or rail to reach an entry point for delivery by air. This may make some sense for delivery of non-perishable items but is a detriment to ensure fresh goods reach outlets in a timely manner. For example, perishable foods destined for Repulse Bay endure a long ordeal before they are available on the shelves of local retailers. Products for Repulse Bay are loaded in Winnipeg and travel by truck to Thompson. The Repulse Bay goods are then unloaded and await the train from Thompson to Churchill, the designated food entry point. The Repulse Bay products are unloaded and re-assembled again to await the inspection by the CPC in Churchill before being re-loaded to reach Rankin Inlet by air. The products are unloaded in Rankin Inlet and re-assembled yet again for the air journey to Repulse Bay. The average time for a bag of apples to reach Repulse Bay is three days and given all of the handling and temperature changes en-route such fresh products run a high risk of damage and very short shelf life. As there is no claims process and damaged goods are “eaten” by the local retailer and costs of loss passed onto the local consumer.

Both the CPC and Retailers have frequently asked INAC to change entry points to address the above noted issues. Specific to the Repulse Bay issues CPC officials inform me that they had advised INAC that Thompson would be a more preferable entry point, but that the costs of the Program would increase by over \$300k per year to ship from Thompson to select Keewatin communities. The Department states that it has been unable to accommodate such requests due to cost increases.

I have reviewed the CPC shipping manifest requirements that are required of all participating shippers. These procedures are unique to Canada Post and are in the form of an electronic shipping tool. Shippers are required to separate goods by category, weigh each item and enter the data into the CPC system. This system forms the backbone of the CPC claims process to INAC. The CPC process is costly as it requires additional man-hours, special equipment and frequent product handling. Many shippers have chosen not to participate in the Program as they view this process as cumbersome and costly.

The major retailers inform me that the current entry system is at odds with their existing systems and limits their ability to develop more efficient and effective distribution opportunities. They have raised these problems and the issues of claims many times at the official quarterly meets between the CPC, Airlines and INAC. As an example, the Northwest Company owns and operates many outlets that are not eligible as food mail communities. Their overall distribution system considers shipments to Alaska, Greenland, the U.S. and Canada. Their distribution system in Canada supports 129 Northern Stores, 29 Giant Tiger outlets, 7 North Mart stores and 10 Quick Stop outlets. The company is currently developing a significant new distribution strategy across Canada that considers the creation of new distribution centres that will feed new regional distribution points. Their objective is to consolidate products and organize delivery to arrive at outlets more efficiently and effectively. The current Food Mail entry and distribution system hampers their efforts to achieve such efficiencies.

I find the food freight distribution system to be costly, inefficient and ineffective. This is a major issue with retailers and limits their opportunities to find innovative methods of distribution. The requirement of retailers to adhere to the food entry point system and CPC inspection requirements adds to Program costs and results in additional handling of products and delays in shipping of perishable goods. Non-eligible shipping costs, such as handling costs at each entry point to meet CPC inspection standards, are recovered by Retailers through the product retails and ultimately paid for by the consumer.

Conclusion of Findings.

My findings conclude that although the Program is needed and has met with some success it is burdened with design, logistical, administrative, accountability, negative resident perception and application issues. The complex array of issues has cumulated over the years resulting in a Program that has lost its focus and vastly exceeds the budget available. I predict that the current Program costs will continue to climb in double digit percentages per year and with limited Program performance results the Department will be challenged to finance the program.

There is an interesting conclusion in the 1990 review by INAC officials of the then CPC Food Mail Program.

“The current system of subsidizing air transportation through a subsidy to Canada Post is imperfect. The subsidy may not be entirely passed on to consumers in air stage communities. There are inequalities in the application of the subsidy, administrative deficiencies, and other problems discussed earlier. However, there are minimal administrative costs both to the government and to the Canada Post Corporation. None of the money is wasted on a costly bureaucracy making payments to beneficiaries. It is the study team’s conclusion that a concerted effort to rationalize and improve the administration of the current subsidy will serve the public interest better than any alternatives, at least for the next while.”

The challenges and issues noted in the 1990 review are similar to many of the problems observed during my review. Given the current state of the Program I am unable to support a conclusion that would allow inequalities, deficiencies or other such problems with the Program to continue under the guise of serving the public interest better by focusing on improving administration. I feel that merely improving the existing administration of the Program is only a small part of the solution. In considering the interests of the Government of Canada I feel that the future of the Food Mail Program must undergo a complete overhaul that is focused, smart and results oriented.

DISCUSSIONS WITH STAKEHOLDERS

I have met with the following organizations to discuss the Food Mail Program.

Transportation Companies (Predominantly with senior managers)

First Nations Transport
First Air
NorTerra
Air Tindi

Retail Companies (Predominantly with Executive Management)

Northwest Company
Arctic Co-ops
La Fédération des Co-opératives du Nouveau Quebec
Northern Fancy Meats
Yellowknife Co-op

Organizations (Predominantly with officials)

Inuvialuit Regional Corporation
Nunavut Tunngavik Incorporated
Makivik Corporation
Nunatsiavut Government
Kativik Regional Corporation
Nain Community Government
Inuit Tapiriit Kanatami
Canada Post Corporation
Policy Research Institute (Canada)
Health Canada
Agriculture Canada
Indian & Northern Affairs Canada
Nunavut Inuit Wildlife Secretariat

I have also taken the opportunity to engage many individual residents about the Program from the following communities.

