



House of Commons
CANADA

Standing Committee on Transport

TRAN • NUMBER 017 • 2nd SESSION • 37th PARLIAMENT

EVIDENCE

Thursday, April 3, 2003

Standing Committee on Transport

Thursday, April 3, 2003

•(0835)

[English]

The Chair (Mr. Joe Comuzzi (Thunder Bay—Superior North, Lib.)): Good morning, ladies and gentlemen. Pursuant to Standing Order 108(2), this meeting is convened to examine the viability of the airline industry in Canada.

I thank my colleagues on both sides of the House for coming this morning on short notice. I think the reason you're present here today is because of the importance of the events as they are unfolding with respect to transportation issues in Canada.

My perception is that as this day progresses, we may be able to unfold some of the difficulties that all of us are facing—not only the minister and his colleagues but all of Canada—with respect to the future of the airline transportation industry in Canada. Hopefully at the end of the day we'll be able to arrive at some consensus and make recommendations to the House of Commons and the minister with respect to our perception, where the members of Parliament feel we should be heading.

I welcome Minister Collenette; Monsieur Ranger, the deputy minister; Mr. Pigeon; and Ms. Burr.

Minister, perhaps you would like to take the lead, please.

Hon. David Collenette (Minister of Transport): Thank you very much, Mr. Chair. Good morning, everyone.

[Translation]

I am pleased to have this opportunity to discuss the Canadian airline industry.

[English]

As you're aware, this is an industry that is undergoing a period of tremendous turmoil and pressure both in Canada and around the world. It's also an industry of critical importance to business, tourism, and regional interest. Our goal has to be to ensure Canada continues to have a safe, competitive, and healthy industry to serve Canada and Canadians. The government has taken significant action in recent years to protect consumers and to foster competition.

In 2000, with the support of all parties in the House of Commons, the government passed legislation to keep the industry alive, to protect the public from price gouging on monopoly routes, to preserve air services in smaller communities, and to respect the rights of airline labour.

I should say, Mr. Chair, this committee was instrumental in developing the government's policy in Bill C-26, at the time, under

the chairmanship of our colleague Mr. Keyes. I repeat in the House quite often that everyone agreed on the basic terms after the merger, and I think the policy certainly has worked with respect to fostering domestic competition in a very difficult environment. But we can go into that later.

[Translation]

Despite the economic uncertainty facing the global aviation industry, the policy of the government has proven to be sound. We have seen competition develop in markets across the country, allowing new entrants and other existing carriers to thrive.

We all know that the problems in the airline industry are not uniquely Canadian. Airlines throughout the world are experiencing the same difficulties.

[English]

Both United Airlines and US Airways sought and were granted bankruptcy protection in the United States—although they have continued to operate while they restructure. US Airways, as you know, just emerged this week from its eight-month protection. Reports also indicated that American Airlines was on the verge of filing for bankruptcy protection this week, but with some last-minute arrangements with its unions, it was able to stave that off.

We know that in Europe two major flag carriers, Sabena of Belgium and Swissair, were forced into bankruptcy—actual liquidation, not protection—following financial difficulties that worsened substantially after September 11. Other carriers, including KLM, FinnAir, and British Airways, are all experiencing substantial employment cutbacks.

Everyone now knows what Air Canada did this week in filing for bankruptcy protection under the Companies' Creditors Arrangement Act. By choosing to file under that act, Air Canada is relying on an established process to address its financial problems. This includes reliance on very solid backing, in this case a well-known financial institution, GE Capital Canada Incorporated, to provide the necessary financing during the restructuring process. Seeking protection under the CCAA will enable Air Canada to continue to function while it restructures itself into a renewed, viable business entity.

The possibility of government involvement in the matter has been widely discussed. We were prepared to help, as I said in the House in reply to a question, provided it were to be on a temporary basis with bridge financing, to enable Air Canada to get its debtor-in-possession financing. When we talked to them early last week, they did not believe they had enough time to put together a deal quickly, so we said that we would backstop them. This was fully secured, which was a way to help them get the bridging financing. Happily, they were able to get it without recourse to the government. But Air Canada never asked for, and we obviously never considered, the option of a cash bail-out.

● (0840)

[*Translation*]

We are very encouraged that Air Canada was able to find private-sector funds without government assistance. While I understand the stress of the current situation on management, employees, suppliers, shareholders, lenders, and the travelling public, I do believe that Air Canada remains a world-class airline and I am confident that it will find long-term solutions to its current challenges.

There has been a call from airlines and other air industry stakeholders for a reduction in government fees and charges associated with air travel.

[*English*]

Perhaps part of the problem is the confusion over which fees and charges appearing on an air ticket are in fact applied by the federal government. The government is only responsible for the goods and service tax and the air travellers security charge. That charge comes under the purview of my colleague the Minister of Finance. And as you are aware, the minister announced a reduction of the charge to \$7 from \$12 each way for domestic flights, effective March 1 of this year. This was a reduction of more than 40%.

[*Translation*]

All surcharges collected for fuel, air navigation and insurance—all of which are a cost of daily business—are applied by airlines, which often choose to impose surcharges rather than incorporate those business costs into base fares.

[*English*]

Local airport authorities also frequently assess passengers an airport improvement fee. Airlines often agree to collect these AIFs on behalf of the authorities. In such cases, an amount for the AIF is also added to the ticket price. Airlines argue that the high level of AIFs discourages people from travelling. On the other hand, the new construction at Canada's airports has to be financed in some manner.

On February 25, I introduced a bill in the House to amend the Canada Transportation Act, which I know is coming to committee shortly. In the bill, there are initiatives that would promote improved transparency in the advertising of airfares so that pricing information is complete and not misleading. The amendments will also ensure better public access to the terms and conditions associated with airfares. These initiatives will help passengers to more easily determine the cost of their planned air travel.

● (0845)

[*Translation*]

Not shown on the ticket is the federal fuel excise tax that is applied to fuel used in domestic air services as well as all other modes of travel, and comes within the jurisdiction of the Minister of Finance.

[*English*]

On March 20, the government introduced the Canada Airports Act, which is currently at second reading in the House. This bill is designed to facilitate the discussion of airport fees and reasonable space requirements to help minimize the costs to airports and, indirectly, to the airline industry.

With respect to rent, airports have argued that the amount of rent they are charged by the government threatens their long-term viability and that the cost impact on travellers has an indirect effect on the airlines. Transport Canada is in the process of reviewing its rent policy to ensure that the policy balances the interests of all stakeholders, including the airports, the air services industry, and the Canadian taxpayer. The review is examining issues such as the rent formulae, financial viability of airports, and the impact of rent on airlines.

[*Translation*]

All stakeholders, including the airport authorities and airlines, are being consulted.

It should be noted that rent terms and conditions, including the rent to be paid and payment schedules, were the results of negotiations between Transport Canada officials and individual Canadian airport authorities.

[*English*]

Because the airport authorities were not required to buy the land and facilities at these airports, a rent formula was agreed upon to ensure that the taxpayers of Canada received reasonable compensation for use of their property, for the business transferred, and in recognition of their investment in airport infrastructure.

We're well aware of all of the concerns that are being expressed, and we're seriously assessing the merits of the requests for changes.

Obviously, Mr. Chairman, Canada is not alone in the difficulties that the global air industry is experiencing. I can stress again that the government remains committed to the viability of the industry, which is obviously crucial to our country, crucial to business, and crucial to the people who live in this country. I can also stress that the means of meeting our goal of a safe, competitive, and healthy industry is to be found through the marketplace solutions, as much as possible. I believe that goal will be successfully met.

The committee is in a very advantageous position to offer the government advice, given the fact that you have two bills relating to the air industry, one coming to you now and the other in the House. In the debate on Bill C-26 three years ago, I showed that all of the wisdom does not reside in Transport Canada. We accepted quite innovative amendments from the committee. One in particular—I think it was Mr. Fontana's amendment on the air travel complaints commissioner—has worked rather well in effectively giving the airline industry an ombudsman during this difficult period of time.

Thank you very much.

The Chair: Thank you, Minister.

Mr. Moore.

Mr. James Moore (Port Moody—Coquitlam—Port Coquitlam, Canadian Alliance): How much time do I have?

The Chair: It's going to be a lengthy day, ladies and gentlemen. With your permission, I thought that we would start with 10 minutes on the first round and then immediately go to five minutes. So each party will have 10 minutes. We'll try to do this as quickly as we can.

Mr. Moore.

Mr. James Moore: Thank you.

Thanks for coming to the committee, Mr. Minister. And, frankly, I'm surprised that you'd come to the committee without any agenda whatsoever, but would actually come to defend an air policy that has led to the death of eight air carriers in six years, and maybe a ninth. You didn't come and give us any information whatsoever about any new agenda you're going to take, but you actually think that the status quo works.

Mr. Minister, given what has happened in the last week, one simple change you could make that would be helpful to Air Canada specifically would be to reconsider the provision of the Air Canada Public Participation Act that caps the foreign investment in Air Canada at 25%, rather than raising it to 49%. It's reported today in the papers that Texas Pacific Group is considering taking a larger stake in Air Canada.

Of all the things that the Minister of Transport could do, why wouldn't the minister just make that one simple change to broaden the pool of investment capital available to Air Canada? Why wouldn't you do that?

Hon. David Collenette: First of all, Mr. Chairman, I want to emphasize again to Mr. Moore—because he wasn't here in the previous Parliament—that when the merger took place, everybody basically signed on to the policy. So when he talks about the government's policy, it's a policy that had broad support among all parties in the House of Commons. Throughout the 1990s, whether it

was the commercialization of the airports, the merger, or privatization of NAV CANADA, it had all-party support.

One of the goals post-merger was to promote domestic competition, and no one can argue that we have not, through this policy, promoted domestic competition. In fact, Air Canada would argue that competition is really one of the reasons they find themselves in difficulty, especially the low-cost operators like WestJet, Jetsgo, and CanJet.

On the specific issue with respect to the 25% foreign ownership, I was aware the committee in 2000 talked about raising it to 49%. The government has felt it very important to ensure this industry remain in the control of Canadians. The United States feels the same way.

Should we ever agree to raise the 25% rule, I don't think we should do it capriciously or arbitrarily. It perhaps should be in the context of bilateral discussions with the U.S. Why would we want to give up something that would facilitate pools of U.S. capital coming in here, leading potentially to the non-Canadian ownership of the industry, if the United States is going to say, no, we're going to hold to the 25%?

And the U.S. is not alone here. Some can argue this is old-fashioned, but in various industries in various parts of the world, especially in air transportation, many countries have a foreign ownership limit. So if we're going to debate that and be flexible about raising that limit, let's not just give that away arbitrarily. Let it be in the context of a wider discussion, in this case particularly with the United States.

● (0850)

Mr. James Moore: Mr. Minister, your language, “giving that away”—giving away the opportunity to have a greater pool of investment capital. Is that such a bad thing?

Hon. David Collenette: Mr. Moore, it's giving away the fact that Canadian airlines are controlled by Canadians. Some of us happen to believe this country should be in control of its own destiny, in industries as well as in government policy, and that certainly is the policy of the government at this time.

Mr. James Moore: Mr. Minister, the auto industry is almost 100% foreign owned and it is doing quite well, hiring lots of people in your home province of Ontario. But 51% is still a majority—at least I think it is, unless the minister wants to correct my math. The only reason it can't go above 49% is the Chicago Convention, because then an air carrier wouldn't be defined as a “Canadian” carrier under bilateral laws, so the air carrier couldn't fly. But there's no tangible economic argument.

I understand the Air Canada Public Participation Act; I understand the merger agreement as well. But given the fact that Air Canada has 60 days or else it's going to be completely insolvent and over 30,000 people could lose their jobs, could the minister perhaps please take off the Captain Canada robe and think like an economist and help an air carrier out here?

Hon. David Collenette: I think you can be fiscally prudent and think like an economist and also be a good Canadian. I would remind Mr. Moore that Air Canada's shares this morning are trading at 96¢. They need capital. We're talking here about voting shares.

As you know from your experience, people invest in companies and are prepared not to have voting shares; they're there for the return on investment, especially the big pension funds. So we don't view this as a particular problem.

In fact, the last I heard, the largest shareholder in Air Canada was a British investment or pension fund group that had about 9%—maybe it was 8%—of the voting shares. So it seems that foreign investors haven't flocked to investing in Air Canada up until now.

Before we throw away the control mechanism, let's be sure we actually need it. Capital can be raised from other parts of the world, but we're talking about voting control here.

• (0855)

Mr. James Moore: I thank the minister for not correcting my math, but I am right that 51% is still a majority.

I want to clarify here. I think there's only a minute and a half left. The minister is coming to the committee today and telling Canadians and the transport committee he thinks the status quo is okay. Current legislation that is on the way, such as Bill C-17, will impose a huge cost on Air Canada and other air carriers in terms of the passenger list sharing. Bill C-26 and Bill C-27, the other legislation the minister has, do nothing to address the problems, but tell Air Canada how it has to manage its Aeroplan points and who it has to interline with, which again are increased costs on Air Canada that are unfair and inappropriate.

Is the minister telling us he actually thinks the status quo air policy is working? Is that what he's telling Canadians?

Hon. David Collenette: I would invite Mr. Moore to read the deliberations of this committee from back in 2000. Small carriers came here and wanted to make sure there was a level playing field to compete with Air Canada, including the ability to interline.

The changes that came in Bill C-26 at the time were all debated here, and there was a general consensus. Obviously in life things evolve. One of the reasons this committee is having today's debate—I congratulate you for taking this initiative, and you will have subsequent debates when the bills get to you—is to give advice on what one can do.

Mr. Moore asked me about the 25% foreign ownership issue, and I've given the government's rationale. Now I realize there's a debate going on in telecom as to whether or not we take the 25% off, so it's interesting.

He uses the example of the auto industry, but that ignores the fact that the Auto Pact was in place for 30 years. It was a treaty, if you will, between the two countries and permitted that kind of investment. Now that the investment is there...and it was obviated by NAFTA. So I don't think that's a fair comparison.

Mr. James Moore: So there will be no new legislation or initiatives coming from the minister. We just have to wait and see if another carrier dies.

Hon. David Collenette: If this committee makes certain recommendations we will consider them. The question is, what new initiatives?

Mr. Moore is preoccupied with the Air Canada Public Participation Act. I have to remind people that when the former Conservative government privatized Air Canada they gave certain assurances to the Canadian people—you can say that was just politics at the time—that the headquarters would remain in Montreal, the Official Languages Act would apply, and there were certain other aspects to the bill.

It seems that the Alliance policy is to jettison the Air Canada Public Participation Act. In fact, I think Mr. Moore made a speech to that effect when the act was amended to take off the cap of 15% single ownership about a year or so ago.

Our party believes it is in the public interest to first of all keep a company like Air Canada with its headquarters in Montreal. Second, we will defend totally and unequivocally the Official Languages Act and its application to the national transportation system, and in particular to Air Canada.

The Chair: Thank you, Mr. Moore.

Mr. Keyes.

This is like *déjà vu*, with Fontana and Keyes.

Mr. Joe Fontana (London North Centre, Lib.): Except we're all whiter and you don't have much.

The Chair: The glue that has kept us together is the airline industry.

Mr. Stan Keyes (Hamilton West, Lib.): Some went greyer, some lost it altogether.

Thanks, Mr. Minister, for coming to our committee on short notice. We all consider this to be an important issue. Some might say, on this particular file anyway, the government has never worked so hard at doing so little trying to keep the government out of the business of running business.

Maybe we can try to “blue sky” a little here. I'll ask you for a brief answer, as I have one more question. How do you envision the reshaping of Air Canada, in terms of its role in the future as a long-haul international carrier, encouraging them in whatever way we can to get out of the business of Tango, Jazz, and ZIP so the competition can grow in a domestic fashion; and in terms of the government's role in the Air Canada decision, where these maintenance facilities are located where we suggest they be located, again trying to keep our hand out of the business of running business?

• (0900)

Hon. David Collenette: One of the things that struck me early on, when I became minister, was that there was a determined effort that both Air Canada and Canadian Airlines wanted to make a deal. Air Canada wanted to be the international flag carrier. Personally, I was very sympathetic to that. I never thought the two-tier policy of dividing the world, which originated back in C.D. Howe's day, was really in the best public interest. We needed a one-flag carrier.

In those discussions—and some of them we brokered at the request of both airlines—one of the proposals was Air Canada taking over all the international routes of Canadian Airlines, and then there would be a splitting up of the domestic market. That seemed to be reasonable.

When the merger occurred, in my discussions with Air Canada—for what it's worth—I think I reflected the views of my colleagues. We saw this as a great opportunity for Air Canada to become that international powerhouse, that transborder powerhouse.

Mr. Stan Keyes: Are you saying, that monopoly?

Hon. David Collette: We assumed they would have as much domestic capacity to feed their international and transborder operations. We did not foresee then to take on, in effect, a strategy to maintain its dominance within the country, and that has caused a lot of problems for other carriers. You'll have Mr. Beddoe here and others—Monsieur Leblanc, perhaps—and they will talk about the “big gorilla” kind of syndrome.

So I would hope, now that we are in a reorganization, a restructuring process, that out of it Air Canada will maintain itself as the international and transborder powerhouse and will adjust its domestic capacity accordingly. That will enable more room for domestic competition, but will also—because of the interlining arrangements provided for under the Canada Transportation Act—provide Canadians from smaller communities the ability to interline into Air Canada's network. Most Canadians want to travel on Air Canada, especially when they leave the country.

Mr. Stan Keyes: That's the crux of it, isn't it? When Air Canada took on this task after 1999, suddenly...and I think even those who understand business far better than I have criticized Air Canada, that their objective in developing their long-haul and international business and also, on the side, developing their Tango, Jazz, and even ZIP product was actually a flawed business plan.

You don't see that when you're trying to develop it. I think Milton had an idea that he could just do this kind of thing and virtually get away with it. But it certainly showed that while he was trying to undercut and be severely competitive with those airlines that were trying to do business on the west coast, or the east coast, for example, or northern Ontario, he was actually making his business, Air Canada, that much weaker in the process. I don't know where they're headed with Jazz and Tango, and I have some ideas from you.

I have just one other question. Actually, this is going to be the third time in my 15 years with this committee that we've discussed the issue of raising the foreign investment cap. Thank you for the kudos on the work we did as a committee in 1999, but one of the chief amendments of the committee in 1999 was the strong suggestion to you that this cap be lifted to 49%.

I hear what you're saying about raising the cap, and I hear your concern about the decision-making being taken out of the hands of Canadians on Air Canada, but we have a clear example of the success story of raising the cap.

When we privatized CN, we took off that cap, and today CN is owned 61% or 62% by foreign investors, mostly Americans. In no way, shape, or form has CN lost its identity in this country; and in no way, shape, or form have the decisions that are being made at the boardroom table been affecting CN's performance in Canada.

I think it's a template and a model of what we can do for Air Canada as well. What's your opinion of that?

● (0905)

Hon. David Collette: Well, I have to be careful here; I don't want to be drummed out of cabinet.

I went through those debates on the privatization of CN in cabinet committee, and there was considerable debate about lifting the foreign ownership. One of the reasons it was done was that we felt there wouldn't be Canadian investors around who would pick up a bloated publicly owned railway.

U.S. investors were a lot smarter than many at the time because they knew the government had invested heavily in plants and equipment for CN over the years, and they snapped those shares up. They were floated around \$28 or \$29, and they hit a high up in the \$70s. I think they've fallen back.

Yes, the headquarters is still in Montreal, but I have to tell you there are a lot of people—and I shouldn't speak for Madame Desjarlais or Bill Blaikie, and Bill has talked to me privately about this—who are concerned. The first time I had lunch with Paul Tellier after I became minister, he raised the issue of 65% ownership of CN by foreign investors and said this was a political issue I might have to deal with. I kind of got from the discussion that he favoured a rebalancing.

I'll leave it to others to determine whether or not it was the right thing to do. The privatization of CN has gone extremely well. I don't believe it had anything to do with lifting the 25% foreign ownership. I think it had to do with exceptionally good management and leadership under Mr. Tellier and the board. I think it was innovation, hard work, and having a vision of where the industry was going, especially with the acquisitions of Illinois Central and Wisconsin Central.

Mr. Stan Keyes: I guess my argument, in closing, is why can't those same principles or same opportunities apply to Air Canada? And as for the foreign investment cap, if we don't focus so much on Air Canada, an opportunity for lifting the foreign investment cap on things like a split-off Tango or Jazz would encourage those smaller airlines to move back into our more remote communities in order to...and through regulation, if we provide the opportunity for inter-ticketing, interlining, etc., I think this thing could work.

But we have to let the market find its level.

Hon. David Collette: Mr. Chair, there are many people who believe that even with CN's success, a lot of key jobs have left the country and are now being done in places like Chicago. And when American Airlines took its 33% equity stake and 25% voting stake in Canadian Airlines, there was no question that key decisions were made in the U.S. and a lot of the key back-end jobs were done in the U.S.

I am criticized as being an old-time Canadian nationalist. You know something? I don't apologize for that. I want to make sure if we take the cap off that we really need to, that there is no other pool of money available, because I believe it's worth fighting for Canadian industry and ownership of key parts of industry by people who live in this country.

The Chair: Thank you, Mr. Keyes.

Mr. Laframboise.

[*Translation*]

Mr. Mario Laframboise (Argenteuil—Papineau—Mirabel, BQ): Thank you, Mr. Chairman.

Minister, please forgive me for being late. Nonetheless, I did have time to read your presentation.

[*English*]

The Chair: Was your plane late this morning?

[*Translation*]

Mr. Mario Laframboise: No, it wasn't.

With you, Minister, history repeats itself, every time. When airline companies found themselves in difficulty after September 11th, you announced that assistance might be provided in the form of loan guarantees. Then Canada 3000 failed, and you did not have to come through with your loan guarantees because you felt that the industry could easily replace Canada 3000. As a result, some Quebecers and Canadians lost money. Some had put down a deposit on their trips, and lost their money.

You came very close to helping Air Canada, Minister. In the end, Air Canada decided to take the avenue you consider more successful, by seeking protection under the Companies' Creditors Arrangement Act.

Air Canada is this country's largest airline, Minister. There is no other carrier able to fill in for Air Canada without a significant drop in services to the population. Let's not delude ourselves—other airlines do not have the equipment or the resources to take up the slack. If they wanted to replace Air Canada, they would have to review their funding; I don't see how equivalent services for Quebecers and Canadians could be maintained without government assistance.

I'm quite willing to believe what I hear, Minister, except that from the outset, right after September 11—I attended the ACPA convention with you, and ACPA has always requested the same thing of you: eliminate airline security charges, which are jeopardizing the industry. You are proposing to reduce the charges, but you still do not have a vision to help the industry, Minister. You always wait for disaster to strike before thinking about doing something. The air travel security charge is a good example. All stakeholders in the industry unanimously called for it to be eliminated. The industry is in crisis. You have proposed that the charge be reduced. What is being requested of you is that you reduce—and here I am going to quote your brief back to you—the airport improvement fee. This is what the industry wants, Minister. It seems you are considering the possibility.

How many companies will we have to lose before tackling the problem, Minister? The industry has asked you to eliminate the federal fuel excise tax. Perhaps you feel it is time to consider that issue. How many plants will have to close before you tackle the problem as the industry has asked you to do?

The same thing goes for the rent policy review. Since September 11, the industry has been asking for rents to be reviewed.

We are not talking about direct subsidies here. Air Canada has even decided not to request direct assistance from the government. All the industry wanted was for you to breathe some life into the companies, not only Air Canada but all companies in the airline industry. That is what you were asked to do.

Here today, I read your text and see that you are quite ready to consider the problems, but since they first came up we have lost Canada 3000 and are on the verge of losing Air Canada. How many companies will have to go belly up before the problems are really dealt with, Minister?

• (0910)

Hon. David Collette: Mr. Chairman, I do not agree with Mr. Laframboise on the Air Canada issue. Now, we have a private-sector process under the Companies' Creditors Arrangement Act, whereby Air Canada will be restructured. I have no doubt that Air Canada can be reorganized. And once that process is complete, Air Canada will be in a better position to be competitive domestically and internationally.

It is quite true that there was a major crisis after the events of 2001 and the war in the Middle East. Now, we have SARS carried in from Asia and a downturn in the US economy. However, the Air Canada board of directors made its own decisions, and established a strategy after its merger with Canadian. What you can always ask Air Canada's directors today is why they adopted a policy that stamped out competition and forced us as a government to make other amendments to the Competition Act, something that we did with Bill C-23 in the last session.

You imply that the government caused all those problems all by itself. However, the airline industry is part of the private sector so that companies like Air Canada, WestJet and others can direct their own affairs.

As for Canada 3000, I believe that your remarks are a little unfair. We did try to save Canada 3000. We announced we would guarantee a loan of \$75 million. But in any instance where we offer Canadian taxpayers' money, we do have to set some conditions. When there is a problem, throwing millions of dollars at it is simply not enough. We have a responsibility to protect the interests of Canadians, who contribute to government operations. In this particular case, Canada 3000 was not in a position to agree to our conditions.

Last week, we offered Air Canada bridge funding to help it obtain long- or medium-term funding for its reorganization. The funding would have been guaranteed by all of Air Canada's assets.

We have to be consistent here. If we believe in the private sector, that's fine. If we want to go back to an earlier time and give airline companies back to the government, that is another debate altogether.

• (0915)

[*English*]

The Chair: Thank you, Mr. Laframboise.

Mr. Fontana, please.

Mr. Joe Fontana: Mr. Chairman, thank you very much.

Mr. Minister, this is the ultimate irony, I suppose, three years later. Three years ago we were sitting around the same table, and everybody was fighting over the spoils of Canadian, and there was an awful lot of competition for who should buy Air Canada. Now we're at exactly the same point, where in fact Air Canada is the one that's in trouble. I know there's an awful lot of trouble around the world with airlines and people's confidence and not flying and so on and so forth. I think Air Canada was the architect of its own demise by coming up with more airlines than it can handle and giving them fancy names and so on.

At the end of the day, I'm not sure they were giving consumers what they really wanted. I want to talk a little bit about the consumer. They want price, service, and safety.

If you look at the 42 recommendations made by this committee three years ago, you'll see that every one of them is relevant today. In fact, we weren't talking about Canadian and Air Canada as much as we were talking about how to rebuild a competitive airline. No other country has our situation. We had two carriers. Now we have one, which continues to have 80% of the domestic market, or maybe a little less, and 100% of the international market, and you still can't make money. Man, you have to be either a very bad CEO or just a poor operator. The board of directors and the president have to take full responsibility for taking a great Canadian asset and just burying it.

My point is that consumers don't care if they're flying on a green and white, a red and white, or a red, white, and blue aircraft. I think they want competition and choice. One of our recommendations was to bring in new entrants, foreign entrants or Canada-only entrants. Communities want service. A restructured Air Canada, I guarantee you, will not give all Canadian cities and towns the service they want. That's an opportunity for new entrants. I see a restructured Air Canada doing all the international stuff and taking the cream across the country but essentially abandoning certain communities that need air service.

Mr. Minister, whatever is going to happen to Air Canada will happen. But I think it's incumbent upon us to look to the future and make sure we have policies that will give us competition. That's what has been the problem in this country. Every time we've tried to get competition, Air Canada has turned around and made it impossible for good air carriers such as Canada 3000 to survive.

