



Air North, Yukon's Airline House of Commons Finance Committee Pre Budget Submission August 2020

Earlier this week, Air North, Yukon's Airline was very honoured to receive a *Tripadvisor 2020 Travelers Choice Specialty Airline North America Award* for the second consecutive year as well as the *2020 Travelers Choice Best Airline in Canada* award. The Best Airline Award is a first for us and both awards are firsts for a northern airline or for an airline with major Indigenous ownership.

With the north accounting for more than 40% of Canada's land and only .3% of the population, northern air carriers are an under-recognized but integral part of Canada's national transportation network. We believe that many Canadians are not aware of the essential services that we provide or of our role in supporting our communities and our economy. I am hopeful that the *Tripadvisor awards* will increase northern carrier awareness and thus help us to secure the support we need for survival in today's challenging times.

As the House of Commons Finance Committee seeks ways to restart the Canadian economy, for Air North, the key to survival is simple – we just need more people to fly with us.

The market is now producing enough traffic for us to survive without subsidy, but only if we increase our market share. We can easily do this if more Yukoners travelling out of or back to the Yukon buy their travel from us, even when they are going to a destination or returning from a destination other than Vancouver.

Similarly, market share growth can also be achieved if workforce and tourism visitors are encouraged to buy their gateway transportation locally even if their origin is beyond gateway. Our goal is to increase our market share from just under 60% to at least 75%. Getting a bigger piece of a much smaller pie will allow us to hold our own in the market because:

1. Increased market share will terminate Air North's reliance on public subsidy.

We need to make sure that we can generate enough traffic and revenue to meet our expenses in a post-subsidy environment. We are currently relying heavily on relief funding provided under the Canada Emergency Wage Subsidy (CEWS) program and the recently extended Northern Essential Air Services (NEAS) Program. We know that relief funding cannot last forever so we need to become financially self-sufficient as soon as we can;

2. Increased market share will ensure the provision of Air North's essential

services. Mainline carriers do not currently transport cargo, and it is not likely that they have any serious interest in or capability of serving our regional communities, particularly Old Crow, a remote Indigenous community near the Beaufort Sea ;

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3. Increased market share will eliminate the need for further mass lay-offs.

In the pre-pandemic economy. Air North was one of the largest private sector employers in the Yukon. The COVID-19 pandemic has caused us to reduce our workforce by almost 50% and if we are forced to further reduce capacity, when CEWS ends, we will be looking at a further 60% reduction, which would leave us with just 80 FTE's or about 20% of our pre-pandemic workforce;

4. Increased market share will help Air North avoid major airfare increases.

During our almost twenty years of gateway service, we have caused an almost 40% reduction in the cost of travel from and to the Yukon. This has caused traffic to double as more people can now afford to travel by air and people can afford to travel more often. If we cannot generate enough traffic to support two daily gateway flights, we will not be able to meet our overhead costs with our current fare structure. This could lead to regional and gateway fare increases of up to 25%;

5. Increased market share will help Air North to maintain a community-centric focus.

In addition to the many community groups and events that we support through sponsorship, we have responded to community air travel sensitivity by keeping adjacent seats empty on our gateway flights except for travelers in the same "social or work bubble." With sufficient market share growth, we can operate sustainably in this manner without fare increases;

6. Increased market share will help Air North protect the investment of more than 2,000 Yukoners, including the Vuntut Gwitchin First Nation. These investments are currently valued at more than \$50 million;

7. Increased market share will help Air North move ahead with jet fleet modernization plans.

Prior to COVID-19, we had embarked on a plan to modernize our jet fleet by purchasing new, more fuel-efficient aircraft. The aircraft acquisition alone, with no growth in traffic, is projected to provide annual fuel savings of about 24%. In our plan, we also factored in fuel savings that would result from stronger YG and other stakeholder purchasing policies which would help us increase our market share from 60% to 72%. This growth in market share and traffic would provide additional fuel savings per passenger carried of 12% for a combined total of 36%. The economic impacts of COVID-19 pandemic have caused us to defer our fleet modernization and the number of empty seats flying around in the current market environment have caused the fuel consumption per passenger carried to almost triple during the last four months. This dynamic could be reversed and our fleet modernization could move ahead if we could grow our market share.

