

Putting Air Access on National Agenda

August 6, 2002

The Metropolitan Halifax Chamber of Commerce believes there is a need for ongoing viable competition in the Canadian airline industry. Competition best improves service, reduces prices and creates lasting economic value.

The key principle of national air policy should be to develop and encourage a freely competitive market and focus much more on consumers of air service.

Since our Air Access Task Force report was released in April, the Chamber has prepared a resolution that has been communicated to municipal, provincial, and federal governments and other relevant organizations to advance the report's key recommendations on air policy. It has also been forwarded to the Canadian Chamber of Commerce for consideration at its upcoming Annual General Meeting in September. If adopted by the Canadian Chamber, this resolution will be part of the national organization's advocacy agenda.

The Chamber believes it is incumbent upon the federal government to encourage and promote an environment that fosters competition in the airline industry on an international, transborder, national and regional basis. Initiatives taken to address issues at each level should be compatible and consistent. Therefore, the Chamber has recommended that the federal government undertake steps as summarized here:

- oppose any move to re-regulate the Canadian airline industry (other than continuing safety and security regulation);
- continue to conduct regular reviews of the Competition Act to ensure effective and timely enforcement;

- strongly encourage liberalization of air policy with other jurisdictions on a multi-lateral basis;
- pursue "open skies" air service agreements on a bilateral basis with any country that is prepared to do so;
- when negotiating non-U.S. bilateral air service agreements, give greater priority to the interests of Canadian consumers and communities, be prepared to offer point-to-point access to a foreign carrier, and permit observer status to appropriate representatives of Canadian communities, airports and provinces;
- establish "open skies" for international (beyond U.S.) all-cargo air services;
- pursue the recommendations of the Independent Transportation Observer with respect to the collection and dissemination of adequate and timely airline data, and
- consider the potential benefits of a variety of options to increase competition and provide opportunity both domestically and internationally, including increasing the maximum foreign ownership limits for Canadian carriers to at least 49%, and granting Right of Establishment in Canada to foreign carriers.

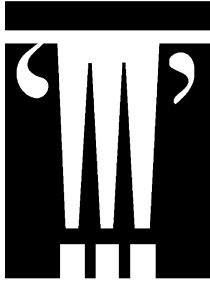
The Chamber believes all Canadians will benefit if the federal government vigorously pursues these recommendations diligently. Quality air access, which may be viewed as a combination of frequency, connectivity and competitive price, will be strengthened and the economic and social benefits will be significant.

For full details on the Chamber's recommendations, or to read the original Task Force report, check out the Policy Update section at www.halifaxchamber.com.



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Air Access Policy

Background

The Canadian airline industry has experienced turbulent skies during the past few years. Some of the more significant industry events include:

- the takeover of Canadian Airlines International by Air Canada and their subsequent merger;
- the takeover of Royal Airlines and CanJet by Canada 3000 and Canada 3000's subsequent demise;
- the launching of Air Canada Tango, Air Canada Zip
- the merger of Air Canada Regional's partners, Air B.C., Air Ontario, Air Nova and Canadian Regional, into a single entity now known as Air Canada Jazz;
- the continued expansion and profitability of WestJet;
- the general downturn in air travel exacerbated by the horrific events of September 11, 2001 in the United States; and
- the general inability of the Competition Bureau and the Competition Tribunal to respond to alleged predatory pricing practices in a timely and meaningful fashion.

Historically, Canadian international air policy has been characterized by extensive federal government regulation. Domestic air policy was largely "deregulated" in 1984, but continued protection and promotion of the interests of Canadian-owned airlines remains a cornerstone of international policy.

A significant step in the liberalization of international air policy occurred with the signing and implementation of a new Canada-U.S. Air Services Agreement in February 1995. This Agreement, which generally followed a so-called "open skies" model, resulted in significant transborder air traffic growth and enduring benefits for the Canadian and U.S. economies, including trade, tourism, airlines, airports, consumers and communities.

Since this time, liberalization of federal air policy has been sporadic and limited. A major review of Canada's Policy for International Scheduled Air Services, launched by the federal government in early 2001, was put on hold following September 11th. Apart from a recent announcement eliminating passenger thresholds for multiple Canadian carrier designations in international markets, there is no indication as to when, or if, it will be revived.

Internationally, Air Canada, a member of the Star Alliance, is Canada's only scheduled air service provider. Effectively, Canadians do not have the benefits of reasonable access to other competing global carrier alliances.

Domestically, Air Canada continues to hold a dominant share of the marketplace. WestJet has provided competition in western Canada and is increasingly moving into eastern Canada. Other carriers, including CanJet and Jetsgo, have recently begun services in eastern Canada.

Conclusion

There is a need for ongoing viable competition in the Canadian airline industry. Competition best improves service, reduces prices and creates lasting economic value. The key principle of sound public policy should be to develop and encourage a freely competitive market and focus much more on consumers of air services.

It is incumbent upon the Government of Canada to encourage and promote an environment that fosters competition in the airline industry on an international, transborder, national and regional basis. Initiatives taken to address issues at each level should be compatible and consistent.

Quality air access, which may be viewed as a combination of frequency, connectivity and competitive price, will be strengthened and the economic and social benefits will be significant.

All Canadians will benefit if the Government of Canada vigorously pursues the following recommendations in a diligent fashion.

Recommendations

The Government of Canada should undertake the following steps:

1. oppose any move to re-regulate the Canadian airline industry (other than continuing safety and security regulation);
2. continue to conduct regular reviews of the Competition Act to ensure effective and timely enforcement;
3. strongly encourage liberalization of air policy with other jurisdictions on a multilateral basis;
4. in the absence of timely progress on a multilateral front, vigorously pursue "open skies" air service agreements on a bilateral basis with any country that is prepared to do so;
5. when negotiating non-U.S. bilateral air service agreements:
 - give greater priority to the interests of Canadian consumers and communities;
 - strive to achieve a broad "value-for-value" exchange of benefits which includes consideration of trade, tourism, consumer and social benefits;
 - in the absence of Canadian carrier interest in serving the market in question, be prepared to offer point-to-point access to a foreign carrier that demonstrates the support of the Canadian community it wishes to serve, without limitations on the frequency and gauge of aircraft; and
 - permit observer status (similar to that afforded Canadian air carriers) to appropriate representatives of Canadian communities, airports and provinces.
6. establish "open skies" for international (beyond U.S.) all-cargo air services;
7. pursue the recommendations of the Independent Transportation Observer with respect to the collection and dissemination of adequate and timely airline data;
8. Over the past months a number of start-ups have taken place as entrepreneurs have taken advantage of opportunities to service a number of domestic corridors (examples: CanJet, Jetsgo, expansion of the WestJet network). However, if such initiatives fail, the government should consider the potential benefits of a variety of options to increase competition and provide opportunity both domestically and internationally, including:
 - increasing the maximum foreign ownership limits for Canadian carriers to at least 49%;
 - granting Right of Establishment in Canada to foreign carriers, provided the carrier meets Canadian regulations and establishes a separate Canadian subsidiary operating solely within Canada that has a Canadian office and uses Canadian labour.