Tuktoyaktuk
Fort Good Hope
Deline
Rankin Inlet
Rae-Edzo
Iqaluit

Summary of the key outcomes of discussions with Stakeholders

The Department provided me with six options with their considerations on the future of the Program. I used these options as a consistent approach to engage organizations in discussion.

All of the groups stated that options of transferring the Program to jurisdictions, entering into direct financial transfers (debits cards, payments etc) or operating the Program within the \$27.6 million budget were not appropriate considerations. Due to time constraints I did not spend much time considering these areas. The interest and discussion were focused on two options, renewing the existing freight subsidy Program with CPC or developing a partnership with Retailers and an in-store applied subsidy.

Transportation Companies

First Air contends that the current Program has seen good improvements and with some minor adjustments could be more efficient and effective. Their take on Program improvements includes expanding entry points to major centers and having goods inspected by CPC at point of departure rather than en-route. First Air noted the increase in personal orders as being cumbersome and questioned why some non-perishable items were considered as eligible. First Air stated that changes to a retail subsidy approach would create some hardships for the airline as they had considered development and investment plans with the CPC contract in hand.

In my separate meetings with NorTerra, First Nations Transport and Air Tindi they consistently state that the current Program is administratively cumbersome, does not support claims for damages and dictates flying schedules that result in delayed delivery times. First Nations Transport and Air Tindi prefer to negotiate directly with retailers and deliberately keep their freight rates at the same or below Food Mail subsidy rates to avoid the Program. Air Tindi, First Nations Transport and NorTerra all perceive that the CPC procurement award process supports a monopoly and is a disincentive to fair competition in a very fragile northern air industry market.

One has to take into consideration that the views of the major Airlines are influenced between those who enjoy a contract with the CPC and those who do not. However, the view of Air Tindi and First Nations Transport, and their deliberate choice for choosing not to participate in the Program, are decisions of some note. Their view is that the Food entry point system creates unnecessary delay for the delivery of fresh foods, that CPC requirements adds administrative burden and costs and that no guarantee of product quality is provided. The decision not to participate is a collaborative effort between retailers and the airline contractor and results in an agreement on keeping cargo rates at just below or slightly higher than the Food Mail subsidy rates to ensure quality of goods and reduced costs. First Nations Transport and Air Tindi both provide guarantee of product and accept claims when goods are in their care.

Given that Canadian North\NorTerra have legally challenged the CPC contract award process I am unable to provide comment or opinion on the concerns raised in relation to the CPC procurement process.

Major Retailers

In both individual and joint meetings with Arctic Co-operatives Ltd, the Northwest Company and La Fédération des Co-opératives du Nouveau Quebec they are collectively pounding the table for substantive change. They feel that the CPC has been foisted upon them as a middle man that has resulted in a difficult relationship with the Department. The retailers are frustrated with the no claims policy of CPC and state that this has increased costs. They feel strongly that the current entry point system, inspection requirements and schedules add unnecessary delays and costs of ensuring fresh goods are available in their outlets.

The retailers submit that the costs they incur to re-organize freight and the CPC per case handling fees are unnecessary and add to the landed costs of goods to the communities.

Each retailer is perturbed about the public perceptions that they do not pass on the subsidy at the local level. They claim that the lack of marketing information on the Program and direct relationship with the Department is the major contributor to this perception.

The retailers feel that they are more experienced and motivated than the CPC to ensure that goods reach outlets in the most cost efficient, innovative and timely means possible. They submit that they share an interest with Canada to ensure that Northerners have dependable and affordable access to fresh foods whereas for the CPC it is all about volume and cross subsidy. The retailers want a direct relationship with Canada and are very eager to work collectively with Canada to develop a pan-northern partnership that would result in a direct subsidy at the till approach.

The major retailers have recently communicated their desire to develop a partnership with the Department. It is my opinion that when such noteworthy organizations come together to form a joint industry wide approach their effort should command considerable attention. These retail organizations have outlets in most of the eligible communities and as they represent the largest users of the Program they should have a considerable say on the future of the Program.

Aboriginal Organizations

All of the Aboriginal organizations I met with understand the benefit that the Food Mail Program provides to their constituents. All are passionate that they be involved in the future design of the Program. Some Aboriginal organizations have submitted their opinions and recommendations, which are included as part of this report.

All of the Aboriginal Organizations agree that the Program be developed to consider country foods and are willing to develop cost shared partnerships with Canada to support regional driven initiatives. The Aboriginal stakeholders feel that the current Program lacks marketing information to encourage healthy choices. All want their constituents to be able to see and measure how the value of the subsidy is applied.

Of interest is the approach by the Kativik Regional Government to develop a food subsidy program as a part of a series of initiatives to reduce cost of living in the region. Their program is a direct partnership with major retailers to apply a subsidy discount at the till. Local consumers can see the advertised discount on the shelf and value the discount at the till. Retailers submit claims based on proof of sale and actual volumes sold. The Kativik Government chose this approach to ensure resident knowledge and recognition of the program and a partnership approach with the Northwest Company and La Federation des Co-operatives du Nouveau Quebec to ensure accountability and transparency.

