



Cleared for take-off

Elevating airline competition

A market study of Canada's airline industry
Executive summary

This document has been updated to provide further clarity in certain sections. For more information, please contact the Competition Bureau.

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Executive summary

Canadians want more competition in the airline industry. This study is about how to achieve it.

Domestic flights are those within Canada.

In this report, we analyze Canada's domestic airline industry and make recommendations to enhance competition. These recommendations are based on our research.

We have explored challenges faced by both airlines and consumers:

- Airlines are struggling to enter the market, stay in business, and grow.
- Passengers are navigating complex flight bookings.

We also look at how we and other Canadian government bodies can take action to deliver a more competitive marketplace.

Robust competition drives airlines to offer better service at lower prices. When competition works well:

- Successful airlines expand.
- New ones enter the market with fresh ideas.
- Underperforming airlines either improve or exit the market.

This competitive process ensures resources flow to where they are most useful. This in turn drives the aviation industry and broader economy to innovate and be more productive.

In this executive summary, we highlight our study's findings and then give our recommendations.



Competition in airlines matters to Canadians

Competition delivers major benefits to Canadian travellers. Beyond lower prices, competition drives quality improvements and innovation.

*Our research shows that when just one new competitor flies on a route between two cities, **airfares go down by 9% on average.***

Yet competition in Canada's airline sector has struggled to take off. Canadians often voice their dissatisfaction because:

- Airline options are limited.
- Airfares are high.
- They want better-quality service.

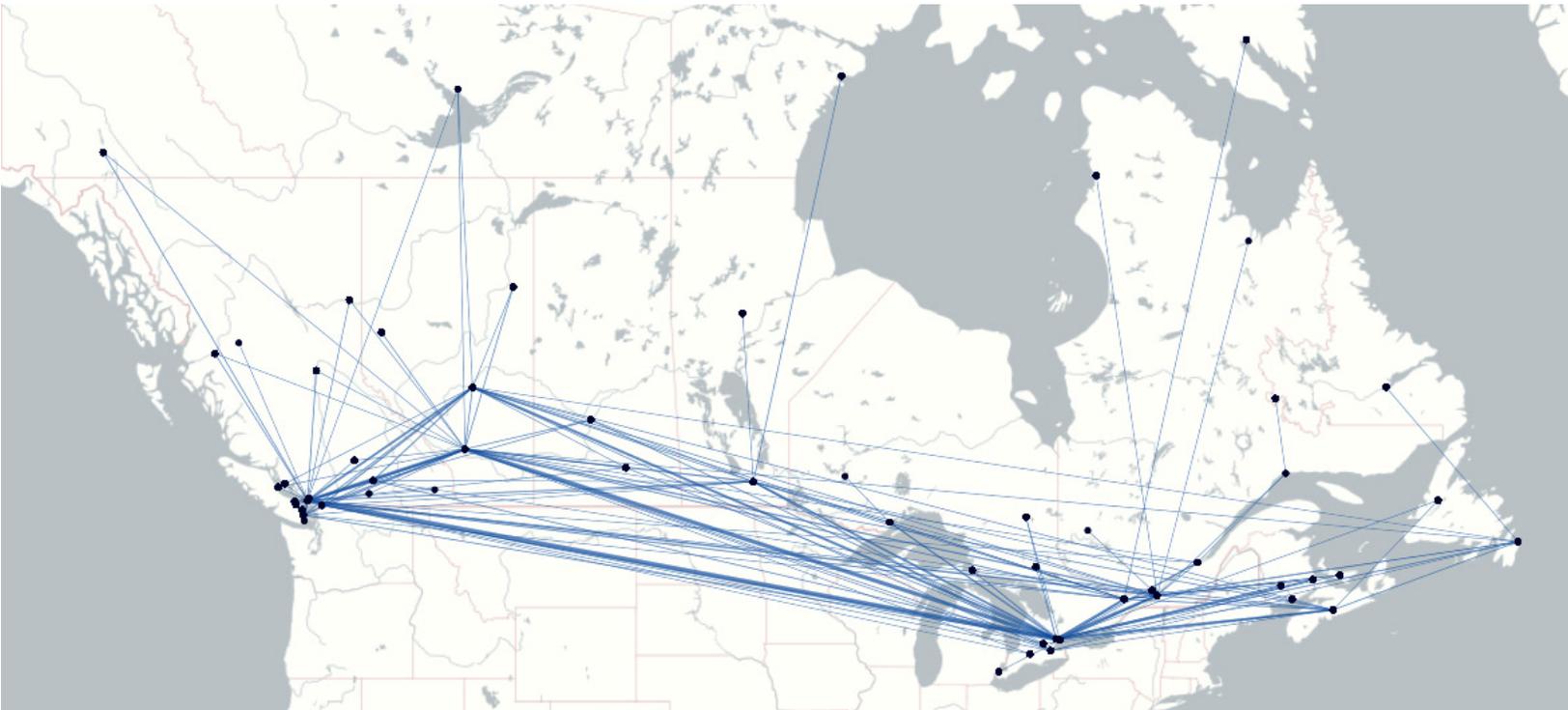
Many Canadians report that international flights are often cheaper than flights within Canada.

