



Air North, Yukon's Airline – developing a northern transportation strategy

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Northern transport policy background

Getting the strategy right ...



Definition of strategy

“A high level plan to achieve one or more goals under conditions of uncertainty”

So what are the goals?

- I. Safety
- II. Accessibility
- III. Affordability
- IV. Economic and social growth
- V. Employment
- VI. Northern and First Nations development
- VII. Sustainability

Examples of similar goals



The four pillars of Canada's Northern Strategy

- I. Arctic sovereignty
- II. Environmental heritage
- III. Social and economic development
- IV. Northern governance

AANDC and CanNor

- I. Social and economic prosperity
- II. Healthy and sustainable communities
- III. Northern participation in political, social, and economic development, to the benefit of all Canadians
- IV. Build a prosperous economic future for those who live, work, and support their families in the North

The role of Transport Canada



Transport Canada Air Policy Directorate

“Develop policy frameworks, including legislation and international air policy”

So what are the goals?

- I. Healthy and competitive airline industry
 - I. Competitive infrastructure
- II. Accessibility
- III. Affordability
- IV. Safety
- V. Domestic policy and vision
- VI. International policy and vision



Fundamental policy goals: safety, accessibility, and affordability

Objective 1: safety



Safety priorities in the North

“Overcome challenges associated with infrastructure and the environment”

So what are the goals?

- I. Better weather reporting
- II. More modern instrument approaches
- III. More paved runways

Objective 2: accessibility



Accessibility priorities in the North

“Overcome challenges associated with geography and small market size”

Fundamental points about accessibility

- I. Challenging geography – 40% of Canada’s land mass, .3% of Canada’s total population, and 1% of Canada’s air traffic are roughly in the North
- II. 65 communities in the North have scheduled services, but only 8 are by jet, and there are only 10 paved runways in the North
- III. Accessibility to the full domestic network and international networks is becoming vital in today’s world
- IV. Recognizing the role that Northern carriers play in the domestic air market
- V. Ensuring that mainline carriers don’t use network access as a mechanism to overtake otherwise competitive Northern carriers unduly

Objective 3: affordability



Affordability statement

“A Northern transportation network that provides good access is of limited value if it is too expensive for people to use. Affordability is a fundamental priority”

Fundamental points about affordability

- I. Air travel is vital to Northern residents and businesses, so high airfares impose a direct cost on the social and economic well-being of Northerners
- II. Competition is essential, but it does not guarantee optimal pricing
- III. In 2002, before Air North started its jet service, Whitehorse was a monopoly market, and the mainline carrier in Whitehorse was charging on average \$300/seat or \$.33/mile, at a time when fuel cost \$.55/liter
- IV. This year, there are 3 carriers in the market, fuel costs are more than \$.90/liter, average air fares are about \$185/seat or \$.19/mile
- V. Since we entered, traffic has more than doubled



Social and economic growth



Objective 4: economic and social growth



Socio-economic growth statement

“Transportation is a product that all Northerners uses. A safe, accessible, and affordable transportation network will boost the economy and support social development. In addition, the economic benefits that accrue from having a transportation infrastructure hub in the North are substantial”

The socio-economic value of airlines

- I. In Canada, airlines directly account for about .5% of GDP, and aviation as a whole accounts for about 2.8% of GDP (including catalytic effects)
- II. In Canada, airlines directly account for about .5% of jobs, and aviation as a whole accounts for about 3.3% of jobs (including catalytic effects)
- III. In Northern Canada, aviation plays an even higher role, as evident from our experience in the Yukon, where aviation directly accounts for more than 1.5% of territorial GDP and more than 1.5% of private sector territorial jobs
- IV. Aviation impacts are roughly 3x as much in the North

Sources: Oxford economics, Air North company analysis

More on our Yukon story ...



Socio-economic growth statement

“The economic implications of having an air transportation hub located here are quite similar to the economic implications of opening a mine, but there are incentives to move our hub elsewhere. Stated quite simply, our shareholders are our customers, and our shareholders drive our Northern focus”

The establishment of our jet service in 2002 resulted in:

- I. More than a 2% increase in private sector jobs in the Yukon
- II. 75% of our jobs and 85% of our payroll dollars located in the Yukon
- III. Key roles such as pilots, flight attendants, maintenance, cargo, catering, ramp, check-in, call center, marketing, administration, and management
- IV. Were we to move our hub elsewhere, our Yukon workforce would shrink to 60, and only 15% of our payroll dollars would be earned in the Yukon
- V. Our jet service provides 14.12 full-time equivalent employees (FTEs) per 100 departures; our mainline competitor provides 1.39

Sources: Air North company analysis



Employment and investment opportunities for Northerners and First Nations

Objective 5: employment



Fundamental points about employment

- I. Roughly \$1 billion of Yukon's \$1.2 billion budget is funded by federal transfers; there is a strong need to reduce our reliance on federal transfers by creating more sustainable employment opportunities
- II. In addition, it is important to create opportunities for Northerners to have careers in the North, so they can become self-sufficient without sacrificing their culture and way of life

