



Air North, Yukon's Airline

Yukon Regional Air Market COVID-19 Financial Aid Reduction Proposal

3 November 2020

Introduction

The federal government has made a commitment to help regional communities ensure that they "have access to reliable and affordable regional air services". As stated in the recent Speech from the Throne, this commitment is based upon equity, employment, and economic development considerations.

There is likely no other region in Canada where equity, employment, and economic development considerations have more relevance to regional air services, than the Yukon.

The Yukon has a regional air travel network which is provided entirely from within the territory. Air North Yukon's Airline:

- i. Is one of the largest private sector employers in the Yukon with more than 300 pre-COVID Yukon employees and more than 200 Yukon employees today. During 2019 we employed more than 12 northern FTE's per 100 scheduled service departures while our mainline competitor employed less than 3 northern FTE's per 100 scheduled departures (our estimate);
- ii. Contributed more than \$76 million to Yukon GDP in 2011, representing 3.2% of territorial GDP (RP Erickson study). Contributions in 2019 are estimated at more than \$123 million, or 4.8% of territorial GDP. This is more than the 2.0%–3.4% contribution to Canadian GDP from mainline air carriers (Lazar study for NACC 2011);
- iii. Has almost 2,000 Yukon shareholders and beneficial shareholders, including the Vuntut Gwitchin First Nation who hold a 49% interest. More than one in fifteen Yukoners have made equity investments in the airline.



Vuntut Gwitchin First Nation



During 2019 Air North provided passenger and cargo service to 5 regional communities and 6 southern gateway cities from our Whitehorse hub. We are currently serving 3 regional communities and 3 southern gateway cities, including Vancouver. During 2019 Air Canada provided multiple daily passenger flights to Whitehorse from Vancouver and WestJet provided a summer passenger service to Whitehorse from Calgary. Currently Air Canada is providing daily passenger service to Whitehorse from Vancouver (page 6, Appendix A).

During the early stages of the pandemic, when most thought that the impacts would be relatively short-lived, subsidy was clearly the most appropriate tool for short term relief. To date, Air North has received more than \$7 million in financial relief through federal and territorial initiatives and we are most thankful for this assistance which has been critical to our ability to survive the unprecedented and catastrophic challenges resulting from the pandemic. It is becoming increasingly apparent that the airline sector will take years, not months to recover and because we are seeing almost daily media reports about sector specific relief for airlines, we have proposed an alternative solution for the Yukon air market that would reduce the requirement to subsidize overlapping products and thus be less burdensome to taxpayers while addressing the regional air service considerations outlined in the Throne Speech.

What are we asking for?

Air North, Yukon's Airline has asked that the federal government take steps to ensure the continued viability of the Yukon's locally provided air transportation network by firstly, temporarily limiting mainline carrier capacity to Yukon air markets and secondly, by requiring that the Yukon air transportation network be linked to the national network through meaningful interline agreements with mainline air carriers.

What can the government do?

If the goal is to make northern regional air services less reliant on public subsidy, with all airlines seeking financial relief, the government should have a number of tools at its disposal as well as a fair bit of leverage.

While few would advocate for a permanent return to airline regulation, temporary regulation limiting mainline access to northern markets and making interline agreements mandatory would be the most aggressive tool.

Alternatively, using policy in combination with providing financial relief with "tit for tat" conditions attached to funding could accomplish the same results in a less aggressive manner.



Because mainline carrier traffic and revenue losses on gateway routes could be largely offset by operating cost savings and increased feed traffic from northern carriers in southern gateways, we believe that there is a solid business case for mainline carriers to work with northern carriers through meaningful interline agreements. This would produce a win/win/win/win outcome for northern carriers, mainline carriers, northern economies, and for northerners. There is much upside and little downside for mainline carriers to be proactive in working more closely with northern carriers, and ideally this would occur naturally. As a practical matter, it may take a little pressure from key stakeholders to get the process started.

What are the benefits of a proactive approach?

