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Reforming Canada Post for a Lower-Volume Era

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Canada Post's cost structure no longer scales in a low-volume world. Labour flexibility, automation, work sharing, retail consolidation, and parcel growth are necessary to reduce the cost of reaching every address while preserving universal service.

KEY TAKEAWAYS

- Canada Post recorded losses of C$748 million in 2023 and C$841 million in 2024, bringing cumulative losses from 2018 to 2024 to nearly C$5 billion.
- The problem is structural: mail volumes have permanently declined, while delivery obligations and labour costs have risen.
- Higher stamp prices and modest service cuts will not close the gap.
- Restoring sustainability requires a focused reform agenda: align labour with flexible workloads, expand work sharing upstream, use more automation, reduce retail acceptance costs, and grow parcel services.
- These changes will not be politically easy, but without reform, Canada Post will require permanent subsidy or face forced contraction.

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INTRODUCTION

Canada Post is Canada's only universal physical mail delivery network. It reaches every household and business, regardless of location or profitability. That reach continues to support core economic and civic functions, from business billing and payments to legal notice and government correspondence. It remains the only delivery system that is both comprehensive and predictable.

But Canada Post is in a downward spiral. Letter volumes have collapsed and delivery density is falling, while the organization is operating with a cost structure designed for a high-volume era that will not return. Increasing mail prices will only lead to even more diversion away from physical mail. This is not a cyclical downturn, but rather reflects a permanent shift in the economics of mail delivery colliding with an operating model that has not adjusted at the same pace.

Declining mail volume is the core cause. The shift to digital communication is permanent, and letter mail volumes will not recover. But Canada Post's response has not been enough, as recent annual losses show.

Higher mail prices will not solve the problem. Federal subsidies might, but that means either a higher federal deficit or cuts to other areas across government. Before either of these choices, policymakers should first insist on significant cost-cutting reforms to restore Canada Post to operational breakeven within 10 years, while sustaining universal daily delivery.

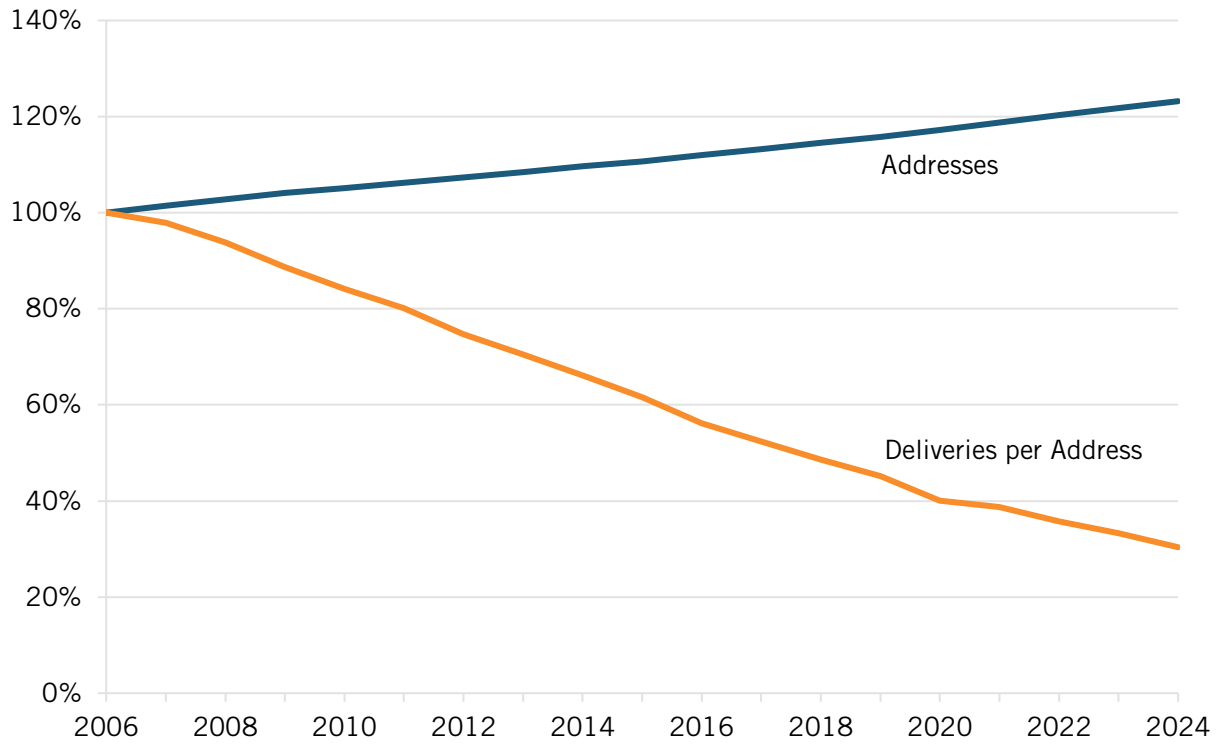
Canada Post's cumulative losses since 2018 approach C$5 billion, equal to over 80 percent of annual revenue.[1] The window for deliberate reform is narrowing, increasing the likelihood that future decisions will be made under fiscal or service crises rather than strategic choice.

