

CANADA'S GLOBAL OPEN SKIES AIR TRANSPORTATION REGIME

MAXIMIZING INTERNATIONAL ACCESS AND CHOICE TO CANADA'S MARKETS

While 'Open Skies' implies a simplified environment, the business of air transportation will remain a complex and highly competitive scenario. The following outlines some of the future opportunities and remaining support issues to evolve.

A next key development step for Canada maximizing its global Open Skies environment is ensuring that transborder and international air access also expands beyond traditional gateway airports to markets throughout Canada, and that remaining government policies and procedures are current and in line with the new transportation freedoms.

1. Where We Are Today

The federal government's *Blue Sky* international air transportation policy announcement at the beginning of 2007, and recent final agreements concerning the Canada / US Open Skies agreement, completed the circle for the country's Open Skies air transportation environment of its domestic, transborder and international arenas. To date, Transport Canada has completed international Open Skies-style or further liberalized bilaterals with Iceland, Ireland, Japan, Kuwait, New Zealand, Jordan, Mexico and Singapore, and is currently in negotiations with the 27-member European Union.

These new agreements primarily represent negotiation formalities designed to allow carriers from both countries of each agreement to operate passenger and all-cargo flights between any points with freedoms including routes, flight frequency and pricing. Canada's only stipulated condition continues to be excluding international-based carriers cabotage rights: the ability to carry domestic traffic between points in Canada.

For Canada's North American air transportation system, Open Skies has produced results for some time. Domestically, Air Canada emerged from bankruptcy protection a stronger and more successful airline while WestJet continues to grow both fleet size and service network. New low cost carriers such as Sunwing Airlines have replaced previous operators on some domestic routes and to seasonal sun destinations. Transborder access continues to increase as both Canada and US-based carriers add new scheduled routes and seasonal flights to and from Canadian markets across the country.

2. Increasing Market Access

With new Open Skies opportunities, international-based carriers can be expected to concentrate on Canada's primary gateway airports in both western and eastern parts of the country. The next question is how new transborder and international air transportation developments can also extend increased access to Canadian markets beyond those gateways.

Air access involves stakeholders of various sizes, interests, needs and deliverables. With many airports in Canada operating under private ownership, the nature and economic viability of international air service, of local service providers and the need to grow sustainable access to markets behind Canada's air gateways is of even greater importance to ensuring financial sustainability than before. Atlantic Canada is just one example within the country where smaller markets throughout a region greatly depend on efficient and accessible air transportation for passenger and air cargo movements through gateways to and from domestic, transborder and international markets.

Even Canada's largest international gateway airports including Vancouver, Toronto and Montreal require all domestic markets contributing to total air transportation demand in order to attract and sustain air access.

Today, Air Canada is our country's largest airline operating an extensive service network throughout Canada, to the US and abroad. Its profile is further strengthened through participation in Star Alliance. It is one of the industry's premier global strategic partnership programs featuring current membership including Air New Zealand, Lufthansa, Scandinavian Airlines, Singapore, Swissair, Thai, United, US Airways amongst others. These alliances generate exclusive commercial cohesion amongst members including seamless connections, customer service, code-sharing, joint marketing and maximum visibility in industry and Internet based product distribution systems. Non-member airlines of individual strategic alliances are typically excluded from interline relationships and other opportunities with those carriers.

This scenario can result in markets behind Canadian gateways not achieving full air access potential due to the lack of carrier choices available for domestic services or access to interline options. At Halifax, for example, and with one market-pair exception (Halifax – St. John's), Air Canada / Jazz provide the only intra-regional services for Halifax to markets throughout Atlantic Canada, and do so efficiently. In this environment, however, few US and international-based airlines serving Halifax Stanfield International Airport can secure interline arrangements for travel beyond those gateways with Air Canada / Jazz due its allegiance to Star Alliance.

