



## Sector Specific Financial Relief for Canadian Air Carriers

### The Importance of Interline Agreements for Regional Communities, Air Travellers, Airlines, and Taxpayers

April 15, 2021

The April 12 announcement of sector specific aid for the airline industry was welcome news. As many regions enter a third wave and travel restrictions remain in place, it is becoming increasingly apparent that travel demand will remain depressed for some time. These dynamics confirm the need for industry support in order to preserve the integrity of Canada's air transportation network. As a small regional carrier providing essential services from, to, and within the Yukon, we understand why carrier specific discussions may start with the mainline carriers (Air Canada and WestJet) but we also note the commitment to address the needs of smaller carriers as well and we encourage those discussions to take place as soon as possible.

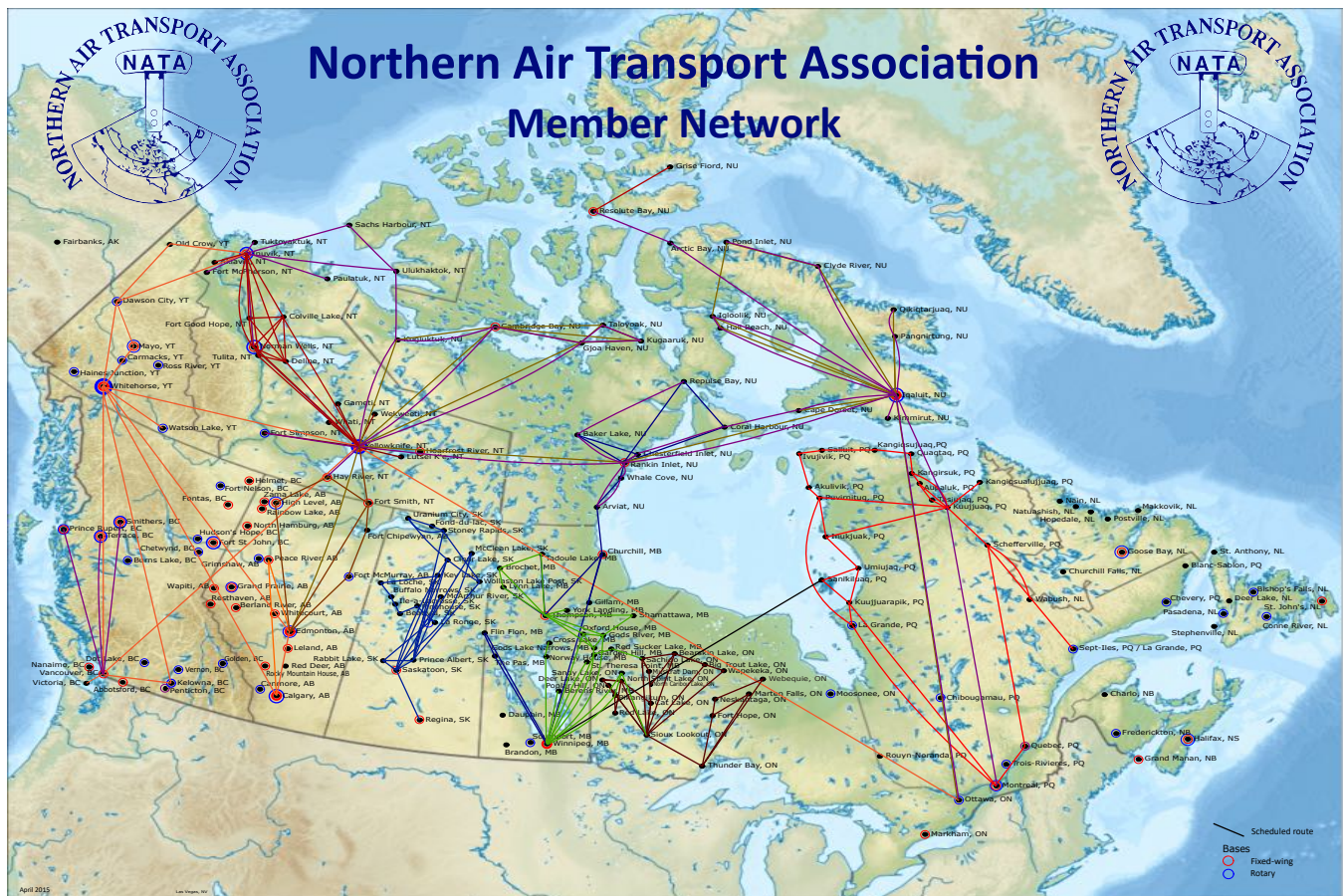
We are pleased to note the reference to interline agreements in the information release. We have raised this issue before, as has the Northern Air Transport Association (NATA) and the Air Transport Association of Canada (ATAC). We all recognize how important interline agreements with mainline air carriers can be to regional communities and to regional airlines, but we also recognize that their benefits will be minimal if they are not meaningful in structure and made available to all regional carriers who require them. We are concerned that the position of the government may be that interline agreements should be considered only in cases where mainline carriers no longer wish to fly a route.

