



**Written Submission for the Pre-Budget
Consultations in Advance of the Upcoming
Federal Budget**

By: Chorus Aviation Inc.

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Recommendations

Recommendation 1:

That the Federal Government put in place a designated champion for a more focused, coordinated and comprehensive oversight of **regional air services** in Canada.

Recommendation 2:

That the Federal Government reduce the unfair economic burden it placed on the Canadian aviation industry, which has impacted **regional air services** disproportionately, and provide support to the aviation sector through the COVID-19 pandemic.

The importance of Regional Air Services and Access

Chorus Aviation Inc. (Chorus) fully supports the submissions presented to the Standing Committee on Finance by the Air Transport Association of Canada (ATAC) and the National Airlines Council of Canada (NACC); however, theirs do not address the extent of the challenges facing regional air services and airports. Chorus' submission focuses on these specific issues.

About Chorus Aviation

Headquartered in Halifax, Nova Scotia, Chorus is a global leader in the field of regional aviation, delivering a full suite of services which includes contracted flying operations, maintenance, repair and overhaul expertise, aircraft parts provisioning, airport operations, and aircraft leasing solutions to customers around the world. Chorus owns Jazz Aviation LP, Voyageur Aviation Corp., and Chorus Aviation Capital.

Regional air services vital to small communities

Given the dispersal of communities in a country as vast and as sparsely populated as Canada, aviation is at the heart of our country's transportation strategy. Our smaller communities rely on regional air services to connect their residents to the rest of Canada and the world. These communities are exclusively served by regional airlines, either independently or through capacity purchase agreements (CPA) with larger air carriers.

Canadian airlines are significant contributors to economic growth in Canada. Regional airlines are key to the provision of employment opportunities and facilitators for travel and tourism, contributing to the overall economic growth of the smaller communities to which they fly.

Consistent and affordable air service is the backbone of small to medium-sized communities. Without regional air service, businesses, academia and tourism industries cannot survive. A healthy air transportation system is necessary.

Economies of air transportation in Canada

The increased regulations imposed by governments on the aviation sector over time have crippled this industry and its ability to compete.

Unlike most other modes of transportation, airlines pay completely for our infrastructure and then some. There are a multitude of taxes and fees that are inflicted on our industry by various levels of government, and the costs have greatly increased over the years.

Fixed costs such as the Air Travellers' Security Charge, Nav Canada and airport ground rents, to name a few, all have a disproportionate effect on regional air transportation.

Canadian airlines pay an excise tax on jet fuel that well exceeds what American carriers are charged in the U.S. Another example is the 15% harmonized sales tax added to airline tickets in Canada.

The Federal Government is using the aviation industry as a 'cash cow', funneling all these revenues in Canada's consolidated federal tax take (general coffers) rather than re-investing the funds in the aviation community.

Airlines in general lack pricing power and cannot continue to pass these cost increases onto passengers without negatively affecting demand. This is especially challenging for short-haul carriers who must also compete with other modes of transportation – such as heavily subsidized VIA Rail. Many customers have been forced to the highways rather than fly from their local airports due to the high fees and charges.

We have seen a troublesome deterioration of regional services over the years. As costs continue to rise, the situation has become critical. The following examples illustrate the significant shift in short-haul market demand on some routes:

In the late 1990s, Air Nova and Air Atlantic operated in total 12, 37-seat Dash 8-100 flights daily between Halifax and Saint John, New Brunswick. In January 2020, the service on this route was down to 2 or 3 daily flights, depending on the weekday, operated by EVAS on behalf of Air Canada, with an 18-seat Beech 1900 aircraft.

Also in the early 1990s, there were approximately 12 daily return Dash 8-100 flights between Halifax and Charlottetown. There has since been an enormous erosion of regional air service on this route.

Today, there is no service on either route, as is the case for many others, due to the current pandemic and it is unknown when or if service will return on these routes.

Despite the fact that aviation is a key player in economic progress in this country, Canadian carriers have been talking to government about the layers of taxes and charges for over two decades without the benefit of any movement on this front.

Air transport plays a vital role in connecting people and communities, especially in regional markets. Air travel is not a luxury. It's time to stop taxing it like it is.

The latest external crisis

The COVID-19 pandemic has brought these issues to the surface. This unprecedented situation is the 'straw that broke the camel's back', sending the aviation sector into a tailspin – the industry is in a crisis.