Recent federal actions should be understood in the context of that narrowing window. 2025 Federal Budget expanded rate-setting flexibility, implicitly accepting higher prices as a fix.[2] The government has also directed Canada Post to implement long-deferred changes—adjusting standards so that non-urgent mail can move by ground instead of air, broader use of community mailboxes, and an end to the moratorium on rural post office closures.[3] These steps are in the right direction, but they need to go further.

STRUCTURAL PROBLEMS

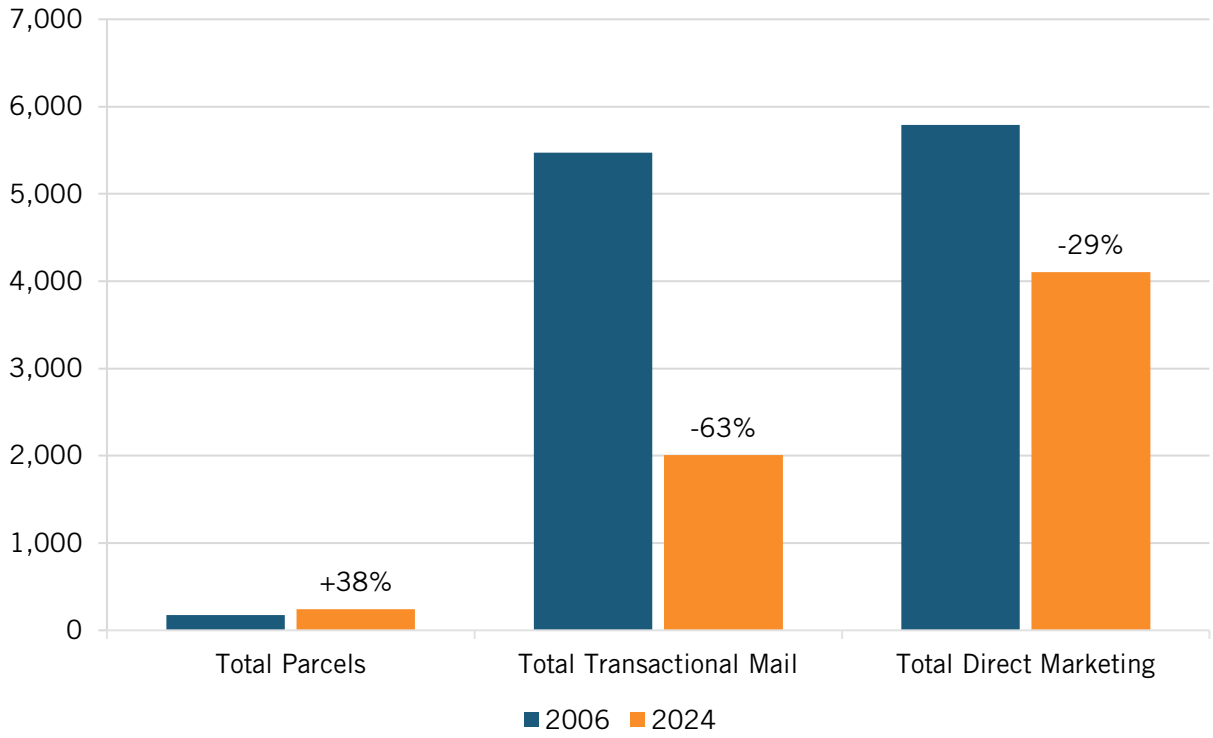
Canada Post's financial deterioration reflects the fact that the number of addresses it must serve is increasing while mail volume is decreasing. Unlike private logistics businesses, Canada Post must service delivery points regardless of demand. Routes, total distance travelled, and labour time are driven by the number and dispersion of addresses, not by how much mail appears at each stop. Regardless of whether a mailbox contains a bundle of letters or nothing at all, the route must still be covered.