For many in Canada, air travel is necessary, not a luxury. In this vast country, there are long distances between populations. Flying is often the only practical way to travel. This is especially true for northern and remote communities. For people there, air service provides an essential lifeline to necessary goods and services, including:

- Food
- Healthcare
- Social connections
- Jobs

Map of the 100 busiest domestic routes in Canada, 2023

The way Canada's population is spread out means most major domestic flight networks are organized East-West.



Market concentration is based on the number and size of airlines. It helps us measure competition. A concentrated market has few, large airlines. They face less pressure to offer passengers a good deal because travellers have few choices.

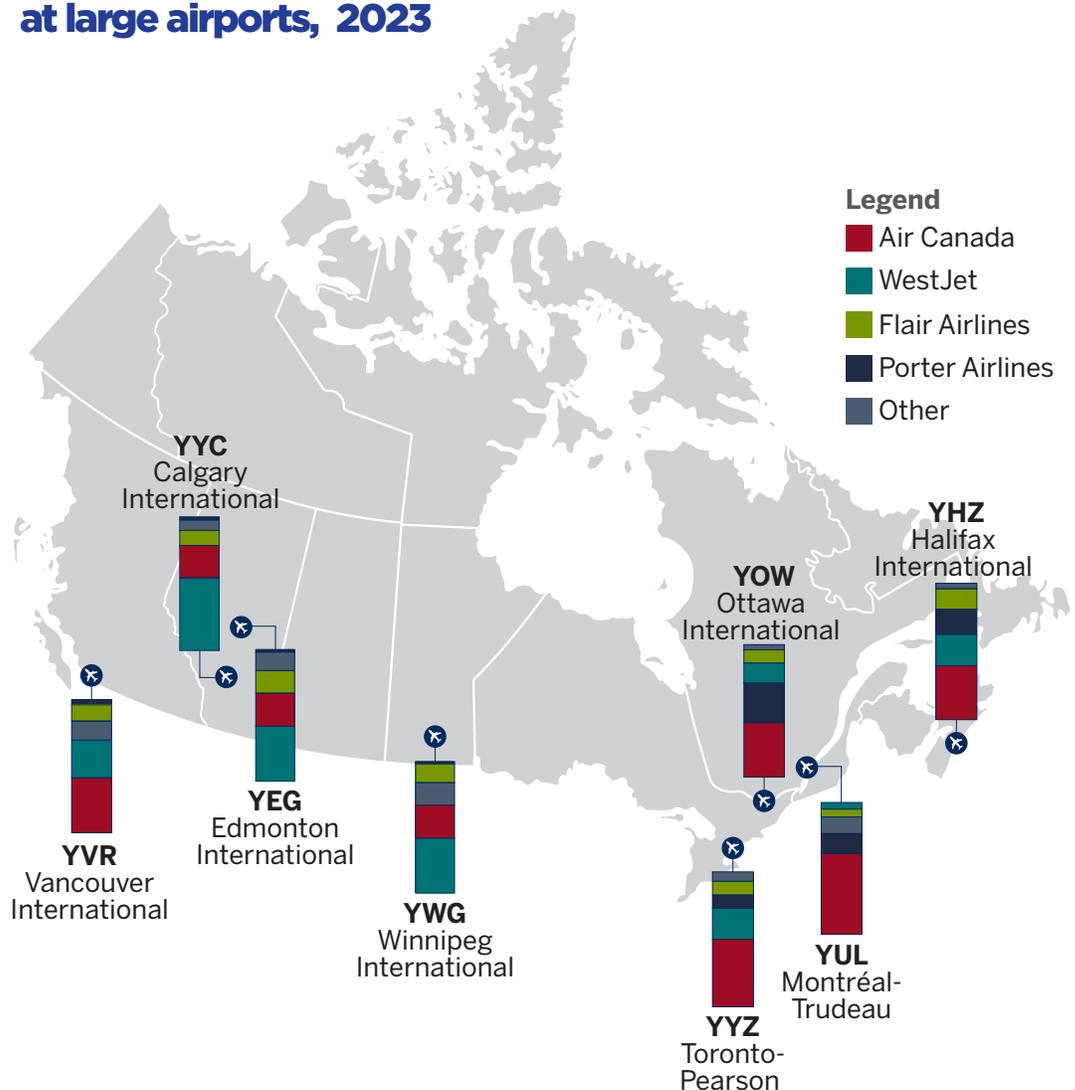
The Canadian airline market is concentrated

