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Keeping Canada Connected:

The Challenge of Regional Air Service and Federal Policy

Regional air service is vital for hundreds of communities across Canada, connecting them with the national transportation network and by extension, the world. Regional air service opens access to internal trade, business opportunities, essential medical services, education, and government services. The economic impact of a single flight from a Canadian hub airport to a regional airport can create approximately 32 to 78 jobs, $4.4 to $10.3 million in GDP, and $9.2 to $23.7 million in economic output, depending on the specific route being assessed. The economic significance of regional aviation can not be understated. The loss of a single regional route could cause significant harm to the economic strength of a community, curtailing its GDP, economic output, and trade volumes by millions of dollars.

The Ties That Bind: How better regional air service can help steer Canada through economic turbulence

Now, more than ever, Canadians want to feel connected – to the rest of the country, and the world.

The good news is that Canada's 100 airports are uniquely positioned to make that happen. Linked to eight gateway hubs, dozens of smaller regional airports underpin a vast network that helps move people and goods safely and efficiently across this country's vast land mass.

A new report by InterVISTAS Consulting for the Canadian Airports Council finds that regional airports are *"primary enablers"* of resource development, trade, tourism, northern sovereignty and access to health care.

"Regional air service has the power to transform our national economy, create opportunities for communities that would otherwise not have them, and improve the well-being of all Canadians," the report concludes.

Adding just a single regional flight can create as many as 210 jobs and generate $41.2-million in economic output. Multiply that across the entire network, and the benefits would provide a welcome and quick economic boost during difficult times.

> ADDING JUST A SINGLE REGIONAL FLIGHT CAN CREATE AS MANY AS **210 JOBS** AND GENERATE **$41.2-MILLION** IN ECONOMIC OUTPUT

Unfortunately, regional airports have experienced an uneven recovery from the Covid-19 pandemic. Much of the country is now less connected to national and international destinations than a decade ago. Based on data from the 51 largest regional airports, the report found that flight frequencies and total seat capacity have declined in most regions of the country in the past decade as airlines consolidate routes and deal with a chronic pilot shortage. There were nearly a third fewer flights serving these airports in 2024, compared to 2014.

The worst-affected airports are in Alberta and Manitoba, where flights and seat capacity remain at less than half of 2014 levels. Elsewhere in Canada, seat capacity is up, but there are fewer flights available, including in B.C., Quebec, New Brunswick, Prince Edwards Island, and Newfoundland and Labrador.

Across the country, the impact on total seat capacity has been partly offset as airlines pivot to larger aircraft and fewer daily flights to regional airports. The result, while efficient for airlines, has left passengers with far fewer options to fly in and out of these communities – for business, leisure or health care.

More flights = greater productivity and prosperity

Lost flights and fewer passengers have also cut into airport revenues, putting a strain on their ability to invest in terminal and runway improvements, new equipment and constantly changing safety and regulatory requirements. And as service dwindles, many airports worry about keeping the limited flights they still have.

AIR SERVICE IS THE LOAD-BEARING WALL THAT HOLDS CANADA **TOGETHER**

In small communities, such as Gander, NL (Pop.: 14,296), the airport is a lifeline to the outside world that supports social bonds, brings in essential health care workers and provides a gateway for the area's fishing and mining exports.

"Air service is the load-bearing wall that holds Canada together," says Reg Wright, the president and chief executive of Newfoundland's Gander International Airport Authority. *"When your schedule breaks down and routes are reduced, you can feel the disconnect across the sphere of things, from business to leisure and social utility."*

Passenger traffic through Gander's airport is down 30 per cent since 2019, even though the local economy and population has grown. The number of flights has been halved. A single, typically full, daily Air Canada flight to Halifax is the key route in and out, often leaving inbound passengers stranded for days if connecting flights are delayed or cancelled.

At Alberta's Fort McMurray airport, passenger traffic is down 60 per cent since 2019. That has left the airport unable to pay interest on a decade-old loan from the Alberta government to finance its new terminal. Without a payment deferral deal with the province, the airport would face bankruptcy, according to Denean Robinson, president and chief executive of the Fort McMurray Airport Authority. The terminal, opened in 2014 to accommodate up to 1.5-million passengers a year. It's now operating at less than a quarter of capacity, serving a projected 350,000 travelers this year.