Nunavut receives the lion's share of the Food Mail subsidy. Residents and organizations located in Nunavut and the NWT have been asking various Ministers for modification to the Program for some time and appear willing to accept significant Program changes. The Inuvialuit Regional Corporation and Nunavut Tunngavik Incorporated would prefer to consider a direct Program at the till, based on study and consultation with them. Makivik prefers that the existing Program be modified to change current entry points and the budget be increased. The Kativik Regional Government submits that the current Program be left in place for another year to allow the Department to continue studies while allowing Kativik input into a new Food Mail Program and to insure that it compliments their initiatives.

I appreciate the views from Makivik and the Kativik Regional Government that the existing program essentially remains as is until they are consulted on any future change. However, given my findings, the budgetary and public accountability issues before the Minister, the significance of the joint proposal from Retailers and the concerns from Nunavut and NWT organizations I do not see it in Canada's interest to delay making changes to the program.

The meetings with stakeholders provided me with opportunities to introduce Program options and receive good comment and sound ideas. This is certainly one program that organizations and people are very passionate about, which in my view is a good thing. I would advise that Aboriginal organizations be more involved in discussion on the future development of the Program, particularly in areas of revising eligible items and discussions on country foods being introduced to the Program.

FOOD MAIL RENEWAL CONSIDERATIONS

The Department has invested in separate review studies that consider many alternative Program delivery areas, from food stamps to greenhouse infrastructure programs to direct transfer payments. The majority of stakeholders did not consider these areas as viable options. My review of such alternatives was limited due to the time and resources made available to me. Stakeholders did comment on the renewal of the existing Program options and as the Department has placed considerable emphasis on this option I focused my available time on this consideration.

The various studies of the Department conclude that the following areas should be considered in any efforts to renew the current Program:

- Develop a Management Framework
- Reduce the eligible list of items
- Revise Food Mail subsidy rates
- Review eligible list of communities
- Modify entry points (if appropriate)
- Develop agreements with Retailers
- Investigate the viability of a claims process
- Investigate introducing reusable packaging to save re-cycle costs and protect supplies
- Investigate increasing hours of operation at key entry points
- Investigate introduction of incentives to encourage the use of dedicated cargo aircraft
- Introduce measures to gain assurance that shipping stations have required infrastructure
- Investigate introducing facilities that allow for secure storage and 24/7 aircraft operations
- Investigate viability of modifying the contract with air carriers to encourage fleet modernization
- Introduce a country foods portion to the Program
- Review the agreement with the CPC
- Review the CPC inspection processes and schedule
- Develop communication plans and marketing tools

Comment

Based on the studies provided by the Department I have the following comments on the renewal consideration.

- Modifying the existing entry point system appears to consider consolidating the existing 20 or so entry points to 5 major distribution points (Edmonton\Calgary, Winnipeg, Ottawa\Montreal). There is no doubt that this would reduce product handling, inspection times and result in increased quality of goods. However, the Program cost increases to ship directly from major distribution points will be substantive.

- The Vice President of Canada Post was crystal clear with me that the CPC will only consider developing a claims process if INAC pays for it, therefore a claims process would result in increased Program costs to the Government of Canada. It could be that a claims program could be charged back through CPC fees to the retailers, which would increase the cost of cargo to each community and an increase in retail prices paid at the till by consumers.
- I agree on the need to develop an agreement with retailers. In sifting through the Departments review materials their thoughts on the contents of such agreements include ensuring that Retailers;
 - Pass on the subsidy to retailers
 - Transport goods in a covered vehicle
 - Display subsidy signage in store
 - Provide INAC with sales data
 - Allow INAC access to continue to undertake food price surveys

The Department's studies state that developing retailer agreements will require additional staff to conduct price surveys, investigate anomalies and set fines when retailers are not in compliance. I have no doubt that retailers would welcome some form of agreement, but not one that imposes how they transport goods locally or threatens with fines. I question why INAC would need to hire more staff to continue physically collecting data when retailers would be providing the same which does not make sense to me. In the event that an agreement was reached with retailers it would be fair and reasonable to expect that they would be compensated for their efforts, which would be over and above the existing administrative charges by CPC, and result in increased costs to Canada.

The Departments research submits the following should be investigated in the renewal of the freight subsidy renewal;

- Introducing reusable packaging to save re-cycle costs and protect supplies.
- Increasing hours of operation at key entry points.
- Introduction of incentives to encourage the use of dedicated cargo aircraft.
- Measures to gain assurance that shipping stations have required infrastructure.
- Introducing facilities that allow for secure storage and 24/7 aircraft operations.
- Modifying the contract with air carriers to encourage fleet modernization.

It is my opinion that most of these initiatives are the responsibility of airline industry and it is likely best that the Department leaves the airline industry to continue investing in such developments. Airlines have historically invested their resources in fleet modernizations, infrastructure and operations and I have no doubt they will continue to do so in the future. Although I am sure that improvements in these areas would improve food quality through improved delivery times and storage facilities they all require massive investment that are well beyond the scope and intent of the Food Mail budget.

