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# Untying the Gordian Knot: Reforming Canada's Postal Market

*Canada Post's financial crisis is often blamed on declining mail volumes and rising costs. This Commentary finds that the deeper challenge is a Gordian knot of monopoly protections, universal-service obligations, and outdated governance arrangements – and proposes a path toward a more competitive and sustainable postal system.*

Erik De Lorenzi



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# UNTYING THE GORDIAN KNOT: REFORMING CANADA'S POSTAL MARKET

by Erik De Lorenzi

- Canada Post's financial crisis is bigger than declining mail volumes and rising costs. Drawing on economic evidence and interviews with policymakers, industry executives, and Canada Post leadership, this paper finds that the corporation's statutory letter monopoly, universal-service obligations, and postal charter have created a rigid regulatory framework that is increasingly incompatible with a competitive postal market.
- Economic evidence does not support maintaining Canada Post's exclusive privilege in letter delivery. This paper argues that postal services do not exhibit the characteristics of a natural monopoly and that greater competition would improve efficiency and support long-term financial sustainability.
- Canada should commercialize Canada Post by eliminating its letter monopoly, creating an independent postal regulator, and preserving universal service through a competitively neutral subsidy program that ensures continued service to high-cost regions.

## INTRODUCTION

Low and decreasing mail volumes have led Canada Post to a tipping point.<sup>1</sup> Canada Post provides two core delivery services: mail and parcels. Despite a 21 percent increase in the number of Canadian addresses between 2006 and 2023, mail volumes fell by 60 percent (Canada Post 2024). Meanwhile, Canada Post's parcel market share has plummeted from 62 percent to 29 percent since 2019, with the COVID-era expansion of low-cost couriers (Canada Post 2024). Concurrently, ongoing labour strife threatens to worsen Canada Post's already uncompetitive cost structure. The result? Canada Post has accumulated more than \$6.1 billion in cumulative operational losses since 2018, including more than \$1.6 billion during fiscal year 2024/25 (Canada Post 2025). In mid-2024, Canada Post CEO Doug Ettinger warned that the corporation would run out of cash by July 2025. In response, the federal government provided an

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1 Mail, post, and letter are used interchangeably throughout this *Commentary*. Each refers to non-express, domestic letters weighing under 500 grams.

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emergency \$1.05 billion loan in contravention of Canada Post's governing legislation (Previl 2025). Subsequent additional cash injections have failed to sustain the postal service beyond February of this year. Canada Post will likely require hundreds of millions more to merely stave off insolvency through the end of the 2025/26 fiscal year.

Canada Post's legislated pillars, universal service, and financial self-sustainability, are collapsing. Reform is necessary. The federal government is alive to these concerns. In September 2025, Joël Lightbound, the minister of Government Transformation, Public Works and Procurement, who is responsible for Canada Post, instructed it to produce a "transformation plan" within 45 days (Public Services and Procurement Canada 2025). The minister approved Canada Post's response.

Further, Minister Lightbound announced three changes aimed at stabilizing Canada Post's finances: (1) authorizing Canada Post to convert roughly four million addresses that still receive door-to-door delivery to community mailboxes – more than 75 percent of Canadians already receive their mail through community, apartment, or rural mailboxes – producing nearly \$400 million in expected annual savings; (2) ending the moratorium on rural post office closures (no projected annual savings provided); and, (3) reducing delivery frequency for non-urgent mail (some \$20 million in annual savings) (Public Services and Procurement Canada 2025). These changes are well underway.

These are important first steps. However, they will not address the most significant, underlying causes of Canada Post's lack of financial self-sustainability. And even if the federal government's projected cost savings are realized, and Canada Post's 2025/26 fiscal year operating results remain otherwise unchanged, Canada's national postal service is still expected to lose more than \$1 billion annually. Clearly, this is not a comprehensive solution.

Instead, this *Commentary* looks to the core of the problem. It proposes reforms to Canada's postal market that are more likely to restore

the organization's financial independence and reduce the need for federal government transfers. Specifically, it challenges Canada Post's statutorily protected postal monopoly. Contrary to commonly held beliefs, the postal market is not a natural monopoly. A natural monopoly exists where a single firm can supply the market at a lower cost than two or more firms, typically because of economies of scale and network effects. Common examples include utility companies, railways, and more recently, search engines and social media platforms. On this basis, I propose eliminating Canada Post's monopoly as a step towards renewed viability.

