

Air Line Pilots Association International



**Submission to the Competition Review Panel:
Sharpening Canada's Competitive Edge in Commercial
Aviation**

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AIR LINE PILOTS ASSOCIATION INTERNATIONAL

CANADA

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Submission to: Competition Policy Review Panel

Regarding: Sharpening Canada's Competitive Edge in Commercial Aviation

The Air Line Pilots Association, International (ALPA) represents more than 60,000 professional pilots who fly for 43 airlines in Canada and the United States. Both as our members' certified bargaining agent and as their representative in all areas affecting their safety and professional well-being, ALPA is the principal spokesperson for airline pilots in North America. ALPA therefore has a significant interest in the economic health and well-being of this industry.

In ALPA's view, Canadian policymakers should seek to create the conditions that permit a profitable, accessible, affordable and stable Canadian airline industry. These objectives

must be reached with a balancing of market-based solutions and Government regulation that establishes order in a competitive marketplace.

Financial Policies Affecting the Airline Industry

It is ALPA's view that the myriad of taxes, charges and additional costs that the Government has imposed upon the airline industry have had a significant and negative impact upon its viability and its competitiveness.

Aviation ties this country together and is important to the economic well-being of Canada. It employs tens of thousands of highly skilled workers who live in hundreds of communities across Canada paying taxes. Airline travel generates billions of dollars in benefits to the Canadian economy both domestically and internationally. However, a significant negative force on the airline industry is being caused directly by the Federal Government by its imposition of a myriad of taxes, charges and additional costs. The government's regressive taxation approach to aviation is a serious impediment to the industry's competitiveness.

Air Travellers Security Charge and other Security Costs

The "user-pay" concept is entirely inappropriate on matters of national security. It is important to recall that on September 11th the terrorists were not targeting the air transport system, but were utilizing it to turn aircraft into weapons of mass destruction against the general public and Government and corporate institutions.

It remains ALPA's view that security at airports is in the broader public interest and as such should be funded through general tax revenues and not solely by the traveling public. The collection of this charge is all the more galling as Department of Finance audited financial statements reveals a surplus of revenue over expenses of approximately \$80 million, monies that go to the general government revenue rather than aviation activities.

Fuel Excise Tax

It is important to note that when the Government introduced this tax more than 20 years ago, it was to be a temporary measure. ALPA strongly suggests that now is the time, after years of consecutive surplus, for the Government to eliminate this punitive tax. Its elimination is also essential from a competitiveness point of view. A similar tax applied in the US, our largest competitor is significantly lower than that charged in Canada.

Airport Rents

The Federal Government functions as landlord at most of Canada's major airports, but the Federal Government does not cover any costs for operating or maintaining airport infrastructure. Rather, the airports must do so — passing on the costs to the airlines and traveling public. Airlines are a vital segment of the Canadian transportation infrastructure and the Canadian economy, but the Federal Government feeds off it rather than cultivating it wisely as a valuable national resource. ALPA feels strongly that the Government must stop collecting rents and that airports be required to pass on these

savings through reductions in airport fees. Doing so would lower the cost to the traveling public which should in turn increase the public's appetite for air travel.

Canada's International Aviation Competitiveness

The government's "Blue Sky" policy provides the current template for the establishment of liberalized air service agreements between Canada and other like minded states. That policy would see the inclusion of the following elements:

- Open bilateral markets/access (third and fourth freedom rights);
- No limit on the number of airlines permitted to operate;
- No limits on the permitted frequency of service or aircraft type;
- Market-based tariff/pricing regime for bilateral and third-country services;
- Open and flexible regime for the operation of code-sharing services;
- Unrestricted services to and from third-countries (fifth and sixth freedom rights);
and
- Rights for stand-alone all-cargo operations (seventh freedom rights).

ALPA endorses the liberalized regime but must comment on some underlying essential points:

- Cabotage
- Ownership and Control
- Wholly Owned Foreign Carriers

Cabotage

The "Blue Sky" policy does not contemplate cabotage under any circumstance. ALPA supports that point of view. Having a foreign carrier, for example Lufthansa, operate as German (EU) carrier in Canada's domestic market runs right up against a host of laws-taxes, labour, immigration to name but a few- that are not designed to accommodate such operation. The importation of foreign laws has the potential to undercut Canadian standards, thus creating a competitive advantage to the cabotage operator to the detriment of the domestic carrier.

Ownership and Control

The current regime of limiting foreigners to a maximum of 25% of the voting stock in a Canadian air carrier is adequate and has proven effective. It is often argued that the limit should be raised to encourage additional investment the Canadian air industry. But it does not suffer from a lack of capital. Air Canada the largest carrier in Canada completed restructuring under the C.C.A.A. and has been very successfully recapitalized. While some carriers have ceased operations, others have entered the market. Porter Airlines has proved to be a competitor to be reckoned with. It plans to double its fleet to 10 aircraft and WestJet plans to add 7 more aircraft to its fleet of 70 Boeings. Ex-WestJet executives are creating a new competitor "NewAir & Tours" with the hope of being operational by the end of the year. These capital intensive activities have all taken place under the current ownership and control restrictions. It is difficult to see the argument that those activities are being impeded by the ownership and control provision.

Wholly Owned Foreign Carriers

Some parties suggest that Canadian law be amended to allow for wholly foreign owned carriers which would only serve routes within Canada. ALPA does not see such a move as enhancing competition in Canada. Competition is already fierce in the eastern and western triangles which serve the areas of the greatest population density. Additional capacity is not needed in those areas. It is difficult to imagine a foreign owned carrier being enamored with competing on the long sparse north/south routes that feed the larger centers. Any such foreign owned carrier would likely be aligned with a "parent" international air carrier. Thus the wholly foreign owned "Canadian" carrier would have the ability to add its domestic traffic to its parent's network to the detriment of domestic carriers.

Conclusion

In ALPA's view a healthy and competitive industry is one that is profitable, accessible, affordable, and, we must stress, stable. Unfortunately, the current financial policies of the Federal Government are not supportive of these principles and ALPA urges consideration of our recommendations above to rectify these fundamental deficiencies in aviation in Canada.

ALPA appreciates the opportunity to provide our views and recommendations for the
Competition Review Panel.

A handwritten signature in black ink, appearing to be 'Dan Adamus', written in a cursive style.

Captain Dan Adamus
President, Canada Board