I want you to review some of those recommendations and look at what policies we need to ensure that three years from today we're not doing this again in terms of what other airline is not going to be able to survive in this country.

We need competition. We can't rely solely on one carrier. Before it used to be two. Then it was one. Now we don't even have one. I'm worried about our international slots, because it was our national air carrier—

• (0920)

The Chair: Mr. Fontana, you're running out of time. Do you want to put a question in there?

Mr. Joe Fontana: I think I had a number of questions.

I need to know where—

Hon. David Collenette: I think you've made some very good points. We took to heart a lot of the recommendations of a couple of years ago, and we'll go back and look at them again. We'll certainly look at the recommendations that come out of today's deliberations.

But let's talk about market share. In November 1999, before the merger of Canadian and Air Canada, Air Canada had 50.2% of the domestic share, Canadian Airlines had 33.7%, WestJet had 5.2%, Canada 3000 had 5.5%, and others had 5.4%. After our policy came in, Canada 3000 consolidated and went up to 10%, WestJet again went up to about 7.6%, and Air Canada in November 2000 was at 77%. They were at 82% right after the merger, so they slipped.

After September 11, 2001, Air Canada went back up again to 79%, and WestJet doubled to 14% because Canada 3000 went down. In November 2002, Air Canada came down again to 68%, WestJet continued its rise at 19% of the market, and others took 12%.

Now it's April 2003 and all the figures aren't in, but we think Air Canada has around 64% of the domestic market, WestJet has 22% or 23%, and the others have 13%. So the competition is coming on. The policy of the government, supported by all parties in the House in 2000 with Bill C-26, is working. And 75% of Canadians live within two hours' driving distance of airports where there is competition.

Now there isn't full-service competition, so if you're a business class traveller and want to go from Toronto to Vancouver you have one option: you go business class on Air Canada. You can fly one of the other carriers in their economy configuration, with less leg room and all the rest, but if you don't want to pay the high price for Air Canada business class you have an option. So I think competition is there.

I won't comment on what Mr. Fontana said about Air Canada's management. You're going to have a member of management here. There's been a remarkable degree of consistency in the board of directors. I think people should pay attention to boards of directors of any companies today. This certainly has happened in the U.S. with the number of controversies that have gone on. But there are members on the board who have been there since the late 1980s. When you talk to management you should ask them about the thinking that has gone on for the last 15 years. It's not like you've had a group of people coming and going in a revolving door.

So there needs to be accountability. I'm accountable to you, to the House. I think Air Canada needs to be accountable to the wider public. You should be encouraged to ask a lot of questions like Mr. Fontana's to the management.

The Chair: The chairman is going to have to put in some time restraints.

We're going to listen to Ms. Desjarlais, and then we will have to conclude.

Mr. Jim Gouk (Kootenay—Boundary—Okanagan, Canadian Alliance): I thought we were supposed to be here until 10, according to the schedule.

The Chair: Does that inconvenience the next witness?

Mr. Jim Gouk: They are scheduled for 10 o'clock.

• (0925)

The Chair: Just settle down. We're just getting the rules down so everyone knows where we're going. You will get all the time you require.

Ms. Desjarlais.

Mrs. Bev Desjarlais (Churchill, NDP): We're all happy campers now, right?

On the international airline routes, when we had Canadian and Air Canada, the capacity was regulated to ensure flights weren't heading in the same direction, so it was a profitable route or a secure route. How was the process of the regulated capacity on the international routes put in place, and how did it work?

Hon. David Collette: Technically, on the international side, that's still regulated, because in some of our bilaterals we were obligated to a certain number of flights. In some cases they specified a type of equipment.

In some markets, like the U.K. and Germany, it's pretty much open. You can fly. Mr. Ranger is the expert on this.

So internationally, there is still a regulated market of sorts, depending on the country you serve, and we have 60 bilaterals around the world. But domestically there was a decision taken to deregulate. It was full deregulation by the Conservative government. And one cannot dispute the fact that since deregulation, more people have been flying.

There are people now in their seventies and eighties—parents or relatives of ours—who never, ever used to get on an airplane. Now they do it quite regularly. They go down to Cuba, to Florida, and all the rest. Deregulation has brought that to us.

It was administered in a very cumbersome fashion by the Canadian Transportation Agency, and I don't think there's really a great public willingness to go back to a totally regulated environment.

Mrs. Bev Desjarlais: The question was how the capacity regulations were worked out, how they were put in place.

Hon. David Collette: You can answer that, Louis, because you've been around longer than I on this.

Mr. Louis Ranger (Deputy Minister of Transport, Transport Canada, Department of Transport): How the capacity is regulated really varies very much from one country to another. As the minister said, with Canada's large trading partners, we are making very good progress in liberalizing those markets.

Not only do we want to remove antiquated restrictions on the type of aircraft and the frequencies, how many flights per week—we try to remove all those limits—but we're trying not to limit the number of Canadian carriers we can designate on those routes. That's our

objective each time. As a going-in position, we try to open up the bilaterals.

I must say, the restrictions really come from other countries that are far more protectionist.

I would like to help the discussion on ownership, Mr. Chairman, because—

Mrs. Bev Desjarlais: [*Inaudible—Editor*]...and it was felt Air Canada did have some anti-competitive behaviour. There is no question the overcapacity on the routes when Canadian and Air Canada were flying created problems, where neither one was profitable.

Is there some option of looking at regulating capacity on some of the routes to put to rest the fears that Air Canada, should they just have open season with ZIP and Tango and others, will try to put other businesses out now, just as they did with Canadian?

Hon. David Collette: We've dealt with that through the Competition Act, through the powers of the commission, the cease and desist powers, which were strengthened in Bill C-23.

Now, I recognize Air Canada challenged the constitutionality of this and the Quebec Court of Appeal struck it down, but the government has appealed that to the Supreme Court. Mr. Cauchon's people filed last week on that. Essentially the court was saying that Parliament erred in the legislation that was passed. I believe there was all-party support for Bill C-23.

So what we have tended to do is say there's a Competition Act, and we'll deal with the issue of unfair practices or predatory behaviour through the Competition Act, rather than having the CTA go back and say you can sell only so many seats on the Toronto-Vancouver run, and some can be business class, some can be excursions, or whatever. To go back into that...I just don't see a consensus in society for that. It's costly and I think it would drive down ridership.

• (0930)

Mrs. Bev Desjarlais: Is the time up, Mr. Chair?

Hon. David Collette: Just ask another question while he's not looking.

Mrs. Bev Desjarlais: I'm trying to be courteous to these guys, because they get really rangy.

There is a question. I would tend to disagree that the Competition Bureau and the competition commissioner approach has worked out. I would argue it hasn't. A number of airlines have gone out of business in the last number of years, and I won't quote Mr. Moore's comments to you, about how many under your watch have gone. I'll just let that go.

Hon. David Collette: Canada's history has been replete with airline failures. That's part of the environment.

Mrs. Bev Desjarlais: But the bottom line is, I don't think there's confidence in the process with the competition commissioner, and I think there's a need to put something else in place.

You acknowledge that ridership has gone up. It might have gone up for a variety of other reasons too, not just because there was extra capacity.

Nobody's arguing that some of the low-cost carriers have been able to make it, but we know a good number of areas in Canada still will not get service. So is there an opportunity or an option of looking at regulating capacity?

Hon. David Collette: Well, I'd be interested in the recommendations of this committee, based on your hearings today and in the next few weeks.

I just don't see a great demand for that out there. As Mr. Fontana said, our public opinion polling shows that people want safety and they want price. Remarkably, at the time of the merger, people did want Canadian ownership, not really up in the 90% range, but around 75%. I believe that's still something most Canadians would like.

They want price, they want competition, and they want safety, and that has to guide us. But if the committee wants to make recommendations to the contrary, we will certainly reflect upon them.

The Chair: Thank you, Mrs. Desjarlais.

I apologize to Mr. Fontana. I cut him short because I thought we had time restraints.

I'll allow you one short question, Mr. Fontana, and then we'll go to Mr. Bagnell.

Mr. Joe Fontana: Thank you, Mr. Chairman. I just want to follow up a little bit about those 60 bilaterals the minister talked about. That should be our number one concern, because Air Canada is our national flag carrier. I want to know whether or not the slots and the bilaterals are tied to one particular airline. Do they belong to the country or to the airline? I think what's important is that we don't lose our opportunity of slots in very key markets around the world.

So I wonder if you could explain how Canada is going to ensure that we have those slots protected for any future entrants or a restructured Air Canada, or whomever may want them. I think it's key and essential, because in some markets those slots are worth an awful lot of money, and if we lose them, there goes our opportunity to be able to access and give our consumers, our Canadian customers, the opportunity of good service.

Hon. David Collette: I think the main areas of concern are at London's Heathrow, at Narita, at Chicago's O'Hare, and at New York's LaGuardia. These are all issues that we want to keep our eye on, but just because Canada has entered into the CCAA process, it has no bearing on our bilateral agreements with those countries.

Should there be a liquidation of Air Canada, which none of us would really want to see, even then the bilaterals would be in place, and it's contestable as to whether or not we would lose slot allocation. I don't believe that happened when Swissair failed and Crossair took over with a new Swiss Airlines, or whatever it's called. I believe their slots remained.

The Chair: Mr. Bagnell.

Mr. Larry Bagnell (Yukon, Lib.): Thank you, and thank you for coming, Mr. Minister.

I probably just have one question. It's related to ensuring we don't jeopardize the smaller competitors.

Of course, I have a particular interest in Air North, and just by way of background, for people who don't know, Air North is a regional carrier based in Whitehorse, Yukon, serving nine destinations in Yukon, the Northwest Territories, Alaska, British Columbia, and Alberta. It has been operating for more than 25 years, and it currently has 56 full-time employees, twice as many as in January 2002, and it is expecting revenues of around \$20 million this year, over three times its revenue in 2001. Based in the north and serving smaller communities in the north, it faces obstacles unique to northern carriers.

It's owned 100% by Yukoners, its primary customers. Vuntut Gwitchin First Nation, through an investment arm, the Vuntut Development Corporation, owns a significant portion of Air North, approximately 49%, with rights to acquire more. The rest of Air North is owned by Joe Sparling, the founder of the airlines and its president and chief executive officer, and almost 450 Yukoners who invested their money, allowing Air North to extend its operations.

● (0935)

The Chair: Mr. Bagnell, the question, please.

Mr. Larry Bagnell: So everyone fly Air North, please.

My question is, I just want to make sure that anything the government plans to do will not jeopardize these regional carriers that are starting out and providing excellent service and covering a number of routes.

Hon. David Collette: Well, to the contrary, the whole policy of the government, which has been supported by other parties, is to promote domestically owned carriers—competition.

You've just given a great example, the partnership between Mr. Sparling, who's quite well known in the industry, and first nations. We also have First Air, which I believe is more than 50% owned by first nations. That is where the industry is headed. We have lots of other airlines across the country, small ones, that really do a great job.

In any restructuring that happens, one would expect a refocusing of Air Canada and Air Canada's domestic business. I would suspect that a lot of communities will probably lose their Air Canada service, but that isn't altogether bad. Where they've pulled out of places in Alberta, B.C., or Newfoundland and Labrador, we have seen other carriers come in to fill the breach with cheaper and more frequent service, because they're structured differently; their costs are different; they have smaller planes.

As long as you're able to get from a small community—and Whitehorse is a small community. If you want to go to Tokyo, you can fly on Air North and then interline with Air Canada or Cathay Pacific, or whatever, at Vancouver and go to Asia.

So the policy of the government is working. You have just given a great example—and I think they're expanding. They fly 737s, don't they? So they're going to get a second plane. This is very, very encouraging.

The Chair: Thank you, Mr. Bagnell.

Mr. Gouk.

Mr. Jim Gouk: Thank you, Mr. Chairman.

I have enough to do for the entire hour and a half with the minister; I'd probably find some way to slip VIA in if I had the time.

I'd like to concentrate on small community airports; notwithstanding the fact that I'd like to ask a lot on other areas, I'm going to go into this.

I do want to clear one thing up, though. The minister has said repeatedly that the Canadian Alliance/Reform supported the Air Canada merger, so therefore we chose that. I would point out that it was the only option on the table, given that the other option, the one through Gerry Schwartz, was shot down because of the government's intractable position on share ownership. There was no other choice to vote on. It was a matter of saying, do we want this or do we want to let the whole thing collapse? It wasn't that there were choices.

Now, with regard to small airports, and it starts out touching the major airports, the minister in his presentation said the only things the government is responsible for are the goods and services tax and the air travellers security tax. He knows, of course, that it's not true because the government is responsible for the airport rents, and if he thinks they don't pass that on, then he's wearing different-coloured glasses than I currently see.

Now, the taxpayers, he claims, should get fair value, but they were losing a fortune under government management of those airports. Surely, if the government had managed to run those airports properly, they wouldn't be looking to make a big profit—at least, they shouldn't be—they should be looking at covering their costs. Now they're making it a big windfall profit.

I would suggest that rent has to be scaled back significantly, but I would like to see some of that go into the ACAP program because small airports are hurting. There's not enough money under ACAP right now, and the problem at small airports is going to get worse.

The second—and I have three points altogether on small airports—is CARS308. When small communities were asked to take over these airports, they were told there was a certain requirement in terms of their firefighting protection. They were told to demonstrate the ability to do it without necessarily having on-airport fire protection. They had response time requirements and other criteria. Most of them met that and now CARS308 will reverse that. That will be devastating; a lot of communities will simply lose their airports. I would ask that the minister agree either that it be shelved indefinitely or, alternatively, that they pick up the cost of imposing a service they specifically told these small communities they weren't going to have to manage.

The third one is small airport security. The minister has said that new, start-up airlines are looking at coming into a lot of these communities if Air Canada drops out. Right now, even out of Vancouver, if you go over to the South Terminal, get on Pacific Coastal, and fly to Campbell River, there's no security either at Campbell River or at Vancouver. You simply get on the plane and you go, because these are small turboprop aircraft and there's no requirement to have security. You can rent one of those aircraft; you can lease them and get on from a private apron. Why do you need to go through security as long as you're not going into a secure area of an airport?

In actual fact, in my area, Cranbrook, Castlegar, and Penticton don't even have basic X-ray machines; they just have hand screening, but they fly. The people who get on board go around anything fancy in Calgary or Vancouver and they place you on the secure side. The minister told me previously there was going to be a trickle-down effect; as they replace equipment in places like Vancouver, the smaller airports will get the old equipment. A chain is as strong as its weakest link. If you need a CAT scan at Vancouver, then you need a CAT scan at Castlegar, unless you're not going to fly them into the secure side of Vancouver airport.

I think the alternative is to take security out of all the small airports serviced by turboprop aircraft only and fly them into non-secure locations in the main airports. You'd get rid of a tremendous amount of cost and hassle for the airlines, particularly for new airlines trying to start up, by looking at alternative airports. For example, even Grand Forks in my area could be an alternate for Castlegar when the weather is down. This would give them a lot more flexibility and reduce a lot of costs both for the government and ultimately for the airlines and the airports.

We need to make these airports viable and we need to do it before they're in trouble. We can't do what we've done right now, wait till the industry is collapsing around us and then try to go in with some kind of rescue idea. We need to be proactive, and this is a way we can be proactive for small airports. It's going to help them deal with something the minister himself acknowledges, the likelihood of Air Canada pulling out of a lot of these communities.

● (0940)

The Chair: Is there a question there?

Mr. Jim Gouk: I think the minister can comment on these.

Hon. David Collenette: Well, there are a lot of good questions here. I'll be very brief.

Obviously, after the Court of Appeal in Quebec struck down the Onex deal, the only game in town was Air Canada's.

When I say that the opposition supported the government, I obviously mean that everyone welcomed that particular deal. Bill C-26—and we should check the record—was supported by all parties in the House of Commons. It was the basic framework developed by this committee post-merger to deal with the whole issue. That's why I say everyone really supported the policy. It encouraged domestic competition, and it adds work despite all the problems we've had.

With respect to ACAP moneys, there's \$38 million a year going into ACAP. That is sufficient, we believe, and I think most small airports will agree that they're getting serviced properly.

On CARS308, which is Canadian Aviation Regulation 308, most people aren't aware of the details of it. It does require a certain response time with respect to firefighting and emergency capabilities at smaller airports. There's been a lot of controversy about it, and we've developed a formula where we believe we minimize the financial risk to those airports. Of course, we have made ACAP applicable to deal with those particular issues.

That being said, I am concerned about the smaller airports for the reason Mr. Gouk talked about, and we're reviewing our policy on that. That is a priority for us, to deal with some of these issues.

With respect to the air security issues, everything is done on the basis of risk. There's a higher risk at Vancouver airport or Toronto than there is at a small place like Castlegar or whatever. From the intelligence point of view, there is a greater risk. He's quite correct that there should be some degree of consistency, and CATSA has assured us that those issues are being addressed. Part of it is the cascading of equipment down throughout the system, and that certainly is going to occur, Mr. Chairman, if it hasn't already.

• (0945)

The Chair: Thank you.

Mr. Galloway.

Mr. Roger Galloway (Sarnia—Lambton, Lib.): I didn't intend to ask this first question, but I will, based on what Mr. Gouk said with respect to risk. As you're aware, Minister, last evening a few of us from this committee arrived in town from some meetings in Washington. I'd like to know, in terms of risk, why is luggage being X-rayed after people leave a plane and pass through customs?

Hon. David Collette: I'm not sure what you're referring to, Mr. Galloway.

Mr. Roger Galloway: I'm referring to the fact that every passenger on a flight arriving from Washington last evening, after they exited customs and were leaving the terminal, had their baggage X-rayed on exiting. What is the security benefit, what's the diminution of the risk element for that?

Hon. David Collette: First of all, we'll have to check into the facts on that, Mr. Chairman, and I'll get an answer for Mr. Galloway.

Mr. Roger Galloway: We were surprised.

Hon. David Collette: I'm surprised that you have raised that, but maybe I've missed something.

Mr. Roger Galloway: I think we were all surprised by that.

Now I want to ask you about my surprise in terms of...I want to know how the rollout in terms of listing all of the charges on an airline bill or ticket will improve the viability of the air industry in Canada.

Hon. David Collette: This is an issue many people have raised, including the independent airline observer, Ms. Ward, who we appointed. There does seem to be some confusion on the part of many Canadians as to what constitutes the real ticket price. Most people aren't like you or me, who understand the industry and understand all these charges. They open up the newspaper and they

see \$99 return to Miami and they think that's all they have to pay. We're trying to deal here with some degree of consistency and transparency.

Now, to the credit of the Air Transport Association, ATAC, and the members, they brought in a voluntary program last fall, but that was after I stated a year ago that we would bring in legislation to ensure that it would be required on a statutory basis.

Mr. Roger Galloway: One of the issues this committee has heard about from various groups is the business of the rent at airports, and you've mentioned that already.

Your brief keeps referring to the fact that your officials are reviewing this, and you go on to state that you're aware of these concerns and you're assessing the merits. But what I'd like to know is, who's doing this? How is it being done and when will it be completed?

Hon. David Collette: You mean the review?

Mr. Roger Galloway: Yes.

Hon. David Collette: The review is being done by my officials, who have hired a number of large accounting firms who have been working with the various airport authorities.

But, Mr. Chairman, there seems to be a bit of misunderstanding about the rent. The airports that are actually paying rent right now are Vancouver, Calgary, Montreal—the two airports there—Edmonton, Toronto, Winnipeg, Ottawa, Victoria, and Halifax. But the other NAS airports, including ones like Kelowna, Thunder Bay, for the chairman and others—and I'm trying to think of where others around here are from—London, they don't pay rent.

In the lease arrangement we made with them, there are provisions for certain airports. I think Moncton is coming onstream at a certain point. But Moncton has gone from 120,000 to 400,000 deplanements a year and is growing rapidly. In any event, we should understand that not all airports are paying rent. Most aren't paying rent. In fact, the biggest chunk is paid by Toronto and then Vancouver, and these airports obviously, if they're relieved of the rent or it's reduced, would be expected to pass the savings on to the airlines. So that's \$240 million I think this year. That's certainly within our purview at Transport, but it's really an all-government purview. I can't just reduce rent. I have to get the permission of cabinet to do it. But that is an issue we are looking at.

Mr. Roger Galloway: When do you foresee it being completed?

Hon. David Collette: Within the next couple of months.

Mr. Ranger would like to talk.

• (0950)

Mr. Louis Ranger: I'd like to make a comment on the rent review, because I think the committee should be aware that the Auditor General a number of years ago, and more recently the Standing Committee on Public Accounts, commented on the way the rent was established and expressed concern that perhaps the taxpayer is not getting full value from those investments that have been made, suggesting that perhaps the rent is not high enough.

On the other hand, there's a lot of pressure these days to suggest that perhaps the rent should be based on ability to pay because the industry is in difficulty. So there is a real challenge there because the two forces are pulling in very different directions.

The Chair: Thank you.

Mr. Gallaway, by way of clarity, the issue you brought up at the outset of your question was after several reviews.... As you can appreciate, coming out of Washington last night—I was with Mr. Gallaway, and after going through the exit in the Ottawa airport and having gone through customs, what really happened there is the customs in Ottawa have obviously decided to stop the easy flow that is synonymous with other airports. After you fill out your form and you talk to the customs officer, they usually let you go through, unless they put something on the form that says you should have further review. That has ceased, and now they put everyone who is coming off the airplane through the process, stop the easy flow through customs, and have everybody go through this new machinery, which is an X-ray machine. I asked, “What are we doing this for?” They said, “We are interested in what you're bringing into the country.” “We've already been asked that”, I said.

Mr. Gallaway's concern, and now my concern, is that we hope this isn't new equipment being purchased by the new security agency to check what we're bringing back into Canada rather than what we're bringing onto aircraft and so on. So that may be the—

Hon. David Collenette: I'm glad both of you have raised it because I'm not sure whether this is Canada Customs—

The Chair: It's customs.

Hon. David Collenette: We'll talk to Revenue and Customs about that. But I'm glad you raised it, and we'll get an answer for you.

The Chair: Thank you. It does seem counterproductive.

Mr. Laframboise, you have possibly two short questions.

[*Translation*]

Mr. Mario Laframboise: First of all, if we listen to Mr. Ranger... The rent review, among other things, was requested by the industry. It looks very complicated, as complicated as it was to eliminate the air travel security charge. You always make things complicated. That is what I was saying to you earlier, Minister—you always get there too late.

The problem with Air Canada is that, in business, there are two approaches when a company gets into trouble. Either it has venture capital to refinance its operations and get back on its feet, or it files for bankruptcy protection under the Companies' Creditors Arrangement Act. The organization has already come to an arrangement with one creditor, as it had with GE. So, you chose to let Air Canada file for bankruptcy protection under the CCAA.

The only problem is that all experts are telling Air Canada to stay international, to eliminate regional routes, and to get rid of Jazz, Tango and all the rest. Other companies could probably take up Tango routes, but as for Jazz—the regional routes—that's not very likely. You said something I find very difficult to take, Minister—you said that communities would always manage. Well, just go and see what it's like in Mont-Joli, or in the Gaspé. Communities do not always manage to find carriers to replace Air Canada. That is simply a fact, Minister.

Tell this to your friends on the committee, who make recommendations—tell them this if you commit to provide assistance for regional transportation, as the US has done. This does not necessarily mean assistance for regional carriers, but assistance for regional transportation provided by local organizations, either by reserving airline tickets for your government, or through other means of helping local airports make it through the crisis that will erupt once Air Canada announces it is getting rid of Jazz. Do you plan to consider providing assistance? Please tell us if you are, so that your members can support us if we make recommendations to you today.

Hon. David Collenette: No, Mr. Chairman. Experience has shown that when Air Canada leaves a community another carrier steps in to take up the slack.

However, there is a problem in northern New Brunswick and in some parts of Quebec, including Mont-Joli, Charlo, Saint-Léonard, and Bathurst. There are many airports in those regions, and simply not enough passengers to sustain them. We are now seeing some regional adjustments. As you know, Air Canada has signed an agreement with the Quebec government to provide services in some communities. If Quebec or other provinces want to support or subsidize services to small communities, they have every right to do so and to make arrangements with individual carriers. Generally, however, experience has shown that when Air Canada leaves a given community another company steps in.

Mr. Bagnell gave Air North in the Yukon as an example. That is a very good example. There are many small carriers across the country. There is also a small Ontarian company providing services between Yarmouth and Halifax. In some regions, however, there is overcapacity.

• (0955)

[*English*]

The Chair: Minister, thank you.

Ms. Meredith, one question, please.

Ms. Val Meredith (South Surrey—White Rock—Langley, Canadian Alliance): Acknowledging, Mr. Minister, that this is a private sector issue, the government can do several things: they can reduce the excise tax on fuel; they can reduce airport rent; and they can certainly get rid of the airport security fees. What I'd like to know is, do you have any support in cabinet for these cost reductions, and is the current finance minister prepared to allow you to go this route?

Hon. David Collenette: All of these questions really relate to the financing of the government, so ultimately they are cabinet decisions. They are not arbitrary decisions that I can make as a minister. We're responsible for the airport rent end of it and the analysis, but if we were to make any adjustment, I'd have to get cabinet support.

What we've done at cabinet is we're looking at all of these costs to see if there's any room for adjustment, and that includes everything. As Mr. Manley said in the House the other day, though, there are a hell of a lot of businesses in the country that are affected by economic cycles, and we don't adjust taxes up and down because you're in a recession.

There's a particular problem with the airline industry, but we have to be very careful how we go here. This is the same principle—

Ms. Val Meredith: If I can interrupt you there, Mr. Minister, this is about being competitive so our airline industry can survive in an international community. Is the cabinet looking at the big picture?

Hon. David Collette: We are looking at the big picture, but when it comes to fuel taxes, when it comes to GST and all, there are basic taxes. For example, the railways pay fuel taxes. Where there's something unique is on the air security charge where the government decided there will be a 100% bearing of the cost by the passengers, the users.

This is an issue that's been quite controversial, and it is an issue Mr. Manley looked at and he refused to change it.

Ms. Val Meredith: Airport rents.

Hon. David Collette: I think we discussed the issue of rents before you came in this morning, and that's something we're looking at. But as the deputy minister just said, you have the public accounts committee, chaired by one of your own members, that says we're not charging enough. So we would like your advice and we will reflect upon it.

The Chair: We'll have one short question from Ms. Desjarlais.

Mrs. Bev Desjarlais: Have you gone to cabinet on behalf of the airline transportation industry requesting some of these changes, and are you aggressively supporting that position within cabinet?

Hon. David Collette: I am very aggressive in anything I do, Madam Desjarlais, and I am concerned.

I'm not being frivolous here. This industry is facing a tough time, but it's not unique to Canada and we have to get the whole environment right. It's not inconceivable that in a year from now you'll have a restructured Air Canada, a buoyant economy, good domestic competition, and then you'll have the industry making money again.

Therefore, what do you do? Do you put taxes in abeyance, you don't charge, and then you say we're not going to then recoup those costs, which have been justified in the past? So we are concerned about it.

The preoccupation in the last few weeks was whether or not Air Canada would file under CCAA and therefore what response we should make as a government, and those debates centred around that, but we are looking at the whole issue of fees in the coming weeks.