As part of my research for this *Commentary*, I conducted 13 interviews with current and former government decisionmakers, industry executives, and former members of Canada Post's leadership team. These conversations informed my assessment of the merits of various policy options and, ultimately, my recommendation of two solutions. First, Canada Post should be "commercialized" through eliminating its regulated monopoly and relieving the corporation of its universal service obligations.

Second, Parliament should establish an independent postal regulator. Canada is the only major Western economy without one. A postal regulator would separate ownership from regulation, addressing the potential conflict of interest that arises when the government sets both service targets and financial benchmarks. However, privatization may offer significant benefits only after addressing the structural problems inherent in Canada Post's existing regulatory framework.

These two reforms, alongside Minister Lightbound's recently announced changes, offer practical and politically sensitive solutions to Canada Post's formidable challenges. This *Commentary* focuses on the role of Canada Post's regulatory framework in its current financial difficulties and explores legislative reforms that could complement operational changes.

## REGULATORY CONTEXT AND CURRENT CHALLENGES

*“It’s a Gordian knot. The current framework doesn’t provide Canada Post with a clear path back to profitability. It’s up to the politicians now. Without them, management and the union will bring us further out to sea.”*

– Former CEO, Canada Post Corporation  
(Author interview)

Any discussion of Canada Post’s governance should begin with the two sets of laws that most significantly shape its performance: the *Canada Post Corporation Act* (CPCA) and the *Canadian Postal Service Charter* (Charter). The CPCA was enacted in 1981, converting the postal service from a government department into a wholly federal government-owned corporation: the Canada Post Corporation (CPC). The former post office department yielded significant annual losses, prompting Parliament to include section 5(2)(b), requiring CPC to operate on a financially self-sustaining basis without government support.

### Governance

The CPC operates as a quasi-autonomous and unregulated organization. The minister of government services, public works, and procurement appoints CPC board members with the approval of the federal cabinet for a term not exceeding four years. Cabinet also appoints the chairperson for a term of its choosing. The board appoints the CPC CEO and is responsible for managing the corporation.

The corporation’s board proposes postal rate increases and decreases subject to ministerial approval. Over the past two decades, the minister has usually provided the requested increases without much opposition (interview with former minister of Public Works and Government Services, 2025). That apparent lack of rate-making scrutiny reflects a broader trend toward limited ministerial oversight. The minister is “required” by

law to approve CPC’s annual strategic plan. Yet, since 2019, the minister has failed to approve any of the CPC’s six strategic plans.

The reason? Presumably, a lack of political will to make difficult decisions about a Crown corporation that has, until recently, attracted little attention from successive governments. Those strategic plans included politically fraught decisions such as the elimination of door-to-door delivery, a change that the federal government only recently accepted as necessary to stem CPC’s fiscal hemorrhaging. Another explanation is a desire to preserve positive relations with the Canadian Union of Postal Workers (CUPW), a key voting bloc representing more than 50,000 workers across Canada with the power to shut down postal service nationwide.

CPC has no independent regulator. The minister, responsible for Canada Post and its primary overseer, sets service targets and financial benchmarks. Customer complaints are reviewed by CPC’s ombudsperson, who, in turn, reports to CPC’s board. In both cases, a clear conflict of interest exists.

### Exclusive Privilege

The CPCA constructed a postal market with two primary pillars. First, section 14 granted CPC an exclusive statutory monopoly over the collection, transmission, and delivery of letters weighing under 500 grams. Multiple exceptions to the monopoly exist, including for express and overseas mail. Combined with CPC’s postal monopoly, limited ministerial oversight of the postal ratemaking process may explain the 98 percent increase in inflation-adjusted mail prices since 1981 (Geloso 2024).

### Universal Service

Sections 5 and 19(2) of the CPCA established a universal service obligation (USO) requiring that CPC provide service to all regions, including high-cost remote areas, at “fair and reasonable rates.” Almost all national postal service operators are

subject to some form of USO (General Accounting Office 1996). Under a purely market-based system, carriers are likely to prioritize low-cost, high-profit urban and suburban areas to the detriment of higher-cost, low-profit rural counterparts. However, under the current system, the USO is binding. Ensuring equitable standards for rural and urban communities, regardless of the merits of the policy objective, results in higher costs.