There are many good suggestions included in the Department's Food Mail renewal considerations that would improve the current Food Mail Program. I agree on the need to reduce eligible items, revise rates and review the list of eligible communities, all which should likely have been considered many years ago.

I appreciate that the Department is unable to indicate the costs associated with many of their considerations at this point in time. However, it is my view that if the Department marginally investigated each consideration they will realize that most will require significant cost increases that reach well beyond the current Program budget level. Many of these well intended considerations would therefore fall by the runway and the "Program renewal" will end up as a "Program tweak" that is limited to rate increases and reduction of eligible items.

RETAILER APPLIED SUBSIDY CONSIDERATIONS

I have met, both on an individual and collective basis, with the three major retailers of the North. The retailers claim major issues with the current Food Mail Program and want to develop a partnership with Canada to operate the Program more efficiently and effectively.

The retailers presented me with the following during my meetings with them.

The retailers submit that they have more of a vested interest in the success of the Program than Canada Post. They claim their interests are to ensure that fresh foods reach outlets in the most expedient, cost efficient and effective manner possible. The retailers want to promote increased consumption of perishable foods as healthy customers are able to be employed and live longer and are therefore able to continue to utilize their local retail outlets.

The retailers present that a shift to a retail approach will do away with the issues related to Canada Post. Retailers want the ability to find the best methods of transporting goods in the most efficient and effective manner. Retailers have hundreds of years of experience in shipping to the North and insist on high packaging, shipping and storage standards with their suppliers and shippers. These standards are considered in the negotiations with suppliers and shippers and are typically used to form claims policies. The retailers feel that the current CPC Program negates their ability to ensure their standards are maintained and that the no-claims policy of the CPC is unacceptable and unaccountable. Retailers indicate that with the CPC per piece handling charges and inspection schedule costs removed they would expect that goods will arrive in better condition and that landed cargo rates in each community will decrease.

The major retailers all feature state of the art point-of-sales systems. They claim that with some minor one time Programming their systems could be modified to apply subsidies directly at each outlet, while also producing auditable reports of sales and type of items sold. The retailers are prepared to design reports specific to Canada's requirements and provide these on a frequent basis. Once software programs have been adjusted future changes such as change in cargo rates would be easily achieved and at a minor cost. Such costs of occasional adjustments would likely be included in on-going management fees.

The retailers propose that INAC would dictate a list of focused eligible items. At this point in time the retailer's proposal is that subsidies be predominantly focused on perishable items that must be flown to communities, such as produce, fresh meats, bread and the likes. Retailers do not expect subsidy to be applied to items normally shipped by annual resupply mode, such as ship or winter road, unless the Department directs that a subsidy be applied on certain items, such as diapers. Retailers are prepared to provide data on sales of eligible items that are partially stocked by annual resupply and partly by air due to sell by dates, such as flour and some canned goods. In such cases the Retailers suggest any subsidy only be applied during periods when annual resupply stock has diminished.

The retailers suggest that use of electronic point of sales technologies provides good opportunity to consider alternative Food Mail subsidy rate applications. As the cargo rates are so different in every community one scenario proposed is to consider a freight subsidy discount by community. For example, freight subsidy discounts for produce in Pond Inlet could be established at 85%, 65% in Gjoa Haven, 50% in Iqaluit and 5% in Kuujjuaraapik. Another scenario for consideration is that retailers could apply discounts on regular retails. For example, retail discounts for produce in Pond Inlet could be established at 70%, 40% in Gjoa Haven, 15% in Iqaluit and 4% in Kuujjuaraapik. The retailers also submit that the subsidy could also be fixed at a dollar discount value by item. Regardless of the type of subsidy application retailers are prepared to show the value of subsidy at their outlets that show the difference between regular and Canada Food Subsidy applied prices.

The retailers are prepared to work with Canada to investigate the Food Mail subsidy rate application alternatives and use historical sales data, by item and community, to provide dependable financial estimates for each scenario.

The retailers are prepared to work with Canada to develop and implement a consistent, pan northern marketing and communications plan on the new Program. Their view is that the marketing program will include materials with Canada and retailer logos that will be used on point of sales materials, posters and information on healthy eating habits, etc.

Comment

I believe that Canada and the retailers do share interests relating to the objectives of the Program. In my experience any partnership agreement that is founded on shared interests and principles will achieve good results.

The retailer's proposal to show the value of the food subsidy at their outlets through in store marketing materials will resolve public awareness issues with the current Program. Consumers would be able to see and value how the subsidy is applied and the Department would receive recognition for their investment.

The production of detailed volume and sales reports, by community, will provide dependable information to effectively monitor the Program and importantly be useful to provide impacts measurement data. I would expect that any agreement with retailers will insist on auditable reports that, when coupled with rights to audit, will more than address current issues of accountability for expenditure of public funds.

The point of sales systems of the retailers would provide significantly improved Program management opportunities. The use of historical sales data to evaluate the costs and impacts of various subsidy applications will allow Canada to make informed decisions on the Program. I certainly see that sales and volume data, by product and community, as providing enhanced opportunities to plan and budget more accurately. This type and level of information is critical in measuring Program performance.