The Chair: Thank you, Minister.

We have two requests. One is that you would supply the names of the ministerial cabinet that was involved in the decision-making process as to whether Air Canada should be assisted or not, whomever they may be. You may want to send that along to the committee.

The second request is from the subcommittee that spent the last three or four days in Washington analyzing very current security issues with respect to all modes of transportation as they affect Canada and the United States. The chairman would like to meet with the members of that committee and with you personally in the very near future.

From the information we got, and the information that was not forthcoming from our group, CATSA, we think it would be absolutely critical that we meet as quickly as possible so that we are...as you know, all transportation pipelines, and trains and so on between our two countries...that we meet quickly.

•(1000)

Mrs. Bev Desjarlais: Are you telling me you were able to get information relating to security from the U.S. that we couldn't get here in Canada from CATSA?

The Chair: If we could do that as soon as we can, Minister, we'd appreciate it.

Hon. David Collette: Any time, Mr. Chairman.

The Chair: Thank you all for coming. We appreciate very much the time you took on short notice. We thank Mr. Bélanger, Mr. Pigeon, and Ms. Burr for their assistance this morning.

The next witnesses are the Canadian Auto Workers Union, the National Automobile, Aerospace, Transportation and General Workers Union of Canada, (CAW-Canada). We have the president, Mr. Hargrove, and Mr. Fane and Ms. Davidson.

I welcome Mr. Hargrove and his group. Thank you all for coming.

We'll handle this any way you want to handle it. Perhaps you want to make some introductions or your folks want to speak. Then I'm sure there will be some questions.

Mr. Basil "Buzz" Hargrove (National President, CAW - Canada (International Automobile, Aerospace, Transportation and General Workers Union of Canada)): Thank you very much, Mr. Chairman.

The Chair: Buzz, the committee feels very much that you and your group will be very instrumental with respect to the future of the air industry and in how this thing shakes out at the end of the day. So we're very interested in what you have to say today.

Mr. Basil "Buzz" Hargrove: Thank you very much, Mr. Chairman and members of the committee. We appreciate your comments.

I'm Buzz Hargrove, national president of the Canadian Auto-workers Union. With me is Anne Davidson, president of the large airline local, with over 10,000 members, mostly at Air Canada and Jazz. Anne is also chairperson of our master bargaining committee with the company. Gary Fane is the director of our transportation department.

You have our submission, Mr. Chairman, so I'm going to just run through what I think are some of the key points, and I urge committee members to review all of it when they have time.

I start with the last point, where we say that if we can help Air Canada and Jazz to survive, as it must, to fulfill its mandate as the only integrated national flag air carrier in our industry and our country...but let's also address the underlying economic and regulatory problems that have dragged down this industry for the past 15 years.

We do a little bit of background. Since deregulation in 1987 and the privatization of Air Canada in 1988, the crises began. The first one was in 1992, Mr. Chairman and committee members, followed by another major crisis in 1996, and then a crisis in 1999, and here we are back again in 2003.

I want to make some points on the role the government has played in creating the problems we're experiencing. The government has seemed to explicitly promote the shrinkage of Air Canada and its subsidiaries, including Jazz. The government implemented unprecedented restrictions last year on Air Canada's ability to compete with other airlines—ironically, all in the name of competition. It has set explicit targets for shrinkage in Air Canada's share of the market and has even proposed requiring Air Canada to make its Aeroplan and baggage transfer services available to competing airlines.

Canada needs an integrated, national, high-value flag carrier. We need Air Canada and Jazz to emerge from this restructuring process as a strong and viable company with the mandate and regulatory support to continue to provide high-quality service in all regions of Canada, as well as internationally. I'm concerned, Mr. Chairman and committee members, when I hear the Minister of Transportation say that small communities don't have enough passengers to support an airline. Our history in Canada has been that we support the small communities in spite of the fact they may not have enough passengers for a company to make money. Transportation is more than about somebody making money.

We're saying the desired outcome will also require shorter-term measures to assist. It will also require important changes to government policy and regulation to allow the restructured company to operate in a viable and stable manner. CAW realizes that the airline industry is changing dramatically. We are currently engaged in bargaining with Jazz to make some changes that we can to assist them to continue to provide low-cost service to many communities, which are ignored by the current no-frills airlines. Jazz needs to be able to operate regional jets to become successful. And, yes, we also recognize that some present Air Canada bases may need to be reassigned, which has an impact on our members' jobs, Mr. Chairman. But we do recognize that this change must take place.

Again, unions will play a role, Mr. Chairman. I want to stress to the committee that we took seriously the concerns outlined to us. We saw the problems facing Air Canada, and we did everything we could as a union to avoid going into CCAA, which we don't believe is in anyone's interest. This morning's papers are talking about Air Canada using some of its current cash to put lower-cost flights in the hands of consumers, which we knew was coming. There was going to be a drop-off of passengers just because of the concern about the outcome of the CCAA hearings.

We have entered into bargaining with the company. We've agreed that 1,060 of our people, to be exact, will be laid off as part of a cost-reduction target. We've also agreed to defer a 2.5% annual wage increase that we had coming on March 31. These two things alone will save Air Canada \$40 million to \$45 million. In addition, over 200 of our members at Jazz have already been laid off—a point I'd like to make here as I watch Mr. Milton and company blame the unions publicly for the demise of the airline. I think Mr. Milton and his executives can take full responsibility for that.

●(1005)

It's interesting to note that today one of the papers in the U.S., Mr. Chairman and committee members, is saying that Air Canada is claiming it was the pension regulators demanding they put in money in support of the pension plan underfunded liability that caused the filing. Mr. Milton should at least get his story straight in both countries.

I want to stress the lack of action by the government regulators that oversee the pension funding. The lack of responsibility on the part of the company has led, as far as we can find out, to about a 20% underfunded liability. This will have a devastating impact on a lot of our retirees, as well as retirees of the other unions and even management retirees, who have been living on a fixed income. They are going to find up to a 20% reduction in their income, Mr. Chairman. Air Canada could never have bargained that kind of cut. We would never agree to take one penny out of the pockets of our retirees, people on a fixed income. They want to change the plan unilaterally, which they could never bargain with any of the unions, Mr. Chairman. We would urge the committee to say to the government that they have a responsibility to step in and assist the retirees. I'll talk more about that later on.

Labour cost cuts always seem to be the way to get out of these problems. They've happened to many airlines over the years in the U.S., Canada, Europe, and elsewhere around the world. They have never solved the problem. Mr. Chairman, I point out that only 30% of Air Canada's total costs are attributable to labour.

Again I stress that government's role in the solution is immediate financial measures. We're not trying to put a number on that. We believe the government has a responsibility. It created the environment with the regulatory changes it made. Some of the things they've done have brought us to where we are today.

On our pensions, we're saying specifically that the federal government must step in to guarantee the normal pension benefits of Air Canada and Jazz employees and retirees for an interim period. All that means is that the government guarantees to the pension fund managers that if there is a shortfall as the operations go on, we should be able to draw our pensions without a penny being added. But the guarantee has to be there or people will be forced to take a reduction under the current regulations. If the government guarantees it, we believe that as the market turns around and Air Canada comes out of this, they can then properly fund the retiree benefits, and none of the seniors, who worked for many years and built this company, will suffer a loss of income. The federal government, Mr. Collenette, had already offered Air Canada up to \$300 million in loan guarantees prior to them going into CCAA, so the precedent is there, and we believe that's where it should go. I do not believe it would cost taxpayers a penny. But a lot of seniors in this country would sleep a lot better knowing they had done that.

Also, we'd urge the committee to recommend that the government provide some money for incentives for senior people to take retirement, some of those people who want to work another three or four years to get enough money set aside to retire. If we put some incentives on the table, Mr. Chairman and committee members, we believe a lot of people will take advantage of that, and you can downsize the airline without throwing a lot of people out of work. In our recent restructuring with Chrysler corporation, they put incentives on the table, and over 50% of the people who were eligible to retire took advantage of them and left the workplace. That helped keep a lot of young people working and the income of a lot of young families secure.

I think those two issues are the least the government can do.

In the long term for the government we have to end the financial chaos in this industry, which we've experienced for 15 years. I'm absolutely amazed that Mr. Collenette would say it has worked well. It hasn't worked well. We've had one crisis after the other. The workers have gone through incredible insecurity, from layoffs to wage cuts to the incredible situation they put people in when they merged the two airlines without any rules and had one group of workers fighting against another group of workers. It has been an absolute disaster for people working in the airline over the last 15 years, since deregulation and privatization.

● (1010)

To add to that we see these bizarre and arbitrary restrictions that were imposed on Air Canada's behaviour through amendments to the Competition Act that say, in one area of the country, Air Canada, you must raise your prices, and in another area you must lower your prices.

I say to the committee, with the greatest of respect, that Air Canada today—you heard Mr. Collenette—have 64% of the market in Canada and they're in bankruptcy. Does this look like a company that somehow has too much of a market share or is somehow ripping off consumers?

There is a fundamental difference in a country with the geography of Canada—with the small communities that require and deserve service, and the small population base we have—so that as a transportation policy we have to have a vision that's much greater

than simply saying we want a group of companies that can all make money and to hell with what it means to people and communities.

So they must end the recent changes to the Competition Act. They must be revoked, Mr. Chairman, and similarly, the government's intention to shrink Air Canada's market share must also be abandoned. That has not added anything to the solution.

This recent proposal, that somehow Air Canada be required to provide access to its Aeroplan points to its competitors and to its baggage system to its competitors—not a business arrangement, but required—Mr. Chairman, again fails to recognize the serious problems Air Canada has. It is simply catering to the small, upstart carriers that are point-to-point carriers that can make money in the lucrative markets of the country, which are very few, but can't make money if they're going to provide service to all Canadians. And we have to ensure, as a committee and as a government, that service continues for Canadians.

So we have the summary, Mr. Chairman, at the back that covers the points I just outlined. One we missed in our haste to put this package together late yesterday and get it translated into French is that we believe the government must eliminate, or at least suspend in the short term, fuel taxes, the airport rents, and the security charges.

I hear Mr. Collenette say these are part of general taxes, but surely tax policy has to recognize when a sector or a major player that's so important to this country is in trouble, and that a suspension or a relief in these areas is something that can be done.

I end my comments, Mr. Chairperson and committee members, by saying the question really for us is not the survival of Air Canada. Air Canada will survive. Make no mistake about that. They'll come out of CCAA leaner and meaner, and a lot of people are going to be poorer from it—workers, firstly in the industry, and investors who've had money in the industry—if we allow them to. Even retirees will come out poorer.

And Mr. Milton and company will move ahead and make a lot of money, but they won't have a vision for Canada. They won't have a sense of how huge this country is and how we knit it together as Canadians from coast to coast to coast. They won't care, or have a sense, of how we integrate our country in the global world economy.

It can't happen if you don't have a flagship carrier. The business community I deal with, the investment community I deal with, and my colleagues in the labour movement every day of our lives, at one level or another, know how they operate, and if you're telling them that they have to get on three or four different planes to get to a business destination, or three or four different airline companies and grab their bags and recheck and all of these things that take place when you have a number of small carriers and no carrier that knits together the major centres of the country and the regional carrier to knit the smaller centres of the country, it will have a major long-term impact on the economy of Canada.

Surely, Mr. Chairman and members of the committee, that's not the legacy this government wants to leave for this important section of transportation in Canada.

Thank you very much.

Anne, did you have anything you'd like to add?

•(1015)

Ms. Anne Davidson (President, Local 2002 (Airline Division), CAW - Canada (International Automobile, Aerospace, Transportation and General Workers Union of Canada)): I'd like to comment that I've worked in the airline industry for 30 years, and in listening to some of the questions from the committee members today, I can tell you that our members and our union share those same concerns. We represent workers in every community in the country, and particularly workers in small communities are very much integrated with the community itself and really care about the service that's provided there. So we do share those concerns.

We have also, as Buzz has said, gone through tremendous upheaval in the merger with Air Canada and Canadian. Although it's taken a great deal of work in the last few years, we're coming through that fairly successfully and bringing the workers together.

We've also been very pragmatic as a union and have sat down with the employer very early on to bargain to integrate the groups. Although we bargained job security, we were able to mitigate the reductions for that. But our concern here is that Air Canada, while they are restructuring, should not be allowed to abuse this, especially with pensions for a number of people we've taken out to assist the company in reducing.

Thank you.

The Chair: Thank you.

There are two issues the committee will most likely want to address, and I'm going to try to address those.

One is through the research we've done, and just to clarify for the members of the committee, something should be circulated soon. I've had a research paper done on the CCAA, which indicated that contrary to what we get to believe with chapter 11, under the CCAA the sanctity of the union agreements remain intact rather than giving the courts the option to renew. So this is something you may want to discuss. That is a huge difference in the CCAA. Maybe Mr. Hargrove, before we....

•(1020)

Mr. Basil "Buzz" Hargrove: It's a bit, Mr. Chairman, like when somebody puts a gun to your head in a dark alley at night: you have a choice of giving your wallet or not. It's not a great choice.

The Chair: We'll get to that, but we do have those statutory protections.

Mr. Moore.

Mr. James Moore: Thank you. I had actually just an information question.

I'll say briefly at the beginning that when Buzz Hargrove and the Canadian Alliance are shoulder to shoulder for tax cuts, there's a certain congruency in the world that doesn't happen all the time, and I think there's a certain common sense for the need to lower costs so we can get more people flying.

Following the Air Canada and Canadian merger, the new combined air carrier had about 47,000 employees. I understand today it's about 39,000. Is that correct?

Mr. Basil "Buzz" Hargrove: No, my understanding is it's around 35,000.

Mr. James Moore: So 35,000. I notice that Judy D'Arcy is here as well today, and I wonder if, for information purposes, if you have the information, you could break down for us the unions involved and who they have in terms of employees under Air Canada, so we know all the jobs that are potentially in jeopardy and so on.

Mr. Basil "Buzz" Hargrove: I can only speak for my own union. We have between the main carrier, Air Canada, and Jazz, which covers the regionals, about 10,000 members. I think all of the other unions are appearing here today and will be able to provide that information.

Mr. James Moore: The other question I had was that you mentioned Minister Collenette had \$300 million in loan guarantees on the table, which potentially could also have been jockeyed for getting an equity control as well. Were you party to or involved in any way in the government's discussions in the setting up of that potential equity stake?

Mr. Basil "Buzz" Hargrove: No. We had a meeting with Mr. Collenette on the day prior to the announcement of Air Canada filing for CCAA. We urged him to make a statement to identify what he was prepared to do to keep the company out of CCAA. His indication to us was that he had made a proposal to the company, but he was not willing to share it. We had no idea until the next morning, when we read it in the *Globe and Mail*, that it was \$300 million, and that's still our information base, that article.

Mr. James Moore: Others have questions, so that's fine. Thank you.

The Chair: Mr. Fontana.

Mr. Joe Fontana: Thank you, Mr. Chairman, and I applaud the CAW.

Three years ago, Buzz, we were here when we were talking about Air Canada and Canadian, and you had expressed some concerns about the structure of Air Canada at that point in time, when in fact they were creating not only Air Canada but a number of other carriers, in terms of how in fact they were going to be able to integrate this as opposed to trying to run one airline. Maybe you can give me some clarification, because I think the answer in the short, medium, and long terms for an airline industry in Canada is that business, labour, and governments are going to have to work together.

We had some regulatory aspects that I think you bring to our attention. I know labour forms a big part of the cost structure, but also on the service side, and business must be able to function within a climate that obviously is going to build an airline industry in the country. I think what you said is that for your part, in terms of trying to deal with Air Canada's problems, you were asked to contribute something in the neighbourhood of \$65 million of a \$650 million cost reduction plan of Air Canada. Can you review what that \$65 million of yours was? I'm also interested in where that other \$580 million was supposed to come from.

Mr. Basil "Buzz" Hargrove: Our membership makes up about 10% of the payroll of Air Canada; therefore, the \$650 million request related to \$65 million. We've already come up, as an interim measure, with \$40 million to \$45 million, and we're going back to the bargaining table, probably tomorrow but at the latest on Monday, to put in place the \$65 million savings, Joe, that they say is required from our group.

• (1025)

Mr. Joe Fontana: But what is your understanding of where Air Canada was looking for the other \$580 million?

Mr. Basil "Buzz" Hargrove: I understand it's on a per capita basis, based on a percentage of payroll for the other unions as well as the management personnel.

Mr. Joe Fontana: Perhaps I'll ask Air Canada that question.

Can you fill us in with regard to this pension request you want the government to assist with, a package that would form part of the financial support that the government may or may not want to do with Air Canada? Can you let the committee know exactly what that pension liability is or guarantee that you want from the government?

Mr. Basil "Buzz" Hargrove: We don't have an exact number. All we know is that the Office of the Superintendent of Financial Institutions.... We found out this morning by reading the paper that in the chapter 11 filings the company is claiming they demanded they put a certain amount of money in. What the number was in the paper this morning is \$30 million a year, starting immediately, to cover this unfunded liability, and this was the straw that broke the camel's back, Joe, that put them into bankruptcy. That's their claim now.

What they have told us verbally, and provided us with no facts, is that our fund—because there are several different pension funds for each employee group—is approximately 20% underfunded, which would mean if the fund was wound up today, if the company went into complete bankruptcy, all of our retirees and future retirees who qualified for a benefit would have their payments reduced by 20%.

Mr. Joe Fontana: So what you're asking is that there be some sort of either loan guarantee or guarantee to that pension that would not

only help your employees but at the same time help a company, a restructured Air Canada, get either the financing and/or lower its costs in order to become competitive.

Mr. Basil "Buzz" Hargrove: I think if you had the OSFI testifying here today, they would say to you that if they had that guarantee they'd continue paying full benefits to people in anticipation that the market, the investments of the fund, would turn around, and that Air Canada, who claim they're going to come out of the CCAA in September, would start making enough money to start the regular funding again, and it would only be suspended until they come out of the CCAA. So it's a guarantee. I think it's an excellent investment, and it shouldn't cost the taxpayer a penny.

The Chair: For the benefit of the committee, I've just asked someone to go over to the ministry of financial institutions to get the updated status of the deficiency Air Canada has in the unfunded pension account and what arrangements, if any, have been made to bring that fund up to snuff.

Mr. Joe Fontana: Thank you. I think it's an important thing.

The Chair: We should get that information within a half an hour.

Mr. Joe Fontana: Buzz, can you tell us, in a restructured Air Canada...? I agree with you that Canada needs a national carrier or national services, especially to those communities that I think are going to be hurt badly, and therefore, whether or not it's done by a restructured Air Canada or competition....

As you know, Air Canada has this convoluted system of Tango, Jazz, ZIP, and its main airline carrier, and it was all to try to reduce its cost and get into some communities. One of the recommendations, and one of the issues we had as a committee before, was that the regional carriers either can be an assistance or a good feeder into the main line or in fact could be spun off and unleash its capacity.

Jazz is very well known to me because it used to be headquartered in London, and they've been stifled. I think you said the federal government was de-marketing Jazz, but I think Air Canada has been de-marketing Jazz by not giving it the equipment it wants and essentially taking over its scheduling, its marketing, and its pricing to the extent that the regional air carriers have been stifled. I think that's where the greatest capacity for growth, for competition, and for service to communities is.

I'm wondering how you see a restructured Air Canada. Is there going to be a Tango? Is there going to be a ZIP? Is there going to be a Jazz? Is there going to be an Air Canada? How do you see, from a union standpoint, what that structure of a new Air Canada should be?

Mr. Basil "Buzz" Hargrove: First, the committee should understand that there's Air Canada and then there's Jazz, which is a regional carrier, an arm of Air Canada, a low-cost provider from the regions. Tango is a no-frills part of Air Canada. It's not a different company. It's simply a package where you can fly and instead of getting lunch you get peanuts—I suppose that's the best way to describe it. The tickets are cheaper because they provide less service at every level. ZIP is still an unknown quantity, so this is now another effort to capture another part of the market.

The important thing for the committee to remember is that ZIP, Tango, Air Canada, and Jazz are all integrated. They all are part of the Aeroplan system, they're all part of the baggage system, so they're an integral part of what we call a flagship carrier, and they should remain as such. If you sell off Jazz, whoever buys it is going to have control of the main carrier. You might as well sell the whole carrier to whoever buys Jazz, because if they were to just say we're going to tighten up how we get our passengers to you in some fashion, then you'd have the body, so to speak, at the mercy of the arms.

The healthiest thing for our country and a long-term vision of airline transportation is to have one major flagship carrier with its regionals in place and then you can have the no-frills carriers.

But with great respect to the committee and some people who have a different view of this industry, you can't have carriers come in and simply say they're going to put a passenger on a plane in Calgary and fly them directly to Winnipeg. They're not going anywhere else. Those are direct flights. There's no baggage system to put in place. There are a whole lot of things when you do point-to-point service. If you just allow anyone who can lease a plane and hire a pilot, a flight attendant, and an agent to come into the industry and undermine the main carrier on the lucrative routes, you'll ensure that in the long term you'll have no carrier.

That's why we've said there should be controls and limits, based on the amount of capacity that's available, on the new players coming into the industry. You can never stabilize the industry today. You have one of two choices: either give Air Canada free rein when these upstarts come in to go in and destroy them by undercutting them—as they do Air Canada—or regulate how they come in and what portion of the market growth they're going to get.

I think it's important for the committee to think about this.

I listened to Mr. Collenette saying how wonderful the railway was when we privatized CN Rail. Well, think about it. There are two rail lines going down two tracks. One is CN and one is CP. No one else can come in. There's no new competition that comes in. So all Mr. Tellier had to do was cut the fat off the CN Rail and they made a lot of money. He did that, and he did it, I think, in a very professional manner. But had somebody had the ability to build a track, another track, and another track, like we have with Canada 3000, WestJet, Jetsgo, Nordair, and Wardair, if you could just go rent a train and go to work and compete with CN and CP, it would be a much different case.

The government provides a lot of support to VIA Rail, as you're aware—Mr. Collenette is responsible for that—and rightfully so. We don't do it based on VIA Rail's ability to make money. We do it

based on the importance of Canadians being able to travel from point to point.

So there are some lessons to be learned from rail, but it's not the point Mr. Collenette made here. The airline is different. You can't keep letting people come in and destroy the mainline carrier. For God's sake, they have 64% of the market and they're in CCAA. And the wages haven't gone up at all. We haven't been able to bargain anything because of the problems they've faced. So it's not labour costs.

• (1030)

The Chair: Thank you, Mr. Fontana.

As a result of the first round of questioning, Mr. Moore left six minutes on his time. That will be taken up by either of the two....

Mr. Jim Gouk: I'd like to just make a single point and pass it to my colleague, if that's all right.

The only point I'd like to make for Mr. Hargrove to consider is he talked about the need to have the fuel tax reduced or exempted, the rents reduced at the airports, and the security fee waived, all of which I agree with and we've been pushing for.

I would point out that the government has already recognized by legislation the importance of the air industry. Whenever there's a strike that shuts down the air industry, the government steps in and legislates, because they say it's far too important to allow it to be shut down. Yet that's exactly what's happening now.

Perhaps, Mr. Hargrove, you might use that when you're talking with them; say they've already recognized that importance and now they have to do it from the other side.

Val.

Ms. Val Meredith: I've listened with interest. You're comparing rail with air and saying the main carrier has to be allowed to be fully competitive. We saw with Canadian Airlines and Air Canada that it was more than competitive; it was predatory, with one going after the other.

Where do you draw the line between competitive and predatory when you're talking about a major carrier that has size and whatnot?

• (1035)

Mr. Basil "Buzz" Hargrove: That's a good question.

I think the first prerequisite ought to be to have a committee set up to oversee the airline industry, so that we don't have predatory pricing. I've always argued that.

But the first test should be: if you're predatory and you're ripping off consumers, you should be making some money doing it. But we're not. Everybody, workers included, are being forced out of work. Workers are losing their wages and retirees are losing their pensions. So it's pretty hard to somehow justify that Air Canada is such a cruel and inhumane person that it is being a predator to the competition.

The problem is we don't have rational, intelligent competition, which is what we need. We need some form of regulation saying there's guaranteed competition and an oversight to make sure it's not phony but real competition—and do so without undermining the strength of the flagship carrier, which is so crucial to the future of this nation.

Ms. Val Meredith: Thank you.

The Chair: Thank you.

We go from here to Mr. Laframboise.

But just before we do, I want to thank Ms. Desjarlais. As you know, when this meeting was convened in an emergency situation, I just assumed that the International Association of Machinists and Aerospace Workers were on our witness list. We got in at midnight last night, and I just looked at the witness list and found that, for some reason or other, which we'll get down to, they're not on the list of witnesses. They're absolutely vital to the discussions we're having. If the committee will rely on my judgment, I will make sure that there will be no recommendations without first hearing from the International Association of Machinists—hopefully in the next day or so.

Thank you. I'm sorry to intervene on that.

Mr. Laframboise.

[*Translation*]

Mr. Mario Laframboise: Thank you, Mr. Chairman.

As you can see from the answers that the Minister gave earlier, it is clear that the industry's requests—I'm not talking about Air Canada here—such as eliminating airport security fees, reducing rental costs and the fuel excise tax, along with all the repeated requests that are supported by the organizations... The airport security fee has reluctantly been resolved to some extent. On the other issues, you can see that there will be some dithering. The process will go on and on, with the result that the industry will not benefit right away, and certainly not Air Canada.

The problem is that Air Canada is a company created under federal legislation, which was supported by all parties in this House. That legislation imposed certain constraints but also certain obligations, such as service to the regions, which was dropped last September. Nonetheless, those constraints imposed a major financial burden on the company's activities.

Of course, you understand that the government never took into account the fact that this is a national carrier. What is difficult to hear and understand is that all the experts are saying that Canada needs a national carrier. But the government does not want to contribute a penny to this national carrier. The financial assistance proposed by the minister, as was the case for Canada 3000, is always strategic in nature. The government steps in a week before the catastrophe happens and says that it is ready to help, but when it comes down to it, the company has to work things out itself, and the result is that the employees are paying today for things that are outside their responsibility. All the problems arising from 9/11 are practically a natural disaster. The war in Iraq and its impact on air travel are not your problem. SARS is not your problem either, except for the fact

that one industry is affected more seriously than all the other industries together.

Once again, I see that you are at least realistic in what you are asking for. You are not asking the government, since you have obviously realized that it will not help you... But in order to be able to resolve the conflict between... Of course, when a company seeks protection under the Companies' Creditors Arrangement Act, the first discussions have to be with the employees. So you are central to the debate. People accuse you of closing your eyes and ears to what is going on, but I know for a fact that you have been negotiating for a very long time to try to work out a reasonable arrangement and find a way to save the company.

People were talking about \$650 million. You have your share. That was what the company asked for. Do you think that the amount being sought will increase, now that the company is under the protection of the Companies' Creditors Arrangement Act? Have you heard anything about additional negotiations and additional demands by the company, particularly to reduce the employee payroll or any other compensation you might receive?

• (1040)

[*English*]

Mr. Basil "Buzz" Hargrove: Mr. Chairman and committee members, it's hard to have confidence in Mr. Milton and his team.