New companies have entered the market and are making progress. Yet Canada's domestic aviation market remains highly concentrated. This means that there are only a few large airlines.

At major airports across the country, **Air Canada and WestJet together account for roughly half to three quarters of all domestic passenger traffic (56% to 78%).** Market concentration has gone down by one tenth (10%) between 2019 and 2023. This reflects the fact that airlines like Porter and Flair have had success entering the market and growing, even as others, such as Lynx Air, have exited the market. However, the average concentration remains extremely high and competition from new sources remains fragile.

The competition between Air Canada and WestJet appears to be changing across the major population centres. WestJet's share of domestic passengers is declining more at major eastern airports while Air Canada's share is declining more at major western airports. They are directly competing on fewer routes compared to 2019.

Major airline share of domestic passengers at large airports, 2023



Airlines are also often referred to as **carriers**.

Barriers to entry limit competition

New airlines face daunting challenges both entering the market and growing into competitors that last long term. Some barriers for these entrants just naturally occur. But others could be addressed through policy changes. Here are some important ones.

User fees affect costs and competition

Canada follows a user-pay model for aviation infrastructure. Fees airlines and passengers pay cover most of the costs of building and running airports and air navigation services. **These fees make up thirty cents of every dollar that passengers pay airlines (30%)** for traditional full-service airlines. Those costs take up an even higher share of what passengers pay for flights on ultra-low-cost carriers (ULCCs).