Interline agreements between mainline and regional air carriers will serve to link regional and mainline route networks thus allowing Canadians to travel seamlessly anywhere in Canada. They will also increase competition, reduce regional travel costs and reduce the cost and increase the benefits of COVID-19 related financial relief for airlines.

Our research has shown that financial intervention to date, while significant and greatly appreciated, has not been sufficient to stem record industry losses largely because much of the aid dollars have effectively funded excess market capacity. We believe that both airlines and taxpayers would be better served if the federal government were to augment industry financial relief with policies that incentivize air carriers to work together during the period of subsidy intervention in order to reduce excess market capacity. This would have the immediate effect of both reducing the requirement for subsidy as well as ensuring that subsidy dollars produce a more meaningful impact on air carrier financial performance. Requiring mainline air carriers to enter into meaningful interline agreements with regional air carriers will help to accomplish this.

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 0.3% 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 air transportation to provide a link to Canada's mainstream economy. Regional air carriers play a huge role in providing this vital link, which benefits the health, recreation, culture and familial well-being of the residents of rural Canada.

There are currently more than 20 regional air carriers in Canada, providing scheduled service to about 200 Canadian communities, most of which are not served by Air Canada or WestJet. In the absence of meaningful interline agreements, regional route networks are effectively disconnected from mainline carrier networks and this results in significant negative outcomes in the areas of consumer protection and convenience for regional airline travellers, cost of travel for regional airline travellers, regional economic development, regional air carrier competitiveness, and the requirement for airline financial relief.



Pre-COVID route map for NATA member carriers



With respect to consumer protection and convenience, without interline agreements, people travelling with two different airlines tend to “fall through the cracks” in terms of consumer protection mainly because they are travelling on two different itineraries. To illustrate, in the absence of an interline agreement, Carrier #2 is under no obligation to re-accommodate a passenger who mis-connects from Carrier #1, and the passenger could be faced with having to purchase a new ticket to complete the journey. A properly constructed interline agreement would address situations like this and would also provide for the ability to check baggage all the way through to final destination. These dynamics put travellers from the 140 or so regional communities served by regional air carriers at a distinct and needless disadvantage relative to other Canadians.

With respect to travel costs for regional residents, interline agreements with mainline air carriers would reduce the cost of travel for two main reasons. Firstly, the ability to travel between airlines on a single itinerary would eliminate the double payment of airline surcharges, Air Traveller Security Tax, and Airport Improvement Fees. Secondly, interline access to both mainline carrier networks would effectively increase competition and could lower pricing in regional markets as it would provide regional consumers with access to competitive through airfares. This would in turn help regional destinations to market themselves as tourism destinations.

With respect to regional economic development, it should be noted that regional air carriers are significant contributors to regional economies and this should provide plenty of justification for ensuring that their interests are protected, particularly in regions where Indigenous investments are at stake. To illustrate, the Vuntut Gwitchin First Nation has a 49% stake in Air North and in 2019 we employed more than 20 full time equivalent northern employees (FTEs) per 100 scheduled service departures, while mainline carriers employed about two northern FTEs per 100 scheduled service departures. We are one of the largest private sector employers in the Yukon and a major contributor to Yukon gross domestic product through employment and related economic activities. In a hub and spoke airline system, dollars flow from the spoke to the hub, where most of the employment and infrastructure is consolidated. Prior to airline deregulation in Canada, there were five regional carriers based in Vancouver, Winnipeg, Montreal, and Halifax, all operating significant fleets of modern equipment and providing significant economic benefits to their regions. While deregulation has been largely beneficial to the major markets, it has not necessarily benefitted all regions as major consolidations have taken place post-deregulation. There is a real risk that, unless regional carriers are protected, repayable mainline carrier financial relief could provide motivation to “pillage and plunder” the regional sector. Interline agreements would protect both regional air carriers and regional economies.