Figure 1: Change in the number of addresses and deliveries per address, 2006–2024 (baseline = 100%)[4]



This relatively fixed-cost model was sustainable when volumes were high. It is not now. As shown in figure 1, total letters delivered per address have fallen by roughly 70 percent since 2006, while the number of delivery addresses has increased by approximately 23 percent.[5] Canada Post must now serve more delivery points with far fewer letters per address.

Figure 2: Change in mail and parcel volume by segment, 2006–2024[6]



The composition of volume has also shifted materially. As figure 2 shows, between 2006 and 2024, Transaction Mail declined by 63 percent and Direct Marketing by 29 percent, while Parcels grew by 38 percent from a much smaller base. In real terms, letter revenue fell by roughly C$2.8 billion over this period, while parcel revenue increased by approximately C$2.4 billion. Parcel revenues have grown substantially, but not enough to fully offset the loss of higher-margin letter revenue. The result is lower revenue density per address and a revenue mix that is now more labour-intensive than in the past.

When revenue per address falls but delivery obligations do not, the economics of the network shift. Geography determines cost. Letter volume once determined revenue; that alignment has broken.

That breakage is amplified by the economics of last-mile delivery itself. Until technologies such as robotics materially change the equation, mail delivery will continue to be a labour-intensive service subject to Baumol's cost disease (where sectors that cannot significantly improve productivity still face rising wages, causing unit costs to increase over time).[7] In sectors where productivity gains are limited, wages rise with the broader economy even when output per worker does not. The time required to reach each address does not fall in proportion to volume, and last-mile delivery is difficult to automate incrementally. Unit costs therefore rise over time, independent of service expansion or mismanagement. Productivity data reflects this reality: labour productivity in postal service fell by 28 percent between 2006 and 2024, even as all-industry productivity saw modest growth.[8]

Because labour dominates the cost structure, these pressures propagate quickly. Labour and employee benefits account for approximately C$6.1 billion of Canada Post's C$9.9 billion in

operating costs, or about 62 percent.[9] The pressure is compounded by revenue erosion. Adjusted for inflation, Canada Post's operating revenue in 2024 was roughly 34 percent lower than it was in 2006, even as the number of delivery addresses continued to grow.[10] The result is materially lower real revenue per address and greater sensitivity to labour costs. Some labour adjustment has occurred in those years, primarily through attrition, but it has not matched the scale of the structural shift: total employment declined by roughly 15 percent between 2006 and 2024.[11]

As delivery density erodes, unit costs rise mechanically. Fewer letters per stop and more delivery points increase both the cost per item and the cost per address. This effect operates independently of wage growth. Even if total labour costs stay flat, thinner volume means those costs are spread over fewer items, driving unit costs up.

Rate increases can boost revenue in the short term, but they intensify the shrinking-denominator problem. Different segments respond differently to price pressure. Transaction mail, which includes business correspondence and single piece stamped letters, tends to decline gradually as firms move to online billing and households shift to digital communication. Direct marketing mail, by contrast, is advertising. It is optional and more sensitive to price, so volumes adjust quickly when marketers shift spending to other channels.[12]

Repeated rate hikes therefore do not merely trim volume; they also accelerate the structural shift away from mail, eroding the revenue base that still funds universal service. Until the cost of reaching each address falls, pricing adjustments will simply shift the pressure elsewhere, into higher stamps, weaker service, or public subsidy.

