

**June 19, 2024**

# **Market Study, Competition in Canada's Airline Industry**

## **Government of Nunavut**

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### **Subjects for consideration:**

#### **Survey Content**

- Airline operations to Northern and Remote communities provide essential services; a study that includes the remote marketplace needs to consider very different needs and requirements than a study of only the broader Canadian market.
- Air services provide the only year-round means of transporting people and goods to Nunavut communities. For practical purposes, there are no substitute transport modes. As such, the priority is for regular and reliable service, where frequency demand (flights per week) may exceed the capacity demand (number of seats or cargo volumes).
- Except on select routes, competition is more likely to be between carriers vying for long term (multi-year) contracts (notably Government of Nunavut contracts) than between carriers operating similar routes concurrently.
- Nunavut includes the most isolated communities in Canada, with the smallest population density spread across 1/5 of the country's landmass. The majority of Nunavut communities are 2<sup>nd</sup> stage remote (i.e. goods and services must first transit a remote community en route to and from the destination community). Some communities are 3<sup>rd</sup> stage remote.
- Cargo, in particular, is carried over "long, thin" routes, with little or no revenue cargo on the return or backhaul route.
- The federal Nutrition North subsidy program encourages consolidation of cargo onto dedicated freighter charters, removing an important revenue stream from scheduled flights.

#### **Expensive to operate**

- The Operating Environment in Nunavut includes significant logistical challenges, harsh climate, unpredictable weather patterns, limited infrastructure, expensive operating costs, expensive labour costs, expensive cost of living, limited access to skilled and non-skilled labour.
- Some existing carriers own all the critical assets such as land adjacent to the runways, counter space, de-icing equipment, APUs, ground transport, offloading equipment, crew accommodations, etc.

- Limited selection of aircraft types adapted to operate on gravel runways.
- Reliable weather observations and navigational route information are not always available.

**Recommendations**

- Study specifically designed to look at air services in isolated communities.
- An Infrastructure program to provide for runway and airfield lighting improvements.
- Additional oversight and enforcement of Nav Canada's level of service obligations for provision of navigational services and weather observations.



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June 17, 2024.

Competition Bureau of Canada

Via e-mail: [airlinemarketstudy-etudemarcheaerien@cb-bc.gc.ca](mailto:airlinemarketstudy-etudemarcheaerien@cb-bc.gc.ca)

Re : Comments TOR: Draft market study – Competition in Canada’s airline industry

The Northern Air Transport Association (NATA) was formed 47 years ago (in 1977), to support the economic development of northern and remote Canada with safe and sustainable air transportation. Northern air carriers are not the largest in Canada, but they do provide an **essential service** to the largest proportion of Canada’s land mass and to many communities that have no road access and are not served by mainline carriers.

NATA is pleased to have the opportunity to comment on the terms of reference of the study concerning Competition in Canada’s airline industry.

**The market study notice**

We agree with most of document as we look at the proposals through the Northern and remote regions lens.

We have mainly organized or tried to group our comments according to the sections found in the study notice, but some of our statements may be more general.



## **Purpose and public interest reasons for the study**

Canada is vast and wide, making for varied transportation needs and realities. Northern and remote air travel is definitely not “strictly business” or “leisure air travel” for several communities served by our members. For these regions, air travel and operations are an essential service and their lifeline to the rest of the world. We are grateful for acknowledging this as public interest, in section 6.



We recognize that there is a need to study the competition (section 4), but we feel it would be difficult to have more competitors due to the global cost of remote and regional air travel.

Looking to more competition to improve air service is somewhat of a moot point for our members. The companies operating in northern and remote regions are driven by safe and efficient service delivery for the benefit of their customers, not necessarily their shareholders. As many say: if they were profit-driven, they'd be operating in the south around the big hubs.



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We thus feel that bringing in more airlines or stimulating competition may not be the answer to providing an essential service. The study could focus on ways to optimize the actual services (and prices) depending on the area or region, the type of delivery and the customers being served.

**Scope of the study**

Sections 16 and 17.

Item 17. 2. c. mentions supporting competition in remote regions and the North. We feel that before supporting competition, the ask should be:

1. “How can the actual airline services be assured, maintained and developed with updated and upgraded infrastructure to accommodate modern equipment and aircraft and accommodate for climate change challenges?” Perhaps then, competition may be an option.