With respect to regional air carrier competitiveness, our research showed that of the 313 published domestic scheduled air routes in Canada in December 2020, only 45 were served by more than one air carrier. Of these, 14 were routes where Air Canada competed with WestJet, 17 were routes where Air Canada and/or WestJet competed with one or more of Flair, Air Transat, and Sunwing, nine were routes where a regional carrier competed with one or both mainline carriers, and five were routes where two regional carriers competed. Interline agreements would serve to level the playing field between small regional carriers and large network carriers by providing regional carriers with access to mainline networks, and thus 100% of the market rather than just a portion of the market. It should be noted that this dynamic has been addressed through legislation in both the telecommunications industry and the railroad industry.



Iqaluit, NU

With respect to airline financial relief, published data shows that, despite significant subsidies paid during 2020, airlines still incurred record financial losses and much of the relief funding effectively subsidized excess market capacity. In the Yukon market we estimate that the cost of excess capacity in 2020 was equivalent to about 50% of the financial relief we received. Utilizing interline agreements to consolidate capacity and traffic during this period of reduced demand would create opportunities to direct financial aid differentially in order to ensure that taxpayers are not funding double subsidies by paying for unused capacity on two competing carriers. This may be illustrated by considering a scenario where competing Carrier #1 maintained their schedule and carried incremental traffic from competing Carrier #2 while competing Carrier #2 reduced their schedule. The net result could conceivably be less financial aid for Carrier #1 along with improved financial results, more financial aid for Carrier #2 along with improved financial results, and less overall cost for taxpayers. It should be noted that while this theoretical scenario could be achieved by direct dialogue between carriers, discussions of this nature are limited by anti-competitive legislation. This observation further underscores the need for policy intervention to accompany financial intervention.

Interline agreements are extremely common in the airline industry. The Air Canada website describes interline partnerships as allowing “two or more airlines to issue tickets on behalf of each other, while retaining the designator code of the other airline. Their purpose, again, is to facilitate travel for customers by allowing them to travel across the networks of multiple carriers with a single reservation in order to reach their final destination.” Air Canada lists a total of 106 interline agreements on their website, but only four of these are with Canadian air carriers.

Similarly, the WestJet website states that “interline agreements between airlines facilitate travel for guests who require flights with more than one airline to reach their final destination. These agreements allow guests to travel across the networks of multiple carriers with the convenience of a single reservation and the confidence that their itinerary includes appropriate connection times. Travel is further enhanced when partner airlines agree to issue boarding passes and check baggage to the final destination, alleviating the need to check-in with multiple airlines at every stop.” WestJet lists a total of 48 interline agreements on their website but only three are with Canadian air carriers. The benefits to consumers, as stated by both mainline carriers, are obvious and substantial and with Canada’s large regional geography and small regional population, it seems pretty clear that our country would be best served by closing the gaps in our air transportation network through the growth of cooperative interline agreements. The COVID-19 pandemic and the resulting requirement for airline financial relief provide a great opportunity for the government to augment dollars with policy in order to optimize the outcome while reducing the burden on taxpayers.

The importance of proactively supporting local business and the local economy, especially during a crisis, is well understood by regional governments as evidenced by Motion #283 passed unanimously by all parties in the Yukon Legislative Assembly on October 21, 2020. The motion reads as follows:



Yellowknife, NT

*"That this House urges the Government of Yukon to recognize the economic benefits and essential services to Yukon communities provided by the local aviation industry by taking actions to support it during the COVID-19 pandemic, including:*

- (1) ensuring that air travel funded by the government to southern destinations be with a local air carrier when possible;*
- (2) ensuring that every government initiative that involves air travel includes strong provisions to mandate the use of local aviation companies; and*
- (3) supporting the development of meaningful interline travel agreements between Air North and mainline air carriers."*



Whitehorse, YT

The foregoing data illustrates just how important regional airlines are to the national air transportation network, to the quality of life for regional residents, and to the health of regional economies. With the airline industry struggling under the impact of COVID-19, we are thankful to hear that help is on the way, and we encourage governments to augment relief dollars with policy designed to ensure survival for all with a minimum burden on taxpayers. The pre-COVID route map on page 2 provides further perspective to the foregoing discussion.

Joseph Sparling, President  
Air North, Yukon's Airline