You'll recall that shortly after September 11 they asked for a multi-billion dollar bailout before even feeling the impact of September 11. Now we are 18 hours into a Gulf War, which Canada has said it is not participating in or even supporting, and they are back again saying that the Gulf War is the problem. We had them blame the unions for their demise and bankruptcy, and when they filed for chapter 11 in the United States to cover their operations there, they blamed the pension demands. So it's hard to have a lot of confidence.

Will I be surprised if the creditors demand more? Remember, it's not just Air Canada now, but the creditors who will play a big role here. No, I will not be surprised. But I do want to urge the committee to look at the changes requested recently by American Airlines and to put them into perspective in terms of their size versus Air Canada. When you look at it in these terms, the \$650 million is excessive. We didn't challenge or question that because we saw the bankruptcy coming. We didn't want our members to have to go through the agony and to have the income of our retirees threatened, which we're faced with today. So we said, "We'll find the \$65 million".

But through you and this committee, Mr. Chairman, I want to be absolutely clear to the company and the creditors that we will not go one penny beyond \$65 million. We will not ever accept our retirees suffering because of the mismanagement of this airline by the people who run it, and also because of some of the regulatory impositions we've seen limiting their ability to operate. Our union will fight like hell on those fronts, Mr. Chairman and committee members.

The Chair: Thank you.

Mr. Keyes.

Mr. Stan Keyes: Thank you, Mr. Chairman, and Buzz, thank you very much for coming to the committee to give us the benefit of your interpretation of things.

There's no question in anyone's mind that there will need to be, there must be, an unprecedented level of cooperation from all sides at Air Canada in order to see Air Canada come through this thing.

Buzz, you mentioned CN. I would go so far as to say that Air Canada today is the old CN of the skies. I agree with you when you say that there needs to be some trimming of the fat.

Having done a little research and having checked with a couple of phone calls, I see some of that fat in the system if you compare, say, WestJet and what they do to Air Canada and what they do. At WestJet, for example, if we're talking about a plane and how many employees service that plane, 75 people service a WestJet plane. With international carriers in the United States, 110 on average service a plane. At Southwest, the United States equivalent of WestJet, 90 people work on a plane. At Air Canada that number is 185 people to work on a plane.

A further example of that, Mr. Chairman, would be, say, if a generator goes on an engine on a WestJet jet in Hamilton or on an Air Canada jet in Toronto. At Air Canada, when a generator goes on an engine, first the gentleman comes along and it's his job to take off the cowling. Then someone else comes along and disconnects the generator from the engine. Then the third person comes along, the stores person, and takes that old generator back to the stores, gets the new generator, and brings it back to the aircraft. Meanwhile, the guy working on the cowling and the person who disengaged that generator on the plane are waiting for this gentleman or lady to come back from stores. The procedure takes nearly four hours.

At WestJet in Hamilton, if the same situation happens, one person does all that work and the job is done in 20 minutes. I can see a situation where the employees who currently work at Air Canada should get a fair wage for the work they do; there's no denying that. Employees at Air Canada must be entitled to their pension, no question of that, and I will help you fight any way I can to ensure that those employees are treated fairly. But at the same time, if you're going to run a business and you naturally want to make it workable and profitable, as anyone would in any job, whether you're cutting hair in a barber shop or selling shoes, you can only have so many employees doing the job.

My question to you is this. I don't think it's a question of wages or pensions. I think it's just a question of too many people doing the job. Can I ask you your opinion of that and whether or not, when Air Canada absorbed Canadian and made all the promises they did, Milton and his board got it wrong? Did we end up with too many employees working at Air Canada because Air Canada had to absorb Canadian? Did they have the wrong business plan, one that caused us to have Tango and Jazz competing against Air Canada, which was their own company, so they were competing against themselves?

It was a lousy business plan and it's been proven not to have worked. The only people responsible for this are the president and CEO, Robert Milton, and his board.

● (1045)

Mr. Basil "Buzz" Hargrove: First, Stan, let me thank you for your support for our members with respect to airline workers' wages and pensions.

Let me try to frame it this way. Everyone recognizes that there are too many people working in the airline. We didn't agree to a thousand people being laid off because we were overworked. We knew that, and how did that come about? It came about because of freely negotiated agreements with the company as part of the merger. It also came about because the government said, to allow the merger, that there couldn't be anyone who was working at that time laid off until March 31, 2004.

So there are two issues. The first issue is, there are too many people working in the airline. Who's responsible for that? I guess we can all share in the responsibility. We bargained and demanded, and no one ever assumed we'd end up with a situation we have today. Were Tango, Jazz, and all that a proper response to that? I would argue that yes, we're heading in the right direction. You couldn't continue with just a mainline carrier trying to provide all the service, so at least the management of Air Canada should be complimented for trying to recognize that the market shifted radically.

There are all kinds of reasons. We're talking about the war today and SARS, but the reality is that it was because of the lack of confidence in the business community with the meltdown of the dot-coms, the fraud, and all of that. Companies tightened up incredibly. I can name one company that went from here to there under a very prominent businessman, someone who was businessman of the year just a short while ago. His company cancelled a \$60 million annual order for executive class tickets from Air Canada, and then several others followed suit; there were so many of them.

The environment changed. The travel plans of people changed. The business community withdrew incredibly, and that had a major impact, yet the company was locked into a lot of contracts. Did they work their way out of them? Well, no. Should they take blame for that? Absolutely.

One thing I've said to anyone who will listen to me is I think Mr. Milton has the skills to run an airline in the sense that he knows which planes to put on which route, where to send them, etc., but in dealing with people, in sitting down to work out an amicable arrangement that says we all have to do this, he leaves a lot to be desired.

Having said that, I just want to touch on your example. I can't respond to these numbers; I'm going to accept them as they are. The logic of them makes sense to me. International carriers like Air Canada or other major U.S. carriers should have more people per plane than a WestJet, which provides only point-to-point service. But I do think it's unfair as hell to talk about how the machinists deal with a plane that's broken down and an engine thing. I can't see that; I can't respond to that.

I'll ask you this. You travel a lot, as I do. I can tell you, the agents aren't standing around; they're working. When you go to load a plane, people are working. There's a lot of background work to get ready to load that plane, and they don't stop from the time they get.... They have to be at the airport a half hour early and usually get out a half hour late, time they're not getting paid for.

I watch with interest flight attendants, and you see them walking through the airport. They have to pack bags at home and drag them through the airport, and they have to be there well in advance of flight time, time they don't get paid for. They get on the plane and they never stop serving people from the time they get on until the plane.... They yell to fasten the seatbelts for a landing; they're safety professionals, and they have to be ready in case of an incident to help the people on that plane. Then the pilots don't stop.

All I can tell you is, if this is happening with the machinists, it is an incredible shock to me. Are there too many people today in all areas? Yes, absolutely. A solution is to negotiate with the company to downsize them.

But what you're talking about is inefficiency. I would be really surprised if the situation you outlined here today is still happening or ever did happen, even with the mechanics. You look out the window of a plane and watch the people out there loading and unloading baggage and moving around. They don't stop, Stan, so it's just too simple to say that's the problem.

There is a problem, but there's an old saying. I think it was John Diefenbaker who said this in the House of Commons, responding at one point to a new, young member who was mad because Mr. Diefenbaker hadn't answered his questions. He said to him, young member, when hunting for big game, I don't get sidetracked by rabbits. I think this is a rabbit, Mr. Chairman and members.

● (1050)

The Chair: Thank you, Mrs. Keyes.

Ms. Desjarlais.

Mrs. Bev Desjarlais: First off, I want to thank the CAW. We appreciate the efforts they have made to ease this whole situation that's happening with the—

The Chair: Could you speak more into your microphone? We're having—

Mrs. Bev Desjarlais: If I speak into my microphone, I don't get to look at the witnesses, so I'm going to turn my head and hopefully the microphone will pick me up. Thank you.

The Chair: Oh, you're in a good mood this morning.

Some hon. members: Oh, oh!

Mrs. Bev Desjarlais: I do want to acknowledge that, because over the last number of days the message out there seems to have been that high union wages and high pensions were the reasons for Air Canada's demise. After having dealt with this twice already in my five short years here in Parliament, and seeing my colleagues from that same transportation committee going through this again, it's quite apparent those are not the issues here. There are a number of reasons why we have a situation within the airline industry.

First, it is crucial to recognize the excessive charges that fall within the airline industry that don't fall to other industries, specifically security tax. Quite frankly, the NDP were the only ones that maintained from the beginning that it was absolutely not acceptable to charge travellers in that sector or anywhere for their own security. It has had the effect on the industry that we said it would and it's not going to get any better.

I want to acknowledge your comments about the pension funds, because I think there was a feeling out there that the pensions wouldn't be attacked, and it's apparent that Robert Milton is going that route. He's trying to use his puppet-playing with the government as a way of getting him out of the contracts and out of the pensions.

As a committee and as parliamentarians we will all have to look at firming up legislation so no company is able to do that. We must ensure that the pensions of Canadians throughout the country, not just in the airline sector, aren't jeopardized. Your issue is going to give national attention to this, and some of us will probably benefit from it while your workers are in a bit of a limbo. You certainly have our support in ensuring that—certainly my support.

Do you see the possibility that Robert Milton's poor management strategy—which I always try to throw in there because I've had the same annoyances with him as other members of the committee—is to funnel more dollars into the low-cost carriers at the expense of Air Canada?

● (1055)

Mr. Basil "Buzz" Hargrove: No. I don't think that's the case at all. If Mr. Milton deserves any credit from the people who work there, the committee, and the government, it's to recognize this incredible shift in consumer preference and trying to adjust the airline to ensure it survives in spite of that. There's a big difference between flying on the no-frills Tango or low-cost Jazz or WestJet and flying on a major international carrier, with all of the infrastructure that goes with that. So that's not our problem.

Secondly, I should have mentioned earlier that the government recently reduced the security fees for domestic flights. That unfortunately was of no benefit to Air Canada, in a sense, on a per capita basis because it has most of the international flights. I'm glad to hear that the NDP opposed that. We thought at the time it made no sense either.

It is a government responsibility to ensure the safety of our population. The suspension of these particular costs to the airline should be immediate and looked at over the long term as it applies to important industries, and especially a national flagship carrier like Air Canada.

Mrs. Bev Desjarlais: On your point about the international flights and not receiving any benefit on the security tax, I think the government is trying to give the message now that somehow decreasing it by half domestically is going to have a major difference. Quite frankly, we would like to see it totally removed so the whole industry isn't jeopardized by it.

If I still have a few minutes, I think my colleague may have a question.

The Chair: He may ask one question only, because his pension might be impacted as a CAW member.

Mrs. Bev Desjarlais: Okay. We have a conflict here.

Mr. Peter Stoffer (Sackville—Musquodoboit Valley—Eastern Shore, NDP): That's right.

The Chair: Thank you, Mr. Hargrove. I was trying to say only if there's no conflict of interest.

Mr. Peter Stoffer: Mr. Chair, it's obvious to those watching on television and those here that the concern of the three people before us is strictly for their employees, their families, and the communities they represent.

Do you know of any other corporation or senior manager who has tried to do what Robert Milton is trying to do with the pensions? Is there a precedent somewhere else in this regard?

If I may add, we read in the paper the other day where Delta senior management in the States received \$25 million in beautiful bonuses and severance packages, and then they cried foul and said it was the employees' fault for the default and lack of revenues in the airline industry.

The Chair: With the greatest respect, can we just...? We're having trouble with Air Canada. Let's not worry about Delta.

Mr. Peter Stoffer: Is there any indication that sort of precedent may happen with Air Canada senior managers as well?

Mr. Basil "Buzz" Hargrove: Look, there's no such thing as equality in any industry or any sector of the economy, so I don't want to waste a lot of time on that, Peter. The real issue is our members' pensions and their jobs in this industry.

I don't know of any other company that's gotten away with it. There have been a number of efforts made over the years, including, I recall, one by a company in Ontario that tried to discontinue—because they closed all their Canadian operations; they're an American company—the health care benefits we had bargained. The courts reached over the border and forced them to continue those benefits.

Unfortunately, here when you're under CCAA, the company and the creditors have an enormous amount of power. So it's going to take the support of government to ensure...because the money that was supposed to be there is not there, and that was missed by the superintendent who's supposed to watch these things. He came in at the end, in the dying days, but it was too late then.

It's a government agency. The government has an obligation. I repeat, the loan guarantee doesn't cost a penny because, as you know, pensions are paid out over many years. All we need is the guarantee so that the people who manage the pension will not force the reduction on our retirees.

The Chair: Thank you very much.

At the outset of the conversation, Mr. Stoffer, those questions were canvassed. We've asked the researcher to go to the financial services to get the accurate information. Unfortunately, it's not back yet, Mr. Hargrove. As soon as it comes in, if you shouldn't be here, we'll make sure the clerk gets this to you.

What do you want? Excuse me, but you weren't on the list.

• (1100)

Mr. John Cannis (Scarborough Centre, Lib.): I had asked earlier, Mr. Chairman. Maybe the clerk didn't notice from way back.

The Chair: Please, go ahead.

Mr. John Cannis: I listened very carefully, Mr. Chairman. I have to get this out only because I heard the panel talk about regulation for competition.

Mr. Hargrove, please explain to me. I quite frankly don't understand how we can regulate and yet have competition. In the fuel industry, for example, they tried to regulate and the prices went up. Around this panel—and you people, and the airlines, and what have you—we all want to find some solution to provide a viable, affordable carrier.

I'm very concerned also by some of the incidents and the dot companies you mentioned—the meltdowns, the Enrons, the Nortels—because these things have happened, and most likely they'll happen in the future, as we know from the graphs. I'm concerned. Does that mean every time something like this happens we have to go to the taxpayer? You talked about tax relief on fuel tax, airport improvement tax, security tax, saying we have to get rid of them.

The travel industry said the other day we need \$800 million or \$1 billion or so in tax relief. I see the leader of the NDP party was here earlier today saying we should have put more money into health care, and more money into this. My question is simply this: if we're going to eliminate general revenue in whatever form it is and we're asking to provide funds for certain other programs—protecting the pensions, etc.—how do we balance this thing out? Where does the government, in essence, come up with the revenue to provide some of these programs?

Mr. Basil "Buzz" Hargrove: Mr. Chairman and members, I'd like to think the government acts and responds much like our union. On any given day, maybe 4% or 5% of our members need the union to deal with an issue for them, but the comfort for our members is that if they do meet a crisis, we're there when they call upon us. I see government in the same way, Mr. Chairman.

This industry, this company, and its people are in crisis, so I say to the government to recognize that crisis and recognize that we have to have an airline industry. It's not like sales have dropped dramatically. People still want to travel. Like the dot-com industry, this is about how we structure ourselves as a nation, how we respond, what our vision is for the future of the country. So government should respond for people in crisis. That's why people elect governments; that's why we have governments. That's the simple answer.

The other question...I just asked the committee...and maybe the chairman can get this information and look at it. The test should surely be, is the industry itself making any money? The only company that's making any money is WestJet and they make it strictly because they are a point-to-point provider. They don't provide any infrastructure. They don't have the people working for them, as Stan talked about, because they outsource a lot of it to the United States, whereas Air Canada does that and provides jobs for Canadians.

So the test should be, when you take the profits of a total industry and look at them versus the people who work in that industry or the consumers who use it, you say to yourself, does this make any sense? The reality is, it doesn't. Why? Because we have this openness; we have this kind of U.S. mentality in thinking we're 360 million instead of 30 million. We say anybody who can rent a plane, hire a pilot, a flight attendant, an agent, a mechanic, can put a plane in the air and the most lucrative routes...and if you start out with no infrastructure and no overhead, you can continue.

That's why we see continually, as an airline starts to grow, and if WestJet grows out of all of this—and I've seen Clive Beddoe with the largest smile in the history of the country in the paper when this bankruptcy was announced. I'd be smiling too if I were him. The thing he must remember as he grows is if he tries to respond to this environment, somebody's going to come in under him and we'll be in the same crisis back here in three or four years.

So if you look at this industry and look at its history, I don't think anyone could argue that it doesn't need some form of intelligent regulation to ensure it doesn't continue to undermine itself.

The Chair: I apologize, Mr. Cannis. You weren't on the list and I was going by the list. I apologize for overlooking you.

● (1105)

Mr. John Cannis: No apology is necessary.

The Chair: I want to thank Mr. Hargrove, Mr. Fane and Ms. Davidson for coming. I know how difficult it was for you to rearrange your schedule today. The information you brought and the questioning before the committee and your submissions are going to be invaluable as we try to assess where we should go and the future of the airline business. I hope, if need be, that we will be able to call you back as we go down this road together.

Mr. Basil "Buzz" Hargrove: Thank you very much, Mr. Chairman and committee members, for the opportunity to be here.

The Chair: The next witness is Air Canada and we'll reconvene at 11:10 a.m.

● (1105)

_____ (Pause) _____

● (1114)

The Chair: We'll reconvene.

Mr. James Moore: I have a point of order, Mr. Chair.

The Chair: There's a point of order.

Mr. James Moore: Yes. I understand that Air Canada's presentation is only available to us in English. Therefore, we require a motion in order to have it circulated in only English, and I'll move that motion now.

The Chair: Thank you.

Do we have a seconder?

● (1115)

Mr. Mario Laframboise: I so move.

(Motion agreed to)

The Chair: Thank you for that support, Mr. Laframboise.

You understand, and I think the committee understands, the urgency of these meetings. Sometimes translation services are difficult to arrive at, but I do hope, Mr. Clerk, this document will be translated and circulated as soon as possible.

The Clerk of the Committee: Yes.

Mr. Stephen Markey (Vice-President, Government Relations and Regulatory Affairs, Air Canada): We will provide a translated copy as soon as possible. We simply didn't have time in this instance to do it. We appreciate your indulgence. Thank you.

The Chair: Thank you, Mr. Markey.

The next presenters are from Air Canada. We have Mr. Markey, the vice-president of government relations and regulatory affairs, and Mr. Gaspar, who is the manager of government relations. I welcome you both.

Going back to one of my other careers, when we had difficulties in certain areas, one of the nice things one of the creditors said is, "We're all in trouble in this one, let's figure out how to get out of it". So I turn it over to you, Mr. Markey.

Mr. Stephen Markey: Thank you, Mr. Chairman. *Merci beaucoup.*

I can't say that I'm delighted to be with you today; I'm pleased to have the chance to be here, but I am not delighted in the circumstances. I think it quite clear that we'd all rather not be dealing with these issues.

With your indulgence, Mr. Chairman, I'd like to take you through a brief opening statement. I don't think it will take me much more than the allotted time. I'll try to make sure it doesn't, because I know you want to get to questions. We'd be delighted to deal with any issues you may have in the question period or subsequently.

On Tuesday, Air Canada sought and was granted protection under the CCAA, the Companies' Creditors Arrangement Act in Canada. In addition, the company is making a concurrent petition under section 304 of the U.S. Bankruptcy Code. As you so well know, the media coverage of our action over the last few days has been extensive and, in our view, basically represented fairly and well the reasons for the filing and the implications for all concerned.

Of primary importance to Air Canada today are the insecurities that may be felt by our customers and, frankly, by our employees. However, I can't stress enough that it is business as usual today, and every day onward, at Air Canada.

The CCAA process is a complicated one, but as you've heard from other witnesses, it's primarily an orderly, court-organized restructuring of the company's financial obligations in a way that will allow us to continue.

Because we've had a lot of questions, Mr. Chairman, many from some of your colleagues in the House, let me just emphasize what will continue to be the case at Air Canada. There is no doubt in our minds that we will continue to provide safe, high-quality service. Our operations will continue normally: customers will continue to book their travel with confidence; reservations, ticketing, and refunds will continue as usual; customers will continue to collect and redeem Aeroplan mileage; Star Alliance benefits will be available to all customers travelling; our lounges will remain open, with staff who are ready and receptive to our guests; our employees will still get paid on time; and all benefits will continue for both employees and retirees.

As you've also heard, Air Canada has secured US\$700 million of debtor-in-possession financing from General Electric Capital Canada, one of our largest creditors—a company with whom we share a long and very successful history of business arrangements. This important liquidity will help meet all of the anticipated operational needs through the CCAA process. In fact, that is why we put it in place.

How did we get here, Mr. Chairman? There are many of you around this table who have long experience and strong opinions on the answer to that question, but the fundamental reality is that the market environment in which all international airlines are currently operating is nothing short of abysmal. It's not just Air Canada. Look at international airlines around the world, Mr. Chairman; they're all affected and infected by the same problem. Over the past three years we've been battered as an industry worldwide: the high-tech meltdown starting in 2000, the economic slowdown in 2001, the terrorist attacks of September 11, the growth of low-cost, highly competitive competition, high oil prices, and now, of course, the war in Iraq have all contributed to the situation that we and other airlines face.

We have tried to deal aggressively with many of these issues. In fact, I think there is some acknowledgment that we have outperformed many of our industry peers in recent years. But it is not enough; the achievements are not enough, in and of themselves, to overcome the cost and liquidity challenges we face.

In addition, the starkest challenge facing Air Canada is the wide gap in labour productivity facing us in comparison to other low-cost

carriers. Please understand, Mr. Chairman, this is in no way a comment that is designed—even inferentially—to impugn the ability or commitment of our employees. We have the greatest employees in the airline industry in the world. Unfortunately, however, the wages and work rules that they have secured over the years are now simply and dramatically out of line with what our customers are willing to pay. While the airline had repeatedly outlined to its unions the urgent need to find \$650 million in permanent annual labour savings by March 15, we were unable to secure any agreement on a meaningful course of action. There were concessions, for which we are most appreciative, from some of the unions, such as the CAW, for the kinds of late decisions that were made. But in and of themselves they were not sufficient; it was too little, too late in the process.

● (1120)

If anyone doubts the sincerity of our message—and I would hope you would not—the situation worldwide underscores the problem. All the most profitable airlines in the world today—Southwest, Ryan Air, JetBlue, and of course, in Canada, WestJet—are low-cost operators with reduced labour costs.

Job losses at so-called legacy carriers worldwide have surpassed the 100,000 mark since September 11, 2001. Canada, and Air Canada in particular, has been spared most of that bloodshed. The cumulative financial losses for the industry across the world have surpassed the total combined annual profits of those same carriers to that point in history.

So in spite of our efforts, we cannot do it alone. Clearly we need the cooperation of our unions and our creditors to emerge a stronger, more viable carrier in the future. However, we would also like to submit, with great respect, that there are some things the Government of Canada and this committee can undertake to do that could help this industry.

The cost environment under which the airlines operate does not lend itself to a viable industry. It includes, in addition to security taxes and costs, airport fees, NAV CANADA fees, insurance, and fuel. Some of those charges are imposed by the companies—that, I would concur with—but many of the charges are beyond our control and our ability to influence.

We would urge the federal government, through this committee, to examine the cumulative impact of these fees and charges and to act swiftly to make positive change.

The security tax, for example, was recently reduced by half, but in our view it should be reduced to zero. It is not in the interest of the air traveller to have a security tax paid, unlike any other mode of transportation.

Airport rents are another problem. Last year the federal government received over \$240 million from the eight largest airports, without maintaining any responsibility for the upkeep of those facilities.

The fuel excise tax—a high-impact disincentive to air services in the light of oil price volatility and the Iraqi war—was introduced before the GST and now constitutes, with the cascading effect, a form of double taxation.

It's also a hard time, we would submit—and we understand some of these important pieces of legislation are before your committee—to look at the proposed regulatory environment that faces the industry. We think we have to pay—and with respect, you should pay—particular attention to Bill C-26 to see whether in fact it works for or against a viable industry. Our belief—and it's not just Air Canada's belief—is that the main airline provisions of the bill will do nothing to enhance the viability of the industry and will in fact potentially put us in a more precarious position.

Provisions that force interlining demand access to frequent flyer plans and initiate pricing investigations, we submit, are just not in touch with the realities of the marketplace today. We don't see a demand for those kinds of interventions. All these measures are expensive, time-consuming, and, in our view, they won't help consumers or airlines.

Then there's Bill C-27, the Canada Airports Act amendments, which I believe will be referred to your committee as well. We applaud the objective of this legislation in requiring transparency on airport financial dealings, but there are fundamental flaws. Carriers will continue to pay massive fees to airports that continue to expand without any role or say in the fees that are being imposed.

Finally, to try to put a more positive note on these deliberations, we recognize that Air Canada has to have a positive vision for the future. We have taken a lot of time to look at various policy options, and we believe the pressing need for market growth begs—literally begs—for more initiatives along the lines of the visionary 1995 Canada-U.S. Open Skies agreement.

Air Canada, along with others in the industry, has been advocating an expansion of Open Skies that would enable U.S. and Canadian carriers to make full use of their networks by allowing them to carry the local domestic traffic of either country through their own hubs.

Whatever initiatives we undertake, whatever initiatives this committee sanctions, there can be no doubt that the viability and sustainability of our industry as a whole must be at the heart of new measures. That is why we have also flagged for attention the issue of the massively unbalanced marketplace that exists for carriers in North America.

•(1125)

In the United States, air carriers have received to date over \$22 billion in direct subsidies and loan guarantees to respond to either September 11 or the war with Iraq. In Canada, by contrast,

Parliament, as is its right, decided to provide only a little over \$160 million Canadian to cover the direct costs of the airspace closure following September 11.

We do not quarrel with Parliament's authority and wisdom. We don't pretend to quarrel on those issues. But neither can we argue, however, that the reality of this massive imbalance in industry support will have a negative impact on the health of the Canadian industry.

Additionally, we cannot ignore the negative competitive effect that EDC loan guarantees to American carriers has on Air Canada and other domestic airlines. We've talked about this extensively in public in recent months, and more recently we've met with officials of the Department of Industry. We're hopeful that they will be able to address this, because as it stands, it is currently penalizing air carriers in Canada who are using regional jets to compete in transborder markets.

An equitable solution, which we proposed in these notes, would be to revitalize the enterprise development program. It's an Industry Canada program that is designed to mirror the benefits provided by the EDC in the Canadian marketplace.

So currently this is an industry in crisis, with deep and varied problems. All stakeholders must be prepared to make changes and improvements, and we're here today to try to help in that process, not just to rebuild the industry for a few months but for the long haul.

With that, Mr. Chairman, I'll turn it over to you and your colleagues for questions.

The Chair: Thank you, Mr. Markey.

Does Mr. Gaspar want to add anything to it? No. Thank you.

I'll ask the committee for their permission. As you know, the agenda we have in front of us today fluctuates at times. It seems that one of the critical issues is the question surrounding the pension liability. I've asked our researcher to get us some information, and what we have here is that the Superintendent of Financial Institutions has agreed to come before us to discuss this very issue. We can't fit him into it, but with the indulgence of the committee, would you approve the calling of the Superintendent of Financial Institutions at 2 o'clock?

We'll try to get that in between 2 p.m. and 2:15 p.m. It goes into our statement period in the House of Commons and may just run over into question period.

Could I have a show of hands if you agree? Does anybody disagree?

(Motion agreed to)

The Chair: Mr. Clerk, would you please ask the superintendent to appear before us at 2 o'clock?

Thank you, Mr. Markey.

Mr. Moore.

Mr. James Moore: Thank you very much.

I want to thank both Mr. Markey and Mr. Gaspar for making themselves available to me outside of this committee for answering questions.

I guess the first, most obvious question is, where is Robert Milton, and why isn't he here?