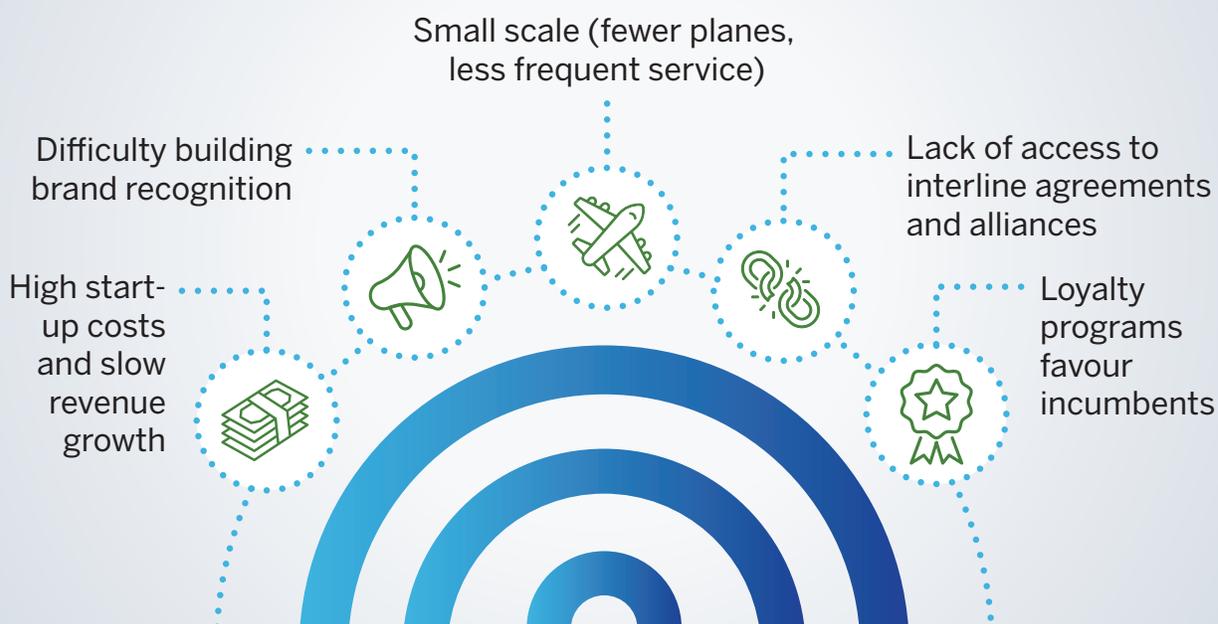
Key fees passengers pay that make up that 30% roughly break down to:

- Fuel tax – 1%
- The Air Travellers Security Charge – 3%
- Nav Canada air navigation charges – 5%
- Airport fees – 20%

Lowering these costs would help promote competition because more companies could start offering sustainable services. This is especially true for ULCCs. They rely on low fares to attract new travellers.

However, government subsidies do not lower costs—they just change who pays them. Subsidies may help, but governments have to weigh the economic and social benefits of greater connectivity against the costs of subsidies.

Key challenges faced by new airlines



Airport access affects how airlines compete

Airline competition depends on access to airport facilities—including slots, gates, and check-in counters. Here are some factors that affect this access:

- Landing and takeoff slots at busy airports favour airlines with existing rights, due to rules on how slots are allocated. So, it's hard for new carriers to enter the market, especially at peak times.
- Airports' infrastructure decisions may favour large carriers.
- Airports can offer incentives that support new entrants, but incentives can also disadvantage some airlines.
- Secondary airports provide more options, but they face restrictions that limit competition.