### Service Charter

In response to political fallout over an attempted privatization and heightened anxiety regarding potential service reductions, the federal government introduced the *Canadian Postal Service Charter* in 2009 (Transport Canada 2009). The Charter compounded the challenges inherent in the CPCA's rigid, non-commercial structure. Notably, it expanded the USO to prescribe fixed five-day-per-week delivery and replaced the "fair and reasonable" pricing mandate with a uniform price for all similarly sized letters, irrespective of distance (Interview, Vice Chair, Strategic Review of Canada Post Corporation, 2025).

The Charter's prescriptions have limited CPC's ability to influence its corporate strategy, reduced financial transparency through facilitating inter-regional subsidization, and discouraged possible market entry (Interviews, FedEx executive and former CPC CEO, 2025). Put differently, the Charter led Canada Post to increase postal rates for urban and suburban customers to avoid imposing significant rate increases on rural customers that would reflect the higher cost of serving those areas. Possible new entrants, such as FedEx, are deterred from entering the letter delivery market, in part, because of this artificially high cost structure.

Furthermore, the CUPW has strenuously rejected management-led efforts to amend the Charter to reduce delivery frequency and address its increasingly uncompetitive labour-driven cost structure (Interview, former member of CUPW's leadership team, 2025). Estimates of Canada Post's cost base suggest that it already exceeds those of its legacy courier (150 percent) and gig worker (400 percent) competitors in the parcel market by a wide margin (Lee 2024). Continued above-market pay raises will expedite CPC's impending fiscal reckoning and inevitably increase the severity of future cuts necessary to restore fiscal balance.

The core regulatory issue remains the Gordian knot ensnaring CPC: the combination of an increasingly demanding USO and a statutory postal monopoly. I now consider whether that monopoly is warranted before exploring possible solutions to these challenges.

### EXCLUSIVE PRIVILEGE AND NATURAL MONOPOLY

*"The efficiency rationale for exclusive privilege no longer exists. It's rent seeking. Without Section 14, Canada Post could not subsidize parcels and the bottom would fall out."*

*– Vice Chair, Strategic Review of the Canada Post Corporation (Author interview)*

This section demonstrates why technological justifications for CPC's section 14 monopoly are no longer valid. Two primary justifications are offered for protecting a government postal monopoly: (1) the presence of a natural monopoly and (2) the existence of economies of scope (Iacobucci et al. 2007).<sup>2</sup> Neither is supported by an economic analysis of Canada's postal market. In the latter case, the emergence of value-added e-commerce

2 Economies of scope are achieved when it is cheaper for one firm to produce a subset of products than for multiple firms to produce them independently.

providers has reduced the economies of scope between mail and parcels (Glass et al. 2021).<sup>3</sup>

Natural monopoly exists where a single firm can supply the market at a lower cost than two or more firms, typically because of economies of scale and network effects. Where a single firm can construct and operate the postal network at a lower cost than multiple firms, that firm is said to have sub-additive costs. Advocates of statutory postal monopolies argue that entry should therefore be restricted to achieve the most efficient market structure – a single firm (Sidak and Spulber 1997). Curiously, if this claim were true, restricting entry would be unnecessary, as prospective competitors would not be able to compete with the monopolist. The existence of a natural monopoly would instead warrant some form of price-cap regulation to limit abuses of market power (Iacobucci et al. 2007).

Historical analyses of mail delivery (Mill 1848) and letter pricing (Coase 1939) through the 19th and early 20th centuries consistently observed that the postal market was a natural monopoly. These analyses reasoned primarily through first principles and seldom relied on empirical evidence. More recent US analyses have all but exclusively concluded that postal service is not a natural monopoly (Miller 1985). Indeed, there seems to be broad agreement that most EU postal services do not constitute natural monopolies (Dieke et al. 2008). A 2023 study similarly found that the UK postal market was not a natural monopoly, at least with respect to local delivery and sorting, the activities most likely to be characterized as a natural monopoly (Ennis 2023). Few analyses of Canada's

postal system have attempted to answer whether Canada's own postal market is correctly classified as a natural monopoly. However, a seminal 1997 analysis at Yale University found that it was not (Sidak and Spulber 1997).

