



Aviation reform: the key to Canada's economic recovery

The aviation sector in Canada and around the world continues to face incredible challenges brought on by the COVID-19 pandemic and its economic fallout.

While vaccine developments suggest there's a light at the end of the coronavirus tunnel, the aviation field's recovery remains distant and uncertain. Disruptions to the sector will have a lasting impact on business models and make a return to pre-pandemic normalcy highly unlikely, if not impossible. Yet for Canada's economy to recover fully, the industry must adapt and evolve. Policymakers and regulators must enact the bold reforms needed to make this happen—or give aviation the freedom it needs to reform itself.

A pillar of the economy

Canada's aviation sector—airlines, airports, and air-navigation service providers—plays a strategic, crucial role in the country's economy. The industry supports 633,000 jobs across the country, according to the International Air Transport Authority. These include 241,000 jobs at airlines, airports and their onsite enterprises—such as retailers and restaurants—and NAV CANADA; 146,000 jobs across the field's supply chain; and, less directly, 55,000 jobs in the country's overall consumer goods

and services industry, which is patronized by aviation employees. Overall, aviation contributes \$63.67 billion to the GDP, with just over \$48 billion generated by the industry and its supply chain alone.¹

But the sector's importance goes well beyond jobs and GDP. The industry facilitates a fast, easy flow of people and goods—a vitally important consideration in a country as large as ours, where major urban centres can be hundreds or thousands of kilometres apart. Aviation ties the country together,

so the field must be robust and aggressive providing frequent routes and competitive pricing, to help ensure that all our industries are prosperous in their own right. Before the pandemic, Canada ranked 12th globally in airport connectivity and 37th in efficiency of air transport services.² And yet today, with carriers such as Air Canada, WestJet, and Air Transat cutting back on routes, and with Porter and Sunwing airlines suspending some services entirely, these all-important inter-industry dependencies are at risk.

Changed forever by the pandemic

COVID-19 has thrown the industry's traditional business model into disarray. Airlines and other aviation players can no longer rely on strengths, weaknesses, opportunities, and threats (SWOT) analyses—which help companies develop current and future commercial strategies—run rates, and pre-pandemic projections for passenger growth for their financial planning. Even customary sources of revenue, such as airport-improvement fees, are unlikely to be as reliable as they once were.

The world has changed. Demand for passenger services has cratered amid ongoing and frequently revised travel restrictions and quarantine measures, and a potentially long-term shift toward remote work and away from business travel. At the same time, the pandemic has driven explosive growth in online shopping and created a huge demand for cargo services, prompting airlines to convert some of their passenger aircraft into cargo freighters.³ Protecting the health and safety of both passengers and workers—through redesigned health and security protocols, and through technological investments such as biometrics—is likely to be a permanent feature of air transport.

The future of aviation is poised to be more volatile, uncertain, complex, and ambiguous than ever before, requiring players across the industry to increase their responsiveness and efficiency.

Aviation must reform to recover

Regulatory reform has played a key role in the growth and success of Canada's aviation industry over the past 40 years. Progressive deregulation and commercialization allowed for tremendous productivity gains and volume growth for carriers, and a competitive industry provided the opportunity to access new flight routes and keep fare prices in check.

Now, new reforms are needed to give the industry the freedom and flexibility to overcome today's challenges and reinvent itself for a fast-evolving environment. The government must take bold action, focusing on reforms that both encourage innovation and address economic regulatory barriers that impede commercial operations, hamper strong service levels, and make pricing less competitive. At the same time, it should avoid reforms that may lead to a re-regulation of the sector, and ensure that economic relief packages—essential in the current pandemic environment—don't set a precedent for arbitrary regulatory intervention in the commercial operations of airlines and airports.

There are many ways the government can enact substantive reform across Canada's aviation industry, including the following:

- By reflecting on a policy change to allow more global investment to flow into the sector
- By clarifying and quantifying the economic impact its commitment to net-zero greenhouse-gas emissions will have on the sector
- By considering modifying its National Airports Policy in order to establish a range of financial models, thresholds, and frameworks that apply to all the country's airports, not only the 26 largest ones
- By reassessing the not-for-profit (non-share capital) corporate structures long used for Canada's airports and other transportation infrastructure; airports may benefit from moving to a more commercial model of operations with potentially greater private sector involvement in certain cases.

While they explore such steps, the aviation sector itself can embrace several industry-led reforms. They can:

- Consider a fundamental rethink of the business model and the operations model; it may make sense to move to a low-cost model, exit certain markets, and focus on areas best suited to an airline's fleet.
- Explore partnerships with other transport industries (e.g., rail, bus, ferry) reshaping route networks and fleet structures as needed.
- Embrace new, non-aviation sources of revenue, similar to US airline JetBlue's expansion into fields including vacation travel, car rental, travel insurance, transit, ride-sharing and other micro-mobility services, as well as the cruise industry and rentals for short-term accommodations.⁴
- Adopt technologies such as biometrics to improve passenger flow and reduce the likelihood of long lineups and crowds.
- Embrace digital twin (virtual-model) technology and analytics to monitor, predict, and respond to changing business and network conditions, and to identify opportunities for operational improvement.

No time for delay

Calls for aviation reform are not new. Yet at this time of crisis for the industry, it is imperative that the government—and the aviation sector itself—act quickly. If the government is unable or unwilling to move forward with meaningful reforms at the speed required by the industry, then it should step back and allow aviation to take the initiative. Further delay will only put the aviation sector in further jeopardy.

Endnotes

- ¹ IATA, *The Importance of Air Transport to Canada*, <https://www.iata.org/en/iata-repository/publications/economic-reports/canada--value-of-aviation/>.
- ² World Economic Forum, *The Global Competitiveness Report*, p. 139.
- ³ Ian Putzger, "Air Canada plans a dedicated freighter fleet to expand cargo business," in *The Loadstar*, Nov. 13, 2020, <https://theloadstar.com/air-canada-plans-a-dedicated-freighter-fleet-to-expand-cargo-business/>.
- ⁴ Dennis Schaal, "JetBlue to Debut Short-Term Rentals as Part of Its Growing Non-Air Offerings," *Skift*, Nov. 11, 2020, <https://skift.com/2020/11/11/jetblue-to-debut-short-term-rentals-as-part-of-its-growing-non-air-offerings/>.

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