The central challenge is not to magically restore past mail volumes. It is sustaining affordable, universal service when volumes are permanently lower. That reality makes labour flexibility, automation, work sharing, and network redesign necessary rather than optional.

THE FALSE CHOICES

Debate over Canada Post's future is often framed around a set of false choices that obscure the real policy problem. Privatization, permanent subsidy, and service cuts are presented as distinct paths forward.[13] In practice, each either avoids the structural challenge or makes it worse.

Privatization

Some on the right have framed privatization as the solution to Canada Post's losses, labour disputes, and service disruptions.[14] Privatization could help if it created the conditions for more flexible work arrangements—changes that have proven difficult to achieve within the current bargaining structure. Doubly so if it leads to accelerated automation and work sharing. But to the extent that it reduces universal service or degrades reliability, it would come at a cost of overall quality. The reality is that without major reform to do these kinds of steps, privatization may become necessary, if only to provide the political will for real change.

Subsidy

Public opinion polling suggests that many Canadians would prefer a modest, permanent subsidy to preserve universal postal service rather than pursue postal privatization.[15] However, at the same time, no poll has asked whether Canadians would prefer to pay a subsidy or support cost-cutting reform.

A permanent subsidy would keep the system afloat, but it would not fix it. With volumes declining and delivery points increasing, the deficit will compound, requiring larger federal transfers each year. Before normalizing ongoing subsidy, government should exhaust cost reform. It may be more politically expedient to finance the imbalance than to renegotiate it, but that trade-off would shift the ever-increasing cost of institutional rigidity onto taxpayers indefinitely.

Service Cuts

A third way of cutting costs is to reduce service. In public debate, this typically means reducing delivery frequency, slowing delivery standards, or withdrawing coverage. Such measures can generate savings, but like repeated rate increases, they risk accelerating exit from the mail stream. One study on the U.S. Postal Service illustrates the feedback loop: a proposed elimination of Saturday mail service would have resulted in mail volumes falling by nearly 8 percent overall.[16]

That said, changing how service is delivered is not the same as cutting service. Community mailboxes reduce time per address by clustering delivery points. Similarly, expanding upstream work sharing alters cost structure without reducing universal access. These measures lower cost per address while preserving the core obligation to serve every household and business.

A COST-CUTTING AGENDA

If privatization, permanent subsidy, and blunt service reductions do not address the underlying mismatch, then the remaining path is structural cost reform. The objective is straightforward: reduce the cost of serving each address so that universal service can be sustained without indefinite subsidy. This is not about shrinking the mandate. It is about aligning labour, infrastructure, and operations with a lower-volume reality. Recent federal changes move in the right direction—but they are not sufficient.