Overcapacity is wasteful on an airline network, just as it is on a power grid. One way or another, excess capacity must be paid for, either by the consumers using the network or by taxpayers who subsidize the network. COVID-19 has left the Yukon travel network with significant excess capacity and finding ways to resolve this will:

- i. Save taxpayers money by eliminating double subsidies and reducing the overall requirement for financial relief;
- ii. Protect northern jobs;
- iii. Ensure continued service to regional communities;
- iv. Avoid major price increases;
- v. Protect the investment of Yukoners, including Indigenous investors;
- vi. Be consistent with the Chapter 22 provisions of Yukon First Nation Land Settlement Agreements;
- vii. Create an integrated Canadian airline network that provides seamless connections and affordable travel between all communities in Canada;
- viii. Reduce greenhouse gas emissions from the Yukon aviation sector;
- ix. Facilitate fleet modernization for the Yukon air travel network;
- x. Create possible opportunities to use committed territorial relief funding to support other Yukon aviation and non-aviation businesses.




Joseph Sparling, PRESIDENT
AIR NORTH, YUKON'S AIRLINE

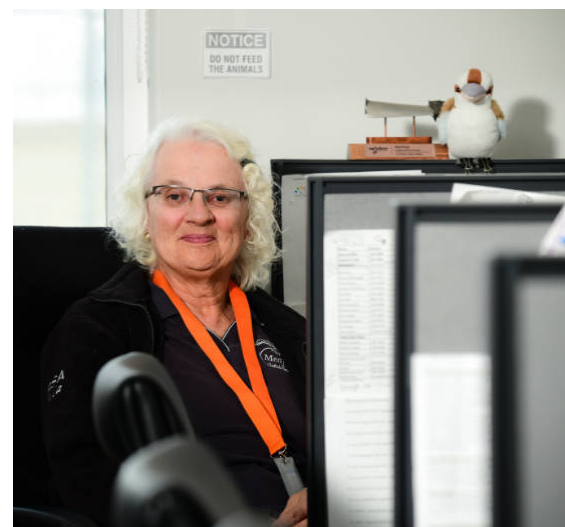
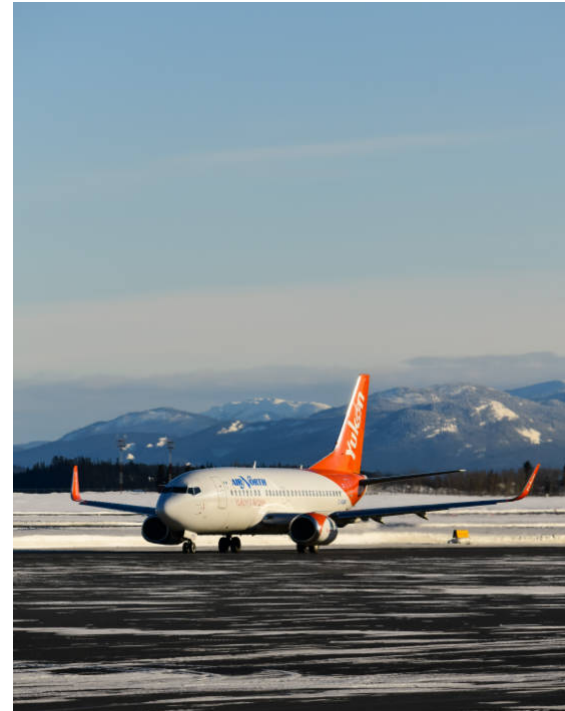