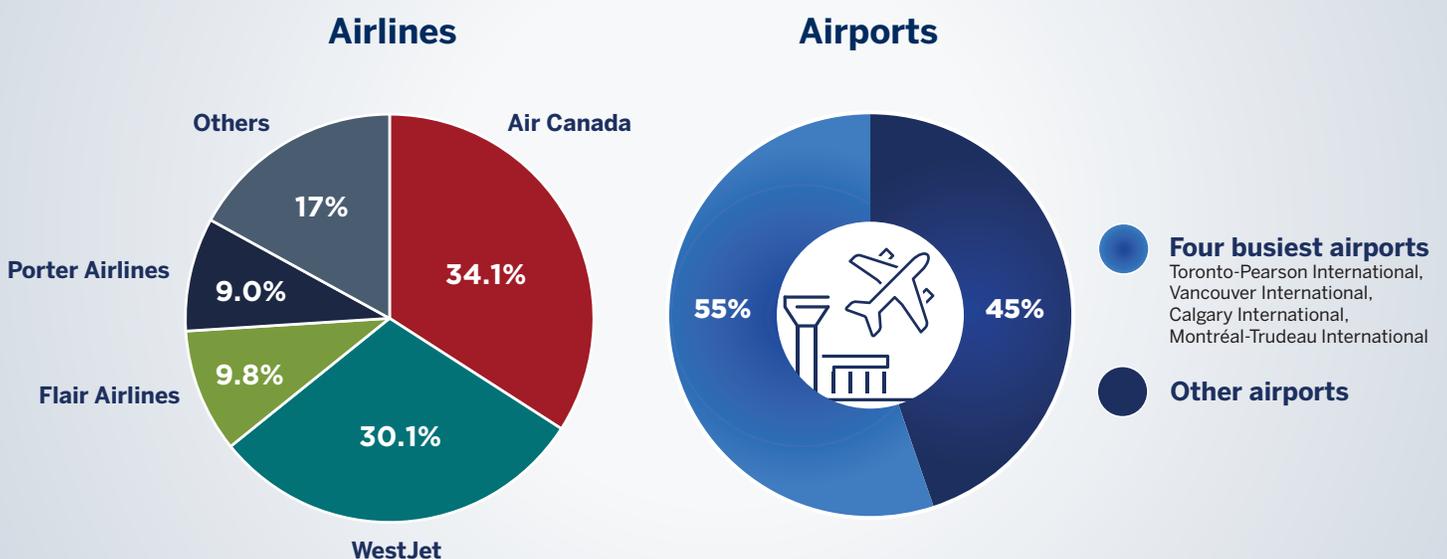
Levelling the playing field to provide equitable access would help new entrants take off.

New entrants to the market face aggressive competitive responses

Smaller and new airlines face the risk of competitive responses from established carriers. Often, this means lower prices and more seats available. Competitive responses are a normal part of how the market works.

The *Competition Act* restricts certain behaviour by powerful players in the market when that behaviour harms competition by driving out competitors. This includes predation—which has a specific meaning under the law—and other related practices that harm competition. However, determining whether aggressive competitive responses are legitimate or anti-competitive requires careful analysis.

Estimated passenger shares in Canada's domestic market in 2023



Northern and remote aviation faces unique challenges

Air transportation in Canada's northern and remote regions is an essential lifeline, even for residents who never fly. These communities depend on air service to access:

- Healthcare
- Groceries
- Medicine
- Jobs
- Social connections

These regions face distinct challenges:

- They lack other transportation options.
- Their populations are small and far apart. This means airlines are less able to make money and face higher costs including for fuel, labour, and housing.
- Costs to run airlines are higher due to poor runway conditions, outdated facilities, and unreliable systems to monitor weather.
- New entrants face major barriers because **existing carriers control critical assets** at the major northern airports.

These unique conditions show why solutions must be tailored to northern needs. The economics of the North limits the number of competitors serving some routes. Still, competition can be enhanced through lower entry barriers. This will make the market easier to enter and pressure airlines to improve or be replaced.



Cabotage rights, in aviation, are the rights to operate within the domestic borders of another country, particularly to carry passengers and cargo from one point in the other country directly to another point in the same country.

Foreign ownership restrictions limit competition

Canada's aviation sector is constrained by foreign ownership limits and restrictions on foreign carriers operating domestic routes in Canada (known as cabotage). These restrictions make it harder for airlines to access capital from investors outside Canada. Ultimately, this affects the flying public through fewer choices and higher prices. Other countries have adopted looser regulations.

These restrictions affect new and smaller airlines above all. They already struggle more than established carriers to secure funding. Recent market entrants have said that foreign investment is critical for them to launch and continue flying. Reconsidering these restrictions would unlock new capital sources for Canadian airlines. This in turn will stimulate greater competition and innovation in the domestic market.

Consumers face challenges when shopping for flights

It can be difficult for consumers to compare prices across airlines, and this can limit how hard airlines compete for passengers. Airlines often market base fares that do not include services consumers typically want, like carry-on baggage and seat selection. These other services are offered as optional extras more often now. Prices for optional extras are often not known until late in the booking process. With there being so many more options, there is more choice, but the process of comparing flights is more complex.

There is limited data available to the public on how reliable airlines in Canada are in terms of delays, cancellations, etc. This makes it harder for consumers to compare service quality.