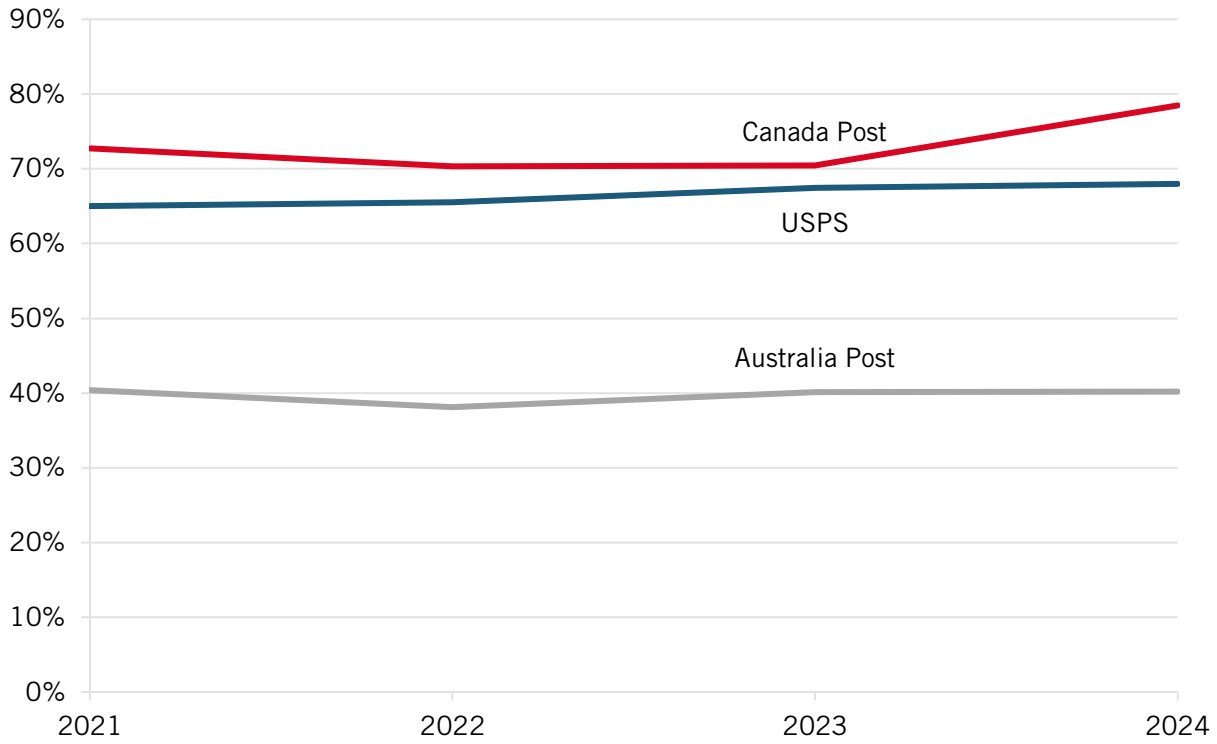
Align Labour Deployment with Address-Based Demand

Labour agreements emphasize schedule predictability and employment security. Those objectives, while understandable, reduce flexibility in staffing and route design. In parts of the network, there simply is not enough steady volume to justify full-time staffing in every role, but the system is nevertheless structured that way. When demand dips, capacity sits idle. When demand spikes, overtime fills the gap. The cost structure does not flex with the workload.

Recent bargaining proposals underscore this tension. Canada Post has sought to expand part-time positions to both increase weekend and peak-period flexibility and introduce dynamic routing, an industry-standard tool that optimizes delivery routes daily.[17] But this has been largely rejected by labour at the negotiating table. That such operational changes require negotiation highlights how deployment flexibility is embedded in existing agreements rather than determined solely by workload conditions.

Wage levels matter, particularly in a labour-intensive network. But how that labour is deployed is equally important. Even at existing wage levels, greater flexibility in route design and a more balanced mix of full-time and part-time roles, aligned with actual workload patterns, could materially reduce unit costs.

Figure 3: Own labour costs as a share of operating revenue for selected postal operators (2021–2024)[18]



Canada Post consistently devotes a larger share of operating revenue to labour than comparable postal operators in the United States and Australia do. As shown in figure 3, this gap persists across years. While cross-country differences reflect varying degrees of vertical integration and work sharing, the higher labour-to-revenue ratio leaves Canada Post more exposed to deployment rigidities as volumes decline.

In practice, greater deployment flexibility means designing routes, shifts, and staffing so that the number of workers on the job better matches how much mail and parcels actually need to be delivered that day. Tools such as dynamic routing, variable start times, and calibrated part-time staffing can absorb volatility without defaulting to overtime or idle capacity. This is not about mechanically reducing headcount. It is about reducing labour intensity per unit of output so the same network can operate at a lower unit cost.

Rigid deployment rules may protect jobs in the short term, but they raise unit costs.[19] Over time, higher costs will make it even harder for Canada Post to stay financially stable. More flexibility would help protect both jobs and service quality by keeping the system affordable. Without it, cost pressure is resolved indirectly through service degradation, higher stamp prices, and permanent taxpayer subsidy. In a labour-intensive Crown corporation, long-term job security ultimately depends on keeping the enterprise financially viable.