3. New Relationships and Business Opportunities

Still, airlines will find ways to forge new business agreements with other carriers under identified strategic opportunities. A good example is the recent announcement of a commercial partnership between Air Canada and Paris-based Corsairfly that will deliver code-sharing and extended market access for both carriers between Canada and France. During the summer 2008 peak travel season, Corsairfly will operate new flights between Paris (Orly Airport) and both Quebec City / Halifax in addition to its traditional Montreal service. Canada bound passengers will be able to book connecting flights in Canada on Air Canada / Jazz. In return, Air Canada will gain increased presence in the French market as a preferred carrier through the Nouvelles Frontières Group, owner of that country's largest travel agency network.

In some Canadian markets, regional or local carriers are the only service providers delivering vital air transportation roles. They can lack the immediate financial means, system capability or service network size to successfully negotiate and facilitate the execution of interline reservations, ticketing, through check-in and other functions required to deliver seamless interline service. These carriers are still an important part of Canada's future market access development potential if practical solutions are achieved that deliver interline capabilities and agreements.

Since its beginnings in 1996, WestJet has grown to operate a fleet of nearly 70 Next-Generation Boeing 737 aircraft, currently serving 26 markets across Canada and 19 year-round and seasonal destinations throughout the US, the Caribbean and Mexico. Recently, it announced intentions to investigate with Air France (Montreal and Toronto gateways) and with Cathay Pacific (Vancouver gateway) the potential for interline agreements (neither are members of the Star Alliance group).

While some might argue that WestJet is migrating away from its successful point-to-point low cost business model, the fact is that WestJet is carefully building an extensive North American service network that relies on connecting schedules to link its growing destination matrix. If interline agreements are concluded with those proposed international carriers, and potentially others including US-based carriers, increased choice of carrier combinations would result for travelers and cargo shippers through Canada's air gateways. WestJet could also potentially further extend its network reach beyond points currently served outside of Canada.

4. Updating Policies and Procedures

Pursuits of next-step market development potential are no longer issues involving Canada's air transportation policies as few remain in our globally de-regulated air transportation environment. This overview highlights and encourages maximizing market access as being a key component of the future Open Skies air transportation equation and results. What remains is to ensure that government policies and procedures are updated and in sync with Canada's completed Open Skies regime.

With Canada's enhanced air transportation environment accomplished, the need exists for Government Departments to review existing Policies and Regulations to ensure the framework and details are in tune with the goals and intent of the new air transportation policy. In addition to serving gateway markets, Open Skies allows airlines greater flexibility when combining smaller or long distance markets by flowing international traffic through intermediate airports between global points with greater fluidity (e.g.: New Orleans – Halifax – Paris or Beijing – Vancouver – Rio de Janeiro).

Under the first example, passengers travelling from New Orleans to Paris would spend the flight's transit time at Halifax as 'sterile' passengers, since they would not officially enter Canada through customs and other required formalities. Updated policy and procedural provisions by the Canada Border Services Agency could allow airport retail providers to co-mingle with, and other services to be made available to, those in-transit passengers in a secured area of the terminal facility. This flight would also carry local traffic between New Orleans / Halifax, and between Halifax / Paris.

Another example is the capability to provide sterile transfer facilities at major airports and programs such as 'Transfer Without Visa', allowing Canada to participate fully in the unrestricted flow of global air travel. For example, achieving this means that an international passenger arriving at Halifax Stanfield International Airport would then be able to transfer to another international flight without having to enter Canada. The same could apply to air cargo.

Air transportation is no longer a regulated point-to-point model as Open Skies allows new freedoms to airlines to route passengers and air cargo between market origins and destinations.

Finally, increasing momentum of today's Atlantic Gateway initiatives can create new air cargo transportation opportunities through Atlantic Canada's airports. Here, the ability to promote and deliver Canada's

benefits as a Free Trade zone requires supporting regulatory and procedural review and updating.

A strong and continuing advocate for the ongoing evolution of an open marketplace, the Halifax Chamber of Commerce fully endorses these Open Skies air access endeavors on Canada's national airport scale, our governments efforts and those of the global air transportation industry. All users and deliverers of air transportation - airlines, airports, importers / exporters, other related industries, tourism and the marketplace will benefit in the long term.

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