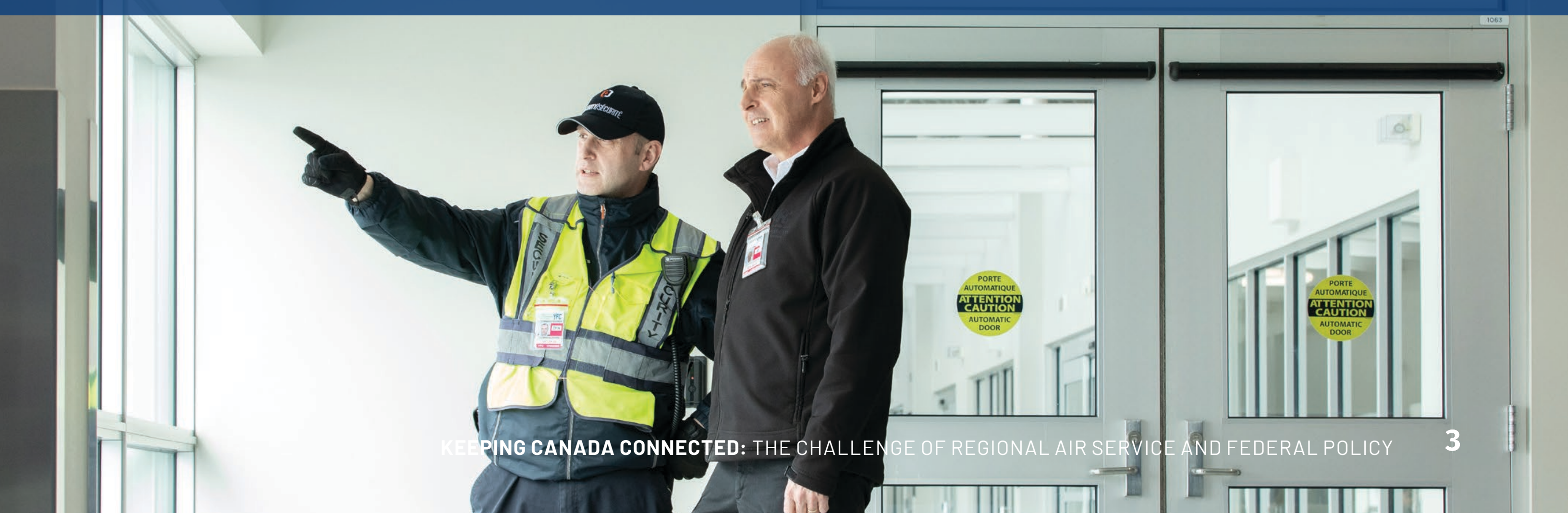
The problem is not a lack of demand; it's a dearth flights at the right time, Robinson insists. She has watched in frustration as travelers bound for destinations outside the province opt to drive up to seven hours to Calgary to ensure they make their connections or to save on fares, priced at up to $800 for a last-minute one-way flight. To reverse that, the airport needs at least three daily flights to both Calgary and Edmonton.

"We need capacity and we need stability on pricing to get travelers back," Robinson says.

Mark Galvin, president and chief executive of Windsor International Airport, says he understands the challenges that airlines face, from financial pressures, to pilot and aircraft shortages.

But lost connectivity in the regional air network comes at a steep economic price, points out Galvin, whose airport has seen daily flights to Toronto cut to three or four from 10 before the pandemic. Fewer people flying, either due to the cost or unavailable connections, means less business activity, lower productivity and lost opportunity.

Canada's regional airports have experienced a significant reduction in flight frequencies and overall seat capacity, with frequencies falling to 64% of 2014 levels and seat capacity at only 83% of 2019 levels. This loss of service has limited the economic benefits of air service and deprived communities of a range of other social benefits. Ultimately, less air service means that travellers may have to use unreliable alternative modes of transportation, delay their travel plans, or face higher travel costs.