Another item we would like to see is:

2. “How do increasing levels of government regulation negatively impact air service levels, growth and competition across Canadian markets?”

Two recurring themes are mentioned by our members. One is that the user-pay system (CATSA, airport improvement fees, landing fees, handling fees, etc.) needs to be reviewed:

3. “Is the user-pay system serving Canadian citizens adequately?”
  - a. “Are there aviation products, services or instances that warrant being shared by all taxpayers, like in many other countries?”

The other is that:

4. “Should the Government reinvest what is collected in taxes and leases back into supporting aviation industry, infrastructure or other priorities?”
  - a. “Under what form of equalization, if any?”



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Section 18 – excluded from the study

We feel that cargo (item i) should be included with regards to competition, because again remote Canadian citizens would benefit from the introduction of some form of competition or subsidy to be on equal footing with their counterparts in the South.

5. “Is there room for cargo services or competition that could better serve the norther and remote regions?”

The rest of the Terms of reference are straightforward and we wish to thank the Competition Bureau for soliciting NATA’s input on this important subject. We look forward to an update in the next few weeks, as well as to the exchanges and the forthcoming discussions on the subject.

Regards,

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Below are some excerpts of the [Terms of Reference](#) for the Competition Bureau’s Airline Market Study. Please see Travel Nunavut’s suggested tracked changes as well as some general comments for your consideration.

#### **Public Interest Reasons for the study:**

6. The airline industry is important to Canadians and the Canadian economy. It provides an essential mode of transportation for both business and leisure purposes. In 2022, the industry served 72 million passengers on domestic services. Since the Canadian population is spread out over vast distances, other modes of transportation are often not feasible replacements for air travel. And for some remote areas, [including the entire territory of Nunavut](#), air transportation services [may be](#) the only available option. This is why Canadians, [especially in Northern Canada](#), need affordable and accessible air transportation.

9. Commentators have noted that WestJet and Air Canada have scaled back their operations into Western and Eastern Canada, respectively, leading to increased fares for flights in those regions. Conversely, new and growing airlines serve busy domestic routes and winter sun destinations, leading to reduced fares on those routes. [In Northern Canada, Nunavut is highly dependent on only one major scheduled carrier, Canadian North. With limited air services infrastructure, the number of carriers \(competition\) and the services they can provide are limited, leading to unreasonably high fares across the north.](#)

12. In addition to recent events, there is a long history of competition enforcement in the sector by the Bureau and other global competition agencies. The Bureau has previously called for more competition in the airline sector, including advocating for changes to the foreign ownership rules, and allowing foreign carriers to operate within Canada’s domestic borders, also known as cabotage rules. Since then, the Government of Canada increased international ownership limits from 25 to 49 per cent of voting interests for Canadian air carriers. This history further underscores the importance of studying the state of competition in the airline industry.

13. Greater competition can complement other policies aimed at improving air travel. The Government of Canada is taking steps to better protect air passengers, enhance accountability and accessibility of airports, and support investments in airport facilities. This includes measures aimed at fees for optional airline services such as seat selection and baggage [and considers the need for greater permissiveness in carrying baggage to remote areas where the airways are effectively highways](#). Insights from our study may help policymakers better achieve their goals.

14. Supporting competition in this industry will help reduce prices and increase quality of life for consumers (including access to preventative and critical health services for remote communities), improve quality of service and working conditions, increase productivity, and boost innovation.

**The Competition Bureau will aim to answer the following questions during this study:**

The Competition Bureau has a responsibility to even the “playing field” and Travel Nunavut requests that it advocate for scheduled air travel that considers the unique conditions and circumstances in Northern Canada.