Moreover, since the 1980s, economists have increasingly accepted that many markets (i.e., telecommunications, electricity generation, garbage) or segments within these markets once thought to be natural monopolies are, in fact, inherently competitive. In turn, the existence of competitive markets may obviate the need for regulation (Iacobucci et al. 2007). Where a market, or segments within a market, are competitive, a more efficient outcome can be realized through liberalizing entry into the segments – competitive markets will naturally drive prices toward an efficient equilibrium without government intervention – and adopting more limited, price-based regulation within inherently monopolistic ones.

In 1996, the US Congress debated the US Postal Service's possible privatization. Its review focused primarily on whether the US postal market was a natural monopoly. Canada's model interested legislators, and CPC's former CEO, Georges Clermont, was called to advise on how to approach the natural monopoly question. Clermont stated that Canada Post is a wholesale and retail provider of delivery services comprising three components: (1) long-distance transportation; (2) regional sorting and transportation; and (3) local collection, sorting, and delivery (Sidak and Spulber 1997).

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3 CPC's parcels business, Purolator, is not this *Commentary's* focus. However, its proposed reforms will impact Purolator's competitiveness. Currently, CPC increases its letter prices, in part, to generate additional funds that can be used to offset losses from discounting its parcel prices. Purolator's pricing would otherwise be less competitive when compared with its peers, including FedEx, UPS, and TransForce. Allowing private companies to compete in Canada's letter market may drive down prices, reducing the availability of these additional funds and, therefore, potentially necessitating increases to Purolator's parcel prices. Under the paper's proposed reforms, Purolator is likely to lose market share to its peers, at least in the short term, before a leaner, more competitive CPC emerges.

A subsequent Canada Post CEO agreed that Clermont's geographic and activity-based framing remains the most appropriate for assessing the existence of natural monopoly in Canada's postal market (Interview, former CPC CEO, 2025). As I argue below, none of these components, considered individually or collectively, exhibit the properties of a natural monopoly.

**Long-Distance Transportation:** CPC relies exclusively on contracts with competitive transportation providers to ship its products across the country, including airlines, trucking companies, and railroads. These third-party providers also coordinate package exchange. Any customer is equally capable of obtaining these services. Therefore, contracting for long-distance transportation does not evidence natural monopoly properties.

**Regional Sorting and Transportation:** Regional sorting and transportation of mail is not a natural monopoly. While there may be economies of scale at the individual sorting plant level, this does not suggest that a single provider should own all the sorting plants within a region. The technology used in CPC's sorting plants resembles that employed by global retailers such as Amazon (Interview, former CPC CEO, 2025). Few have called for the wholesale supply of merchandising to be performed by a single retailer. Further, while there may be network effects from a single transportation system operator, multiple carriers service regional transportation demand, as evidenced by Canada's competitive parcel delivery market.

**Local Collection, Sorting, and Delivery:** In the absence of natural monopolies in the long-distance and regional components, the postal market can be classified as a natural monopoly only if one exists in its local component and does so in sufficient magnitude to compensate for the absence of increasing returns to scale in the other two (Stigler 1951). Clearly, this is not borne out.

Local service involves inward sorting, door-to-door delivery, and pick-up. The economies of scale in each are minimal given the absence of significant, non-regulatory entry barriers and the intensive use of low-skilled labour (Adie 1990). The large number of local carriers in Canada's parcel and express mail markets supports this conclusion. At most, economies at the local level would support having an individual firm service each locality.<sup>4</sup>

Further, if there were vertical economies from merging local and regional servicing, this would not justify horizontal integration across localities but rather the development of multiple vertically integrated networks. Alternatively, local economies of scale could potentially justify replacing CPC with a patchwork of provincial postal operators regulated by their respective provincial governments. Such a system would at least create an opportunity for the provinces to learn from one another, as is common with other regulatory bodies such as Canada's securities commissions.

Supporters of Canada Post's letter monopoly may point to the fixed costs associated with building sorting plants and procuring a parallel system of community mailboxes as evidence of the existence of a natural monopoly, at least at the local level. However, this view is flawed. Here, a single supplier is not necessarily more efficient. Instead, an economically efficient access-pricing regime may well address these concerns, offering service to a community at a lower cost and with better service than CPC could offer on its own.