I feel that the proposal to consider rate application alternatives by community may address the issues with the current harmonized approach. It is my view that subsidy application should be aligned with costs of cargo in each community to ensure an equitable and cost effective approach. A major benefit from either fixed dollar value or discount rate application alternatives is that any cost increases in cargo rates will be shared with the consumer. The current harmonized rate approach sees Canada assume the full cost of cargo rate increases.

I also see opportunities to reduce Program costs by seasonal application of subsidy rates on non-perishable goods only after annual re-supply items with sell by dates are consumed. I am also encouraged by the retailer's claim that cargo rates may decrease as a result of forgoing the CPC system. Retailers do pay handlers to re-organize freight by eligible Food Mail product at entry points and do pay Canada Post a per piece handling fee. These costs are unique to the current Food Mail Program and would not normally be incurred with regular freight. I would suspect that retailers will be effective in their negotiations with air shippers that may also result in reduced cargo rates.

At this early point in discussions I did query on the one-time Program implementation and on-going management costs required by the retailers. Retailers do not see adjustments to their point of sales systems as a major exercise or cost. They have already invested in their systems hardware and software and costs will be limited to programming changes. I also understood from my early discussions that on-going management costs will be considerably less than those currently charged by the CPC. Collectively, the major retailers have a presence in most eligible communities and in many communities the major retailers compete with each other. Some of the larger centers also feature independent retailers and convenience stores that may be interested in participating in the Program and must be considered. Most independent retail stores have electronic tills that could be modified to provide as a point of sale tool and proof of purchase of subsidized goods.

The retailers do not have deep cash flow pockets and if Canada wants to develop a partnership approach with the retailers the process for refunding them for subsidies issued on behalf of Canada to consumers must be addressed. Retailers cannot wait more than 30 days to receive payment for invoices. Canada Post apparently has deeper pockets but currently charges the Program for their costs of money to carry outstanding invoice payments. The current agreement is that Canada Post is provided a monthly advance and payments are adjusted for costs over and above the advance amount on submission of each monthly invoice.

The Department informs me that they are not set up to issue payments to retailers due to the nature of the Program and anticipated volume. They indicate that they would require many new resources to do so. I do not understand why. The major retailers indicate that their systems can generate one invoice for all of the outlets that each represents, meaning that the Department would receive three invoices per month from the major retailers. Of course, there may be up to 30 independent retailers who would submit monthly claims if they choose to participate in the Program. I do not see why the Department could not administer the claims of retailers any differently than Canada Post, by providing advances based on an agreement that considers historical sales.

INTERIM RATE CHANGE ANALYSIS

The Department has recommended a range of immediate measures that propose to contain Program costs over the short term. A critical consideration is increasing the perishable rates from \$0.80 to \$1.25 per kg. I completed an analysis of the impacts of this rate increase over a select group of communities, as noted in the following page. The Northwest Company has provided the information required to complete the exercise.

The chart highlights the significant retail values if no subsidy was applied, particularly in the more remote communities. I would expect that at \$64.40 for a 10lb bag of potatoes in Pond Inlet, and \$37.59 for the same in Gjoa Haven, that potatoes would be well beyond the reach of the vast majority to buy. This indicates the value of Canada's investment in the Program and clearly there would be a profound impact if the Program was not available. It is unfortunate that the existing Program did not advertise that Canada currently subsidizes a bag of potatoes in Pond Inlet by \$46.20 per bag.

The chart also raises the substantial differences in retail values between communities. A bag of potatoes currently retails for \$3.89 in Edmonton, \$7.29 in Yellowknife, \$18.29 in Pond Inlet and \$21.39 in Gjoa Haven. The retail differences are predominantly related to the cost of shipping goods to entry points and local haulage rates from the airport to the retail store.

My analysis reveals that if the new \$1.25 Food Mail subsidy rate was applied in Kuujjuaraapik it would result in an increase above regular retails when no subsidy is applied. The reason for this is that the \$1.25 rate would be equal to or higher than the regular cargo rates for that community. If this was the case there would be no reason for retailers in Kuujjuaraapik to continue as participants in the Food Mail Program. This scenario would occur in 10 Food Mail communities where cargo rates are close to or lower than the proposed Food Mail subsidy rate of \$1.25.

Raising the Food Mail subsidy rate in the manner suggested by the Department would increase the list of eligible communities who would not subscribe to the Program to at least 47. This supports my belief that harmonization does not work well when cargo rates differ so dramatically between regions and communities. This brings forth the challenges of equity and achieving the objectives of the Program across the North.

The challenge before the Department is where to draw the line on delisting the communities that are eligible but have never participated in the Program, and the impacts of Program rate changes of communities that have participated in the Program. The Department could certainly expect angry cries from participating communities such as Kuujjuaraapik if they were removed from the Program.

Impacts of rate increase chart.