1. What is the state of competition in Canada’s airline industry?
  - a) What is the state of competition in the Canadian airline industry, how can we achieve greater airline competition, and what are the benefits for Canadians?
    1. Travel Nunavut recommends considering the 2019 merger of First Air and Canadian North, and the conditions of the merger that were lifted in 2023, and how this has served competition in the industry (particularly in the north).
    2. It is very challenging for any airline to serve Nunavut and Northern Canada with the limited infrastructure currently in place (e.g., only two paved runways, few airports with all-weather capacity). The associated use of smaller, less efficient equipment and frequently delayed and cancelled flights greatly increases the cost and price of air travel in the north. Without Federal and Territorial Government investment in airport, technical and navigational infrastructure improvements, imposing competitive restrictions on northern carriers and air services is not a viable solution.
  - b) How is the industry evolving in terms of consumer preferences and airline operations, e.g. demand for direct flights, demand for domestic vs international flights, passengers’ willingness to use secondary or more distant airports, and business models?
  - c) What can we learn from recent market events, including the entry of ultra low-cost carriers, Porter Airlines’ expansion, and the reduction in regional service by WestJet and Air Canada?
    1. Flying regulations that deal primarily with routes and flying practices in Southern Canada can create undue challenges in Northern Canada for scheduling pilots and services to remote communities, particularly with respect to inclement weather. Recent regulatory changes that restricted flying hours significantly increased the price of air travel in the north.
2. How can policy makers further support airline entry and expansion?
  1. What are the major barriers to entry and expansion and how can policymakers lower them to stimulate competition?



- a) In Northern Canada, a major barrier to entry and expansion is the limited air services infrastructure:
- Only two of Nunavut’s 25 airport runways are paved. This, for instance, limits the size and types of aircraft that can land which in turn often requires specialized pilots. This amidst a global pilot shortage.
  - Very few of Nunavut’s 25 airports are equipped to support flights in adverse weather conditions. As adverse weather conditions (e.g., low visibility) are common in many of Nunavut’s communities, this has a significant impact on air services (e.g., flight cancellations and delays).
2. How can airport operations and other air travel services support air carrier entry and growth?
- a) Air Services in Northern Canada can be treated as highways are in Southern Canada, with significant funding to support capital improvements, more efficient aircraft, and operating subsidies. This applies to both scheduled and non-scheduled flights.
3. How can government procurement or other initiatives support airline competition in remote regions, including the North?
- a) Pilot Flight and Duty Time (FDT) regulations can consider the realities of flying in the north. North of the 60<sup>th</sup> parallel, the long nights (e.g., midnight sun) experienced during part of the year can have an impact on FDT restrictions related to night flying.
4. Should policymakers open domestic routes to more international competition? If so, how?
- a) Travel Nunavut welcomes the opportunity to have international carriers stop in Iqaluit on route to/from other destinations in Canada. This would unlock more affordable travel between Northern Canada and international destinations. For most Nunavummiut, international travel starts with a minimum \$1,000, 3-hour flight to an international airport in Southern Canada (e.g. Iqaluit – Ottawa) and, for many, the costs and time required for this first leg of international travel are much greater. In June 2024, Nunavut welcomes the start of seasonal Air Greenland service between Iqaluit and Nuuk, Greenland that not only connects the circumpolar region and the cultural ties that bind but unlocks an additional east west gateway between Canada and to other international destinations. Please see the respective announcements of this collaboration between [Canadian North](#) and [Air Greenland](#).
3. How can policy makers further support consumers when shopping for airfares?
1. What difficulties do consumers face when shopping for airfares?

- a) Travel Nunavut highlights that for most of Nunavut’s 25 communities and 41,000 people, there is very limited consumer choice. There is one major scheduled carrier and its affiliate that serves any given route. Many routes are available only once a week. Roundtrip fares on the most used route (Ottawa-Iqaluit, 3hr direct) regularly range from \$1,000 to \$2,000 (and upwards). Roundtrip fares on less traveled routes regularly range from \$2,500-\$5,000 (and upwards), include one or more stops and can take two days or more for the journey.
2. Do consumers have the information they need to make informed purchasing decisions, particularly when it comes to service quality and pricing of ancillary services, such as seat selection and checked baggage?
3. How can policymakers help consumers benefit more from existing competitive options?

for this study the Bureau does **not** intend to evaluate:

1. Issues pertaining to air cargo services or international air passenger services, except to the extent that they relate to competition in domestic air passenger services.
2. Issues pertaining to airport governance, except to the extent that they relate to competition in domestic air passenger services.
3. Issues pertaining to specific passenger complaints under the Air Passenger Protection Regulations and recently held consultation on strengthening these regulations. Passenger complaints should be addressed through the Canadian Transportation Agency’s [air travel complaints resolution process](#). More information on the recent consultation is available through the Canadian Transportation Agency’s [consultation webpage](#).
4. Specific complaints that may raise concerns under the enforcement provisions of the *Competition Act*. These complaints should be directed to the relevant enforcement directorate or the Bureau’s [Complaint Form](#) or [Information Centre](#).