This *Commentary* ultimately recommends a subsidy scheme to ensure adequate service for rural communities. This is not an admission that natural monopolies exist in Canada's rural and remote postal markets. Instead, it acknowledges that no market participant will supply those high-cost regions absent market-based incentives and legislation compelling them to do so. Put differently, the subsidy scheme reflects the existence

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4 Some scholars have proposed breaking up the US Postal Service along regional lines (Oster 1987 at page 31).

of a market failure in Canada's rural and remote postal markets, not a natural monopoly.

No component of Canada's postal market reflects the existence of a natural monopoly. Therefore, there are no efficiency-based grounds for restricting competition under section 14. Instead, exclusive public provision can only be justified on equity grounds such as preserving universal service and uniform pricing. The next section demonstrates how these objectives can be better achieved without a regulated monopoly's distortionary impacts.

## RECOMMENDATIONS

*“Canada Post is at a tipping point. Inaction by successive governments, including my own, has created only bad options. Privatization won't yield the value it previously would have. Canadians and CUPW won't tolerate service and route cuts. We need a third way.”*

*– Former minister of Public Works and Government Services (Author interview)*

This section examines the policy reforms that may best address the issues identified in the previous sections, including CPC's declining financial self-sustainability and the looming threat of so-called “cream-skimming” – the tendency of carriers to serve only the most profitable regions while avoiding remote areas.

First, a brief word on Minister Lightbound's postal reforms. Both the federal government and CPC leadership are intent on pursuing at least three changes to help stabilize Canada Post's finances: (1) converting some four million addresses that still receive door-to-door delivery to community mailboxes; (2) ending the moratorium on rural post office closures; and (3) reducing delivery frequency for non-urgent mail. The minister projects that the changes, if implemented, will generate more than \$400 million in total annual savings. This amounts to around one-quarter of the 2024/25 losses.

These are welcome developments and the most serious proposals in two decades to reform CPC's operations to address the corporation's long-term financial challenges, but they don't go far enough.

This *Commentary* is not focused on operational reforms. Instead, it focuses on moving the public debate beyond targeted operational changes and toward the broader, structural reforms to CPC's enabling legislation, mandate, and governance; that is, reforms necessary to more thoroughly address these longstanding challenges. Consider the scale of the challenge. Even if Canada Post implemented each of the federal government's proposed operational reforms and realized the projected cost savings, it would still lose more than a billion dollars a year if its recent financial performance otherwise remained unchanged.

The minister and Parliament have four principal alternatives they should consider: (1) acquiescing to some or all of CPC's and the CUPW's recent demands; (2) privatizing CPC; (3) commercializing CPC; and (4) establishing an independent postal regulator.

I discuss the feasibility of each in turn. I then recommend creating a Canadian postal regulator and commercializing CPC by eliminating its postal monopoly and implementing a competitively neutral subsidy program to avoid cream skimming while preserving universal service. While privatization has some benefits, the federal government should pursue this option only after first addressing the structural problems inherent in CPC's existing regulatory framework. A private postal operator, freed of universal service obligations and guaranteed its monopolist position, would invariably abuse its market power by maximizing its returns through higher rates and lower service standards, absent an effective check from government or from the discipline of competing in a free market.

### **(1) Do Not Grant All Targeted Management or Union Concessions**

In its 2024 Annual Report, CPC management requested that the government amend both the CPCA and Charter to permit the introduction of Ramsey-style pricing while maintaining its postal monopoly. (Ramsey pricing is a form of price discrimination wherein the monopolist charges consumers different prices based on their willingness to pay.) Firms adopting a Ramsey-based pricing strategy set prices relatively high for products with inelastic demand (e.g., monopoly products) and relatively low for products with elastic demand (e.g., competitive products). CPC's leadership has attempted to justify increases to mail prices as a means of offsetting otherwise uncompetitive pricing in the highly competitive parcels market (Interview, former minister of Public Works and Government Services 2025).

The government should reject this request because inverse elasticity-based pricing does not account for a monopolist in one market competing with others in separate markets (Waverman 1980). Ramsey pricing would be flawed because it relies upon a price elasticity of mail demand predicated on a regulated ban on entry, one that reflects neither customers' true willingness to pay nor the opportunity cost of other suppliers. Without first repealing CPC's exclusive privilege, Ramsey-based postal ratemaking would harm both consumer welfare and adjacent competitive markets.