Use Work Sharing to Reduce Costs

The goal of Canada Post should not be to do all the work itself, but rather to ensure that required functions are performed in the most efficient manner. That often means work sharing with private partners. Insisting that every upstream function be performed internally, regardless of

relative efficiency, raises per-unit costs and accelerates rate increases. Cost discipline, not institutional self-sufficiency, is the binding requirement.

Work sharing should apply to a wide range of upstream functions while Canada Post retains core capabilities in system design, cost accounting, and network governance. Activities such as mail acceptance, preparation, presorting, transport, and certain administrative functions are inputs into the delivery network, not the point at which universal service obligations are fulfilled. Sharing those functions does not weaken public control so long as monopoly authority over final delivery remains intact.

The governing rule should be straightforward: use the lowest-cost provider, accounting for service reliability and oversight costs, while retaining control of the network. If Canada Post can perform a function more efficiently, it should do so internally. If a private provider can perform it at lower cost, Canada Post should contract it and retain the savings.

Work-sharing arrangements such as presorting bulk mail reduce marginal costs for postal operators and often produce price reductions of roughly 8 to 10 percent compared with unsorted mail.[20] These price differences reflect genuine cost savings and improve overall network efficiency.

International experience shows that postal systems that introduce competition in upstream segments while retaining monopoly control over last-mile delivery do not abandon universal service.[21] They reduce costs, preserve public accountability, and maintain national coverage. The lesson is not ideological. Universality is sustained by cost discipline, not by performing every task internally.

Work sharing must nevertheless preserve institutional capacity. Canada Post should retain expertise in system design, cost accounting, automation, and performance benchmarking even where specific activities are performed externally. Its core competence lies in governing and operating a national delivery system, not in executing every upstream function. Selective work sharing strengthens that competence by lowering the cost of sustaining universality as volumes decline.

Yet, upstream work sharing has not expanded materially. In a Crown corporation context, reallocating in-house functions affects employment, service expectations, and political oversight simultaneously. In that environment, both labour representatives and management have strong incentives to preserve existing institutional arrangements rather than pursue disruptive restructuring.

Thus, expanding work sharing will require explicit direction from the federal government and transparent cost benchmarking. Canada Post should be required to compare the unit cost of performing functions internally against competitive alternatives and justify deviations from the lower-cost option. Clear policy guidance that universal service is defined by final-mile control, not vertical integration, would reduce political ambiguity and give management the mandate to pursue cost discipline without reopening debates about privatization. And where institutional resistance, whether it is from the corporation or the union, prevents cost-reducing reforms, government direction will be required.

More Automation

In the long run, a sustainable postal network must reduce its labour intensity. A fully automated system is not yet technologically feasible, but the direction is clear: productivity must rise materially if Canada Post is to remain viable. Automation will inevitably reduce total labour requirements over time. The objective of a Crown corporation is to deliver reliable service at sustainable cost, not to preserve employment levels independent of demand.

To date, investment has not been sufficient to materially alter the underlying cost trajectory. While Canada Post has put money into capital expenditures over the years, any gains have not yet offset the structural mismatch between growing addresses and declining per-address volumes. Labour flexibility is necessary but insufficient. Only a significant increase in automation, explicitly aimed at reducing total labour hours, can materially alter the cost trajectory.

The Government of Canada should provide a one-time investment to establish a Canadian Postal Innovation Fund: C$500 million over five years dedicated to automation and process innovation in core functions. However, automation should follow, not precede, a clear assessment of which activities must remain in-house. Upstream functions that can be competitively work shared at lower cost should be opened to that discipline first. Public capital should be reserved for those core network functions in which universal service obligations require direct control or Canada Post can provision said functions at a lower cost than private sector partners can.

Within those core functions, the objective should be materially higher labour productivity and fewer total labour hours over time. Even modest reductions in labour hours per unit of mail and parcel throughput would translate into substantial savings across a national network of this scale. Over time, those gains compound through lower overtime, smoother peak management, and workforce attrition, where appropriate. Investments should be required to demonstrate measurable reductions in labour time per unit served, on the order of several percentage points per year. Projects that cannot do so should not scale.