Countries such as the US and UK make this information available. Making quality metrics publicly available offers these benefits:

- Consumers make more informed choices.
- Airlines invest in service improvements to remain competitive.
- Customers shift to carriers that perform better.

In short, **performance data drives performance.**

Information that is clearer and easier to compare would let consumers identify the best option for their needs and increase the competitive pressure on airlines.

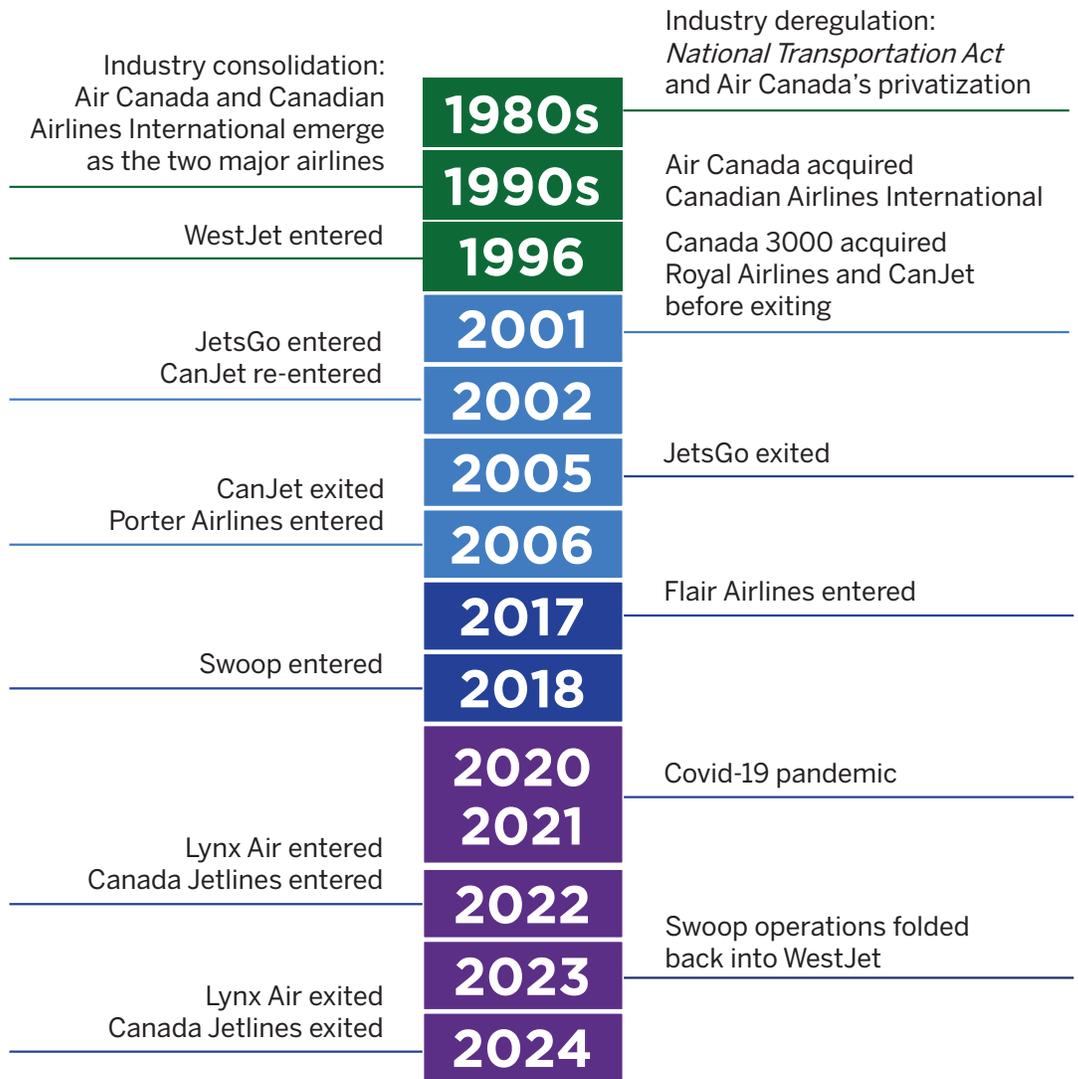


Competition is growing, but challenges remain

Despite persistent challenges, Canada’s airline industry is showing encouraging signs of increasing competition. Porter’s jet expansion and Flair’s market entry have introduced more competitive options on major routes. More of Air Canada’s major routes are facing competition from both WestJet and at least one smaller carrier (Flair or Porter) since 2019—up from 11% to 16%. WestJet has seen an even bigger shift. On its major routes, competition from both Air Canada and at least one smaller carrier is up from 13% to 21%.

However, the history of airline entries and exits suggests that these competitive gains remain fragile, especially during economic shocks.

Timeline: Airline entry and exit in Canada



Our recommendations

Our recommendations aim to ensure that government rules do not limit competition any more than is needed. They are designed to enhance the role of market forces to drive competition and provide incentives for airlines to perform better.

Governments can **create the right conditions for competition**. These conditions should be designed to:

- Promote **airline entry and growth**, and
- Support **informed passenger decision-making**.

In this report, we have identified three areas of focus, with 10 specific recommendations to governments. And we have also outlined our commitment, at the Competition Bureau, to do our part to protect airline competition.

Prioritize competition in Canada's aviation policy

1. **Make competition the priority when reviewing airline mergers and collaborations.**

Remove the Minister of Transport's power to override the merger and competitor collaboration review processes under the *Competition Act*. This will help ensure that anti-competitive deals are not approved.

2. **Remove barriers that limit smaller airports from competing with major hubs.**

Eliminate international flight exclusivity clauses, which are rules that mean that only one airport in a local area can have international flights. Expand standard security screening services to secondary airports. Adopt a technology-neutral approach to aircraft restrictions at secondary airports so that they can compete more freely with major airports.

3. **Improve the publication of airline industry data.**