Community	Product Item	Regular Retail with no subsidy	Retail Value existing FMP \$0.80 kg	Retail value increased rate \$1.25 kg
Gjoa Haven	Kraft Peanut Butter Smooth 500G	7.99	5.99	6.29
Iqaluit		6.65	5.75	5.99
Kuujuaraapik		5.89	5.69	5.99
Pond Inlet		11.59	5.75	5.99
Gjoa Haven	Best Value White Bread 570G	5.99	3.79	5.99
Iqaluit		4.45	3.35	3.69
Kuujuaraapik		3.65	3.45	3.79
Pond Inlet		10.29	3.39	3.69
Gjoa Haven	Follow Up Formula Liq Co 385ML	6.09	4.39	4.65
Iqaluit		4.89	4.19	4.39
Kuujuaraapik		4.29	4.19	4.39
Pond Inlet		8.79	4.19	4.39
Gjoa Haven	Apples Macintosh Bagged 3 Lb Bag	15.99	10.79	11.49
Iqaluit		10.69	8.35	9.19
Kuujuaraapik		7.09	6.65	7.39
Pond Inlet		24.29	8.89	9.59
Gjoa Haven	Bananas per KG	10.49	6.69	7.19
Iqaluit		6.99	5.25	5.75
Kuujuaraapik		3.99	3.69	4.19
Pond Inlet		16.59	5.45	5.95
Gjoa Haven	Carrots Bagged 2lb	7.25	4.09	4.59
Iqaluit		4.89	3.39	3.85
Kuujuaraapik		2.69	2.45	2.85
Pond Inlet		12.99	3.39	3.85
Gjoa Haven	Potatoes Red 10 Lb Bag	37.59	21.39	23.59
Iqaluit		24.39	16.99	20.39
Kuujuaraapik		14.99	13.79	15.19
Pond Inlet		64.49	18.29	19.25
Gjoa Haven	Eggs Large 12S	6.99	4.29	4.69
Iqaluit		5.15	3.89	4.29
Kuujuaraapik		4.25	3.99	4.39
Pond Inlet		11.89	3.89	4.29
Gjoa Haven	Beatrice 2% Milk 2L	15.49	8.15	9.19
Iqaluit		10.59	7.19	8.25
Kuujuaraapik		7.29	6.69	7.69
Pond Inlet		28.89	7.25	8.25

RECOMMENDATIONS

Based on my responsibility as the Minister's Special Representative, the studies supplied by the Department, my consultations with stakeholders and my review of available information I respectfully provide the following recommendations.

Recommendation 1: The existing Food Mail Program is replaced with the Canada Food Subsidy Program.

I believe that partnership agreements with retailers will ensure that the Program is delivered to intended recipients in a more direct, effective and efficient manner. It is my opinion that if the Program is managed by retailers, based on legal agreement, it will result in improved Program transparency, accountability and recognition of Canada's investment. The major retailers are eager to develop a pan-northern marketing Program that will substantially improve public communication and inform on healthy eating choices. I believe that the Canada and the retailers share an interest in the success of the Program, whereas the CPC interests are limited to the business benefits.

The partnership with retailers will improve delivery times of fresh goods and eliminate current CPC administrative and freight handling costs. I believe that retailers will take advantage of developing more efficient and effective delivery systems that may result in reduced cargo rates to communities. The point of sales systems of retailers holds significant opportunity to provide the information to significantly improve Canada's budget management, Program monitoring and performance measurement interests.

The retailers have suggested various options on alternatives to the current harmonized Food Mail subsidy rate. Given the vast differences in cargo rates in every eligible community I believe that the current harmonized rate approach challenges fairness and equity of application. Under the current Program any cargo rate increases are assumed by Canada. A discount application alternative that considers community cargo rates will result in any rate increases being shared with consumers and therefore less costs to Canada.

From my early discussions with the major retailers I am encouraged that their one-time set up costs will be minimal and on-going management costs likely considerably less than those charged by the CPC to the existing Program.

I believe that it is in the urgent financial and service interests of Canada to make system wide changes sooner rather than later. I do not believe that pilot projects or the likes to test such change are required as the major Retailers have already tested such a system with their partners in the Kativik Region. I believe that the Retailers have the capacity to develop and install such a system within a short timeframe. Consideration must be made to accommodate the notice requirement of contract termination with the CPC (6 months with Treasury Board direction). There is also a requirement to give notice to Retailers to allow them to develop new cargo delivery arrangements and order annual re-supplies.

Recommendation 2: Identify accurate Program cost estimates

It is clear that the current budget of \$27.6M allocated to the Department to provide for the Program is insufficient and needs to be adjusted. I feel that with an exciting new Canada Food Subsidy Program, one that is partnership driven, result oriented and based on accurate costing will provide the Department with compelling justification to seek increased base budget investment. I believe that it is in the best interests of Canada that the base budget be enhanced if it is established on calculated Program costs that are capped and adjusted annually according to consumer price indices.

Due to the election period and my recent focus to meet with stakeholders I was not provided with sufficient time to fully investigate the Food Mail subsidy rate application and cost impacts presented by the major retailers. This is a critical piece of work that will identify annual costs and be useful in establishing a robust A-base figure. I recommend that a costing exercise be completed that would include the following;

- Work with major retailers to identify the costs of various Food Mail subsidy rate applications based on historical volumes of sales.
- Work with major retailers to identify costs of various eligible product lists
- Identify the onetime costs of retailers to modify their systems.
- Identify the on-going Program management costs of the retailers
- Identify marketing costs of the retailers

With the above information the Department will be in a position to consider impacts and to provide dependable advice on best options for Canada.