CUPW has recommended expanding CPC further into seemingly unrelated and often competitive markets, including food delivery in rural areas and EV charging (Interview, former member of CUPW's leadership team, 2025). This should also be rejected. Despite CUPW claims to the contrary, such proposals would compound existing structural cost challenges. CUPW's proposal further incentivizes anti-competitive cross-subsidizing of competitive services through increased letter prices. Pairing Ramsey-style letter

pricing with expanded entry would exacerbate these undesirable incentives.

### **(2) Do Not Privatize Canada Post. Alternatively, Defer Privatization Until After Its Commercialization**

Privatization should be rejected for four reasons. First, political opposition. Former prime minister Stephen Harper's rural caucus led the opposition to the 2005-2007 privatization effort, raising the spectre of decreased service to remote communities (Interview, former minister of Public Works and Government Services, 2025). Current Conservative, New Democrat, and Bloc Québécois leadership have each expressed opposition to privatization. Increasingly, there is also an emerging popular consensus favouring increased state economic intervention (Guriev and Papaioannou 2022). Clearly, this is not a favourable political climate for privatization.

Second, CPC's implied equity value has plummeted following a post-2018 streak of \$6.1 billion in cumulative operational losses (Canada Post 2025). Privatizing CPC today would yield comparatively limited proceeds, especially without accompanying reforms that would allow a private operator to dramatically increase the corporation's profitability. CPC's collective agreements lock in cost structures that are significantly above market – particularly with the post-COVID-19 expansion of gig worker delivery platforms – restricting the ability to reduce salaries and pension expenses as part of a turnaround strategy.

Some privatization proponents argue that the proceeds of any transaction are less relevant than the competitive discipline that would result from transforming CPC into a private company (Interview, former CPC CEO, 2025). The argument has some merit. Instead of focusing on incremental reforms that would increase the corporation's value as part of any go-private transaction, the federal government could simply avoid being pulled

further out to sea by terminating a large chunk of its financial commitments if Canada Post were transformed into a private company.

However, privatization has yielded mixed results across peer jurisdictions. President Donald Trump was purportedly considering a bid to privatize the US Postal Service in early 2025 (Miron 2025). But Postmaster General David Steiner, a Trump appointee, has since clarified that the administration is not actively considering a privatization bid, perhaps because of concerns regarding reduced mail service to Republican-leaning rural counties (Wang 2025).

Meanwhile, the United Kingdom approved the 500-year-old Royal Mail's sale to Czech-based EP Group in December 2024. Universal service commitments were retained as part of the sale (UK Department for Business and Trade 2024), which followed Royal Mail's partial privatization in 2013. Royal Mail's pre-tax profits remained relatively unchanged at some £250 million in the first six years following its partial privatization before increasing significantly to some £710 million in 2021 and 2022 and then plummeting to a £110 million loss in 2023 (Wales 2024). Following the 2024 sale, International Distribution Services (IDS), Royal Mail's parent, posted an after-tax profit of £367 million in the fiscal year to the end of March. The turnaround was driven in large part by IDS's cost-cutting measures, including voluntary departures and reduced delivery standards for certain non-priority letters (Barrons 2025).

Context matters. Privatizing national postal operators has yielded mixed results in other European jurisdictions (Institut de recherche 2014). Market entry following privatization has been limited in many European markets. The market share of former postal monopolists has remained roughly the same in England (95 percent), Sweden (93 percent), and Germany (91 percent), following market liberalization (Institut de recherche 2014). The inference? The economic, political, and regulatory contexts in which privatization occurs vastly affect the results of any reform.

Third, wholesale privatization should be rejected because incremental reform is preferable, providing an opportunity to transition smoothly and without disruption. This *Commentary* recommends eliminating CPC's exclusive privilege. Privatizing first without deregulating would be the worst possible outcome. A private regulated monopoly would necessarily be less allocatively efficient than its public alternative (Adie 1990). Indeed, a private postal operator, freed of universal service obligations and guaranteed its monopolist position, would invariably abuse its market power by maximizing returns through higher rates and lower service standards absent an effective check from government or the discipline of competition.

Finally, privatization would fail to address the structural problems flowing from the CPCA and its Charter. It would, however, make CPC more efficient while operating within a flawed system. Ultimately, if the federal government chooses to pursue CPC's privatization, it should do so only after first addressing the structural problems inherent in CPC's existing regulatory framework.