Meeting that standard requires focusing automation on core network functions where scale, integration, and system control matter most. Priority areas include advanced sorting architecture, routing and sequencing systems, and integrated data platforms that reduce labour intensity across processing and delivery operations. Automation should reinforce Canada Post's role as network operator, not replicate tasks that can be done through work sharing. Deployment should scale incrementally, with performance benchmarks tied to measurable reductions in total labour hours and sustained service reliability.

There is also a broader strategic payoff. A national postal automation program creates a real-world testbed for robotics, AI, and logistics technology at scale. By de-risking deployment through a large, address-based network, Canada Post can support the development of a domestic automation and logistics technology ecosystem—key technologies in driving Canadian productivity growth.[22] These gains would strengthen the postal system itself while diffusing into the wider economy, reinforcing the case for automation as a systematic response rather than a discretionary upgrade.

Rationalize the Retail and Real Estate Footprint

Canada Post's retail and real estate footprint reflects historical demand rather than current usage. Standalone post offices and legacy processing facilities embed fixed costs that no longer scale with transaction volume, particularly as over-the-counter mail services decline.

More Canada Post counters should be located within dealer-operated outlets such as grocery stores, pharmacies, and other high-traffic retailers. A substantial share of standalone corporate post offices should be consolidated or closed wherever demand no longer justifies the fixed cost. Universal service does not require ownership of every counter or building. It requires reliable access. Dealer models preserve that access at significantly lower cost.

In 2024, property, facilities, and maintenance accounted for approximately 3.4 percent of total operating costs.[23] Post offices represent only a subset of that figure, once processing plants, depots, and other facilities are included, meaning retail footprint changes alone cannot materially alter the corporation's cost trajectory. But when combined with labour flexibility and network redesign, shifting toward dealer-operated outlets reduces fixed overhead and improves cost per transaction.

Processing and logistics facilities should also be consolidated and modernized to reflect lower letter volumes and evolving parcel flows. The existing network was built for higher-density letter throughput that no longer exists. Maintaining legacy plants sized for a different volume era embeds fixed overhead that does not scale down as mail declines. Capital should be concentrated in fewer, more automated hubs designed around current and projected volumes, particularly wherever parcel growth can be integrated into existing last-mile routes. Consolidation improves throughput, reduces redundant fixed costs, and enables automation investments to achieve meaningful productivity gains.

Grow Parcel Revenue

Parcel growth is necessary, but it is not automatically beneficial. It strengthens Canada Post only when additional parcel revenue exceeds the real cost of serving that volume, including its share of network overhead. Otherwise, parcels risk becoming a temporary offset to structural losses rather than a source of long-term sustainability.

Canada Post's advantage lies in its universal, address-based network. Expansion should focus on parcels that fit routes already being driven, especially in dense urban and suburban markets where more volume improves profitability per stop rather than adds new costs. Structured returns and reverse logistics are especially well suited to this model. Because delivery routes must already be driven, collecting return parcels on those same routes improves vehicle utilization and spreads fixed delivery costs over more pieces.

A national delivery network can also offer standardized, predictable returns handling at scale, something fragmented private carriers struggle to replicate consistently across the country. Returns generate recurring volume and increase revenue per route without requiring new delivery routes. Integrated fulfillment services extend this logic upstream. When Canada Post stores inventory, picks and packs orders, and manages returns, it becomes more than a last-mile carrier. It becomes part of the merchant's logistics backbone, making parcel volume stickier and adding upstream revenue tied to parcels that already flow through the existing network.

Commercial discipline is equally important. Parcel services operate in competitive markets and must be priced accordingly. Growth that strengthens route-level profitability reinforces the enterprise. Growth that relies on cross-subsidy or chases market share at the expense of profitability postpones reform. Contracts and partnerships should therefore be structured so that parcel revenues reflect avoided costs and improve overall network economics rather than dilute them.