Recommendation 3: Identify a subsidy payment system

Attention needs to be given on how retailers would be refunded for the subsidies they will provide to consumers on behalf of Canada. Retailers do not have the capacity to wait more than 25-30 days for payments.

The Program should not bear the costs of interest for delayed payments of over 30 days. Canada Post currently charges for costs of money for carrying outstanding invoices at the expense of the Program.

Each major retailer is prepared to consolidate invoicing for the outlets that they represent, which will result in the Department receiving three monthly invoices per month, rather than one from each of the eligible communities. There may be up to 30 independent retailers who may also choose to participate in the Program.

I feel that the existing payment system could be modified. Canada Post is currently provided a monthly advance and submits a monthly invoice for differences over the advance amount. I do not see why the same could not be arranged in the agreements with retailers. The Department currently retains four staff associated with the Food Mail Program. I feel that the staff roles and functions should be re-aligned to support and monitor the retail partnership and that a modest new investment in staff resources may be required to administer payments to retailers.

Recommendation 4: Revise Eligible Communities

There are currently 31 communities that are eligible to participate in the Program but have historically chosen not to as the regular cargo rates to these communities are substantially less than the Food Mail subsidy rate. If the Food Mail subsidy rate is increased the spread between actual cargo and Food Mail subsidy rates in these communities will widen and it is highly unlikely that these communities will ever participate in the Program. These communities have never used the Program and will not be affected in any way by removing them as an eligible community. In my view the line has to be drawn somewhere as the Program was designed predominantly based on costs of shipping and affordability.

Recommendation 5: Revise eligible items

The Department has recently developed two lists of eligible product options. One list includes a range of non-food items that have nothing to do with perishable foods or nutrition, including soap, deodorants, toothpaste, nursing pads and toilet paper. In my view these are beyond the scope of the Program. The vast majority of these non-food items should be shipped by annual resupply methods as most are not affected by sell buy dates and should not be considered as eligible subsidy items.

The perishable and non-perishable items on both of the Department's lists appear reasonable enough to me, although Aboriginal organizations may question why whole wheat flour, tofu and the likes would be included as these would not be considered by these organizations as core basic food items. Many would challenge why frozen pizza and frozen prepared dinners remain as eligible items as they may be viewed as competing with the healthy foods intent of the Program. Bottled water remains on one of the Department's lists, a heavy item that is tremendously expensive to ship to places like Pond Inlet. Is quality of water the responsibility of the Program and is it nutritious?

I have not consulted extensively with stakeholders on the proposed eligible lists from the Department, although all the Retailers and Aboriginal organizations that I met with have clearly stated that they want to have a say on this matter. Aboriginal leaders feel strongly that the eligible food items should be focused on food security and the Program should be aligned to provide a subsidy on core basic items. Retailer's state that some items, such as whole wheat flour, simply do not sell no matter how much subsidy is applied. Most agree that eligible dry goods items, such as toasters, should not be considered as eligible items. I believe that if the Program is to become more sustainable and achieve results then the current list of eligible products needs to be significantly refined and focused on achieving the core objectives of the Program.

Recommendation 6: Develop a pilot country foods initiative with regional Inuit organizations as part of the Canada Food Subsidy Program

The current Food Mail Program does not consider country food items. Aboriginal residents when given a choice been store purchased and locally harvested items will always prefer country foods. The consumption of country foods is particularly important to Aboriginal communities and it is a well documented fact that locally harvested country foods hold higher nutritional values than store purchased meats. The Department's studies recommend that the Program consider a country food initiative to help offset costs and encourage continued consumption of locally harvested items.

The cost to harvest country foods is an expensive activity, particularly so in Inuit regions and I recommend that the new Canada Food Subsidy Program invest in a pilot project in the most isolated regions. The pilot project, taken over 5 years, would aim to capture information on increases in levels of harvesting, levels of consumption and impacts on health. Pending the results of the pilot program the initiative should be applied to all eligible communities.

Inuit organizations have indicated an interest in developing partnerships with the department and would highly value such an initiative. During my review I was informed of various efforts by each Inuit organization to encourage and support local harvesting of country foods through their own programs, from providing gas subsidies, to providing for community hunts to assisting with freight costs of inter-settlement trade.

Pending the cost analysis of eligible lists and potential Program savings, I recommend that the new Canada Food Subsidy Program allocate a budget of \$3.0 M to be used to develop cost shared partnership agreements with each Inuit regional organization. This will allow the Program to support the unique harvesting support programs activities within each region. The partnership agreements with each Inuit organization should be based on a proposal from each group that indicates objectives, measurable performance indicators and financial accountability. To ensure partnership leverage I would suggest that criteria include that the Canada Subsidy will invest in up to 75% of each regional budget in activities and that the eligible administrative costs of each Program be no more than 20% of total project costs.