“You want more people flying in the ecosystem,” Galvin says. *“There is a cost to not having a productive, efficient economy. That’s a different part of the balance sheet, but it’s still important.”*

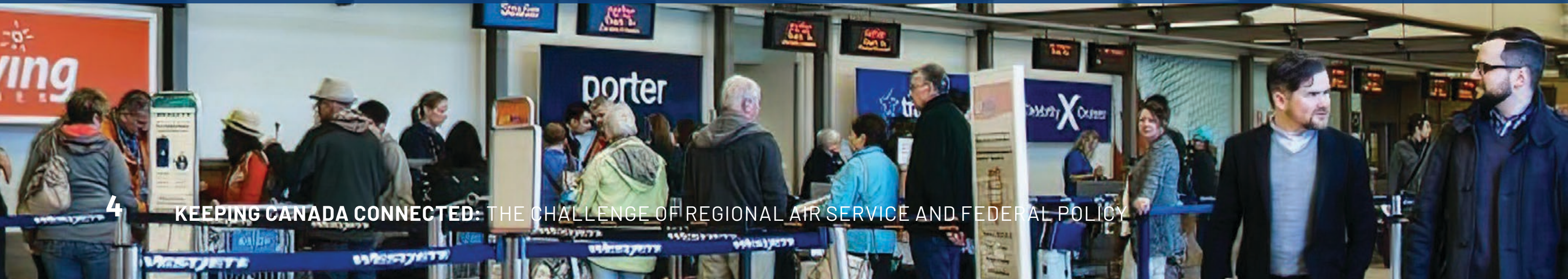
In North Bay, ON, airport manager Bryan Avery worries constantly about losing the last remaining daily Air Canada flight to Toronto. The airline now uses a larger plane – the 78-seat De Havilland Q-400 turboprop – instead of five previous daily flights on smaller aircraft. And yet demand continues to fall as travelers balk at the midday arrival and departure instead of driving three hours to Toronto. He says the airline is unlikely to add a flight until the remaining one is routinely full.

“It’s the wrong time, with the wrong plane, with the wrong frequency,” Avery complains. *“Every time you fly, you have to spend an extra day in Toronto to make the connection at each end. Go for a week, and you’re gone for nine days.”*

North Bay Jack Garland Airport, which is located next door to CFB North Bay and boasts a 10,000-ft runway, has offset the loss in business with charter flights, freight shipments of locally built mining equipment, plus regular training and testing of military and civilian aircraft. But Avery says the uncertainty over flight frequencies makes it tough to plan ahead or make investments because he doesn’t know what his revenues will be going forward.

Meanwhile, having just single flight per day makes it tough to attract new business and tourist travelers.

The connectivity of Canada’s regional airports to the domestic and international markets has tumbled since 2019, with the IATA and Onward Connection indices showing a greater than 10% decline in domestic connectivity. Connectivity scores are particularly influenced by access to hub airports, which are critical in enabling connecting itineraries within Canada and internationally.



Leveraging competition and low fees to get more flights

A bright spot is the Yukon, the only regional jurisdiction that has more flights and seats than a decade ago. Flight frequency is up 54 per cent since 2019; seat capacity is 31 per cent higher.

Erik Nielsen Whitehorse International Airport, owned by the territorial government, expects to serve nearly half-a-million travelers this year, up from 300,000 pre-Covid. Seven or more flights a day on three airlines offer passengers direct links to major cities in B.C., Alberta, as well as Ottawa and Toronto (via Yellowknife), plus more in the summer months. There are also flights to Whitehorse from small airports in Mayo, Old Crow in the Yukon, and Inuvik in the Northwest Territories.

The success of the Whitehorse airport is due to the Yukon's above-average population growth, heavily subsidized landing fees and stiff competition to the large carriers from a locally-based low-cost airline – Air North.

"Because Air North is in the market, ticket prices are reasonable," explains airport manager Nigel Cripps. *"For Yukoners, there are a lot of options."*

Flight frequency isn't just a boon for locals. The territory has capitalized on those flights to aggressively market the Yukon to Canadian and international tourists, drawn to backcountry adventures, the Northern Lights, and the history of the Gold Rush.

Given U.S. threats to this country's economy and sovereignty, policy makers should want more Canadian regional airports to look like Whitehorse.

Unfortunately, Canada starts with a natural disadvantage. As the eighth most sparsely populated country in the world, the country is disconnected by geography.