Sources: Air North company analysis

Illustration of the Yukon job market

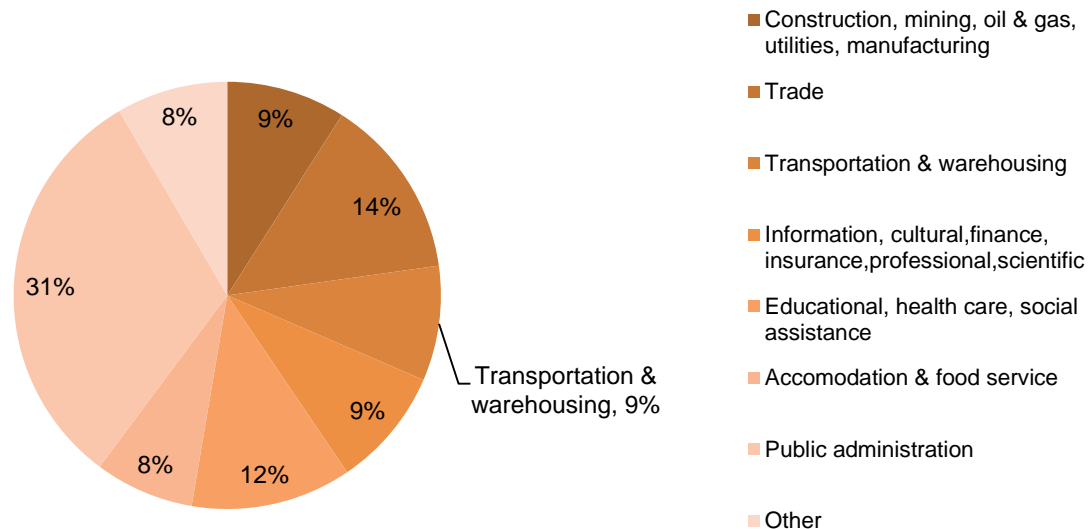


Yukon job market statement

“Mining and tourism have always been regarded as being the cornerstone of our economy, but their seasonality and cyclicity make them volatile sectors”

Breakdown of 19,000 Yukon workers by sector

Yukon Employment by Sector 2010



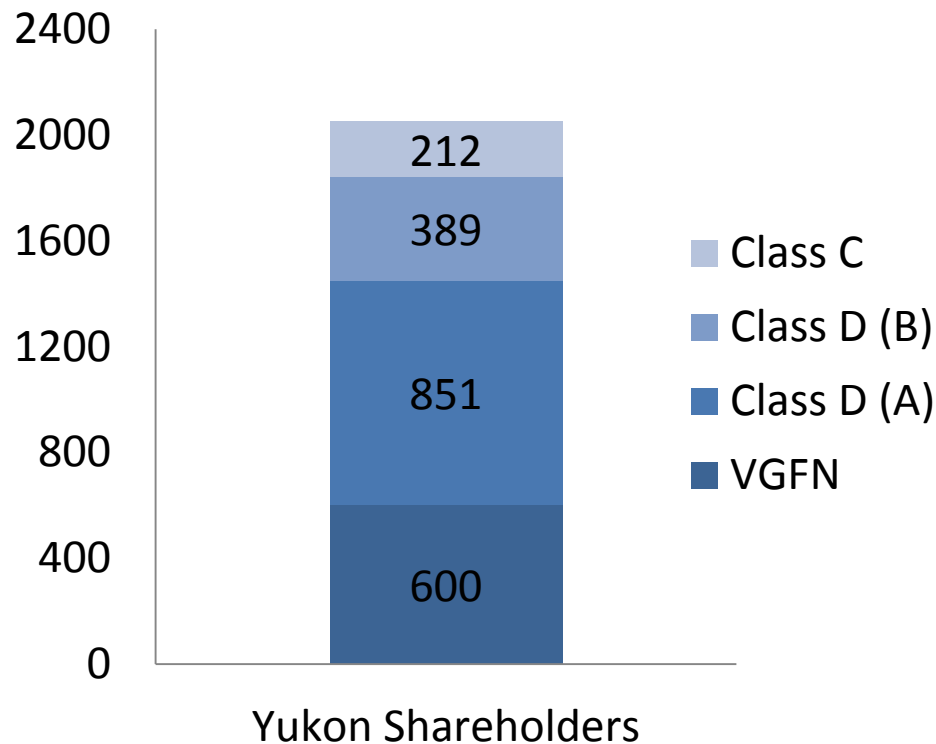
Sources: Air North company analysis

Objective 6: First Nations development



49% owned by Vuntut Gwitchin First Nation

- About 1 in 10 households have an equity stake
- 2,052 shares in total owned by non-employees



Sources: Air North 2012 annual report

Objective 7: sustainability



Total seats in Whitehorse market on Sunday in July 2013

Airline	Flight #	Route	Aircraft	Seats
Air North	505	YXY-YVR	B737	156
Air North	507	YXY-YYC/YEG	B737	120
Air North	535	YXY-YVR	B737	156
Air Canada	288	YXY-YVR	E90	93
Air Canada	290	YXY-YVR	E90	93
WestJet	142	YXY-YVR	B737	119
Condor	Frankfurt	YXY-Frankfurt	B767	270
Air North	506	YVR-YXY	B737	156
Air North	508	YYC/YEG-YXY	B737	120
Air North	536	YVR-YXY	B737	156
Air Canada	289	YVR-YXY	E90	93
Air Canada	291	YVR-YXY	E90	93
WestJet	143	YVR-YXY	B737	119
Condor	Frankfurt	Frankfurt-YXY	B767	270
Total seats in the market				2,014

Sources: Air North company analysis



Conclusion

Strategic recommendations



So what are the goals?

- I. Endorse and follow-up on Standing Senate Committee of Transport
- II. Strategic transportation infrastructure improvements in the North
- III. Recognition of Northern Canada as a distinct economic region
- IV. Adoption of “buy Northern” purchasing policy by Northern stakeholders
- V. Encourage integration of Northern and mainline transportation networks
- VI. Ensure reasonable access to capital for Northern transportation industry
- VII. Recognize the economic benefits that accrue from having strong Northern transportation networks and in particular Northern transportation hubs
- VIII. Recognize the interdependence of Northern regional turboprop routes and gateway jet routes



THANK YOU FROM AIR NORTH, YUKON'S AIRLINE