My advice on Canada Food Subsidy budget allocations to the Inuit regions are as a follows:

Canada Food Mail					
Country Foods Partnership					
Proposed budget allocation					
			\$3,000,000.00		
	2006		Base	Population	Total
Regional Investments	Inuit Population		Budget	Base	Allocation
Inuvialuit	3,115	7.9%	\$ 200,000	\$173,604	\$373,604
Nunavut	24,635	62.4%	\$ 200,000	\$1,372,945	\$1,572,945
Nunatsiavut	2,160	5.5%	\$ 200,000	\$120,380	\$320,380
Nunavik	9,565	24.2%	\$ 200,000	\$533,072	\$733,072
Total	39,475	100.0%	\$ 800,000	\$2,200,000	\$3,000,000

Recommendation 7: Interim changes to the existing Food Mail Program

The Department has suggested interim changes to contain costs by increasing the rate of subsidy. As rates have not increased since 1993 there is sufficient justification to do so. However, I am concerned about the harmonized rate structure of the existing program and the impacts of rate changes recommended by the Department on communities that have historically participated in the Food Mail Program. The result is that retailers in some communities would chose to withdraw from the Program as new Food Mail subsidy rates will increase over regular cargo rates. In my view this may bring claims of inequity and further challenge the Canada's commitment to support the intention of the Program.

The new partnership with Retailers will resolve this issue as whatever subsidy application is considered will be based on cargo rates by community. However, in the short term, I would expect that the cost shock to communities who have used the Program of completely being removed from the Program may result in concerns and complaints. To help address this, while still increasing subsidy rates above 1993 rates, I make the following recommendations;

- The perishable Food Mail subsidy rate for Arviat, Churchill point of entry, remains at \$0.80 per kg. Any increase will result in the Food Mail subsidy rate being higher than regular cargo rates and the retailers would not subscribe to the Program.
- The perishable Food Mail subsidy rate increase from .80c to \$1.00 in the following communities. These communities are currently participants in the Program. Rate increases over \$1.00 will result in the Food Mail subsidy rate being higher than regular cargo rates and the retailers would not subscribe to the Program.
 - Gethesemani/La Romaine
 - Kuujjuaraapik
 - Kingfisher Lake
 - Wunnummin Lake
 - Deer Lake
 - Favourable Lake
 - Popular Hill
- The perishable Food Mail subsidy rate increase from \$0.80 to \$1.25 in all other eligible communities.
- The non-perishable food and dry goods Food Mail subsidy rates increase from \$1.00 to \$1.30 per kg in the Provinces and from \$2.15 to \$2.50 per kg in the Territories. I believe that these rates remain below annual resupply rates.
- As there are separate agreements outside of the Food Mail Program I recommend that the current perishable rates in the pilot project communities and the Beaufort Delta remain at current levels.

- I would suggest that Food Mail personal orders be allowed to continue, although at the new rates, over the short term. Immediate cancellation of personal orders will result in considerable criticism from many users and not provide sufficient notice to users to find alternatives, such as to organize personal sealift orders. I would recommend that the new program be announced well in advance to notify that personal orders will be cancelled on the launch of the new program.

Recommendation 8: Consider the merits of transferring the Program to the Department of Health

Stakeholders and Northerners are confused between the food security and health and nutrition objectives of the Program. The objectives of the Program should be re-stated and responsibility centre for delivering the Program clarified.

The Ministers of Health and Indian and Northern Affairs Canada should discuss the pros and cons of transferring the Program.

A strategic objective of the Program is to reduce the costs of perishable foods with the intention of improving the nutrition, health and well being of isolated communities. These objectives are associated with the responsibility of the Department of Health and could be better linked and aligned to compliment other Health initiatives that are targeted to Northern and Aboriginal communities. The Department of Health has more experience and capacity to measure the impacts of the Program relating to the health and well being of individuals.

The Minister of Indian and Northern Affairs Canada maintains a unique and special relationship with Northerners and this Program is an important tool in maintaining that relationship. The Department has many years of experience in delivering the current Program. The strategic objective of the Program is to reduce costs, which are more aligned within the economic development responsibilities of the Department.

Regardless of this decision there should be written agreement between the Department on the respective roles and responsibilities of each Department to better guide officials.

Recommendation 9: Revise and clarify policy objectives and establish performance measures

The current policy statement needs to be reviewed and changed to be more clear and specific. Program measures need to be established that will inform on the performance of the Program.

For example purposes, Program measures may include:

- Value of subsidy, by community
- Volume of goods shipped, by item and community
- The level of consumption of nutritious foods by community
- Value of funds levered via partnership agreements
- Satisfaction level of community residents with the Program
- Impacts of the Program on reducing the cost of living, by community
- Impacts of nutritious consumption on health and well being (by Health Canada)
- Impacts of consumption of Country Foods on Aboriginal residents (by Health Canada & Aboriginal organizations)

APPENDICES: SUBMISSIONS FROM STAKEHOLDERS

Submission from NTI

Press release from Kativik Regional Government on their Retail Subsidy Program

Submission from Makivik

Submission from Kativik Regional Government

Resolutions from Nunavut Inuit Wildlife Services

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