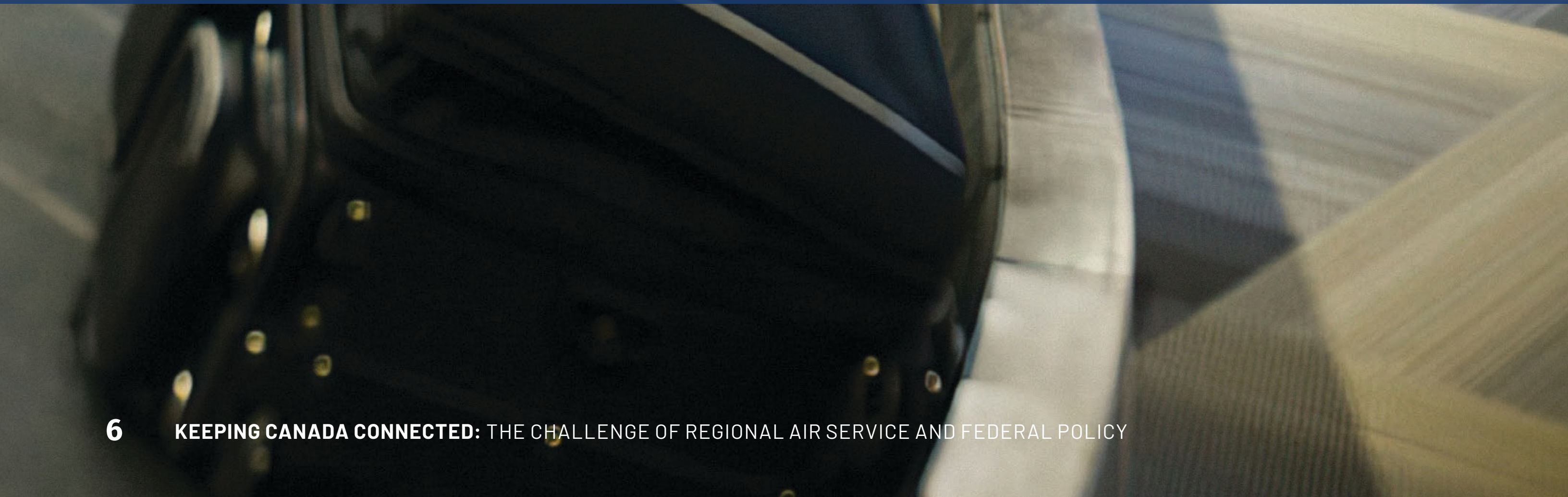
CANADA'S AIRPORTS SUPPORT 435,800 JOBS;

PROVIDE $32.9 BILLION IN ANNUAL WAGES;

GENERATE $49.6 BILLION IN GDP;

PRODUCE $123.5 BILLION OF ANNUAL ECONOMIC OUTPUT

Regional air services are left mostly to market forces, and this is limiting to affected communities. The approach of the Canadian government to the development of regional air service has been to allow market forces to determine how and where service is created, with a limited intervention from the government. Government has focused its investments to infrastructure programs such as the Airport Capital Assistance Program and does not have a sustained funding mechanism to directly support the creation of air service. Considering infrastructure investments alone, the Government of Canada's investments remain limited, with its total investments from 1995 to 2024 amounting to 12% of the total amount invested by the U.S. government on a per capita basis.



We The North: tourism, defense and northern sovereignty

The good news is that the goal of enhancing regional air service aligns neatly with pronouncements by many federal and provincial officials, including newly elected Prime Minister Mark Carney. Carney and other policymakers have called for removing interprovincial trade barriers, facilitating the export of natural resources to markets in Europe and Asia, investing in infrastructure, attracting more foreign tourists, and bolstering Canada's military and government presence in the North.

> BOOSTING TOURISM, OPENING NEW TRADE ROUTES AND ENHANCING CANADA'S MILITARY PRESENCE IN THE NORTH DEPENDS ON **RELIABLE AIR SERVICE**

Regional airports and carriers have a vital role to play in all these areas.