Mr. Stephen Markey: Well, we've had a busy week, Mr. Moore. I'm sure that if the invitation had been extended to him, he would have considered it.

As it stands, Mr. Chairman, we were contacted by the clerk of the committee. I was asked to appear, and I said I would be delighted to do so.

• (1130)

Mr. James Moore: Okay.

Sorry, Mr. Chair, do you have a comment there? No.

The Chair: I will talk to the clerk.

Mr. James Moore: Okay.

For our first question this morning, I asked Mr. Collette whether or not he would consider raising the foreign owners limit from 25% up to 49%, as is in the Air Canada Public Participation Act. He indicated no. Would the raising of that from 25% to 49% help Air Canada secure more capital for your long-term viability?

Mr. Stephen Markey: The question of foreign ownership is one that dates back to the previous meetings of this committee. We participated in those meetings in a variety of different ways at that point in time.

When the committee issued its report, we acknowledged support for the recommendations that I believe the committee report contained at that point in time. Our position since then has been that we were supportive of that original committee recommendation to move it 49%.

The minister has indicated that his preference would be to maintain the current 25% position, and that's really where the issue is, as far as we're concerned, at this point in time.

Mr. James Moore: Are you renewing your push to the minister to raise it?

Mr. Stephen Markey: No, we've not had extensive discussions on this issue.

Mr. James Moore: Is it Air Canada's long-term plan to shift from an Air Canada mainline carrier that has been established to a ZIP carrier, which basically gets you out of the long-term contractual labour obligations you've traditionally had?

Mr. Stephen Markey: No, our long-term plan, Mr. Moore, is to try to be an extremely successful, profitable network carrier worldwide—the same basic underpinnings that make Air Canada the kind of successful carrier it has been for years, providing safe,

efficient service all over the world. But we have to do that in a new low-cost environment. So we need to take cost out of the airline dramatically to be able to make a profit, to be able to secure our future.

In a sense, the answer to your question is a qualified yes, but at the same time we're not suggesting we are just going to be a ZIP carrier. We're going to be a network carrier. We're going to be low cost. We're going to carry the flag proudly on our tail. But we think we have to do that in a much more low-cost way than we're currently able to do it. And frankly, that's where all of the large carriers worldwide are going.

Mr. James Moore: On page 3 of your statement here you say the high-tech meltdown starting in 2000, the economic slowdown in 2001, 9/11, high oil prices, the war in Iraq, and SARS—which isn't in here and I'm sure is a recent thing—have hurt you. Another one that is unique, I suppose, to Air Canada is your high cost of labour relative to low-cost carriers.

You do understand, I hope, the lack of sympathy a lot of Canadians have for Air Canada's situation, given that all these criteria impact every air carrier. Continental is making money. WestJet is making money. Air Canada was given the gift of a crown asset, an 80% domestic market share, almost a monopoly on travel to points east and west from the largest city centres to Europe and Asia, and it's been completely squandered.

So you do understand the lack of public sympathy for Air Canada's cause?

Mr. Stephen Markey: I take your point that there is not a lot of sympathy. On the other hand, Mr. Moore, if I may, I'd respond by saying the employees of this airline have worked diligently in the last three years to serve Canadians in the way that Canadians would like to be served.

The merger was not without its problems. It was an extremely costly merger, even though the costs at the outset were not all that substantial. It was a complicated, difficult merger to put into effect. Even until recently, we didn't have all the pieces of the puzzle in place. The simple fact is that while other carriers are making money and many of them are low-cost carriers, we have to get there somehow too. If we don't get our costs down, the airline cannot survive. Our labour agreements form and represent a fundamental part of that restructuring.

There cannot be a restructuring of Air Canada without a restructuring of our labour agreements. It's that simple, and that's why we're in the kind of CCAA process we're in today.

Mr. James Moore: Prior to your testimony here, Buzz Hargrove spoke. He represents roughly 10,000 of the 35,000 employees of Air Canada, and he's suggesting clearly that what he would like to see is government intervention, government cash to try to backstop...to protect the livelihood of his employees.

Can it be taken from your testimony that your message to this committee and to the Government of Canada is to back off and let us solve our own problems, and don't even hint at government money?

•(1135)

Mr. Stephen Markey: No. We've not sent that message, to be honest. What we have done is sought out our own solutions to the problems we have. That is why we have the financing in place with General Electric. We are confident the financing package that's been put in place and the CCAA process will lead to a strong, viable airline at the conclusion of this process. We wouldn't have entered into it if we hadn't believed that would be the outcome. We're very confident of that.

The arguments, the proposals, and the issues Mr. Hargrove has raised are very important ones. They're very important ones to our employees. But we've not put that notion on the table.

Mr. James Moore: Mr. Hargrove and the unions certainly are going into this negotiating phase with their own prerogative, as you are with yours, but there will come a point in the coming 60 days where an express pitch will be made for an express amount of money from taxpayers to help backstop the jobs he is employed to defend.

Is it your position that the government should spur any public dollars to prevent Air Canada from laying off employees that you otherwise would if there weren't government money?

Mr. Stephen Markey: No, I'm not going to say that. The reality is you're posing a hypothetical question down the road several months and we'll have to wait and see what happens when we get there.

In the meantime, we have had conversations with HRDC, a major government department, about various programs, and we will explore all available options in this process. That's what the process is all about. It's designed to put these things on the table.

Mr. James Moore: What you're saying is the unions will be asking for government money and that Air Canada will not rule out, in the coming 60 days, asking for government money?

Mr. Stephen Markey: I think that's what you're saying, Mr. Moore. I'm not saying that.

Mr. James Moore: So are you going to ask for government money or not?

Mr. Stephen Markey: We have already said we have not asked for government money.

Mr. James Moore: Will you?

Mr. Stephen Markey: I'm not going to answer the question by giving you the answer you want to hear. The reality is we are in a position now, with the CCAA process, and we'll see how it unfolds.

The Chair: Thank you, Mr. Moore.

Just to clarify the first issue, the clerk advises that when the decision was made to have these hearings in the sequence they're in, Mr. Gaspar was contacted and Mr. Milton was asked to attend. Whatever that conversation was, nothing hinges on it here, Mr. Markey, but I don't want the fact to go unnoticed that we did ask Mr. Milton to attend.

Mr. Fontana.

Mr. Joe Fontana: Mr. Chairman, I too am disappointed Mr. Milton isn't here, because three years ago he was the one who made personal commitments—I don't have the record before me—promising the country and the world that he was going to do all

of these wild and wonderful things with Air Canada and in the merger of Canadian with Air Canada and in setting up all these different things.

I must admit that this document—Stephen, I have all kinds of respect for you and Fred—is a blame document. You seem to want to blame everybody else. I understand what's happened in the world marketplace, but you want to blame the unions; you want to blame the creditors; you want to blame the government and its taxes or its regulatory program. You want to blame everybody else, but I don't see anywhere in this document where in fact Air Canada management and board have taken any responsibility for the faulty business plan you put in place.

I think James said you were given a crown asset practically debt free. You've managed to take that debt-free asset and accumulate a debt of \$12 billion.

I have a number of questions. I know the solution, you say, is you want the unions to come to the table and the creditors to come to the table. You haven't asked for government money, but you're asking for government to forego tax revenues—which is the same damn thing, in my opinion.

Let me start with what you want from us. If in fact we forgive excise taxes, or help with them and rents and security taxes and something else, what guarantee is there that the consumer is going to achieve that benefit and not Air Canada? At the end of the day, it's the consumer who in actual fact is paying for it.

Secondly, with regard to the \$650 million savings you were asking of your employees—and, yes, I agree they are hardworking people and have gone through an awful lot—I'm just wondering, because Buzz Hargrove said he had come up with \$45 million but probably could get the \$65 million, can you tell me where you were expecting the rest of the \$600 million or \$590 million of savings? Let's start with those.

•(1140)

Mr. Stephen Markey: First of all, Mr. Fontana, let me say that Mr. Milton was not aware of an invitation to appear. Just so you know, he did not have that formal invitation. Otherwise, I'm sure he would have been here.

Mr. Stan Keyes: We'll blame Fred.

Mr. Fred Gaspar (Manager, Government Relations, Air Canada): Sure, absolutely.

Mr. Stephen Markey: He's got broad shoulders.

Mr. Fred Gaspar: That's why I'm paid the big bucks.

Mr. Stephen Markey: There are no guarantees, and you would obviously consider me a fool if I sat here today and said to you if you did X, X, and Y, there are going to be guarantees in the future—if certain excise taxes were changed. We can't do that. We have no way of knowing what the future will bring, any more than we knew three years ago that we would be here today.

What we do know is that if some of these things aren't changed, the predicament for the industry will not improve. It will not get any better. We need to see some change, and that's what we're saying, Mr. Fontana. But I'm not going to pretend we have a crystal ball that is any clearer than the one you or other members of this committee have.

Mr. Joe Fontana: But you didn't answer my question as it relates to what you're asking government to do. You have to make sure people can fly. I think people have demonstrated that they're prepared to fly with air carriers that can give them service and price; that's what they're prepared to do if you give them a market.

My question is, if you want something from government revenues, what guarantees that you're going to reduce your ticket price in order to make sure the consumer benefits by virtue of what the government will give up?

Mr. Stephen Markey: We're not asking for anything specific to Air Canada. The proposals we've put on the table, we believe, would be beneficial to the entire industry. We think it's an industry problem.

Mr. Fred Gaspar: If I can, Mr. Chairman, I'll just add some clarity.

Rather than give you a promise, Mr. Fontana, we can offer you an example of where it's already happening. On the anniversary of the launch of Tango into the Canadian marketplace, Air Canada celebrated the launch of the million-plus passengers and tremendous uptake Tango had by offering a series of \$1 fares into the marketplace. Taxes and fees brought many of those fares up to around the \$95, \$98 mark, so in effect it's in Air Canada's interest. We've been trying desperately for the last two or three years to stimulate domestic traffic, and pricing is just one element of how we do that.

Mr. Joe Fontana: On that \$650 million package from labour of which \$65 million is from the CAW, can you just again quantify that for the committee? Where do you expect the other \$590 million...?

Mr. Stephen Markey: I can't give you a detailed breakdown, Mr. Fontana, but there were a lot of people focused on trying to do that over the previous six to eight weeks, since we first talked to the union executives on February 6 and put the process in place to try to get agreement by March 15. There was just an enormous amount of work that went into trying to figure out how to take \$650 million in labour costs out of the system. We'd be happy to give you more details on that in the days ahead, but I can't give it to you today.

Mr. Joe Fontana: If you could.

Can you tell me, is Tango making money? Is ZIP making money? Is Jazz making money?

Mr. Stephen Markey: Jazz is certainly not making money. Jazz lost \$90 million.

Mr. Joe Fontana: Yes, but that's because you de-marketed the hell out of it.

Mr. Stephen Markey: We'd like to think it was not because we de-marketed the hell out of it. The reality is that regional traffic in Canada fell off dramatically. It was influenced very negatively by the security charge, and I don't think there's any doubt about that. Jazz has had real challenges, along with many other carriers; it's not just Jazz.

The reality is that it's not just a matter of us not marketing it properly. We've tried to market it extremely aggressively. We tried to pull together the four different brands and put forward a brand that had universal appeal. That was a conscious decision to try to build a very strong brand.

Mr. Joe Fontana: Is Jazz still for sale? It was offered up about a month or two ago by Mr. Milton.

Mr. Stephen Markey: There is no question but that we are looking at a lot of different options and opportunities. In the process we're now engaged in we'll spin some of those opportunities onto the front burner.

Mr. Joe Fontana: Did Tango make money? Did ZIP make money?

Mr. Stephen Markey: The reality is that ZIP and Tango were for us ways of trying to demonstrate that this airline could put a product in the marketplace that would appeal to consumers and be low cost. In our view, ZIP and Tango are very effective brands within the Air Canada family and very appealing brands to the marketplace. There is no doubt in our mind that in the final analysis ZIP and Tango are not the solutions we need. We need to take cost out of the airline broadly, but they were a response by us to demand in the marketplace, and that's what we tried to do with them.

• (1145)

Mr. Joe Fontana: Perhaps you could tell the committee, how did you manage to accumulate \$12 billion in debt? If you get a chance to supply us with that information, I'd be interested in having it.

Mr. Stephen Markey: I'm sure that information is available from Mr. Peterson. Some of it was accumulated as a result of the merger, and other debt was prior to that. We'd be happy to lay that out for you.

The Chair: Will you present that to the committee?

Mr. Stephen Markey: Yes, we will, sir.

The Chair: Thank you so much, and you'll circulate that, Mr. Clerk.

We have Mr. Laframboise.

[Translation]

Mr. Mario Laframboise: Thank you, Mr. Chairman.

First of all, thank you for being here today. I am not uncomfortable with the fact that Mr. Milton is not here. I am a little bit surprised by my colleagues' reaction. We are not here to pass judgment on your company's president. That will be up to the shareholders. We are trying to see what to do with 35,000 employees who work for the largest air carrier in Canada.

If Air Canada ever went bankrupt, is there anyone who could take over the company? Are there other companies in Canada that could step in quickly and provide the same services to all users, or is that unthinkable?

[English]

Mr. Stephen Markey: We have no intention of going there at this point. We're in a process now that will lead to the orderly restructuring of Air Canada, which will lead to renegotiated agreements, which will lead to a stronger balance sheet, which will lead to a company that in our view will be more competitive, one that will be offering service to Canadians and for that matter around the globe. So we have not done any succession planning.

We don't anticipate the kind of outcome you're talking about. I think it would behoove us not to be focused on that at this point in time. There are many thousands of people who will be employed in the new airline, the new Air Canada, and our focus and our efforts at this point in time are designed to get us to that goal, nothing else.

[Translation]

Mr. Mario Laframboise: I am partly satisfied, but I personally think that there is no other company that can take your place and I am aware that the restructuring that you are doing is the best way to try to guarantee service, inasmuch as we can guarantee service across all of Quebec and all of Canada.

Of course, there will be constraints. What can you do? I have watched analysts and experts on television who prepare reports and suggest that you concentrate on the international market and drop your regional services. Do you envisage the possibility of concentrating on one sector and dropping a major part, or some part of, your activities?

[English]

Mr. Stephen Markey: The reality is that Air Canada is a network carrier, and we're a very expensive network carrier right now. What we want to be at the end of this process is a lower-cost network carrier, one still serving many markets in Canada.

It is critical that as a network carrier, an international feed carrier, we have domestic feed. While we may make some decisions about routes in the domestic market—and there have been none made in the last little while—we'll try to make them prudently and cogently in recognition of the need we have to sustain the feed for our international flights.

We're not going to that length, Mr. Laframboise, at this point. We're not looking at what happens if or when. What we're trying to do is get the carrier stable and profitable so it will employ thousands of people and offer service to Canadians.

So I'm having a little trouble getting to the point you're articulating. I don't for a moment suggest that there won't be some routes in communities that will change. On the other hand, our experience in the last couple of years has been that other carriers have formed and moved into those routes, into those communities.

[Translation]

Mr. Mario Laframboise: It is not always to the advantage of communities, but that is not the object of the debate or of my comments.

Before seeking protection under the Companies' Creditors Arrangement Act, you determined that restructuring will require that your employees participate, to the tune of 650 million dollars. Do you stand by that estimate, or has your accounting work over the

past two weeks shown that you will have to ask your employees to contribute more?

• (1150)

[English]

Mr. Stephen Markey: The reality, Mr. Laframboise, is that as we looked at our situation, as we negotiated with our union colleagues in recent weeks, we concluded that continuing to burn the furniture—to use the expression Mr. Milton has used—was clearly not a good strategy. Continuing to burn the assets of the company to support the operations of the company was not going to solve our problem. In the final analysis we were unable to secure the \$650 million we wanted in terms of cost savings with the unions, with the exception of the few I mentioned at the outset.

Going forward, we've said quite candidly to all the unions, in full night-long meetings earlier this week and for many days prior to that, that once you get into a process such as the CCAA process, all bets are off. The simple reality is that the CCAA process puts everybody on an equal footing, and we believe that creditors, bondholders, and others in this process will have a say in the outcome. To suggest that the \$650 million number would still be on the table would, in my view, be wrong.

I think the reality is that as we explore this process, evolve through it, and develop a plan everybody will support, that \$650 million number could be a lot higher.

[Translation]

Mr. Mario Laframboise: Of course, you have never asked the government for money, except after September 11th. You had asked for 2 billion dollars at the beginning, but I have to say that you have been consistent. You have asked for the same thing as the industry was requesting. Along with the ACPA, you asked for the taxes to be reviewed, for the security tax to be completely eliminated, that the excise tax, the airport rents and the airport improvement fees be reviewed. You have always been consistent.

In your report today, I see that you are telling us for the first time that there is competition with the United States. The United States provided 22 billion dollars in assistance to the industry, and you feel that in the present competitive context this hurts you, and you would like the government to set up an assistance program and a business development program so that you could buy planes, etc. As far as the rest goes, we need to be realistic. If the government has not decided to eliminate the airport security tax, it is not going to give you the excise tax, so that you can forget that. That means that there is a need for ad hoc assistance on a short-term basis. What you are looking for is the reestablishment of the Business Development Program.

Did you have a figure in mind, or is it too early? You are actually looking for a very specific assistance program to help you purchase aircraft.

[English]

Mr. Stephen Markey: We did not ask for specific assistance. I want to make that very clear. I didn't hear the minister here this morning, but I think he said that as well. We did not ask for a bailout.

We've had extensive discussions with Department of Transport officials over recent weeks. In the final analysis they put forward a bridge financing proposal that we did not need. So we took advantage of a negotiation with General Electric, and that is the package we've put in place.

When I talk about the imbalance and the North American industry, Mr. Laframboise, I'm saying that Air Canada competes against American Airlines—against all of the other full-service airlines in the United States. If you subsidize all of the big carriers in the States, as the American government has done, to the tune of \$22 billion, that puts us at a competitive disadvantage.

It's a fundamentally obvious thing, particularly if you look at the transborder market. A lot of the U.S. carriers that got relief in recent years are now redeploying their fleets into the regional market on the transborder markets, and that affects us. They probably wouldn't be around if the U.S. government hadn't supported them.

So we have not asked for anything. We have simply said to the Canadian government that it can't be unaware of the fact that we're in a competitive environment with large U.S. carriers, and it can't ignore the fact that the U.S. government has supported those carriers. We have not done anything or said anything beyond that.

• (1155)

The Chair: Thank you, Mr. Laframboise.

I have an objection to a case in point, Mr. Markey. When some of us were in Washington this week we took the time to talk to the transportation committee in the House and in the Senate. Knowing this hearing was going on, we wanted to particularly know what they were doing with respect to the assistance they were giving their airline industries in the United States, mainly because these numbers were being bandied about. They're nowhere near the \$22 billion you just mentioned, so I put that figure under some form of review.

Not to belabour the meeting, but I think we can give you some assistance as to the accuracy of what they really are doing in the United States.

Mr. Keyes.

Mr. Stephen Markey: Thank you.

Mr. Stan Keyes: Thank you, Mr. Chairman. Thank you, Stephen and Fred, for appearing before the committee.

My remarks thus far have been somewhat brutally frank, so I'll just continue that tradition with you.

I really have very little sympathy when I hear complaints from Air Canada on the cost implications of the merger between Air Canada and Canadian Airlines; how the merger was in a large part a problem for Air Canada and where they find themselves today.

As we can recall from years ago when we sat at these tables, Air Canada fought Gerry Schwartz tooth and nail, cowling and cockpit, for ownership of Canadian Airlines. They did everything and made all the promises they could make in order to get that deal. A few of us raised our eyebrows, and a few experts who were witnesses to the committee said, "I don't know how the hell they're going to do it". Gerry Schwartz on occasion said, "I'm at the max here on this stuff. I don't know how they're going to do it."

So let's clear something up here. Robert Milton recently said the model is broken. But after reading your report, Steve, to us today, I want to remind everybody it was Milton's model. It wasn't the bank's model, the union's model, or the government's model. It was Robert Milton's model. Robert Milton's model was to have this big glorious flagship carrier for Canada, making its domestic obligations and international obligations, competing internationally, and carrying the flag for us.

Now we're hearing that Air Canada is going to have to be a leaner airline, a smaller airline, and provide less capacity, of course. There will have to be cuts to wages and/or the workforce in order to make it happen, and they will probably fly to fewer destinations across the country.

So my first question is, which model are we supposed to believe is the model for Air Canada now? Is it the broken one that Milton brought forward to us with Gerry Schwartz, or the new one that says we have to get leaner and meaner?

Mr. Stephen Markey: If I may, Mr. Keyes, I won't be brutally frank, I'll just be honest and try to be candid with you in my assessment of your observations.

You reflect back on the original merger. I think the options at that point in time—remember, I came to that merger from a unique perspective, having been with Canadian—were not as attractive as a lot of people may have suspected. A lot of so-called advisers were saying if you do other things, everything will take care of itself. I don't believe that leaving, and I don't believe Mr. Milton felt, or stranding 16,000 people was in anybody's best interest, so I think the decisions were made at that point in time to merge the airlines based on the best efforts and the best understanding of the marketplace at that point in time.

To suggest that somehow nothing has changed in the intervening three years is to deny history. The whole world has changed for this airline, and in fundamental ways. It was not too long ago that terrorists flew airplanes into buildings in New York City. That has changed the environment in which the airline industry is trying to survive. For us to sit here and say the model has changed, in my view, is not a difficult statement to make. I have no problem saying with absolute comfort that the model has changed, that the model is broken.

If you look at what's happening in full service airlines around the world, they are all struggling. Look at the airlines that have gone into bankruptcy in the last couple of years.

I would argue, Mr. Keyes, that the model is broken, that what Robert has said is that the model the consumer wants today is very much a model based on the low-cost service consumers want to pay for, not the full-cost model we have. If we want to maintain that model without changing it, the outcome is very clear to everybody in this room.

•(1200)

Mr. Stan Keyes: The natural follow-up question to that is, who constructed the model to break in the first place? I bring you back to page 3 in your dissertation to the committee, the last two lines: "...the wages and work rules they"—the employees—"have secured over the years are simply, but dramatically, out of line with what our customers are willing to pay." Is this only a recent revelation? Or why did Air Canada sit down in legitimate, legal negotiations with its employees and then sign off on all the things that have literally put Air Canada behind the eight ball today? Who blew it?

Mr. Stephen Markey: I don't think anybody blew it, and, frankly, I think you are being unduly harsh and a little unfair.

The reality is—

Mr. Stan Keyes: I make one interruption and I won't interrupt you again.

Mr. Stephen Markey: That's fine.

Mr. Stan Keyes: You can't call it being harshly unfair when you have the odds on how many employees it takes to run an aircraft anywhere else in the world—numbers of around 100 to 110 or 115 people—and Air Canada has 185 people per plane. You have situations on how many managers you have compared to other international carriers and all the other models that are out there. Air Canada is bloated, expensive, with too many employees.

Mr. Stephen Markey: It's very easy, Mr. Keyes, to sit here today and look back over the last five years and with the clarity of hindsight say, "I understand how you made all the mistakes."

Mr. Stan Keyes: No, I'm not.

Mr. Stephen Markey: The reality is we are here looking at the future.

Mr. Stan Keyes: I'm not, because somebody at Air Canada blew it in the negotiation, making promises they could not keep.

Mr. Stephen Markey: We're looking at the future. That was the object of this exercise.

Mr. Stan Keyes: That's what happened, Stephen.

Mr. Stephen Markey: No, sir, I don't agree.

Mr. Stan Keyes: Contractually today—

Mr. Stephen Markey: I don't agree at all, and I think you're being very unfair in your representation of what happened.

The Chair: Thank you. The conversation on that questioning is over.

An hon. member: I'd like the answers.

The Chair: I'm sorry. I think it would belabour...unless Mr. Markey would like to give those answers. But when we're screaming at each other, no one is going to get an answer.

Mr. Stan Keyes: I apologize, Mr. Chairman. I did not mean to act negatively.

The Chair: Let me stop for a minute. What was the question—succinctly?

Mr. Stan Keyes: Stephen knows what the question was.

Mr. Fred Gaspar: Mr. Chairman, if I may, I'd like to give the committee a very brief point of reference. I think Mr. Keyes

identified, quite correctly, that the number of employees per plane carried...Air Canada is in a position right now that is certainly not competitive, where we'd like to get...I don't know what the exact number is, but, yes, we have far too many employees for the number of planes we have.

We would like to remind the committee, however, of what the economy was like in 1998-99, where it was booming on all cylinders. There was an agreement negotiated with the Government of Canada and there were conditions imposed in legislation that we not let anyone go. I don't say that to impugn blame, but we're in a situation today where that commitment only expired back in January. So, yes, we could have been a little bit less humane and I suppose we could have screamed bloody murder and fired all 16,000 employees at Canadian, but I think we tried to take a proactive approach.

The Chair: Thank you, Mr. Gaspar.

Mr. Keyes, before the hearing is concluded, I will give you another two minutes for rebuttal.

Mr. Gouk.

Mr. Jim Gouk: Thank you, Mr. Chairman.

We've heard about the concessions that you feel are necessary from unions, lenders, and the government. I would like to know what the company is doing in terms of structure, things such as its leases and the unification of its fleet. One thing that makes an outfit like WestJet so successful is single aircraft. When you walk down the ramp for Air Canada, you never know what kind of plane you're getting on, even if you're going on the same route all the time. One time you walk into the bathroom it's English/French, and the next time it's English/Spanish because you have some Argentine lease or something. What is Air Canada doing specifically, not to get concessions from others but within their own structure to turn this thing around?

•(1205)

Mr. Stephen Markey: I think that's a very important question, Mr. Gouk. We've been focused on making dramatic change in the airline. We've asked the employees of the airline to live with an environment of almost constant change since the merger. Much of that change has been designed to try to address the very issue you're talking about, which is taking up cost. We've changed the product and the service level. Sometimes we went too far. We've tried to bring the service levels back. But fundamentally we've been trying to reduce our costs. We know we're trapped in the broken model that Mr. Keyes has talked about, which is one that the consumer does not want to pay for any more. We've retired fleet types. I couldn't put a number on the number of planes that are no longer active, but we've retired the F-28s, which many of you will be happy to hear about, the DC-9 fleet, a number of 767s, and so on. So we are trying to reduce the airline's fleet. Looking forward I would argue that we're probably looking at a smaller fleet, a fleet with less gauge but perhaps more frequency, while we maintain the international network using some of the wider-body equipment.

Mr. Jim Gouk: Do you have a business plan, or will you, at some very close future date, that you can lay before this committee that says, if we get this, this, and this and we do these specific things, this would be the result? They would be doable things, not “pie in the sky” things. The business plan would show this actually working. Obviously, Air Canada is going through a lot of pain with this process. Your lenders and employees, the travelling public, the government, everybody is going through a lot of turmoil because of what's happening. Is there something you can show that says to all these people, as they continue to go through all this hardship and hassle, that there is light at the end of the tunnel, or are we just trying random things and waiting to see what happens?

Mr. Stephen Markey: No, I don't think we are trying random things and waiting to see what happens. The business plan you're talking about is part of the process of arrangements that we're currently embarked on. We believe there is a viable plan. We believe that if you take cost out of this airline and make it competitive, it can have a domestic network. We believe that if you take cost out of this airline, it will still have an international network and a transborder network that are competitive. So fundamentally that's what we're looking at. We're looking at a domestic carrier, a transborder carrier that may change in mix and size, and an international network.

