*Intelligence* MEMOS

From: Erik De Lorenzi

To: Postal Observers

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Re: **A Way Forward: Canada Post Deregulation and Commercialization**

Canada Post is under major financial and operational strain. Mail volumes are declining, its market share in parcel delivery is evaporating and it lost another $840 million last year, which taxpayers have had to cover. Meanwhile, it is in the midst of another round of labour turmoil.

The organization is at a critical juncture, requiring urgent reforms to ensure its viability and sustainability. To better serve consumers and improve the effectiveness of federal spending, the federal government should take steps to eliminate its statutory monopoly and move towards greater commercialization and competition in the postal market.

Consider the following realities: From 2006 to 2023 Canadian addresses rose by 21 percent as mail volumes decreased by 60 percent. Canada Post's share of the parcel market has dropped from 62 to 29 percent since 2019, largely due to the pandemic-fuelled rise of low-cost couriers, a business that collective agreements prohibit Canada Post from entering.

The *Canada Post Corporation Act* (CPCA) set out three primary obligations when Pierre Trudeau's government created a Crown agency in 1981 to replace the government department that had operated since before Confederation. Its pillars were a statutory monopoly in the letter market, universal service, and financial self-sustainability.

First, Section 14 grants Canada Post a statutory monopoly in the collection, transmission, and delivery of letters weighing under 500g. Multiple exceptions to the monopoly exist, including for express and overseas mail.

Second, Sections 5 and 19 establish a universal service obligation (USO) requiring Canada Post to operate a system capable of providing mail to all regions at "fair and reasonable rates." Parliament inserted the USO to allay fears that high-cost remote areas would lose service.

Finally, Section 5(2)(b) requires Canada Post to operate on a financially self-sustaining basis without government support. The latter commitment has long been known to be an unrealistic representation of Canada Post's capital structure. And last January Canada provided a $1.05B in loan-based assistance package, twice the supposed upper limit of permitted government aid.

The political sensitivity of postal service was on full display in 2009 when Stephen Harper's government was facing noisy fears that privatization was imminent, again threatening rural service. In response, the government introduced the Canadian Postal Service Charter, which is still in place and mandates a single price and five-day-a-week delivery to every address in the nation, and which further strangles Canada Post's operational and financial flexibility.

Then, Justin Trudeau's incoming 2015 government added to the burden as it banned any rural post office closures – even though 40 percent are now in suburbia – and also halted any further replacement of letter home delivery by community mailboxes.

So, no matter how the current labour situation resolves itself, Canada's postal ecosystem needs to change. Canada Post's management remains optimistic that if the current labour strife is fairly resolved, that there is "a path" towards long-term financial and operational viability.

That optimism is not borne out by economic analyses. Existing cost levels have made Canada Post highly uncompetitive in the parcel market, further straining its ability to offset the inevitable losses in mail delivery. Tomorrow, we'll explore what to do.

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