Air service is more than a mode of transportation. InterVISTAS argues that it's *"a lifeline for Canada's smaller communities"* that fuels economic growth, social cohesion and national resilience. The report points out that regional air service *"plays a strategic role in asserting Canada's sovereignty, particularly in remote areas such as the Arctic"* by demonstrating government *"presence and control over its territories, both symbolically and practically."*

As the Yukon has demonstrated, better air connections to remote communities can generate much-needed tourism dollars, helping to offset the economic pain of the Canada-U.S. trade war. Eager to avoid traveling to the U.S., many Canadians want to spend their tourist dollars at home. Likewise, recent travel patterns suggest many foreigners may also be shunning travel to the U.S., leaving billions of tourism dollars up for grabs here in Canada.

Canada offers an abundance of nature-based experiences that few other destinations can match -- from icebergs and polar bears to Northern lights and wild open spaces. Spending by tourists, can quickly bring jobs and economic development to remote communities.

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What's lacking is supply. Boosting tourism, opening new trade routes and enhancing Canada's military presence in the North depends on reliable air service.

Airports and carriers can't readily build new infrastructure and boost capacity without significant investments by all levels of government. A new runway can cost $10-million; training just one new pilot is a $150,000 investment.

Canada is not keeping up with policy tools used in other jurisdictions: A scan of international programs identified several programs to retain air service using subsidies for airlines or other policy tools such as revenue guarantees, passenger reimbursements, and slot restrictions, among others. These programs, such as the U.S. Essential Air Services program, protect regional air services and ensure that communities are connected to major hub airports according to a minimum standard set by the government. The U.S. program is permanently authorized to ensure long-term stability and certainty.

Funding regional connectivity is an investment in opportunity

Canadians living in large cities often take connectivity for granted. That's because most of us enjoy a multitude of ways to get where we want to go, whether it's by car, bus, rail or air. Or we can stay put, knowing that everything the world offers will come to us. That isn't the case for many smaller and remote communities, where air service is the key to accessing essential needs, including health care, food, employment and education.

> WITHOUT A COHERENT GOVERNMENT STRATEGY, CANADA'S REGIONAL COMMUNITIES RISK CONTINUED **SERVICE EROSION**

Government support for regional air service is a way to bridge the opportunity gap.

The InterVISTAS report concludes that while Canada has ramped up spending on regional airport infrastructure in recent years, it's done less than the U.S., the European Union and Australia to support the broader goal of *"regional air connectivity."* Since the federal government began selling off airports in the mid-1990s, the U.S. has spent 8.5 times more per capita than Canada on airport infrastructure.

Without *"a coherent government strategy, Canada's regional communities risk continued service erosion,"* the report warns.

InterVISTAS highlights a range of policy tools available to governments to improve regional air service, including financial support for carriers, passengers and airports. Among the options for carriers, the federal government could wave aviation fees and compensate airports for revenue shortfalls on designated regional routes. Governments could also subsidize ticket prices for targeted groups, including students and essential workers who depend on air travel. Airports, meanwhile, could benefit from direct funding for much-needed runway upgrades and terminal expansions, as well as temporary rent relief for financially struggling airports.

Canada's National Transportation Policy permits limited, strategic market interventions in the aviation sector when they are in the public interest, and this should be exercised. There are a range of policy tools available to government to achieve its desired level of regional air service. These tools include supports for airlines, passengers, and airport infrastructure.

Current federal and provincial programs for airport improvements routinely fall far short of the need, according to Jim Moroz, managing director of Kamloops Airport in B.C. He says the airport makes *"a big effort"* to reduce the financial risk facing carriers by keeping fees as low as possible. But that puts a squeeze on the airport's ability buy equipment, meet regulatory requirements and upgrade infrastructure.

"We need support," Moroz says. *"Anything we can do to reduce the costs of airports, and in turn reduce the cost to passengers, would be a significant help."*

Ontario's Greater Sudbury airport has begun developing land around the site for commercial and industrial use as a way to generate new sources of revenue. But that takes money up front, explains airport chief executive Giovanna Verrilli says.

"Airports aren't just sitting back and waiting for air travel to come back," Verrilli says. *"We are taking ownership, but it's a tough mountain to climb."*

Working Together We Can Address Downward Trend.

The report puts forward a strong set of comprehensive policy recommendations to support regional air service. Four key priorities to start are:

1. Establishing a Regional Air Connectivity Program to support communities nationwide.
2. Investing in airport infrastructure for regional airports to strengthen the broader aviation ecosystem.
3. Support the labour needs of the aviation industry.
4. Streamline regulations to decrease the cost burden on regional airports.

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