### **(3) Commercialize Canada Post by Decoupling Universal Service from the Postal Monopoly**

Commercialization is the policy most conducive to Canada Post's greater economic welfare. I recommend deregulating the postal market by eliminating CPC's exclusive privilege under section 14 and relieving CPC of its incumbent universal service obligations. Delivery to rural communities would be maintained by compensating carriers under a subsidy scheme. Transitioning toward market-based competition would also require amending the postal charter to permit prices to float freely. Precedent exists. The EU adopted both changes in its 2013 decision to outlaw postal monopolies across the continent, with encouraging results (EU Postal Services Policy 2024).

Decoupling universal service from CPC's postal monopoly would pressure CPC to end its

alleged cross-subsidization practices, drive down urban delivery prices, and increase transparency regarding the costs of rural servicing, creating stronger incentives for management to control costs (Iacobucci et al. 2007). Significant additional benefits are likely to follow. Urban and suburban customers would benefit from lower prices. CPC could reduce letter prices and become more competitive against private sector rivals in an open letter market. Additionally, CPC's board and the federal government would be armed with better data on the profitability of local and regional markets as they consider further reforms.

Still, market entry following deregulation across European jurisdictions has been inconsistent (Iacobucci and Trebilcock 2012). One common observation? Coupling deregulation with rules requiring equal access to community mailboxes tends to facilitate entry through lowering initial fixed costs and reducing consumer switching costs. However, a FedEx executive noted that FedEx and its primary competitors, UPS and DHL, intend to enter the letter market following deregulation even without access to existing Canada Post facilities. They have already lobbied the minister to remove section 14 to pre-empt entry (Interview, FedEx executive, 2025). Moreover, even if entry did not materialize, the mere threat of entry may still impose competitive discipline upon CPC.

Oponents of commercializing CPC will argue that under a more competitive market, higher-cost rural areas will either lose service altogether or receive service too infrequently. This threat of cream-skimming must be addressed under any deregulation plan. One possible solution is a subsidy regime. A competitively neutral subsidy

model would effectively decouple universal service from a postal monopoly. Indeed, two-thirds of the Universal Postal Union's membership operates their postal markets with some form of subsidy scheme to preserve universality (House of Commons 2024).<sup>5</sup>

Canadian precedent for a similar scheme already exists. Under section 19(1) of the CPCA, the federal government directly compensates CPC for providing free or heavily discounted postal services to parliamentarians, blind Canadians, periodicals, and certain other groups. These transfers should be expanded to subsidize delivery to high-cost rural communities.

How might such a regime be structured? Two possible designs are worth considering. Each would prevent cream skimming and address market failures by allowing prices to float freely, reflect local servicing costs, and then compensate either the resident or supplier for the difference.

**A. Direct Transfers:** First, the federal government could provide direct transfers to residents of high-cost rural and remote areas. Tax-based transfers are administratively simple, requiring only an expansion of existing deductions such as the Northern Residents Tax Deduction. However, pairing upfront costs with year-end compensation may prove politically unpopular and produce results similar to those seen under Canada's carbon-pricing regime.

**B. Competitive Tender Process:** A second, superior approach would have the federal government solicit competitive bids to service specific high-cost areas for a defined term.<sup>6</sup> This would resemble the subsidy model employed in Canada's telecommunications market post-

5 The Universal Postal Union is an international forum for cooperation among the major postal operators in the largest, developed economies.

6 I include the prior approach to provide legislators and government officials with a wider range of options as they consider which approach is both politically feasible and achieves their policy objectives.

deregulation (Sidak and Spulber 1997; Iacobucci et al. 2007).<sup>7</sup> The winning bid would be the one requiring the lowest government subsidy. A competitively neutral tendering process, centrally administered and funded by the government, would maintain universal service at no direct cost to residents and address the political concerns under the direct transfer model.

Of course, before pursuing either option, the federal government should carefully assess the costs of administering such a scheme. Specifically, the federal government should scrutinize whether the total administrative cost would be materially less than CPC's current financial costs. One additional benefit is that a subsidy scheme would spread costs across the entire tax base rather than concentrating them on ratepayers and the corporation. This would reduce the likelihood of a future CPC fiscal reckoning, with increased rural and remote servicing costs absorbed by the federal government and its immense fiscal capacity, thereby eliminating one of the major drivers of CPC's uncompetitive cost structure.