It should be clear that Air North's ability to survive the COVID-19 pandemic is not just important to Air North, but also important to the Yukon and to Yukoners and, with air travel demand depressed and likely to remain depressed for some time, increasing our market share is key to our survival without prolonged subsidy.



In simple terms, Air North can survive without subsidy, without major fare increases, without additional major lay-offs, and without selling adjacent seats to strangers if we can generate enough traffic to support two daily gateway flights and one daily regional flight.

In terms of gateway traffic, this means 300 passengers per day for us. This is about 50% of our pre-pandemic traffic and about 50% of our pre-pandemic flying. The market is producing sufficient numbers for survival now but traffic is being split 60:40% between local travel purchases and non-local purchases. If we can improve the local purchase ratio to at least 75%, with a little more traffic growth, we will reach our sustainable survivability threshold, thus protecting the investments of Yukoners, and allowing us to move ahead with our fleet modernization.

There are a number of ways to achieve the market share growth we require for sustainability, including the following:

1. Government Market Intervention:

When the Canadian aviation market was much smaller, it was treated much like a public utility, with economic regulation to ensure that carriers could survive and that consumers could achieve best possible pricing. In the pre-pandemic environment, traffic was sufficient to support a competitive market, but COVID-19 has caused traffic, in our market at least, to revert to levels not seen in 40 years. With all carriers losing money and depending on public subsidy for survival, it seems reasonable that subsidy should be provided with market rationalization conditions, at least, to ensure that relief dollars are used to fund survival rather than competition;

2. Stakeholder market intervention.

Mainline air carriers have no stake in the north and there is overwhelming evidence to show that local purchasing benefits northerners, benefits the northern economy, and supports indigenous investment. With local Yukoners, the Yukon Government, and Government of Canada departments, , including Transport Canada, Finance Canada, Regional Economic Development, Indigenous Services Canada, Crown-Indigenous Relations and Northern Affairs, all key stakeholders, there should be ample reasons to ensure that purchasing policies and practices are in place across the board to support northern and indigenous businesses. The value of small incremental supportive steps from individual stakeholders should not be underestimated. To illustrate, a purchasing shift of only 10 passengers per day in July would have created a 7% load factor differential and a revenue differential of \$150,000;

3. Air carrier market intervention.

While there is little doubt that mainline air carriers would benefit if we are unable to stay in the market, we believe that there is a solid business case for partnerships between northern carriers and mainline carriers. Partnerships could be crafted as a clear win-win for both airlines, with the mainline airlines preserving their beyond gateway traffic and preserving the overall margins of their northern service while



reducing inefficiency and loss from duplication of gateway services, redundant infrastructure at the main northern hubs, high operating costs from operating in harsher climates, and excess fuel emissions from too many empty seats in the market. As it stands today, the Canadian air travel network is disjointed with the northern carriers playing a key role in the north but operating at a disconnect with the broader domestic network due to a lack of partnerships.

The reality of today is that an integrated air travel network where the northern carriers are able to connect with the mainline carriers through partnership would significantly bolster the resiliency and health of northern economies and communities in face of an unprecedented threat. It would represent a huge win for the North and a huge step forward for Canada if the northern carriers and mainline carriers could work together to deliver an integrated air travel network from coast to coast encompassing the entire North.

On behalf of the Vuntut Gwitchin First Nation, our many employees and the 2,000 Yukoners who hold shares in Air North, we ask the House of Commons Finance Committee to consider our request. We are very grateful for all the support from the Government of Canada – which has allowed us to continue to service our communities – but in order to move forward and survive, we need these considerations.

With good wishes in your deliberations and thank you for your contribution to Canada during these difficult and harsh times. We would be happy to appear at your Committee.



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