But I'm not going to sit here and say to you, Mr. Gouk, that the plan, such as it is and such as it's going to be when it's developed, is cast in stone. What we need to do is try to maintain some flexibility, because we've seen in the past three years that there is no way you can predict with any degree of certainty how the market is going to evolve. So we want to be flexible and low cost, and we want to be able to respond to consumer demand. We think we can do that with the kind of product Air Canada has offered in the past and is capable of offering in the future.

Mr. Jim Gouk: Is your real future to be the be-all and end-all airline that does all the things—regional, national, transnational, and international service—or do you have a plan B that says maybe we need to become a little more targeted and turn some of those markets over to somebody else entirely?

Mr. Stephen Markey: Obviously we're working on one plan, not two. But as part of that process, we're looking at some of the options you're talking about. What the future holds in the structure of the company is not yet clear. That's what this process we're currently involved in will ultimately decide, but it could very well change in the way you—

The Chair: Thank you, Mr. Gouk and Mr. Markey.

We have Mr. Bagnell, Ms. Meredith, Mr. Cannis, Monsieur Laframboise, and two minutes for Mr. Keyes.

Ms. Val Meredith: I thought we were only supposed to go until 12.

• (1210)

The Chair: Yes, I know that, but this is maybe the most vital witness we have.

Ms. Val Meredith: Okay.

The Chair: If you'd like to leave, that's fine, but if you'd like to question, you can go ahead.

Some hon. members: Oh, oh!

Mr. Jim Gouk: I think what she's referring to is that Mr. Beddoe is at the back.

The Chair: I understand that.

Ms. Val Meredith: I thank you, Mr. Chair. Just continue.

The Chair: We're going to work through lunch.

We've just set up another meeting for 2 p.m. on something of vital importance to the committee, so please....

I apologize to the next witnesses for our extending this a few moments, but I think this is very important. The chair considers it to be very important information that we want to get.

So, Ms. Meredith, would you like to ask questions?

Ms. Val Meredith: Yes, I'd love to.

The Chair: Let's get on with asking shorter questions, and maybe have less posturing, and I think we may make some progress.

Ms. Val Meredith: It's Larry's turn.

Mr. Larry Bagnell: Thank you for coming.

I'd just like to start by saying that the employees of Air Canada in the Yukon and the former Canadian are excellent—

The Chair: Let's not go into an advertisement campaign again, Larry. Let's get to the questions.

Mr. Larry Bagnell: And of course Fred's office is great.

You can imagine my question. When Air North came into the market last year, there would of course be less market share on a limited route, but instead of reducing flights so that both airlines could make money, the strategy Air Canada used was to add capacity so that planes were largely empty. It cost Air Canada millions of dollars.

I have two questions. One, I assume that in your restructuring or business strategy, or in your new life or any successor company's new life, you would not employ that strategy again. It obviously didn't work.

Second, I hope you would confirm that you would agree with me that any involvement the government has in this as it unfolds would not prejudice the other regional carriers or the competition, like Air North or WestJet.

Mr. Stephen Markey: Thank you, Mr. Bagnell, for your compliments to our employees. I share your view.

I'm struck by your point that we added capacity; we did not. I don't know where that suggestion comes from. We have been flying into Whitehorse, either as Canadian or Air Canada, for 55 years. It has been and is an extremely important part of our network. Air North chose to compete on those routes with the support of the Yukon government. We're now reducing capacity because of that. The logical outcome of their growth is that we shrink, because the market is not all that big. So we did not add capacity; we've maintained the capacity in the season that we've flown there for several years, because we believed it was an important marketplace, and it's one we wanted to continue to serve. So I'm struggling with the notion that somehow we did something of that nature, because to my understanding we did not.

Mr. Fred Gaspar: If I might, just very briefly, I think there's another salient point to make, which speaks to the fundamental conundrum of trying to encourage competition while at the same time ensuring the viability of existing carriers.

You know, Mr. Bagnell, that immediately after the merger, when we did try to scale back the size of aircraft going into Whitehorse, we got complaint after complaint that "There are not enough seats for Aeroplan redemption", or there are not enough seats for this or not enough seats for that. There was a tremendous lobby campaign from the community for us to put more seats and flights into Whitehorse. Then another carrier came along, and it's the exact opposite: "We want you guys to scale back and to have fewer seats."

Ultimately, we would suggest that we can't have it both ways. We can't have an increase in the number of Aeroplan seats in the market while pulling back the amount of flying we do into that same market.

The Chair: A short question, Mr. Bagnell.

Mr. Larry Bagnell: You didn't answer my second question, but my short third question is this. I was struck this morning when someone said the Competition Act needs to be changed to protect Air Canada more. I'm one of those, with Anne, who believes it should actually be strengthened to ensure we have good competition.

Do you have any comments on the Competition Act?

Mr. Stephen Markey: My only comment is that I think it's fairly strong already. If you look at the track record over the last couple of years, I think there are very few instances where it needed to be applied. The simple reality is that one of the problems we have, again, with government policy is the one Fred just outlined, which is, frankly, this dichotomy. If you look at the role of the CTA, as opposed to the role of the Competition Bureau, you have it telling us on the one hand to reduce prices and on the other hand to increase prices. You can't be all things to all people. The airline is struggling with all of these inconsistencies.

So I would suggest, Mr. Bagnell, that there are many different pieces of legislation with which we're trying to cope. They're all fairly dramatic and fairly tough in their own right. I think they've done a fairly effective job of tangling us up in legal and other issues over the last three years. And I'm not sure anybody has benefited from that, frankly.

•(1215)

The Chair: Thank you.

Ms. Meredith.

Ms. Val Meredith: Thank you, Mr. Chair.

There was a suggestion here, and I'm not even sure who made it, that perhaps Air Canada should be looking at being the international carrier and getting out of the business of domestic routes. Is this being considered at all by the corporation when they're looking at restructuring?

Mr. Stephen Markey: Ms. Meredith, the reality is that Air Canada is a network carrier and there isn't a model anywhere in the world of a network carrier without a domestic network and a domestic feed system. The notion that we can somehow proudly fly internationally with the Canadian maple leaf on our tail but be subject to the whims of other airlines in Canada feeding us, in our

view, just does not work. The reality is, if we're going to have international flights, we need to have certainty on the feed, certainty on the timing of connections, certainty on the ticketing, and all of the other arrangements that go with it.

We do our best.

Ms. Val Meredith: Certainty on timing of arrival would be really nice.

With your answer, then, I have to assume that you are still planning on going head to head in competition with any other air carrier in the marketplace domestically.

Mr. Stephen Markey: The reality is we're in a deregulated marketplace, and that's precisely what the government has wanted to see encouraged in recent years. So I'm assuming, as we restructure and as we emerge Phoenix-like from this process, that we will be more competitive. That's always more competitive.

Ms. Val Meredith: Then I have to conclude that the model hasn't changed, other than you trying to get labour costs reduced. That is the only change Air Canada is really looking at. You're not changing the model of operation, but you're merely cutting back your labour costs.

Mr. Fred Gaspar: Quite frankly, we have to respond to consumer demand such as it is, not as we might like it to be. I say that quite pointedly because you're right. For instance, pick a regional route at random to discuss. If consumers are telling us they want a 12:15 flight from Flin Flon to Winnipeg and there is tons of demand on the reservation system searching for that kind of booking, it would behoove us to respond to the marketplace. And certainly, I would think, it would behoove other carriers also to respond to that kind of demand. So are we going to have a route structure that doesn't reflect where the actual demand is? No, we won't. We will respond to where the consumer demand is.

Ms. Val Meredith: The model is staying the same then.

Mr. Stephen Markey: No, the model is broken.

Ms. Val Meredith: The model is staying the same. The model you have put before the committee is exactly the same model.

Mr. Stephen Markey: The reality is that we're a—

The Chair: I think if we get a question and we get an answer, then we can ask a question again. You've asked a question. "The model is broken," Mr. Markey is trying to respond. Let them respond and then you can ask your next question.

Mr. Stephen Markey: Thank you, Mr. Chairman.

The reality is that the cost structure in Air Canada, Ms. Meredith, does not allow us to compete effectively in a low-cost world in which we are living today. We're saying that the traditional full-service, high-cost model that Air Canada represents no longer works. With our recent arrangements application, we've filed a long deposition from our executive vice-president of finance that goes into excruciating detail on the kinds of financial challenges we face, which includes the presentation we made to our union groups in February, which includes many other items that substantiate the need for change. If we don't change, the outcome is a dead certainty.

Ms. Val Meredith: So the only change is lowering the cost, which means labour cost. Does that mean the high-cost business service is no longer going to be offered? Those are the changes to the model you are telling us are being...

Mr. Stephen Markey: I think that's a little too simplistic. I can't completely agree with you.

The reality is the business model is going to evolve through these current discussions and negotiations. I think what will emerge is a viable, profitable airline that will serve Canadians in a low-cost environment with service in the transborder and international markets.

We'll do it and we'll do it well.

The Chair: Mr. Cannis.

• (1220)

Mr. John Cannis: Thank you, Mr. Chairman.

On the topic of models, that's where I'm going to pick up as well.

The Chair: That's always your favourite topic.

Mr. John Cannis: It is, because it would seem to me we're trying to figure out if the model has changed, or what has changed.

I'm just going to refer to Mr. Hargrove's comments. It would seem to me—I'm actually concluding—that circumstances have changed to cause the model to be changed.

Mr. Markey, that's really what I want to ask. I don't know if you were in the room earlier today, but Mr. Hargrove indicated that circumstances have changed. He talked about the dot-com meltdown, about major corporations, about September 11, etc., which caused things to disrupt the norm in Canada and the U.S. and all over.

Maybe you can elaborate. Mr. Hargrove said it affected the industry. Maybe you could pick up on that. That's my first question.

The other question is—and I want to ask you this as well—about regulations for competition. In my humble opinion, I can't see, when one starts to regulate, how one can then become competitive, because you're under stringent guidelines. Could you elaborate on that?

The last question, of course, is with respect to the Aeroplan program. People have been asking me about that. Are your negotiations with the airport authorities, for example, impeding your moving forward or making this model work?

That's it, Mr. Chairman, summarized pretty swiftly.

Mr. Stephen Markey: Mr. Chairman, I think I heard four questions there. I'll try to keep the answers relatively tight.

I think Mr. Hargrove was dead on and absolutely accurate in his analysis of some of the historical impacts. Your colleague Mr. Keyes and I—and I apologize again—were getting a little animated on that same issue earlier. The reality is the environment for the industry worldwide has gone from black to white in the last three years. I think Mr. Hargrove hit the nail on the head when he hit two or three of those points.

I would add more. We didn't put SARS, for example, in our submission today, because we were trying to shorten the list of bad news, frankly. But the litany seems to go on and on.

With respect to trying to regulate for competition, I would submit, Mr. Cannis, there is more than an adequate competitive regulatory environment now. Nothing needs to be done. In fact, I think it should be scaled back.

Bill C-26, which is the most recent piece of legislation introduced before this committee, is another example of detailed additional regulation with respect to both frequent flyer plans and interlining that seems to be out of touch with reality. That's not just an Air Canada point of view; it's an industry perspective.

I'm sure you'll be hearing from our colleagues in WestJet shortly. I think they will quite simply say that interlining and Aeroplan points or frequent flyer plans are not part of their business strategy. I think the industry is evolving away from some of these things.

Frankly, we're a little non-plussed by why the bill and the regulatory framework that is now being proposed is being proposed. I'm told that Mr. Collenette, when he was here earlier this morning, indicated he was looking for guidance from the committee on some of these points. I think you'll hear other people testify on some of the same issues I'm making.

With respect to the airport authorities, which I think was your last point, Mr. Cannis, it's a very difficult issue. I struggle with it because I have a bit of a Jekyll and Hyde personality on this. I come from a position in an airport authority in a voluntary capacity, so I'm supportive of the incredible dynamism that has been brought to a lot of these airport authorities that was not evident when they were run by Transport Canada.

On the other hand, as a senior officer of an airline now, I'm looking at these palaces that are being built across the country, the kinds of rents the airport authorities are being charged that lead to AIFs and other charges that we, the only customers at the airport authorities, have to endure. We're looking at a market, a revenue line, in the last three to five years that is steadily down, while our costs are going in the opposite direction, and we're saying the airport authorities are a problem.

• (1225)

The Chair: Mr. Laframboise.

[*Translation*]

Mr. Mario Laframboise: Mr. Chairman, the minister told us earlier that he was expecting comments and recommendations from us. For my part, I agree that you should support the industry in its demand with respect to security taxes, the elimination of the excise tax, the rent levels and the airport improvement fees. I agree with you on that.

[*English*]

The Chair: Ask a short question, please, and to the point.

[Translation]

Mr. Mario Laframboise: The employees are saying that they would like the government to set up a program to help with buy-outs, since your restructuring will result in employees leaving, voluntarily or otherwise. Do you believe that the government should fund a program to assist with buy-outs?

[English]

Mr. Stephen Markey: There are programs in place with HRDC and other government departments that I'm sure we will take full advantage of.

[Translation]

Mr. Mario Laframboise: For buy-outs and so on, do you feel that the existing programs are adequate?

[English]

Mr. Stephen Markey: I didn't say that. I said we will take full advantage of the programs HRDC has.

Mr. Fred Gaspar: But at the end of the day, government support for layoff packages, welcome as it would be for individual employees, would still not address the fundamental underlying problem of fees in the industry as a whole.

The Chair: Thank you.

Mr. Moore may have one short question, and then either Mr. Keyes or Mr. Fontana may close.

Mr. Moore.

Mr. James Moore: Maybe it's an oversimplification, but broadly speaking it seems that when you say the model is broken, you mean that the broad, mammoth Air Canada concept model doesn't work. You look at Ryanair, Southwest, and WestJet making money and you want in that game too. The only thing stopping you are your labour agreements, so you want to get out of them. That's all that's happening here, right?

Mr. Stephen Markey: Well, you're brutally frank, and I'm not going to acknowledge that in quite those terms. But the reality is customers today no longer want to pay the kinds of costs that an airline such as Air Canada needs to charge, so we have to take cost out. One of the ways we do that is either by the consensual process we tried with our unions to try to take \$650 million out or through a more formal process such as the CCAA. It's not the only part of the process, Mr. Moore. There are many other features to this CCAA process that we think will lead to a much stronger airline, but it's certainly part of it.

The Chair: One question, Mr. Keyes.

Mr. Stan Keyes: I'll defer to Mr. Fontana. We're running behind.

Thank you, Mr. Chairman.

Mr. Joe Fontana: Just quickly, how many employees in total does Air Canada have?

Mr. Stephen Markey: We have 35,000.

Mr. Joe Fontana: How many are management?

Mr. Stephen Markey: I don't have the number, but I'll get it for you. It's probably in the 4,000 to 5,000 range—maybe a little higher.

Mr. Joe Fontana: In the preliminary numbers I have on the \$650 million haircut you want from labour, there's about \$568 million from the men and women who service the customers and about \$70 million to \$80 million from just management.

Again, I think my previous colleagues noted that the management model in Air Canada vis-à-vis other models around the world seemed to be top heavy. I'm just wondering whether or not, to be equitable in asking certain people to take haircuts, management is also looking at shaving a little bit off the top.

Mr. Stephen Markey: Last year Air Canada management voluntarily took pay cuts. Air Canada management has been focused for the last several years on trying to make this airline work. Let there be no doubt in anybody's mind that every single management person in this company gets up every day trying to figure out how to make it work, and we will continue to do that.

In the current circumstance, Mr. Fontana, you're probably aware that Mr. Milton has said he's going to make a reduction in the management workforce of 20%. So one of the two of us will not be here in the months ahead. A 10% reduction was the original forecast, although that forecast is no longer as definitive as it was in the consensual process we started as we went into the CCAA process. So I think the management team in this company is prepared to step up to the plate, and we have stepped up to the plate.

Mr. Fred Gaspar: Very quickly, if I may, just to provide understanding—

The Chair: Thank you.

I want to thank Mr. Markey and Mr. Gaspar, but I just don't want to leave this without carrying on with a very important line of questioning that Mr. Cannis had. We know, I hope, that this committee, in transportation issues, always tries to look to the future to see where there are going to be problems. We know there's an undercurrent of resentment growing within the transportation industry about the relationship of the airlines with the airport authorities, the rentals, and so on. We know that's coming up.

You're in a marvellous position, Mr. Markey, inasmuch as you realize how—

• (1230)

Mr. Stephen Markey: We're having trouble finding that right now, Mr. Chairman.

The Chair: But you are in a remarkable position, inasmuch as you realized how much it cost Canadian Airlines to move from a very functional Terminal One into Terminal Three at a critical time when they could ill afford to move into Terminal Three. You're now faced with the same dilemma with another airline, which is now going to go from a terminal maybe not as functional as it should be, but a very efficient Terminal Two into something, I would appreciate maybe sometime in the future, that will be a very expensive structure—or you're anticipating going, or maybe being forced to go.

We don't need an answer on it today, but I want you to understand, and I want Air Canada to understand, and I want the other airlines to understand, that this is an issue this committee is going to address.

Mr. Stephen Markey: I couldn't be more pleased, Mr. Chairman. I think the mandate of the committee to include that kind of deliberation is very important. The piece of legislation that will come before the committee, if it's not here already, is a critical piece of legislation.

Frankly, these issues, which are largely cost issues, are ones the airport authorities are to some extent driving for us. If we could figure out a way to tackle all of those, it would be a very constructive part of the deliberations you're undertaking, because they are important; these are huge costs. Air Canada's costs alone as a result of all of the airport authority improvements will go up by an order of magnitude probably in excess of \$500 million.

The Chair: Mr. Gaspar, thank you very much for coming. I want you to know that these hearings will be ongoing, obviously, and we're extending an invitation now formally, under whatever record we have here in the House of Commons, asking Mr. Markey to bring Mr. Milton.

Thank you very much.

Ladies and gentlemen, I've just checked with our next witness. Rather than have the confusion of all of us slipping in and out while we're having lunch, we're going to take ten to fifteen minutes at the outside. Mr. Beddoe and his witnesses, we have lunch on the other side. Whoever else is invited to have lunch, come on in and grab something to eat. We're going to take fifteen minutes and try to get back here. I don't want you to have indigestion, but let's try to speed it up.

• (1232) _____ (Pause) _____

• (1252)

The Chair: Ladies and gentlemen, thank you. We've had an opportunity to rest and refuel.

Our next witness is from WestJet, the president and chief executive office, Mr. Beddoe. Welcome, and thank you very much for coming, Mr. Beddoe.

It's on short notice, but we know the committee is very much interested in what you have to say to them. You can help us to form the recommendations this committee will be making in the House of Commons, to the administration, and to the powers that be, hopefully to come to some resolution of the difficulties some of us find ourselves in during this period of time, difficulties from which you are obviously excluded—for a while.

Mr. Clive Beddoe (President and Chief Executive Officer, WestJet): I sincerely hope for a long time.

Mr. Comuzzi, thank you very much indeed for inviting me to come here. Members of the panel, I'm very flattered that you should seek our opinion.

It is my understanding that you are really interested in hearing what the viability of the airline business is on a going-forward basis. I can tell you that there's absolutely no reason the airline industry in Canada should not be viable. We have been viable.

We started WestJet just over seven years ago. We started with just \$28 million of paid-in capital from a number of shareholders, including the Ontario teachers' pension fund. We started with three

airplanes in a very, very competitive environment with two significant carriers that were determined to put us out of business from the time we started. We started flying to four cities in western Canada and hired 220 people to do it. We bought three airplanes. We had no debt when we started.

Today, in the course of seven years, we've grown the company to a point where we have 36 airplanes now. We have made a total profit as retained earnings in the course of our history of some \$135 million. We made \$52 million profit last year as we cashflowed about \$125 million, so we can be profitable even in the most competitive environments.

I would point out that we lived through the 9/11 event, and we were profitable in that quarter in that year. We have lived through all the things Mr. Milton has complained about.

That's not to say that we haven't had to adjust what we've done. You will recall that we spoke out very forcibly against the introduction of the security tax. It was Mr. Milton, actually, who complimented the government for introducing the security tax the day it came out simply because he knew it would be detrimental to us. But now he's changed his tune and says, oh no, now we have a problem with the security tax.

We had to adjust to the security tax. We saw our traffic, just as Air Canada did, decline by 30% to 40% on some routes. What we did was we took capacity out of those routes until we reached a point where an equilibrium was re-established and those routes were profitable again.

We've had to adjust to a number of different competitive responses from Air Canada and Canadian. Notwithstanding that, we've been able to be successful.

The key to our success, quite frankly, has been relatively simple. It's the same formula Southwest has used and it's the same formula Ryanair, JetBlue, and easyJet have used. It's the new model, if you like, Air Canada is endeavouring to emulate, but that new model has a lot to do with how we fly our airplanes.

More importantly, it has to do with how we deal with our people. We've aligned the interests of our company with those of our people and the interests of our people with those of the company. All our employees are profit sharers of the company. All our employees, or virtually all our employees, buy stock in our company and have done very well because of it. All our employees work very diligently to make sure our company is successful. We have no acrimony in our organization; we have nothing but enthusiasm and energy to make sure we're successful in what we do.

Our employees have done very well from this. They are very committed, even in down times. When our stock has not performed as well as it did or when our profits have been down, our employees do not abandon us and turn on us. They just go out and work more diligently and come up with more creative ways to solve our problems.

We run WestJet with about 75 employees per airplane. To some people that may sound like a lot, but I would point out that 36 of those people are flying crew. The rest are support staff, maintenance staff, ground staff, and so on. Air Canada runs with about 180 employees per airplane. The average U.S. carrier in the United States, in our opinion, runs with something around 115 employees per airplane. They are very much more efficient than ever Air Canada is. Canadian was exactly the same. If you plotted the efficiencies of the airlines in Canada against the efficiencies of the airlines in the United States, Air Canada and Canadian would come out right at the bottom of that process.

Because of the success we've had and because of the way we have constantly driven to improve upon efficiencies and costs, we are probably the lowest-cost producer of airline seats in North America. Our cost per seat mile, which is the key to our success, is around 9¢ on an equivalent basis to Air Canada's 18¢. Cost per seat mile is very much a function of stage length. Our average stage length is in fact only 600 miles or so; Air Canada's average stage length is about 1,200 miles. Their annual report last showed their cost per seat mile at about 18¢ a seat mile. Just to put that in perspective, 30% of that cost is labour; it's about 6¢ per seat mile. Even if their labour was free, they could not come close to achieving our costs.

• (1255)

So it isn't just a labour issue. The issue is much more one of structure, of what Air Canada is and what it's become.

The hub and spoke operation simply doesn't work the way it used to. The hub and spoke operation of an airline is extremely expensive. Why? Because—and you've all seen this whenever you've landed at a major airport as a hub—when you land there, you'll see dozens and dozens of airplanes all lined up. Why? Well, because you've arrived at a bank, a bank being the arrival point of a number of different airplanes coming together.

The reason that happens is that our industry needs connecting traffic into our system. We too have connecting traffic: 40% of our traffic goes not just from A to B, as people imagine, but from A to B to C and sometimes on to D. In order to get people to do that, you have to accumulate a number of aircraft at various points, and they're traditionally called hubs.

In Air Canada's case, they'll have fifty or sixty airplanes potentially converging on a hub, including not only their own but also their alliance partners, their feeder network, and so on. If you have fifty or sixty airplanes trying to connect together and you have one or two runways, you can imagine that it takes half an hour to an hour to get those airplanes on the ground, a similar amount of time for them to depart again, and then an extensive period of time in the middle where there has to be a huge interchange of people, bags, and cargo in order for these aircraft to depart again with an adequate load. That whole process requires enormous numbers of people to be there to support that process.

Immediately after those airplanes have left, they all sit around doing nothing. There is nothing to do until the next bank of arrivals occurs. So the hub and spoke system by itself, by definition, creates an unbelievably inefficient system that requires large numbers of highly paid people.

In order to support that, they historically needed high fares, and the system worked fine until deregulation came along in 1978 in the United States, in 1988 in Canada, which allowed people like ourselves, Southwest, JetBlue, and so on to spring up. What we do is, through having a very efficient system, we are able to fill airplanes by having low fares. What we have done is to undermine or in a sense destroy the whole yield structure in Canada.

I'll give you an example. Our highest fare between Calgary and Toronto for a non-stop flight on a brand new airplane on a walk-up basis is \$399 one way. Air Canada's walk-up fare is \$1,326. They simply cannot compete against this type of revenue, this fare structure that's come into play. They have to change what they are, they have to downsize, and they have to create what I would call a value proposition for their product. They're a high-cost producer.

Mercedes-Benz is a high-cost producer of cars. They don't go around trying to sell cars at Volkswagen prices. Air Canada has to do the same thing, but unfortunately the leadership of Air Canada has come to the conclusion that the only way they can operate is through domination. What we have battled for the last seven years is a drive by Air Canada to put us out of business by flooding the market with seats, by undermining our costs and undermining our revenue base. Fortunately, the public at large has not responded to that very favourably, and we have been able to survive and prosper notwithstanding those sorts of pressures.

I'm convinced that Air Canada today cannot—cannot—continue to be what it is right now. They have to change. They have to create a value proposition for a higher-value product, and that's the only future they have, which means substantially reducing the size of what they are. Unfortunately, that will mean in the short term fewer flights on many routes, and it will mean some higher fares on a number of routes until the marketplace adjusts to that reality. But they cannot continue the way they're going, in my opinion.

I would like to point out that we do now have 36 airplanes. We are growing at the rate of one airplane a month. Each airplane we add to our system costs us around \$50 million, and notwithstanding that we're still able to make money. By the end of this year we will have 44 airplanes in our fleet and something in excess of 50 airplanes by the end of next year.

With that, Mr. Chairman, I'll be happy to take some questions.

• (1300)

The Chair: Thank you, Mr. Beddoe.

With the permission of the committee—Mr. Beddoe has a flight—we're going to try to speed up the process. If nobody minds, we'll give you five minutes so each of us can have some questions for Mr. Beddoe.

We'll start with Mr. Moore.

Mr. James Moore: Thank you very much, Mr. Beddoe, for being here today and certainly for telling us your story. We all know it, but it's obviously very impressive to get updates, as you seem to succeed where others are having problems, even though you have the same problems they cite for their failures.

Does it bother you, rhetorically, when you hear the Minister of Transport, and we had one Liberal member of this committee today, call Air Canada, Canada's flagship carrier?

Mr. Clive Beddoe: It doesn't bother me. I can see some need for a national airline, and, quite frankly, I would love to be able to look up to Air Canada with respect and say we would like to emulate what they are. Unfortunately, in today's environment, I don't think any of us can do that. But I do think there is value in having a national flag carrier. However, I do not believe they have to be all things to all people.

Mr. James Moore: You enumerated some of the things the government should do that we in the Alliance have certainly been fighting for, for a long time—elimination of the air tax and all those things. Air Canada has enumerated those things as well. But there's a different question I want you to consider. There are a lot of things that have been put on the table and speculated about as some things the government might do to assist Air Canada, that may singularly help Air Canada because of their size and nature. So I wonder, of all the things you've heard as potential solutions to be proffered to Air Canada, what are some things you think the government must absolutely rule out considering?