Publish information on airline traffic, quality, and takeoff and landing permissions (known as slots) to help consumers, businesses, and regulators make more informed decisions.

4. **Consider reviewing the airport oversight and funding model.**

Consider reviewing the way airports are overseen and funded. What else can be done to improve airline access to airports and benefit Canadians?

Leverage international capital and experience to strengthen domestic competition

5. **Increase the single-investor foreign ownership limit for Canadian airlines to 49%.**

Allowing more foreign investment in Canadian airlines improves access to capital, drives growth, and promotes competition.

6. **Allow up to 100% foreign ownership for domestic-only Canadian airlines.**

Create a new class of airline that operates only in Canada but can have owners from outside Canada. Domestic aviation can then benefit from greater global expertise and capital.

7. Work with other countries to remove foreign competition restrictions in international agreements.

Phase out specific restrictions on airlines having owners from outside Canada. Also, allow airlines from partner countries to fly domestic service within Canada. This practice is known as cabotage. These changes will mean Canada can benefit more from capital and industry knowledge from other countries.

Support northern and remote market access

8. Coordinate leadership of northern and remote aviation.

Establish a national working group focused on air transportation in remote areas. Make it a priority to find competitive solutions to create higher quality and more accessible service for northern communities.

9. Tailor regulations to the northern context.

Adopt an approach to policy that is specific to the North. This policy should focus on outcomes to eliminate unnecessary costs northern operators pay to meet regulations.

10. Leverage government investments and tools to promote competition.

Upgrade northern airports so they can handle more aircraft types and airlines. Develop open-access facilities that all airlines can use, instead of facilities controlled by one existing airline. Open government contracts to as many bidders as possible. When there are more bidders, competition drives better value for Canadians. Promote interlining agreements to improve connecting flights between airlines. This will improve connections between regions.

We are committed to acting quickly to protect airline competition

The Competition Bureau will use its enforcement tools under the *Competition Act* to stop anti-competitive practices in the airline industry. When justified, we will seek a court order to try to quickly stop anti-competitive practices.

To learn more, read the full report available on our website.