This pandemic and the provincial and federal government-imposed travel restrictions and border closures are having a significant negative effect on passenger demand for both business and leisure Canadian air travel.

The impact on Air Canada, and consequently on Chorus, has been significant to say the least. Capacity reductions in excess of 90% have resulted in the layoff of over 20,000 Air Canada employees. Chorus had to park 70 aircraft from its Jazz fleet, which is operated under the Air Canada Express brand, and to place approximately 65% of its Jazz workforce on inactive status. In its second quarter 2020 financial results, Air Canada posted an operating loss of more than \$1.5 billion on a revenue decline of 89%. The bleeding continues as the full extent of the duration and impact of this unprecedented, ever changing event are still unknown. The aviation recovery is expected to be gradual and over a three-year period.

On June 30th, Air Canada had to make the difficult choice of discontinuing service on 30 domestic regional routes and closing eight airport stations in Canada.

The majority of Air Canada's service discontinuation has affected smaller communities in the Atlantic provinces, Quebec and Ontario, many of which have lost their only link to Canada's domestic and global air service networks.

This measure also impacted Jazz employees and suppliers, as Jazz operated 21 of the 30 discontinued routes and managed the eight stations at regional airports that are now closed: Bathurst, NB; Wabush, NL; Gaspé, QC; Baie Comeau, QC; Mont Joli, QC; Val d'Or, QC; Kingston, ON; and North Bay, ON.

Voyageur, one of Chorus' subsidiaries, is in danger of shuttering if the North Bay Airport is closed as a result of minimal commercial air service. Currently, Bearskin Airlines is the only commercial operator, offering two daily return flights between North Bay and Sudbury. Voyageur needs access to the runway in order to service its Maintenance, Repair and Overhaul (MRO) customers. This subsidiary alone employs over 300 people and is one of the largest companies and a major employer in North Bay.

The aviation industry needs government support

The COVID-19 pandemic has certainly wreaked havoc on several pillars of Canada's economy. The Federal Government is helping many industries weather the storm to ensure they can eventually continue playing their vital role in driving the economic

recovery post-pandemic. Yet, the Federal Government is not supporting aviation in Canada, which has been devastated in this unprecedented crisis.

The strength of the Canadian aviation industry is dramatically weakening as Canada is falling behind other countries in supporting their airline industries. The Federal Government's lack of support not only threatens the recovery of Canada's economy but will also put the Canadian airline sector at a further competitive disadvantage when the pandemic recedes.

The United States and countries across Europe, Asia and South America have moved quickly to provide significant direct financial aid to stabilize their respective airlines through the current crisis.

The Canadian government should also examine how other countries are managing their air service industry and how they are supporting it during normal times. For example, in the United States there are fewer fees and charges imposed on air transportation and, unlike Canada, their government subsidizes essential services in the U.S.

The attractiveness and competitiveness of Canada's aviation is greatly affected by the myriad of tax, infrastructure, regulatory and cost-recovery policies the successive Canadian governments have implemented for the aviation sector. These factors continue to place Canadian airlines, especially regional carriers, at a competitive disadvantage, unable to compete on a level playing field with their counterparts in the U.S. and internationally.

Supporting regional airports is another important thing the government can do for the industry. Airports generally have high fixed costs with revenue that is directly related to the nature and volume of air traffic. Smaller airports do not enjoy the same economies of scale as their larger counterparts, but their cost areas are the same.

We ask the Federal Government to dramatically reduce the unfair economic burden it has imposed on Canadian air transportation – costs for which the industry receives no value in return – and to support the aviation sector through the COVID-19 pandemic.

Role of various government departments

There are currently many federal departments that influence air transportation in Canada; however, there is no clear champion. Departments of Transport, Finance, Safety, Economic Development, etc., all play a part in the oversight, but there is no defined leadership and the objective are often at odds. The oversight is segmented, and it is unclear where the decisions are being made. Most importantly, the economics of regional air service are not considered by government in departments such as Finance, CATSA, and others.

More focus on regional air transportation

While there are a number of key and significant issues that need to be addressed at a federal level in Canada in order for our industry to thrive and survive, primarily there is an overarching need for a national overview with a focus on the regional impact to ensure access into main networks is protected for regional communities. It should focus on the economics and how they are under stress, with an objective to provide much-needed relief in Canada's regional air transportation.

Chorus is asking the federal government to put in place a designated champion for a more focused, coordinated and comprehensive oversight of regional air services in Canada.

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