• (1305)

Mr. Clive Beddoe: I would be vehemently opposed to any type of bailout, where they're simply handed a cheque. As somebody pointed out, this is a company that was handed over to management debt free 14 years ago, and look what they've done to it. I don't think handing a cheque to Air Canada will work, and I don't think handing a cheque to Canadian worked—twice, I think, in the history of Canadian airlines. Giving them a cheque is not going to be the solution. They have to be encouraged to restructure and recreate who they are and what they are, and they cannot escape the fact that they are a high-cost producer of a product.

Mr. James Moore: As a point of interest to my last question, I read not long ago that WestJet collects and disseminates air miles now. It has for a little while. Can you compare that relative to Aeroplan, simply as a point of information, and how that impacts your business plan?

Mr. Clive Beddoe: We do not issue points to frequent flyers. What we do have is an arrangement with the Air Miles card—that's the blue and white card—and with American Express, such that you can accumulate points with them. You can burn those points with us by making bookings through American Express and through Air Miles. They, in turn, buy seats from us.

We do not actually have a loyalty program, but we do make our seats available to those who provide loyalty programs.

The Chair: Thank you.

Mr. Bagnell.

Mr. Larry Bagnell: This morning—

The Chair: No commercials this time.

Mr. Larry Bagnell: No. One witness, and it wasn't Air Canada, suggested, and much to my shock, that the Competition Act was too strong, that to help the airline industry in Canada, we had to weaken the Competition Act with respect to airlines. Could you comment on that, please?

Mr. Clive Beddoe: I fought tooth and nail to have the Competition Act strengthened. We have filed one complaint under the Competition Act. We chose one sampling route in order to try to establish some precedent under the Competition Act. We chose the Hamilton-Moncton-Toronto routing where Air Canada increased capacity by some 50% and dropped fares by 50% and undermined our fare structure in order to try to drive us out of business, in our opinion, off the route.

That process started about three years ago and is still continuing. It probably will take another year and a half to two years before it's finally resolved. So the Competition Act simply does not work as it's set up today.

What we lobbied for, if you recall, was some penalties under the act, because prior to our involvement there was no penalty at all under the act. But to put this in perspective—even the penalty of \$10 million that's in there right now—it's our belief that Air Canada has already spent over \$10 million on legal and professional fees fighting this whole issue. So how big a penalty is \$10 million?

I don't think the act is strong enough. You have to recall, it applies equally to us as it does to Air Canada.

Mr. Larry Bagnell: Do you believe there would be a strong airline industry in Canada if competition were open to act freely and fairly in Canada? And is there anyone that has inhibited you or that you think has affected your company by not acting freely and fairly in keeping a competitive market in Canada in the airline industry?

Mr. Clive Beddoe: There's no question in my mind that Air Canada and Canadian both endeavoured to kill us. We have a Canadian Airlines employee working for us now who told us that Canadian budgeted \$100 million to get rid of us, and I'm sure Air Canada did similarly. Is that fair or not? I don't know. But to withstand that sort of onslaught, you do have to be very well capitalized and have a very low-cost structure, and, quite frankly, provide a really good quality of service, because anybody can put a cheap seat out there, but if you're not on time and if you don't reunite people with their bags after the flight, you're not going to be in business very long.

The Chair: Thank you.

Monsieur Laframboise.

[Translation]

Mr. Mario Laframboise: Thank you, Mr. Chairman.

Would you say that Air Canada's size has helped you expand? Obviously, they had a cost structure, obligations under the law, obligations to provide regional services until September 2002 and therefore additional expenses that you did not have. Would you say that the higher cost structure at Air Canada made it possible for you to be a lower-cost air carrier?

[English]

Mr. Clive Beddoe: Certainly, our lower cost structure is exactly the reason we are successful. However, I do not believe the obligations that are imposed on Air Canada really played a part in that process. For example, if you take a look at our route map, we fly into little places like Comox, a community of only 25,000 people, and have done so profitably since we started there. We started and launched flights into Abbotsford when nobody had ever dreamed of doing so. We went into Hamilton. We fly into communities, Sault Ste. Marie and Sudbury with jet service, that Air Canada does not. That's a far more expensive service than Air Canada has.

I don't believe for one minute that the issue is one of the size of the company. A significant part of it is the size of their debt load. A significant part of the problem is that Air Canada has.... I'll give you an example. We went into Abbotsford five or six years ago with three or four flights a day. We were profitable there. Even though we were a monopoly in Abbotsford, we were charging the same fares between Calgary and Abbotsford as we were between Calgary and Vancouver. Air Canada couldn't stand the thought of us being in there and decided to go after us. They came in there with three flights a day to try to undermine our viability.

Well, the people of Abbotsford have actually been very supportive of us. We've been flying out of there with 70% load factors notwithstanding this. But Air Canada has been flying out of there with 30% load factors for the last two years, roughly speaking. We count their passengers. Now, 30% load factors, when your break-even load factor is 80% means you're going to throw away a huge amount of money. The fact remains that that's where a lot of their loss is and it is where a lot of their problems come from, the desire to be dominant, the desire to drive others out of business and with no consequences as to what it costs.

Another point I'd like to make is that if you look back to the battle with Onex, Onex was trying to do for Air Canada exactly the same thing Air Canada was trying to do. Why was it then that Air Canada should be justified in spending \$1 billion of their own money buying back the stock in order that what? That Mr. Milton should run it instead of Mr. Schwartz? That was \$1 billion that was utterly wasted. That was buying back stock at \$18 a share because two egos were involved. That's all it was.

Look at the cost structure you talk about today. A lot of those cost structures emerged and are there today because of a mismanaged organization, in my opinion.

• (1310)

[Translation]

Mr. Mario Laframboise: What concerns me is that there are quite a few companies, not only here in Canada, but elsewhere, including in the United States, that have put themselves under bankruptcy protection. So, this will surely lead to a restructuring of those companies. Basically, you are advising them, if I heard you correctly, to have a personnel-to-aircraft ratio that would be similar to yours. I have made some quick calculations. Air Canada has some 35,000 employees, 185 employees per aircraft. If Air Canada were to adopt your cost structure, their labour force would drop to 14,200. That would mean some 20,000 employees would be laid off.

Let us suppose that all those companies, in Canada as well as in the United States, in restructuring their operations under bankruptcy protection, were to adopt a cost structure similar to yours. I'm not so sure you would be able to survive the result of that. Having to compete with other companies whose cost structures are much greater than yours has allowed you to be fairly successful.

Now, I see no problem in discussing what Air Canada could do, but I would also like us to discuss what the federal government might do for your industry. Indeed, if through restructuring those companies become much more viable with respect to their cost structure, you would all have to be able to survive in that new environment, and it is in that sense that government should conduct an in-depth analysis of security fees, airport fees, rental costs, and all of those other costs you have been clamouring against without ever getting an answer.

[English]

The Chair: You have one more minute left for the answer, please.

Mr. Clive Beddoe: I take your point, but I think the issue is that.... You asked me where the government can help. In my view, you have to understand that the market for air transportation is highly elastic; when we've gone into markets and dropped fares by 50%, we've seen the market grow by 300%. In other words, the lower fares stimulate people to travel. They get out of their cars and fly on airplanes, or they get off the couch and start to fly, instead of not travelling and not visiting friends and relatives, or not doing business.

By putting all of these taxes on top of those airline tickets, the additional charges de-stimulate the market. They de-stimulated the market right across Canada—in some markets very, very severely. The danger with that process is that you're going to have the fixed costs associated with airports now having to be spread over fewer and fewer passengers, which is going to lead to a spiral. The airports will then have to increase landing fees because they're getting fewer landings. They will get fewer tubes of passengers, and they'll have fewer airport improvement fees. So they'll have to jack up those charges to cover their fixed costs, which will further de-stimulate the traffic. This is the spiral that occurred back in the late 80s, a spiral that I think you need to be very concerned about. If it does not stop, we need to reverse the process. Fortunately, with the reduction of the security tax, we did see the beginning of some new confidence come back and some people starting to travel again, but we really have to bring those charges down.

It was we who actually pioneered the idea of selling a ticket for a dollar, so that people could see what the additional charges were.

We pay 30% more for fuel in Canada than our United States counterparts do. That's very de-stimulative to our marketplace. We need to be able to stimulate the traffic, to get businessmen and communities travelling between each other so that they can actually create economic activity.

• (1315)

The Chair: Thank you.

Mr. Keyes.

Mr. Stan Keyes: Thank you Mr. Chair.

I just want to thank Mr. Beddoe for appearing as a witness. It's a refreshing success story in our day-to-day....

Mr. Beddoe, the Milton model that we've been talking about all day today meant that we saw Tango and Jazz competing against you. I think your Abbotsford example is probably best, but in this model, didn't he also have these airlines competing against himself?

Mr. Clive Beddoe: Yes, he did. There were many ads, which we had pinned on the wall, where you'll see an Air Canada price for a destination and in the same paper at the same time the same destination is being advertised by ZIP and Tango at lower prices.

Mr. Stan Keyes: On the Calgary-to-Toronto route, for example, you would even see an Air Canada flight, a Tango flight, and a Jazz flight all leaving Calgary at about the same time for Toronto.

Mr. Clive Beddoe: You wouldn't see Jazz, because Jazz is the short-haul commuter, but you would certainly see Tango and Air Canada.

Mr. Stan Keyes: Or maybe it was ZIP. I'm not sure which one it was.

Any business, particularly the airline business today, is only as successful as its people. I have flown on Air Canada and on your own airline, WestJet, and I have to tell you that I noticed a distinct difference in the attitude of the people who work at WestJet as opposed to Air Canada. Air Canada employees are paid well, but so are WestJet employees. But why is there the difference in their attitude?

Mr. Clive Beddoe: We're very selective about who we hire. The most important part of our culture is participation and commitment. We take the view that if we're profitable, then our employees should share in that profit. The more we're profitable, the more of that profit they should participate in. Last year we paid out just over \$15 million in profit-sharing to our employees, which represented a cash bonus to them of about 24% of salary.

Our profit-sharing formula works like this: if we made a 10% margin, which, by the way, is five times more than the historic margin of this industry, then we would take 10% of that margin and pay it to the employees. If we made a 15% margin, then we'd take 15% of that margin and pay that to the employees. If we made a 20% margin, we'd take 20% of the margin and pay it to the employees. If we make a 100% margin, we don't give 100% to the employees. The maximum is 20% and the minimum is 10%. So it's an exponential increase. It's a fourfold increase in profit sharing between a 10% margin and a 20% margin. Clearly, "profit" becomes a very honoured word. It's something that everybody in the company pursues avidly, and they know how it's produced. We make sure they understand what their contribution is toward that profit and how important is one extra passenger on board, the importance of having people come back, and the importance of customer service.

Over and above that we ensure that our employees are stakeholders in the company. Our employees for the most part are buying stock in the company. For every dollar they put into the company, we match it dollar for dollar, up to 20% of their salary. This doesn't come for nothing. Our cash salary expense formula is 95% of the median salary paid in the industry. So we ask our employees to be paid somewhat less in cash on the front end for the benefit of profit sharing and stock ownership on the back end. This

creates a much more entrepreneurial and committed employee and attracts that type of people. Last year we had 49,000 people apply to come to work at WestJet. We hired 875.

So the formula does work. It's a new formula. It's a different formula. But it also gives us a flexible cost structure so that in bad times, as our margins go down, our total cost goes down because the amount we're paying out in profit sharing goes down. It has created a very interesting model.

• (1320)

The Chair: Thank you, Mr. Keyes.

I will go now to Mr. Gouk.

Mr. Jim Gouk: I was fortunate enough to have a lot of my questions answered by Mr. Beddoe during a casual conversation over a quick bite during the break.

The Chair: When you were disturbing his lunch.

Mr. Jim Gouk: Whatever it takes.

I've long maintained, and we've certainly discussed it in this committee, that when Air Canada was privatized and had its debt all but wiped out, it started predatory action right then, and they have carried that on throughout their history. When we privatized CN Rail, this committee, including many of the people who are here now, discussed that very point, the problems that were created in the airline industry by Air Canada going out without debt and the need for CN Rail to take a reasonable debt load out with them so that they weren't in the same position in relation to CP Rail. I'm very glad we did it that way, and I think everyone involved in it is very happy with that.

Mr. Beddoe, you mentioned that you saw the need for Air Canada to change its model. What sort of future do you see potentially for Air Canada? What kinds of specific things does it need to do to get to that point?

Mr. Clive Beddoe: I've mentioned this a number of different times. My view is that they have to differentiate their product from our product. They have a high-cost structure. They have to differentiate that product.

The best way to do that is to provide bigger seats, more leg room, Internet connections, laptop recharging capabilities, points, lounges, all the things that the high-cost supplier is prepared to pay for, but not to the point where you have to charge \$3,000 in a business class seat for it. But if you could charge 30% or 40% more than WestJet for those services, I'm absolutely certain there would be an abundant number of people who would buy that service. After all, you see ample Mercedes being driven around the city. You don't just see Volkswagens. My view is they have to recreate themselves as a higher-value proposition product where somebody would say, I'm going to spoil myself today; I'm going to fly Air Canada to Toronto.

Mr. Jim Gouk: They actually have two handicaps in doing that. One, of course, is this cost structure, which you yourself have talked about. It's going to take quite a bit to change that structure significantly.

I remember sitting in business class on one of their planes reading an article by, of all people, Robert Milton, who was whining about how they are losing all their business class passengers. I'm not that big, but my feet were touching the seat in front of me. I was trying to do some work. The person in front of me put their seat down, and it closed my computer, literally. I could not open my laptop to 90 degrees without it touching my chest.

Given the way they have been operating, with that kind of service at times, they have been pushing their way out of that kind of market, you say. With the cost structure they have right now, do you really think it possible that they could reinvent themselves into that from their existing situation?

Mr. Clive Beddoe: Absolutely. Not only do I think it's possible, but BA is doing just that in Britain. They have created a different model. They've recognized that they cannot be all things to all people. They've taken themselves out of the short-haul markets. They've decided they have to be a high-value proposition carrier, and they're succeeding doing it. But they've had to shrink. That market is not as big.

The Chair: Thank you, Mr. Gouk.

We're going now to Mr. Fontana.

I want you to know, Mr. Beddoe, before you go any further, that Mr. Keyes is from Hamilton and Mr. Fontana is from London, where you have recently introduced service.

Mr. Joe Fontana: We both appreciate the service and the competition we have. More would also be welcome.

Mr. Beddoe, I appreciate your insight into the industry. I think some of us understand the problem with the Air Canada model, and obviously they're paying the price for that. I think the marketplace is brutal when in fact the model fails, and the reward and the....

Obviously, your model is working for you, and I'm not sure it's up to this committee to try to decide a model for the private sector. I think it's for them to do so. Their shareholders, their management, and everyone there has to decide what's good for them.

It's when the private sector or one company starts to ask the government for certain things. That's where we are involved, or where I think we ought to be is to look at what model is there for Canada that can ensure that we can have an airline industry that is going to serve the community.

You have indicated that the hub and spoke model may or may not be working, or probably is not working in the new reality of things. But we have a very large country. An awful lot of communities want air service. You can't be there all the time. Air Canada surely is going to have to be dropping an awful lot of service to certain communities. Therefore I'm wondering, within the new model for Canada that will allow airlines to be able to flourish and complete and essentially bring service to all communities in Canada, what would be the ingredient parts?

There are some that say we have to reregulate capacity. There are some that say we ought to protect Air Canada, bail them out, put the money, because they're the only people who can provide a national airline service to all Canadians. There are those who say the

government needs to take away taxes as a way of getting more and more people to fly and help the total industry.

What parts within the purview of the government should we be doing to help the airline industry in the country, the customers, and the communities, and what parts should we not do that in fact are only to one particular private sector company?

● (1325)

Mr. Clive Beddoe: To answer your last question first, I do not believe you should be bailing out anybody. I think what you should be doing is ensuring that taxes are reduced. The tax burden on the airline industry is unbelievably high.

Just to put that in perspective, we generated about \$2 billion in gross revenues since we started flying—gross revenues. We have \$135 million of retained earnings but have paid out \$550 million of various types of taxes.

That is unbelievably high. I do not believe there's an industry anywhere that comes close to that. That is incredibly high. We're paying for services that we've already paid for once before, over and over again.

Getting back to your point about the small communities, I have no doubt at all that capitalism is a wonderful thing. If small airlines, charter carriers, had the confidence that Air Canada is not going to come along and wipe them out the moment they start up, I can absolutely assure you, if there's demand from small communities, give it time and there will be—particularly today, because there are lots of cheap aircraft out there—ample service provided by start-up airlines like Hawk Air, for example, Calm Air, or Bearskin Airlines. They'll expand to fill those voids if there's demand and if they can be comforted that they're not going to get wiped out the moment they start up.

Let me go back to some simple mathematics for you. I mentioned at the beginning that the airline industry has historically made a margin of about 2%. If you look back over the history in time, it's about 2%. Let's try to put that in perspective for a minute.

Take an airplane with 120 seats on it that flies with a 75% load factor. That's 90 seats occupied. If the margin that airline is producing is 2%, 1.8 people on board that airplane are making its profit. So it's very easy for the incumbent carrier to simply put a flight right on top of that flight. Drain two, three, four, or five people, and you've taken away any chance for that carrier to survive. Give protection under the Competition Act to prevent that happening and you'll see all kinds of airlines spring up.

Mr. Joe Fontana: In the absence of having, say, one national carrier that can do everything for everyone, we have a whole bunch of WestJets and Jetsgos and so on, and that might be the solution too.

What regulatory stuff will we need? Will we need to interline? How are we going to make it possible then for a person, say, to be able to get on a WestJet, then go to another airline, then go to another airline and be able to ticket it once, to make sure this baggage flows as freely and as securely as possible?

I'm wondering what regulatory framework would be required between airlines in order to make sure this can happen.

•(1330)

Mr. Clive Beddoe: I can absolutely assure you none. It will happen. If there isn't a month for that to happen, it will happen.

Today, for example, we could start flying into Salt Lake City and effectively establish, without the consent of Southwest Airlines, a de facto interline agreement with Southwest simply by putting on our website "Southwest link". You can book us to Salt Lake City and take Southwest to Albuquerque.

Mr. Joe Fontana: The boarding place will do that.

Mr. Clive Beddoe: No, the Internet has radically changed what's happening in the airline business. We've only recently, in the last three and a half years, offered our services on the Internet. Today over 60% of our seats are sold on the Internet. Within a year or two that'll be 75%.

Our cost of distribution on the Internet is about 13¢ a seat. So I can tell you versus the cost of a GDS system, which collectively costs you in the order of \$10 or \$12 by the time you've....

Mr. Joe Fontana: Your new customers, as you say, are probably taking WestJet perhaps from the west to Toronto to get on an international carrier. They're making those choices. They're doing the linkages that suit them.

Mr. Clive Beddoe: We didn't even know it was happening until KLM told us about the degree to which we were actually feeding KLM out of Vancouver. We had no idea. It works.

The Chair: Thank you, Mr. Fontana.

Mr. Gallaway.

Mr. Roger Gallaway: You raise an interesting point about airports, because I use your airline out of Hamilton all the time. I live in Sarnia.

Quite frankly, I was tired of the long trips. The flight was taking me eight hours to get here, by flying Air Ontario then Air Canada. It was quite regular. I can now get here in three hours. That includes an hour and a half of driving from Sarnia.

As you're aware, this committee is soon going to be having hearings regarding the Canada Airports Act. This is probably not all about the Canada Airports Act.

Air Canada and Canadian Airlines also were premised, as you pointed out, on this hub and spoke idea.

Yet I think most members of Parliament travel a fair amount within the country certainly. There's a lot of construction going on. So what's the interaction, the interface? What's the discussion between airlines? For example, when I think of the simplistic but terribly effective situation at beautiful Hamilton International relative to these apparent mausoleums that are going up at Pearson, what does it mean for the airports?

Essentially, we don't even know who the tenants at these airports are going to be at Pearson, certainly at Terminal 2, or what they're going to look like. There's a huge project going on here at Ottawa. There's a huge one perhaps completed in Vancouver. The building is going on everywhere. What is the connection between the building and the needs of the airlines, and more importantly, the needs of the

passengers? Is there any thought put into this, or is this just a lot of people spinning in orbits?

Mr. Clive Beddoe: I think the biggest problem with the airports has been that they're now unregulated taxing authorities, with no accountability to anybody. We have virtually no input into how much or how fast the airports develop their terminals. In fact, we vehemently opposed a lot of the development that has taken place. We've said it's too much, too fast, and it's all predicated on a straight-line projection of traffic growth.

What we've done, for example, is rather than a build a hub and spoke operation, we've built a spiderweb. We still have 40% of our traffic as through or connecting traffic, but we've built mini-hubs around the countryside. So Winnipeg has become a mini-hub. We have connecting traffic in Kelowna, and in Ottawa and Hamilton. So we don't rely on one huge hub where there's a vast amount of congestion.

That's not to say those hubs aren't going to be still valuable, and they're still going to be there. They're just very expensive to operate. What you need to do, as we have done, is to take a lot of the traffic away from those hubs and move it into more efficient, smaller communities, so that our network becomes more one of a spiderweb, as I said, rather than a dumbbell type of operation.

As to the future of those airports, I think they'll still need the facilities. My apprehension is to the degree and whether or not we have ourselves a huge burden of debt attached to most of those airports, which is now going to be very difficult to repay unless we keep the traffic flowing, which comes back to my point about getting rid of these other taxes as much as possible to ensure that you don't have a problem in a year's time or so with a whole bunch of bankrupt airports on your hands—because that may well happen.

•(1335)

The Chair: Thank you, Mr. Gallaway.

I now have Mr. Cannis, if you care to participate.

Mr. John Cannis: I don't know very much about WestJet, but I'm impressed with how you've come along to be a Canadian success story. It's odd for me to sit here and say, why can't we have a viable airline industry throughout the country?

But I do want to ask, you don't fly right across the country, I presume.

Mr. Clive Beddoe: Yes, we do.

Mr. John Cannis: You do.

Do you fly internationally as well, or is it just domestic?

Mr. Clive Beddoe: No. So far, we just fly domestically—but give us time.

Mr. John Cannis: Your staff is unionized as well, I presume.

Mr. Clive Beddoe: No, we are non-unionized, but we have our own employee association.

Mr. John Cannis: Okay.

I don't know if you were here earlier when the CAW presented their argument or their points of view in terms of the models. A representative from Air Canada was here as well, and we talked about the broken model and so on. You've offered us some insight about how some things could change, but could you, in a brief summary, tell me...?

I'm sure you want to see a competitive airline in Canada, both Air Canada and yourselves to compete fair and square. If you had to put out one statement, what would be the magic formula to help?

First of all, Mr. Beddoe, I accept the fact that there were circumstances—SARS, September 11, the economy overall, the war. We could talk about these until we turn blue. These have happened in the past and, God forbid, most likely will happen in the future to some degree.

It's difficult for me, representing my riding and Canadians who come to me and say, every time an industry goes bad you have to go and dish out x amount of money, you have to provide concessions, and so on.

You're a business. Tell me why the government should always come to the aid of businesses that can't run a proper business, first. Secondly, what would you suggest is a magic formula to have a viable industry?

Mr. Clive Beddoe: I wouldn't be conceited enough to tell you I know the magic formula in a few words. I can tell you what you do need to do is to ensure fair competition.

You're right, we do need to see—and I would love to see—a profitable Air Canada. I think if it understood what its niche was and concentrated on that niche, we could all be profitable and we could all be viable.

We need an industry that can attract capital. Our failure rate in the airline business North America-wide is 97%. I think in the U.S., from 1978 to 1996, there were 152 airlines started; 152 went broke.

Mr. John Cannis: On attracting capital, foreign investment—

The Chair: Mr. Cannis, I'm going to have to interrupt you. Mr. Beddoe has an airplane to catch, and we have one quick question from Mr. Moore.

Thank you.

Mr. James Moore: I have a quick question, Mr. Beddoe.

I believe you're going to start flying into Montreal shortly. Is that correct?

Mr. Clive Beddoe: Yes, on April 24.

Mr. James Moore: Air Canada is the only air carrier in the country that, because of the Air Canada Public Participation Act, has to abide by the Official Languages Act. I have mentioned this to the minister a number of times, that if the minister believes in official bilingualism, as I do, then all air carriers should have to comply evenly with the Official Languages Act.

You don't have to abide by the Official Languages Act, and you're flying into Montreal. Can you tell me what you're doing to provide bilingual service?

Mr. Clive Beddoe: I didn't know we didn't have to, but I can assure you that we are going to be. We already have a bilingual website. We've had bilingual announcements on our airplanes ever since we started, as a requirement by Transport Canada. There's no differentiation between us and Air Canada on that point, that I can see.

Mr. James Moore: What guidelines are you following? Are they mandated by the government, or are you going by what the market demands or by what you think customers need?

Mr. Clive Beddoe: We're doing what we feel is appropriate, given that we're going into a very bilingual environment.

The Chair: Thank you, Mr. Moore.

There were some questions that my colleagues didn't ask you, Mr. Beddoe, so I'm going to...

Foreign ownership—your thoughts.

Mr. Clive Beddoe: Foreign ownership would be a disaster, I think, at this time. I can't see it. If it's bilateral.... I'm sorry, you're talking about foreign ownership limits. I thought you were talking about cabotage.

The Chair: Yes, I'm sorry.

●(1340)

Mr. Clive Beddoe: Foreign ownership? Quite frankly, there's ample capital in Canada to fund this industry. When we went public, our public offering was eight times oversubscribed by Canadian institutions wanting to buy stock. I don't believe for one minute there's a need for increased foreign ownership.

The Chair: Thank you.

Do you anticipate in the future going into American markets?

Mr. Clive Beddoe: Absolutely, about 18 months away.

The Chair: Thank you.

Under the CCAA, you realize...of course, we haven't seen the numbers yet, but there's about \$80 million worth of accounts payable by Air Canada into the airports and navigation and so on. Partly because there was going to be at one time a unilateral contribution by the taxpayers of Canada to one single airline, which I think this whole committee opposes, would you construe that as just a hazard of business, that we may not see a great deal of that \$80 million owed to the airports and navigation systems in this country? Although it's a concern for all taxpayers, it's simply what happens when you have bankruptcy protection.

Mr. Clive Beddoe: My concern would be that there's going to be an endeavour to recover that \$80 million from the remaining viable airlines in Canada. I think that would be a great pity. If there is to be any support for the industry, maybe that's one area where there could be some support, so we would not be penalized by what I consider to be Air Canada's mismanagement of their affairs.

The Chair: So we should be cautious about how the navigation systems are going to recover those losses.

Mr. Clive Beddoe: Absolutely. And also be cautious about how the airports recover it too.

The Chair: Okay. Then, to take care of the next issue, the next witness, can you give us a comparison of what you pay, in round figures, if you care to, your 737 pilots...? And we'll find out what Air Canada pays its 737 pilots.

