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Building *Nunavut* Together  
*Nunavut* liuqatigiingniq  
Bâtir le *Nunavut* ensemble

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Department of Economic Development & Transportation  
Pivalliyuliyikkut Ingilrayuliyiyitkullu  
Ministère du Développement économique et des Transports

December 17, 2018

Michael Keenan  
Deputy Minister Transport Canada  
330 Sparks Street  
Ottawa, Ontario K1A 0N5

Dear Deputy Keenan,

Thank you for the opportunity to express our views on the proposed merger of First Air and Canadian North.

While Government of Nunavut (GN) officials have provided technical responses to the Public Interest Review, there are also several factors and market complexities which weren't included in the questionnaire, and I wanted to provide some observations and concerns directly to you for consideration.

First, neither carrier is an Inuit firm as defined in the Nunavut Agreement, and the merged company will not qualify for Inuit preference as outlined in Article 24 of that agreement. While the backgrounder document issued by the companies mentions opening the door to Nunavut Inuit ownership, nothing has been finalized and it is unclear if the structure of these potential agreements would bring about the level of effective Nunavut control for them to qualify as Inuit firms in Nunavut.

These two companies provide for nearly all of the air transport in two of our three regions, accounting for nearly 60 percent of our year-round transportation in Nunavut. While we are not opposed to the merger, it is critical that it be undertaken in a thoroughly considered way, and that all appropriate conditions be put in place to ensure that Nunavummiut have access to safe and reasonably priced air transportation.

We believe that your department must consider the following principles in this important review process:

1. That safe and reliable air transportation is an essential service in Nunavut.

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2. That the financial health of the air carriers is a key factor in maintaining that essential service.
3. That, while some markets in Nunavut may only be capable of supporting one carrier at a time, there must be opportunities for competition and innovation; an open-ended monopoly is not in the public interest.
4. Both the Government of Nunavut and Government of Canada should recognize that our collective policies and our spending determine the shape of the Northern market, and that we must work closely to ensure that our respective decisions do not have unintended consequences.

To a greater extent than the rest of Canada, our cargo needs, our passenger needs, and even what most jurisdictions would consider “local” or urban transportation needs are tied up in our air services. That is to say that our groceries, our critical supplies, and most of our retail goods travel by air; our government administration, business travel, and intercommunity trips are all done by air; and most routine visits to doctors, dentists, or physiotherapists mean that either the doctor or the patient will travel by air.

These different needs each place a different type of demand on our system: cargo shipments demand a predictable system that has a minimal amount of handling between origin and destination. Business, administrative and social travel demands effective routing within the territory and highly variable seating capacity; and medical travel demands highly predictable scheduling and compressed round-trip travel times.

The current model has been meeting these various demands by carrying an allowance of excess capacity, allowing some needed flexibility to reconfigure and redeploy depending on demand. This flexibility comes through use of combi aircraft with moveable bulkheads, and having capacity to operate extra sections for either passengers or cargo as needed. It is augmented through having commercial arrangements in place with other, smaller operators. From the client’s perspective, additional flexibility comes from having an alternative carrier serving most communities.

There is a cost to all this, but it is to be expected when we place such diverse requirements on the most expensive, highly regulated, and least adaptable mode of transport.

The air transport industry in Nunavut is dependent on two major revenue streams. The first stream, as mentioned, is GN funded travel. The second stream is the two cargo contracts for the major retailers. Both of these revenue streams are influenced by government decisions, which may have brought us to the point of this merger.

### Government of Nunavut Funded Travel

The basis for Government of Nunavut expenditures on scheduled passenger travel is a contract issued every three to five years for medical and duty travel. Our primary concern is ensuring that Nunavummiut have safe and regular access to medical care in regional centres. In the past, the evaluation of this scheduled medical travel contract was weighted heavily towards frequency of flights and shorter travel times from origin to final destination. Both First Air and Canadian North bid on these contracts, and both were awarded a proportional share based their evaluated score.

Following a review of our contracting procedures undertaken by Lufthansa Consulting, the GN is issuing a new Request for Proposals for these services in the new year. Based on Lufthansa's recommendations, we intend to make significantly fewer demands with regards to scheduling, and to award to a single vendor in each of several regions with the territory. It is our hope that these reduced demands will lower costs for airlines serving our communities, and that some of this reduction in cost will be passed on to the public as reduced tariffs.

This will be a competitive public process, open to all parties, and the timing requirements are such that the RFP will be closed before the merger is complete. This timing is necessary because any potential new entrant to our marketplace will require a full sealift season to ramp up operations. We believe it will be necessary that the two entities submit their proposals separately in order to be considered in that process.

### Retailer Cargo Contracts

The GN contracts also have a requirement for cargo services; however, the volumes are insignificant. The true cargo volumes come from contracts with the retailers, in particular the Northwest Company and the Arctic Cooperatives Ltd., both of which operate their main supply lines out of Manitoba. Previously these retailer supply lines mirrored passenger routes, however with the introduction of the federal Nutrition North program, cargo has moved off these routes. Retailers have pulled their cargo volumes away from the scheduled carriers and placed them on dedicated charters and wholly-owned carriers.

This appears to be the retailers' response to the Nutrition North subsidy structure. It is unclear that this development has reduced retail prices in the north, but the impact is that cargo capacity has drastically increased, and predictable cargo volumes no longer provide a guaranteed revenue stream for the scheduled carriers serving passenger needs.

In this situation, the merger does not necessarily address the core issue. While the cargo operations and the passenger operations are essentially split, the merged entity will continue to



involved to the Parties, especially considering that there is no guarantee that the merged entity will receive any or all of the GN volume in the upcoming contract.

I would like to thank you and your team for your attention to this merger and I would like to offer you our resources and knowledge if you require any clarification or support.

Sincerely,



Udloriak Hanson  
Deputy Minister

- Cc: Kathy Okpik, Deputy Minister, Executive & Intergovernmental Affairs  
Constance Hourie, Deputy Minister, Community & Government Services  
Jeff Chown, Deputy Minister, Finance  
Yvonne Niego, Deputy Minister, Family Services