Best Airline
Canada

Best Specialty Airline
North America

Supplementary Information

- i. Our Q1-Q3 operations produced a \$4.7 million loss despite receiving more than \$7 million in CEWS, NEAS, and other financial relief. During the same period last year, we achieved a \$6 million profit;
- ii. Market over-capacity contributed about \$3.7 million to our loss and accounted for approximately half of the subsidy received during the Q1-Q3 period. In September we achieved close to break-even results after receiving about \$900,000 in financial relief. If the market over-capacity was resolved we could have achieved break-even results without any subsidy. Going forward, the over-capacity is becoming increasingly important as the CEWS benefits diminish (we anticipate that our October CEWS eligibility will be about 50% of our September eligibility) and market traffic seasonally slows (October is currently showing an 7% decline relative to September);
- iii. Going forward, we feel that the notion of subsidizing competition rather than survival will become more and more of a problem. Through the first seven months of the pandemic, we have received more than \$7 million in subsidy and Air Canada has likely received more than \$.5 billion. During this period there were about 85,000 seats in the gateway market and only about 37,000 passengers. We could have transported all market passengers with a 67% load factor so there is clearly excess market capacity;
- iv. With respect to interline agreements, the downside of not having meaningful agreements impacts regional communities. To illustrate, in the absence of an interline agreement with Air Canada or WestJet, it is virtually impossible for a potential traveler to know that it is possible to travel by air between Toronto (and almost any other southern city) and Dawson City or Old Crow. This puts northern regional communities at a disadvantage with respect to developing tourism, and creates a disjointed travel network which is at odds with the mandate of the Minister of Transport, which is (in part) to ensure that Canadians have a transportation system that "facilitates trade and the movement of people and goods". It should be noted that a requirement to interline for scheduled airlines would be consistent with current requirements in the telecommunications industry;
- v. Without meaningful interline agreements with mainline carriers, the playing field becomes heavily tilted in favour of mainline carriers. To illustrate, on Oct 3, for travel on Oct 15, the best fares available from Air Canada from YXY to YVR was \$259 and \$385 for YVR to YOW for a total of \$644, yet travel from YXY to YOW (via YVR) was priced at \$410. To offer a competitive product without a meaningful interline agreement with Air Canada, we would need to price our YXY-YVR travel at \$25;



- vi. In the telecommunications industry, large providers were ordered to make their networks available and to provide wholesale pricing to small providers in order to ensure more and better options for consumers (<https://www.cbc.ca/news/business/crtc-broadband-court-1.5718922>). Similarly, in the airline world, regional communities would benefit if mainline air carriers were required to provide small regional carriers with access to their networks through interline agreements and to offer some level of discounted through fares (similar to how they discount their own through fares on their own flights).
- vii. Our partners, the Vuntut Gwitchin First Nation have reached out to the federal Ministers of Transport, Northern Affairs, Finance, Crown-Indigenous Relations, Regional Economic Development, and Indigenous Services, as well as the Premier of the Yukon and the Presidents of both Air Canada and WestJet, expressing concern for service to their community as well as concern for their investment. Chapter 22 of their Land Settlement Agreement contains broad provisions which oblige the territorial and territorial governments to provide "opportunities to participate in the Yukon economy";
- viii. The Government of Yukon recently released their climate change strategy which includes an objective to reduce greenhouse gas emissions (GGE) from the transportation sector by 30% in the next ten years. COVID has already caused the aviation sector to achieve a 50% reduction in aviation jet fuel consumption in our region. Of the remaining 50%, another 30% (or 15% of pre-COVID fuel consumption) could be achieved overnight by simply addressing the excess capacity in the gateway aviation market. This would, in turn, allow us to get our jet fleet modernization program back on track, thus providing another 20% (or 10% of pre-COVID consumption) reduction in jet fuel consumption;
- ix. With the North accounting for more than 40% of Canada's landmass and only 0.3% of the population, northern air carriers are an integral part of Canada's national transportation network. Northern carriers fly to communities that the mainline carriers have no interest in serving and we provide a suite of products that mainline carriers don't offer. In a pre-pandemic economy, northern air carriers together employed almost 2,000 people, many of them northerners. Even today, northern air carriers still account for a major proportion of private sector territorial employment and more than \$100 million of Indigenous investment.



Appendix A: Yukon Regional Air Transportation Network January 2019 – January 2020



Appendix B: Yukon Regional Air Transportation Network October 2020

