

## 1.0 Executive Summary

The Northwest Territories has considerable tourism attractions such as Northern Lights viewing, winter activities such as dogsledding, snowshoeing, hunting, fishing and ecological touring. However, the NWT is not alone in these destination attractions and faces stiff competition from communities such as Whitehorse, Fairbanks, and Anchorage, as well as with other communities such as Prince George, Northern BC and Northern Saskatchewan for some of these activities including hunting, fishing, touring and ecotourism.

Tourism is well recognized by governments and airports throughout Canada and the world as being a major contributor to local and regional economies, which has resulted in very aggressive marketing and infrastructure development in order to capture the ever growing tourism markets. For instance, six airports in British Columbia and Alberta are aggressively going after long-haul European charter services with three of them recently extending their runways to accommodate aircraft take-offs for non-stop flights to Europe.

In the process of attracting airlines to initiate new services, airports and tourism organizations are prepared to provide financial incentives in terms of revenue guarantees, airport start-up cost recovery, landing and terminal fee concessions and marketing efforts and budgets. This is offered for the high risk start-up stage of a new air service as the awareness of the new flight is being developed. The trend for such support started six or seven years ago and now it has become common place as the "ask" by the airlines for what the community is willing to offer. This has become particularly important as airline financial returns have become increasingly fragile because of rising fuel prices.

In terms of developments in the aviation industry, the rising price of fuel is now the key issue of concern to the airlines. At \$95 per barrel of crude oil, many airlines were having trouble in considering any new air services, at \$105 per barrel they started examining their whole network, at \$115/barrel they are starting to park aircraft. A one dollar increase in the price of a barrel of oil translates to about \$82 million in annual additional costs to an airline like American Airlines. When the price of oil goes from \$105 to \$120, American Airlines is looking at a cost increase of \$1.224 billion. The consequences are severe. Some of the airlines that have gone into bankruptcy or bankruptcy protection within the last month alone include: Zoom, ATA, EOS, Aloha, Skybus, Frontier and OASIS. Furthermore, major USA network carriers are having serious merger discussions such as Delta and Northwest, as well as Continental and US Airways. It is not the best environment for the development of new air services.

Stakeholder interviews and research has determined that there is not a great deal of air freight leaving the area other than diamond exports that do not require very much airlift to move to their final destination. Inbound cargo to the region comes in through the most economical means possible which is trucking. Any high priority, rush cargo can be carried in the belly of combination aircraft such as offered by First Air and Canadian North.

The transshipment concept is a means of developing a business that can make a major contribution to the local economy. The key ingredients to make this concept of interest to airlines include:

- Low airport costs
- Lower than normal fuel costs
- An aircraft technical reason such as YZF being at the range limit for some aircraft types on certain routings
- Critical mass of air services offering cargo connection opportunities of a hub airport.
- Foreign trade zone

Developing a cargo transshipment center requires considerable work, diligent marketing efforts, major financial investment and the above ingredients as so described. Many airports are attempting to establish a transshipment centre to varying degrees of success. For instance, Calgary, which has all-cargo flights for domestic, transborder, Europe and Asia markets, has the potential for transshipment of goods through YYC. Edmonton on the other hand, while being a major cargo centre for northern transportation, has not been able to develop as an international transshipment centre with very limited all-cargo airline operations. For Yellowknife, with limited local cargo traffic and none of the other essential transshipment centre ingredients the challenge of developing an international transshipment centre is overwhelming.

A comparison of airfare levels between Europe/Asia and Yellowknife versus Fairbank/Anchorage of scheduled airlines indicates that Yellowknife prices are inline with these airports other than in the summer as indicated in the following table:

	Summer	Winter
Japan	YZF yields are lower than Alaska	YZF yields are the same as Alaska
Germany	YZF yields are considerably higher than Anchorage	YZF yields are the same as Alaska

Charter prices of course give Alaska an advantage over the higher schedule service fares at Yellowknife.

A regular meeting and convention facility would provide additional demand for air travel and help fill empty seats on current air services. The smaller sized conventions in the 200-600 person range would appear to be fully compatible with hotel and airline seat availability. Such sized conventions may be of lesser interest to cities like Edmonton and could be a good focus for the NWT. A review of the costs and benefits of a new convention facility is beyond the scope of this study.

A runway extension is not required for non-stop Europe flight landings at Yellowknife nor for split charter take-offs to Europe via another point in Canada such as at Edmonton (YEG) or Calgary (YYC). However, a runway extension is needed if there are to be non-stop flight operations from Yellowknife to Europe. At this stage with the uncertainty of the true size of air travel demand for Europe or Asia, the start-up period for the first several years of a new operation would have to be combined with a partner airport such as Edmonton or Calgary. A means of developing international markets so that they justify a full flight load for non-stop services, in both directions, is to start with a split (double drop) charter service.

At this point local stakeholders would prefer to minimize the risk to see airport expenditures on upgrades spent on smaller airports throughout the NWT which are at the other end of a Yellowknife flight than on an YZF runway extension. This issue is not within the scope of this study and therefore this report has simply recorded what some stakeholders have raised, not made any value judgement on the question of runway extension feasibility. Such review of airport capital expenditures is the subject of a separate study involving all planning aspects of the airport.

The current size of the Yellowknife passenger air travel market, outside of the region, is not particularly large but review of visitor statistics relative to what is currently being carried by airlines suggests that there are some air service opportunities that are worth pursuing.

In terms of new Yellowknife services there would appear to be some additional domestic schedule service opportunities, international service potential for Japan and Germany and lower probability transborder (USA) services.