Air North, Yukon's Airline

Employee and Stakeholder Information Update

23 March 2021

We recently circulated and posted a consultation paper that Air North provided to the Federal Department of Finance along with two resolutions from the Northern Air Transport Association (NATA). These documents may be found on our website under "In the News" and this note is intended to provide readers with a brief overview of what we are trying to achieve.

Our general objective is to provide government(s) with a strategy that will help the airline industry to navigate through a lengthy pandemic induced period of low demand without placing an undue burden on taxpayers. Operating and financial data for the first nine months of the pandemic shows that, while financial relief provided to carriers has been both significant and helpful, its impact has been diminished due to market overcapacity and resulting "double subsidies." We feel that it is now appropriate to transition from "temporary emergency financial relief" to a "sustainability plan" which combines policy with conditional relief funding in order to optimize outcomes.

Both the paper and the NATA resolutions were written from the perspective of regional airlines and northern airlines in particular. There are currently more than twenty regional air carriers in Canada, providing scheduled service to about 200 Canadian communities, most of which are not served by Air Canada or WestJet. The three documents propose that governments adopt two strategies which would help to ensure service to regional communities and encourage regional economic development.

The first strategy is to make interline agreements mandatory between Canadian Scheduled Air Carriers. Doing so would effectively ensure seamless links between all Canadian communities that are served by scheduled air carriers by requiring that mainline air carriers must work with regional air carriers to provide baggage transfers, protect connections, and provide through itineraries. In addition to the aforementioned consumer benefits, interline agreements would "level the playing field" for regional carriers by requiring that large mainline carriers provide regional carriers with affordable access to their networks, much like current requirements in the telecommunications and railroad industries. Mainline carriers are currently able to use their networks as a competitive tool by offering huge discounts on through fares to the public but only offering "end to end" fares to regional carriers. Interline agreements that give regional carriers access to similar discounted beyond-gateway fares that mainline carriers effectively offer to the public would help to ensure that regional carriers can compete and thus can continue to provide affordable regional travel along with employment and other regional economic benefits.

The second strategy is one to encourage a capacity reduction in thin markets where taxpayers are effectively funding competition rather than survival. Using the Yukon market as an example, Air North is receiving Canada Emergency Wage Subsidy (CEWS) to help mitigate our losses and we are also receiving Northern Essential Air Services Subsidy (NEAS) to help us maintain the essential flow of passengers and cargo from, to, and within the Yukon. Air Canada is receiving CEWS subsidy to help mitigate their losses so the net effect is that, on the Whitehorse-Vancouver route, two carriers are being subsidized by taxpayers to fly the same route at a time when there is not even enough traffic to fill the capacity provided by one carrier. The impact of subsidizing competition rather than survival is to diminish the benefit of the subsidy for both carriers and to increase the cost to taxpayers as they are paying two competing airlines to burn fuel and wear out airplanes flying empty seats around. The only remedy for this is a capacity reduction. If we reduce capacity, cargo flow suffers as does service to regional communities (Air Canada provides neither product). If Air Canada reduces capacity, we get more people on our aircraft and thus require less subsidy to achieve the same result. This would leave more subsidy dollars available to support other Yukon businesses that are struggling, or to provide additional overall support for Air Canada! A capacity reduction could be directed or influenced by Federal legislation or policy as is suggested in the paper and in the first resolution, or could be influenced by Territorial and/or Federal procurement directives as suggested in the second resolution.

The notion of regional procurement warrants further discussion as it applies to many regional businesses. Canada is the second largest country in the world, but with a population density of just ten people per square mile, we rank 222 out of 232 countries in terms of population density. Most Canadians live close to the 49th parallel and this results in a much lower population density for much of the country. The three territories occupy more than 40% of Canada's land mass but only about .3% of Canadians, or less than one person per square mile, live in the north, so it is easy to see why our rural regions, particularly the territories, are so dependant on economic support from southern Canada. To illustrate, it costs close to $1.5 billion to operate the Yukon each year and we generate less than $300 million ourselves, so we must count on a Federal Transfer Payment of more than $1.2 billion each year to keep our territory running.

Because our rural regions are already being subsidized, it is only logical that Federal, Provincial, and Territorial governments should share a desire for increased regional economic development and that the benefits of a stronger regional economy will only be magnified during the current pandemic. As our business volumes have shrunk due to the pandemic, we have been able to increase our focus on each and every person that travels with us as well as on those who do not travel with us and, in doing so, we have been able to identify significant "leaks" in Federal and Territorial direct and indirect purchasing that have promoted overcapacity which has resulted in needless "double subsidies" for our region. To put this into perspective, Air North received about $10 million in financial relief during 2020. This had the impact of reducing a $14 million loss down to a $4 million loss. We estimate that market overcapacity consumed about 50% of our financial relief so clearly we could have done better with less financial relief if policies were in place to address excess market capacity during the pandemic.

We have been advocating for mandatory interline agreements and focused procurement since the start of the pandemic, and while their benefits seem obvious, getting traction on them has been a slow process. The Air Transport Association of Canada (ATAC) is considering a similar resolution to the first NATA resolution, and the CBC Radio show "The House" picked up on the mandatory interline topic in their March 13 show. The interviewer, Chris Hall, asked all the right questions and I thought that the interview came off quite well. You can find the interview below.

Joseph Sparling, President
Air North, Yukon's Airline

Link to Interview with Chris Hall

Vuntut Gwitchin

AIR NORTH Yukon's Airline

2020 Travellers' Choice Tripadvisor

Best Airline Canada

Best Specialty Airline North America