#### **(4) Establish a Canadian Postal Regulator**

Canada is the sole major Western economy lacking an independent postal regulator. In 2016, Parliament called for its creation (House of Commons 2016). Why does one still not exist a decade later? Presumably, a lack of political interest from successive governments. The minister should enthusiastically champion its creation, either alongside deregulation or as a standalone measure to enhance customer service, improve corporate governance, and address potential conflicts of

interest in the ratemaking process. Moreover, CPC's complaints-focused ombudsperson should report to either the regulator or the minister, rather than CPC's board.

A postal regulator would separate ownership from regulation, addressing the potential conflict of interest that arises when the minister sets both service targets and financial benchmarks (Campbell 2002). Consider the current situation. The minister responsible for Canada Post must grapple with an immediate fiscal crisis while also ensuring that Canadians receive the service standards they expect. In practice, one objective must be prioritized at the expense of the other. An independent regulator narrowly focused on overseeing compliance with the Charter, for example, would create stronger incentives for CPC to meet those targets rather than justify non-performance by pointing to competing financial obligations.

More generally, successive ministers have assigned limited political significance to their CPC oversight responsibilities. Very few have acted as an effective check against potential CPC rent-seeking (Interview, former minister of Public Works and Government Services, 2025). Perhaps this helps explain why successive ministers approved a cumulative 98 percent increase in inflation-adjusted mail prices since CPC's creation (Geloso 2024). Standing athwart against a two-cent increase in letter prices attracts little praise from voters, the news media, or caucus colleagues.

Canada Post has received little public scrutiny in the past decade except during its recent fiscal reckoning and the occasional eruption of rural

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7 Iacobucci, Epps, and Trebilcock surveyed the model adopted within the telecommunications sector in their 2007 study of Canada Post's statutory monopoly. They find: "Following liberalization of that [telecommunications] sector and the removal of legally imposed restrictions on competition, all telecommunications service providers fund the USO through contributions. In high-cost areas, where the cost of providing residential local telephone services exceeds sales revenue, the CRTC has established a per customer subsidy program to ensure service. The subsidy regime is competitively neutral, in that it moves from one provider to another if a customer switches providers. The subsidies, which totaled \$248 million in 2005, are funded by a tax — 1.03 percent in 2005 — on revenues of telecom providers with more than \$10 million in annual revenues."

opposition to proposed service reductions. An independent regulator tasked exclusively to oversee Canada's postal market would reduce the likelihood of another decade of inattention and inaction, improving the odds that future problems are addressed before they become crises.

Jurisdictional overlap with existing labour relations boards, the federal Competition Bureau, and consumer protection agencies would need to be considered in determining the regulator's powers. Within a deregulated and fragmented postal market, a regulator would likely perform a narrow set of roles focused on ensuring a level playing field, monitoring competitors' compliance with the CPCA, and administering the proposed subsidy program in a manner similar to the Canadian Radio-television and Telecommunications Commission (CRTC).

However, if the statutory monopoly is preserved, the regulator should be vested with expansive ratemaking powers and the authority to order disclosure of CPC's internal cost analyses. Sector-specific expertise would be a welcome improvement over comparatively limited ministerial oversight. Put differently, Parliament should create a muscular watchdog capable of preventing CPC from cross-subsidizing competitive services with monopoly rents.

Concerns about expanding the federal bureaucracy and the costs of establishing a new agency may be partially allayed by housing a leanly staffed regulator within an existing agency. The CRTC would likely prove the most natural fit given its expertise in developing and overseeing access-pricing regimes, including those that could govern competitor access to Canada Post's community mailbox network.

## CONCLUSION

*"Let the marketplace decide who should be in the game and who is best."*

– Georges Clermont, Former CEO of CPC  
(Author interview)

Canada Post is at a tipping point. Technological innovation has made reform necessary. However, changes to its corporate strategy will not yield lasting results without first addressing the structural problems created by the application of an outdated *Canada Post Corporation Act* and an inflexible *Canadian Postal Service Charter* to an increasingly uncompetitive postal service.

Economic analyses do not support an efficiency rationale for maintaining Canada Post's statutory postal monopoly. Reform should begin there. Modernization demands that Canada's postal service be commercialized, governance improved, and universal service preserved through adopting new approaches to long-standing problems. To advance those objectives, I recommend creating a Canadian postal regulator and commercializing Canada Post by eliminating its postal monopoly and implementing a competitively neutral subsidy program to prevent cream skimming and preserve universal service.

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