

Intelligence MEMOS



From: Glen Hodgson
To: Postal Observers
Date: December 13, 2024
Re: **CANADA POST IS STUCK IN A TIME WARP. IS THERE A WAY OUT?**

Canada Post is a financial mess. It lost nearly \$748 million in fiscal 2023, following a 2022 loss of \$548 million. Annual losses began in 2018 and have now reached a cumulative total of \$3 billion.

Without fundamental changes to its business model to respond to a changed operating environment, there will be even larger losses in future years.

To rub salt in the wound, Canada Post is into its fourth week of a pre-Christmas strike, arguably the worst possible time for businesses, charities and consumers that rely on its services. Watching the work stoppage unfold feels like drifting through a time warp back to the 1970s. At that time, the post office was a government department and a monopoly. The Canadian Union of Postal Workers (CUPW) was repeatedly able to threaten to strike and to go on strike on occasion to leverage more compensation for its members.

The old post office was eventually transformed into a Crown corporation, which was to bring commercial principles and discipline to its operations. Canada Post was to be a business that innovates and adapts in order to deliver effective service to Canadians. It was also expected to be financially responsible and focused on achieving a positive bottom line, including when engaging in negotiations with its workforce.

Why is Canada Post stuck in its time warp? It starts with a lack of financial leadership from its shareholder, the federal government. After six consecutive years of losses, there is no apparent budget constraint on Canada Post's activities – a hard bottom line – that would compel fundamental structural changes. Operating losses keep growing, the government writes a big cheque in response each year, and the union sees an opening to take advantage of the evident policy weakness.

The unwillingness to address and fix Canada Post's finances is symptomatic of the federal government's overall fiscal management capacity; it has not taken the necessary hard decisions in many areas to get the fiscal deficit under control.

Canada Post's problems also flow from an inability to adapt to structural changes in the market for mail and parcel delivery. As I [wrote](#) last summer, mail delivery was once a natural monopoly, but there are now many possible substitutes (although not for every user). Digital technology has enabled easy mass communication, slashing the number of letters being sent. Business mail is also down as many businesses and consumers opt for digital marketing, billing and payment. The result is much less mail delivered to households – down by around two-thirds compared to two decades ago. A prolonged strike will only accelerate the shift toward digital billing and payment.

In the parcel delivery market, online shopping has produced a boom in volumes shipped. Canada Post owns Purolator and is able to tap into this expanded market segment, but there is plenty of competition. Expanding online shopping has boosted parcel revenue for Canada Post, but processing and delivering parcels is significantly more costly than processing mail. Growth in its parcels business is therefore not offsetting losses from mail.

How can Canada Post be dragged out of the time warp? Step one is a clear decision from the federal government on the need to restore a financially sustainable business model. At a minimum, it ought to state clearly if Canada Post is required to operate profitably, at least break even, or if a specified annual loss would be tolerated and subsidized. Right now, there seems to be an open-ended willingness to accept and fund annual operating losses of any size, which has led us to this point.

Other policy actions will be required from the federal government and Canada Post together. No doubt, these decisions will inevitably mean tough negotiations with CUPW. The options include:

- Reducing or even eliminating legacy home delivery, replacing it with community mailboxes as found in areas with newer housing.
- Delivering less often. Shifting to delivery on alternate working days, for example, would allow Canada Post to restructure its workforce and cut delivery costs.
- Taking full advantage of Canada Post's investment in modern technology by modernizing its workplace practices.
- Considering other ways to generate revenue, from increasing the price of postage to developing new lines of business if and where they make sense.

The lack of financial clarity from the federal government as shareholder and its apparent willingness to subsidize all losses has emboldened CUPW and left Canada Post management in a difficult bargaining position. Without a clear financial objective and a mandate for serious structural reform, Canada Post will remain stuck in a loss-making time warp, and CUPW will not be required to consider a hard bottom line in negotiations.

Glen Hodgson is a Fellow-in-Residence at the C.D. Howe Institute.

To send a comment or leave feedback, email us at blog@cdhowe.org.

The views expressed here are those of the author. The C.D. Howe Institute does not take corporate positions on policy matters.