Service competitiveness also matters. In dense urban markets, customers increasingly expect weekend and evening delivery—and in some segments, same-day service. Canada Post should expand these offerings selectively wherever route density and pricing ensure that marginal revenue exceeds marginal costs.

Finally, Canada Post should monetize its universal footprint through structured last-mile partnerships in low-density regions, high-cost regions, or both. It is inefficient for multiple carriers to duplicate rural routes. The United States Postal Service's (USPS's) Parcel Select program demonstrates a workable model: private carriers manage pickup and inter-city transport, while USPS completes final delivery under transparent, avoided-cost pricing. Properly structured, this converts universal coverage from a fixed obligation into a revenue-generating asset.

International experience reinforces this logic. Australia Post's StarTrack subsidiary competes in parcel and freight markets under commercial terms while the parent retains responsibility for universal delivery. The lesson is not diversification for its own sake, but rather clarity of mandate: competitive parcel operations must operate on market footing and complement, rather than obscure, the economics of the core network.

Australia Post's recent results illustrate the payoff of that discipline. In 2025, the enterprise returned to a modest profit of A$18.8 million, a margin of roughly 0.2 percent.[24] That stabilization followed concrete reforms under the Post26 strategy launched in 2022: workforce restructuring and productivity measures, closure or divestment of noncore operations, modernization of parcel facilities, and sustained investment in automation. Parcels generated a commercial surplus while letters remained structurally loss making. Crucially, those losses are reported transparently rather than absorbed quietly within the broader enterprise.

Learning from Australia Post, Canada Post should publish fully allocated profit-and-loss statements by business line. If parcels are profitable and letters are not, that reality should be visible. When parcel profits are used to quietly cover letter losses, parcel pricing risks becoming uncompetitive and the cost of universal letter service is obscured. Cross-subsidy buys time, but it erodes competitiveness and delays reform. Transparent cost allocation ensures that parcel growth builds financial strength instead of concealing underlying problems.

Parcel growth is necessary. But it must increase profitability within the existing delivery system, strengthen competitiveness in dense markets, and maintain pricing discipline. Otherwise, it risks expanding activity without strengthening sustainability.

Maintain Focus on Core Postal and Logistics Functions

Canada Post's comparative advantage lies in national delivery. At a moment when execution discipline is critical, expanding into unrelated lines of business does not diversify risk. It multiplies it.

Proposals such as postal banking, broadband provision, and seniors' check-ins are category errors. Each requires additional capital investment, staffing, operating systems, and management expertise that Canada Post does not possess. At best, they introduce new revenue streams with uncertain margins. At worst, they add fixed costs and operational complexity to a system already struggling to realign its cost structure.

Arguments that Canada Post should "use existing assets" to justify such expansions consistently understate the costs involved. Physical presence does not substitute for specialized systems, skilled personnel, regulatory approval, or risk management capacity. New lines of business create new fixed and variable costs, often with long payback periods and material downside risk. And they all face tough competition from private sector providers. They also divert leadership attention toward activities that do nothing to stabilize the core delivery network.

Mission creep is a liability. Managing unfamiliar businesses at scale competes directly with the time, capital, and institutional capacity required to implement labour reform, automation, work sharing, and network consolidation. At this stage, distraction accelerates decline by postponing the adjustments that determine whether universal service remains affordable and reliable.

CONCLUSION

Canada Post's crisis has arisen from the structural mismatch between falling mail volumes and revenue and rising costs.

There are only two possible solutions: permanent subsidy or cost reduction. It may be that even with the most ambitious cost-reduction plans, that the fiscal crisis continues and subsidies may be needed. But before admitting defeat, the federal government should do everything in its power to reduce costs first.

Aligning labour with workload allows costs to adjust as delivery density changes. Work sharing reduces system costs. Automation boosts productivity. Retail network consolidation reduces the cost of maintaining underused post offices and legacy facilities. Parcel growth adds new revenue.

Canada Post does not need to do more things. It needs to do the essential things better, with a cost structure aligned to modern demand. Success should be judged by outcomes: breakeven operations without subsidy with reliable daily delivery that customers trust.

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