Mr. Clive Beddoe: A captain working for us, a mid-range captain, would make about, in cash, \$90,000 a year, plus stock options that would be worth about another \$40,000, plus profit-sharing that has averaged about \$20,000 on top of that, plus a stock purchase program that would be worth in the order of another \$20,000 on top of that. He would fly 80 hard hours a month, which would mean actually at the controls flying the airplane. I don't mean duty hours.

The Chair: Is there anything else you want to tell us your pilots have to do that other pilots don't have to do?

Mr. Clive Beddoe: Everybody in our company helps clean up the airplane, including myself, when we land.

The Chair: I've noticed that.

Mr. Clive Beddoe: We make that part of our policy, and we save about \$6 million a year doing that.

The Chair: Is there anything else?

Just one other thing. You know, I fly with you a couple of times a week, at least. I'm 6' 5" and I don't always get the exit row. Do you have any plans to put two or three rows in, just with a little...?

Some hon. members: Oh, oh!

The Chair: At about the exit row, with the exit row spaced?

Mr. Clive Beddoe: We are reviewing our leg-room issue at the moment, but—

The Chair: It doesn't have to be throughout the airplane—most people are comfortable—but a couple.

Mr. Clive Beddoe: I'll take it under advisement.

The Chair: Thank you.

Mr. Clive Beddoe: I think that's the right political answer, isn't it?

The Chair: I can tell you the very worst seat you can get on the airplane. It's the front row, over where the body turns. That's the smallest one on the plane.

Ms. Meredith.

Ms. Val Meredith: I just wanted to thank you, WestJet, for coming to Saskatoon because we had no service until you came. They didn't realize there was a need from the City of Saskatoon to the capital city here. You put that flight on and I appreciate it.

Mr. Clive Beddoe: My pleasure. Thank you.

The Chair: I know, Mr. Beddoe, that you have to go. If my history is correct, you've got about 25 minutes to get to the airport, and I know the plane you're catching.

Thank you so much for coming.

Mr. Clive Beddoe: Thank you, sir.

● (1345)

The Chair: I apologize, we're running 45 minutes late.

I welcome Mr. Johnson, president of the Air Canada Pilots Association; Captain Bélanger, special adviser; Mr. Middleton, director of labour relations; and Mr. Parnell, the chair... Mr. Parnell is missing. Oh, there you are.

Thank you, gentlemen. You've seen the process we go through. Would you like to make a submission?

Excuse me, I need a motion to accept the report because we're in such... All in favour?

(Motion agreed to)

The Chair: Thank you, Mr. Laframboise, and you'll give us a report in the French language.

Captain Johnson.

Captain Donald Johnson (President, Air Canada Pilots Association): Thank you, Mr. Chair and committee members.

My name is Captain Don Johnson. I am president of the Air Canada Pilots Association and we represent the 3,400 pilots flying for Air Canada. I want to thank you for the opportunity to be here today to make our presentation.

I have with me today, Mr. Paul Middleton, director of labour relations, Captain Bob Parnell, chair of our negotiating committee, and Captain Jean-Marc Bélanger, my special assistant, who will make a presentation, and we will answer your questions at that time.

Thank you.

[*Translation*]

Captain Jean-Marc Bélanger (Special Advisor, Air Canada Pilots Association): Mr. Chairman, members of the committee, thank you very much for giving us this opportunity to present our views on the problems we are presently facing, not only at Air Canada, but throughout the air transportation industry in Canada.

My presentation will be in three parts. First of all, I will outline six suggestions that have been put forward not only by us, the Air Canada pilots, but also by a coalition of five unions representing over 30,000 Air Canada employees. You will see that they more or less deal with the same issues that were brought up by Mr. Hargrove and the Air Canada people.

The second part of my presentation will deal with the problems at Air Canada. We will also be talking about the relationship between Air Canada and the federal government, as well as the pressures and constraints we are experiencing at Air Canada as a result of market forces on the one hand and government policy on the other.

Finally, I will discuss what we, the Air Canada pilots, have already done to try and respond in an intelligent manner to the financial difficulties our company has been experiencing for the last two and a half years, now, and also what we plan to do in the future.

[English]

You'll see, Mr. Chair and members of the committee...and I don't want to speak for the other members of our union coalition. You've heard Buzz Hargrove today, and you'll have other unions, I understand, who will come and talk to you about the need for the federal government to be involved in any event in a number of areas that we're all suggesting. They're essentially the same points.

The airport rents: you'll see in our brief that we have some information for you in a document. We hope it's going to be useful. I think we're providing information that you haven't seen yet today at these hearings.

Airport rents have been increasing by more than 400% in this country in the last seven years. Our airline alone is providing \$250 million worth of rent money. Very little of that money is coming back to the industry, is being reinvested in the industry. We think that needs to change, not only for Air Canada but for the whole airline system.

We've talked about the excise tax on fuel. What was not talked about is the precedent that occurred before with airlines, like Canadian Airlines, and I think it would be a valuable tool to help an airline in trouble, like our airline at this time.

The security tax issue—

•(1350)

The Chair: Perhaps I might suggest that you keep your presentation short. You can do whatever you want, but we would sure like to hear what the pilots' views are. We know everybody's views with respect to the cost of fuel, the taxes, and the rent. But we're interested in the pilots' perspective of what we've got to do to correct.... We know all that other stuff. What do we have to do...the people who drive the cars—

Capt Jean-Marc Bélanger: Well, I'd rather talk about the people who fly the planes, Mr. Chairman.

The Chair: That's what I mean.

Capt Jean-Marc Bélanger: If you'll be patient with me, I'm almost finished with these initial points, and then I'll be moving on to the crux of the presentation.

The security tax fund hasn't come out yet, but why would we charge our passengers moneys for security measures that are being administered in Frankfurt and Tokyo? And we're charging those passengers more than we do on domestic flights. It is the position of all the unions that we shouldn't charge any moneys at all for that security system, because we're not only protecting pilots, flight attendants, and passengers in the air, but we're also protecting citizens on the ground. So we think it's a matter of national security.

The only thing I would like to add on NAV CANADA, which you can read in our docket, is correspondence from our CEO, Robert Milton, talking about the qualified technological equipment funding that will be available to NAV CANADA and that will bring in

another \$200 million. We, the Air Canada pilots, support that initiative, and so do the other members of our coalition.

One thing that was not touched upon very much is the obligation of Air Canada to provide services in accordance with the Official Languages Act. I'll leave that for the last part of my presentation.

But I've just covered the six points that all unions were in agreement with and which you've heard before.

Moving on very quickly, I'd like to dispel some misconceptions, if I may. We hear a lot in the media about analysts and members of Parliament and politicians who say that Air Canada is a private company and that our problems, or what has been occurring recently, are of our own making. I guess if you want to believe that view you have to sublimate all of the problems that have been occurring in the last two and a half years, the combinations of terrible events that have created this perfect-storm syndrome for all of the airline industry—especially for full network carriers. And when you point the finger at how poorly run or how inefficient Air Canada is, you're pointing an accusing finger at 35,000 employees who provide safe, economical, efficient, and on-time service in this country for our fellow citizens. We hear a lot of Air Canada bashing, but that perception flies in the face of how we are perceived outside of this country by our peers in the industry and our customers.

Air Canada is viewed as one of the best airlines in the world in what we do. At Air Canada and at Canadian Airlines we have received awards for being the best airline in North America; numerous technical awards of excellence; customer service awards; and our safety record is one of the best in the world. We have to bridge back to some of these positive tones, because all that our employees and pilots hear right now is negativity. We do not want to lose track of the fact that if we keep harping only on the negative stuff, it has a major impact on our fellow pilots and the employees. There's some good, positive stuff about what we do for our customers in this country. I hope it's not a Canadian trait that we are criticizing what is good about some of our best national assets, and I hope it's not what we're going to be doing here. We need to be proud and elevate what we do best—and in some areas Air Canada is the best.

For example, we keep talking about simple math. I just heard the simple math that the number of employees per airplane was up to 180. I don't know how that number came up, Mr. Chair, but I'd like you to get your research department to look into it. Mr. Beddoe and Mr. Keyes talked about it. We now fly 240 airplanes at Air Canada and we have 35,000 employees, so a simple calculation indicates that the ratio right now is 133. Today we're flying 60,000 passengers a day. We're set up to fly 80,000 or 90,000 passengers a day, so we're set up to handle more. We've just parked 30 airplanes. If you keep the same number of employees and you add 30 airplanes, the ratio will go down to 115. Let's have the real numbers.

When we fly airplanes from Val d'Or, Thunder Bay, or Tokyo, we fly them on anything from a turboprop regional airplane to a jumbo 747 in the Air Canada family. We do that effectively and efficiently. Last week we had on-time performance of more than 90%, which was unequalled in North America. Again, I want to give you some positive vibes about what is working at Air Canada.

We are a heavily regulated industry, which Mr. Beddoe just said. But it is even more so at Air Canada, because of the nature of our standards of having to be an international as well as a domestic airline.

• (1355)

I will talk later on about the restrictions imposed on us by the Air Canada Public Participation Act.

When our management deals with the transportation agency or the Competition Bureau, it's ironic that sometimes the pressure is to raise the fares or lower them, depending on whether we are deemed as price gouging or engaging in predatory pricing.

Regarding Bill C-26, which Mr. Markey talked about, I don't know what the aim of our government is. Is it to reduce the domestic presence of Air Canada? Is that what the aim is? That interlining proposal—which was supposed to be only a position paper but has now made its way to the Senate—forces participation in our Aeroplan loyalty program. We're going to shrink this airline domestically by half.

I just want to tell you, nobody talked about Pan Am and TWA. This is exactly what happened to them—fantastic international carriers that lost their domestic base and ended up in bankruptcy. An international carrier needs a domestic feed.

I've heard a lot of blame going around about labour costs, financing costs, government fees, and taxes. I'd rather take the tack of finding a way to work through the CCAA together to try to take this airline out of the doldrums and let it be all it can.

The Air Canada pilots, recognizing there was a financial problem in our company, right away, two and a half years ago, reduced our number by 440 pilots—almost 10% of the workforce—through attrition. We've reduced our flying hours by more than 14%. Flying hours mean wages. The Air Canada pilots have taken a reduction in wages in the order of 14% in the last 18 months.

Our labour costs—and you'll see the numbers in our brief—are right now hovering around 30% of total operating costs. That's all the employees of Air Canada. We're right on the mark. We're below the average of all North American airlines, including Southwest.

We've allowed the introduction of a ZIP carrier. When we talked about the model being broken, please don't tell me you think a WestJet or a Southwest model is going to work between Montreal and Paris or Vancouver and Tokyo. It just ain't going to work. The seat pitch will not work, the kind of service...it will just never materialize.

Where the model is broken is where our airline is trying to compete with the low-cost carriers. How are we doing that? ZIP. Air Canada pilots. We made wages and work rule concessions. Our Air Canada pilots—and thank you for giving me the heads up for the question—make less than WestJet pilots if you do total compensation comparisons.

We've allowed an increase to 20 aircraft, and at the table, on the negotiating committee, we may increase that number even higher in our collective agreement. Why? To help our company respond to the demand for more low-cost seats on the market—not to drive Mr.

Beddoe and WestJet out of the market. Mr. Beddoe would like us to stay out of that market, of course, because we're starting to be a threat. We're starting to be efficient. We're starting to compete on equal terms.

Well, you gentlemen from western Canada, have you seen the ads on ZIP—fantastic, refreshing? One pilot e-mailed me the other day that there was 100% load factor on four flights in a row at ZIP. We're starting to get market share back. People want that. We're providing it on our terms.

Mr. Chairman, committee members, I would like to ask you to please be our partners, because labour cannot do this alone. It's not just a question of labour doing all the work. We need to be partners in this. The pension issue is grave. There is a direct attack on our pension, not only for the CAW and the other unions, but also for the ACPA pilots. We have pilots who have just retired. They're going to lose a big part of their pension if we don't—

• (1400)

The Chair: I don't want to cut you short, sir, but you're not allowing us to ask questions. You've already—

Capt Jean-Marc Bélanger: I'm almost finished, Mr. Chair.

The Chair: You've talked for well over 15 minutes.

Capt Jean-Marc Bélanger: I apologize.

The Chair: The normal time we allow is 10 minutes.

Capt Jean-Marc Bélanger: My apologies. I'm speaking from the heart, Mr. Chair, and I'm almost finished.

The Chair: Well, go ahead, but we're going to break at 2:15 for question period and then we're going to reconvene here at three o'clock. I don't want to...I'm just trying to run the meeting properly.

Carry on.

Capt Jean-Marc Bélanger: Well, I was going to make an appeal for your help. We need your help. We can't do this alone.

The Chair: That's why we're here.

Capt Jean-Marc Bélanger: We appreciate our chance to contribute to the debate.

Our Canadian passengers, as you know, feel they've already hit home in Canada when they board our airplanes in Hong Kong, São Paulo, or Tokyo. We are proud of wearing the name of our country and having the maple leaf on our tail.

We'd like to ask you to help us in our quest together to take this airline to new heights.

[Translation]

In closing, Mr. Chairman, I would just like to discuss the possibility of getting funding with respect to Air Canada's obligations under the Official Languages Act.

As you know, we have an obligation to serve our clients on the ground and in the air in both official languages. Minister Dion recently announced additional funding on the order of \$750 million over the next five years. Both the employees and their unions will be meeting with Mr. Dion next week. I wanted to inform you of that development, because I wouldn't want each side to keep passing the ball back and forth, or have one department shuffle it off to another, because we feel this is important.

The services Air Canada is providing in both official languages cost some \$12 million per year, and contrary to what Mr. Beddoe, from WestJet, was saying, WestJet does not provide bilingual services. They only have a recording on emergency measures in order to comply with Transport Canada rules.

So, I thank you very much for your attention. We would now be pleased to answer your questions.

[English]

We're willing to respond to any of your questions.

Thank you very much for your attention.

The Chair: Thank you, Mr. Bélanger. Does anyone else on your panel want to make another contribution before we start the questioning? Mr. Middleton, Mr. Parnell, Mr. Johnson? No.

Mr. Moore, please.

Mr. James Moore: Thank you very much.

The Chair: We are at five minutes.

Mr. James Moore: I'll be brief.

I appreciate you raising the point about bilingualism on the air carrier. I raised the exact same point in the House, that Air Canada has a \$12 million obligation to provide bilingual services, and I was called anti-bilingualism for saying that Air Canada was the only carrier that had to provide that service. If the government's going to mandate bilingual service, it should do it on a level playing field for all air carriers and not require it of just one. If it believes in the principle of bilingualism, it should do it for all. So I agree with you on that.

There is one question I want to ask. United Airline pilots have made some concessions. United Airline pilots were making, on average, \$205,978 U.S. a year for working nine days a month, and they have since made concessions. I know that isn't on the scale of Air Canada pilots, but what is the pay scale for Air Canada pilots? What's the minimum and the maximum? Second, when you say "help us", what do you want taxpayers to do?

Capt Jean-Marc Bélanger: I'll answer your second question first. First, we want to make sure the suggestions we have made for helping the whole industry are being heard and acted upon. That is the first thing you can do to help us out.

Outside of that, if we're going to lose our pensions and be in the fight of our lives, maybe the government can help us out by making sure we don't have to do that.

Third, I'm not going to comment on the wages of a United Airlines captain. Those reports may or may not be accurate. All I can tell you is that we at the table here feel we're compensated

adequately for the contribution we make to the airline. If you want to come with me and watch me land a 150-tonne jumbo jet in Torbay or St. John's in bad weather, and then land in zero visibility and fog in—

Mr. James Moore: I respect absolutely the work you do, but if you're going to ask taxpayers to bail out Air Canada, either by giving concessions, tax breaks, or so on, don't you think it would be congenial—

Capt Jean-Marc Bélanger: I'm sorry, Mr. Moore, but we're not asking for a bailout. We're just asking the government to do the responsible thing.

I wish our Minister of Transport had the same enthusiasm for the airline sector as he's shown for the rail sector. Those are the kinds of things we're looking for—nothing else. We don't want a free handout, just a fair contribution.

Mr. James Moore: On my final question, going back to the bilingualism issue, you say it costs Air Canada \$12 million. Can you elaborate briefly on the kind of money you say Air Canada is negotiating with Stéphane Dion for?

● (1405)

Capt Jean-Marc Bélanger: Air Canada is not; the unions are, sir.

Mr. James Moore: Okay.

Capt Jean-Marc Bélanger: Air Canada tried to get some money, but it's been turned down. We think it's important.

If there is going to be money spent by the taxpayers to promote the use of our official languages, Air Canada does that. Air Canada has the biggest private language school in the country. It spends a lot of money training people, not only in French but in Spanish, Japanese, and all that. But we think we are owed a little bit of that money because we are doing that—just showing the flag and promoting official languages. We're proud of doing it.

Mr. James Moore: It's the law.

Capt Jean-Marc Bélanger: We could do a better job if we had a little bit of funding.

Mr. James Moore: That's law, not goodwill, but you're right.

Capt Jean-Marc Bélanger: It is goodwill, sir. We're doing it with pride.

The Chair: Thank you, Mr. Moore.

Mr. Keyes is next.

Mr. Stan Keyes: Thank you, Mr. Chairman.

By no means is anyone on the committee underestimating the value of the work done by any of the employees at Air Canada. We just want to try to evaluate, and we can only do a fair evaluation if we can make comparisons that are accurate.

So I'll put the question again. What is the average wage of an Air Canada pilot?

Capt Jean-Marc Bélanger: It starts at \$30,000 a year. It can go as high as \$150,000, \$200,000 a year, depending on your status, where you fly, and what equipment you fly. The question is that we are consistently...and you'll see the numbers, in terms of productivity, of cost-per-seat mile for the flying group—

Mr. Stan Keyes: These are quick questions that I have for some quick answers.

You are telling me that there's not an Air Canada pilot who makes over \$100,000 a year?

Capt Jean-Marc Bélanger: No. It could be on average a little over \$100,000. Some of our pilots make more than that, but it's a small percentage of our pilots.

You asked the same question of Mr. Beddoe a little while ago. He gave you numbers of roughly \$170,000 a year for his captains. Our rate is around \$160,000.

Mr. Stan Keyes: His calculations include wages and profit sharing, etc., so you can't compare apples to oranges.

Capt Jean-Marc Bélanger: In our brief we compare total compensation packages.

Mr. Stan Keyes: Whoa! Can I ask these questions?

Is the remuneration you are paid strictly hard-stick hours per month, or does that include layover time between flights? Is it true, for example, that if you are stuck between flights and you're waiting in the airport, for every two hours you wait you receive one hour against your monthly total?

Capt Jean-Marc Bélanger: There are provisions for that. In the busy times, as in the summertime, we have no downtime paid. In these times right now, we're overstaffed because we're parking airplanes. So, yes, there is a minimum amount of hours; we can be paid during the day. It's part of our collective agreement.

Mr. Stan Keyes: Yes. That's fine. It's part of the collective agreement. It's all negotiated. I have no argument with that, Mr. Bélanger. That's great.

Capt Jean-Marc Bélanger: I'm not trying to be defensive. I'm trying to give you a good answer.

Mr. Stan Keyes: It sounds like it, but that's okay.

What's your hard-stick time a month?

Capt Jean-Marc Bélanger: It's a management number. I know that as a 767 captain I only fly hard time. When I fly 80 or 85 hours, I have no other guarantees at all.

Mr. Stan Keyes: So you're 80 to 85 hours a month?

Capt Jean-Marc Bélanger: Well, not any more, sir, because that's our contract. We've just reduced our wage and our flying hours by 14%. We're down to around 73 hours a month now to help our company...instead of laying off pilots and down-training and retraining. We don't only have one type of airplane. It's a complex business when you have different types of airplanes.

Mr. Stan Keyes: I agree whole-heartedly with you. If you're flying a piece of Jazz equipment or you're flying a 747 to Paris, it's a whole different ballgame of responsibility level, etc. So you won't get any argument from any of us, I don't think, on that.

Mr. Bob Parnell (Chair, Negotiating Committee, Air Canada Pilots Association): Mr. Keyes, I'd like to add something.

I want to put things into perspective because people always criticize us when we say we are flying 80 hours a month. People think it's 80 hours of work. You can easily double that in terms of time we put in, in order to fly those 80 hours. I would suggest that our work month is 160 hours monthly to fly 80 hours, which is fairly much what everybody else in the country works in terms of 40 hours a week.

Mr. Stan Keyes: Just to state our perspective of what I heard you say, I have to reiterate that we're not in a situation now where it's the government's decision how large or how small Air Canada is going to have to be, or what the new model of Air Canada is going to have to be. That's going to be a decision that Air Canada is going to have to make to satisfy its creditors, the banks, and all the players who are asking Air Canada to... If debt, debt equity, and the amount of money lost daily is what we're talking about today, these are the people who want to see the business plan. The Minister of Transport has said it himself: "We are responsible for taxpayers' money. We will do what we hope is in the best interest of the taxpayer. If Air Canada needs the government's assistance, we're prepared to be there for Air Canada, but that doesn't come holus-bolus. That assistance is going to be there when it's demonstrated to us, on behalf of the Canadian taxpayers, that there is a business plan at Air Canada that's going to work. So as not to put the cart before the horse, we're prepared to help, but we can't just"—as some of our colleagues say—"give corporate welfare to one airline having difficulty when there are other airline success stories in the country, and even internationally." So once we see the plan and see what the direction is, if Air Canada is in need of assistance, the federal government is prepared to be there.

Just on the last point, Mr. Chairman, Mr. Bélanger mentioned competition in the smaller markets and pointed to WestJet specifically. Mr. Beddoe has never said he isn't prepared to go head to head in competition in the smaller markets with Air Canada, or anyone else, as long as it's fair and not predatory competition, and as long as Air Canada obviously isn't flying a Jazz-sized aircraft into Abbotsford to compete with WestJet, knowing full well that it is only moving the plane out of Abbotsford with a 30% load and is clearly losing money hand over fist to do it, because they have Daddy Air Canada, with money, who is prepared to pick up the slack. Obviously, Air Canada has done that too often, which is part of the problem.

• (1410)

Capt Jean-Marc Bélanger: Mr. Chair, I fail to hear a question, but I'm going to make a comment and ask you a question back, Mr. Keyes. Surely, you must realize that your policy, the policies of the federal government, are impacting our ability to react to the marketplace.

Mr. Stan Keyes: None of us deny that.

Capt Jean-Marc Bélanger: The example of a \$1 giveaway fare ended up costing our customers \$99. Those are the kinds of things you need to consider.

Mr. Stan Keyes: That's why we're having these hearings, to hear how the government can help.

Capt Jean-Marc Bélanger: Thank you, sir.

Mr. Stan Keyes: But the federal government can't help those who will not help themselves.

Capt Jean-Marc Bélanger: We stand ready to be a partner in that.

Mr. Stan Keyes: Thank you, Mr. Chairman.

The Chair: Thank you, Mr. Keyes.

We're going to adjourn, because there's something sacrosanct here, which is question period.

Gentlemen, I apologize for asking you to come back, but we're going to reconvene these hearings at approximately five minutes after three.

Mr. Laframboise, you are the first on the list, followed by Mr. Bagnell, Mr. Gouk, and Mr. Gallaway.

Thank you.

MAIL  POSTE

Canada Post Corporation / Société canadienne des postes

Postage paid

Port payé

Lettermail

Poste-lettre

**1782711
Ottawa**

If undelivered, return COVER ONLY to:
Publishing and Depository Services
Public Works and Government Services Canada
Ottawa, Ontario K1A 0S5

*En cas de non-livraison,
retourner cette COUVERTURE SEULEMENT à :*
Les Éditions et Services de dépôt
Travaux publics et Services gouvernementaux Canada
Ottawa (Ontario) K1A 0S5

Published under the authority of the Speaker of
the House of Commons

SPEAKER'S PERMISSION

Reproduction of the proceedings of the House of Commons and its Committees, in whole or in part and in any medium, is hereby permitted provided that the reproduction is accurate and is not presented as official. This permission does not extend to reproduction, distribution or use for commercial purpose of financial gain. Reproduction or use outside this permission or without authorization may be treated as copyright infringement in accordance with the *Copyright Act*. Authorization may be obtained on written application to the Office of the Speaker of the House of Commons.

Reproduction in accordance with this permission does not constitute publication under the authority of the House of Commons. The absolute privilege that applies to the proceedings of the House of Commons does not extend to these permitted reproductions. Where a reproduction includes briefs to a Committee of the House of Commons, authorization for reproduction may be required from the authors in accordance with the *Copyright Act*.

Nothing in this permission abrogates or derogates from the privileges, powers, immunities and rights of the House of Commons and its Committees. For greater certainty, this permission does not affect the prohibition against impeaching or questioning the proceedings of the House of Commons in courts or otherwise. The House of Commons retains the right and privilege to find users in contempt of Parliament if a reproduction or use is not in accordance with this permission.

Additional copies may be obtained from: Publishing and
Depository Services
Public Works and Government Services Canada
Ottawa, Ontario K1A 0S5
Telephone: 613-941-5995 or 1-800-635-7943
Fax: 613-954-5779 or 1-800-565-7757
publications@tpsgc-pwgsc.gc.ca
http://publications.gc.ca

Also available on the Parliament of Canada Web Site at the
following address: <http://www.parl.gc.ca>

Publié en conformité de l'autorité
du Président de la Chambre des communes

PERMISSION DU PRÉSIDENT

Il est permis de reproduire les délibérations de la Chambre et de ses comités, en tout ou en partie, sur n'importe quel support, pourvu que la reproduction soit exacte et qu'elle ne soit pas présentée comme version officielle. Il n'est toutefois pas permis de reproduire, de distribuer ou d'utiliser les délibérations à des fins commerciales visant la réalisation d'un profit financier. Toute reproduction ou utilisation non permise ou non formellement autorisée peut être considérée comme une violation du droit d'auteur aux termes de la *Loi sur le droit d'auteur*. Une autorisation formelle peut être obtenue sur présentation d'une demande écrite au Bureau du Président de la Chambre.

La reproduction conforme à la présente permission ne constitue pas une publication sous l'autorité de la Chambre. Le privilège absolu qui s'applique aux délibérations de la Chambre ne s'étend pas aux reproductions permises. Lorsqu'une reproduction comprend des mémoires présentés à un comité de la Chambre, il peut être nécessaire d'obtenir de leurs auteurs l'autorisation de les reproduire, conformément à la *Loi sur le droit d'auteur*.

La présente permission ne porte pas atteinte aux privilèges, pouvoirs, immunités et droits de la Chambre et de ses comités. Il est entendu que cette permission ne touche pas l'interdiction de contester ou de mettre en cause les délibérations de la Chambre devant les tribunaux ou autrement. La Chambre conserve le droit et le privilège de déclarer l'utilisateur coupable d'outrage au Parlement lorsque la reproduction ou l'utilisation n'est pas conforme à la présente permission.

On peut obtenir des copies supplémentaires en écrivant à : Les
Éditions et Services de dépôt
Travaux publics et Services gouvernementaux Canada
Ottawa (Ontario) K1A 0S5
Téléphone : 613-941-5995 ou 1-800-635-7943
Télécopieur : 613-954-5779 ou 1-800-565-7757
publications@tpsgc-pwgsc.gc.ca
http://publications.gc.ca

Aussi disponible sur le site Web du Parlement du Canada à
l'adresse suivante : <http://www.parl.gc.ca>