



House of Commons  
CANADA

## Standing Committee on Transport

---

TRAN • NUMBER 024 • 1st SESSION • 38th PARLIAMENT

---

EVIDENCE

**Monday, May 2, 2005**

—  
**Chair**

**The Honourable Roger Gallaway**

All parliamentary publications are available on the  
"Parliamentary Internet Parlementaire" at the following address:

**<http://www.parl.gc.ca>**

## Standing Committee on Transport

Monday, May 2, 2005

• (1545)

[English]

**The Chair (Hon. Roger Gallaway (Sarnia—Lambton, Lib.)):** We will start the meeting. We have with us Mr. Scott McFadden, who is president and CEO of the Thunder Bay International Airports Authority.

Mr. McFadden, welcome. We apologize for the delay. It's Monday. What can I say?

We would ask you to limit your comments to a brief period of time, and then we'll have questions. We have only half an hour. Please proceed.

**Mr. Scott McFadden (President and Chief Executive Officer, Thunder Bay International Airports Authority):** Thank you, Mr. Chairman, and thanks to the committee for allowing me the time to make this short presentation.

You've probably heard most of the points I have to make from other airports and other people in the industry, but we like to think Thunder Bay is a rather unique airport, just as all the other airports in Canada like to think they're unique as well. That's indeed one of the points I'd like to make.

I have a couple of things in my deck. One is some information about the Thunder Bay Airport and our governance structure, and what we're calling the "low-cost airport model".

I have some information on air liberalization, because I'm not so sure you've heard much from smaller communities with regard to that. My personal feeling is that many smaller communities, smaller airport operators, don't necessarily understand what air liberalization is all about. I don't understand all of it either, but I have some concerns about that.

Then I have a few points to make about smaller airports and their community.

As far as governance is concerned, in Thunder Bay we've adopted the Carver policy governance model. Recently we had a five-year review of the airport authority, which is mandated under our public accountability principles. The consultant, in not so many words, described our governance process as an explicit formulation of delegated authority with strict accountability.

Basically what happens is that my board holds me accountable to operate the airport by telling me what I'm not allowed to do. That enables the organization to basically do everything else. Under that basic philosophy we have been quite successful.

There are a few fundamentals that are important. One is that we should not lose sight of the fact that airport authorities are not-for-profit organizations. Basically, this means that airport authorities are motivated to act in the best interest of their communities—values created for communities as opposed to shareholders—and each airport has its own unique challenges and priorities. There is indeed no significant public pressure or suggestion that airport authorities the size of Thunder Bay should be further regulated. In fact, the Thunder Bay Airport has won several community awards, including an award from the Ontario Chamber of Commerce in 2003.

On the low-cost airport model, Thunder Bay is, again, somewhat unique. We're the only airport in Canada to have eliminated its airport improvement fee. We also have the lowest fees and charges in the country. The reason we've done this is basically because our economy, unfortunately, is not experiencing a lot of growth, and we have recognized that growth in the air travel industry is directly linked to the price of air travel.

On slide 7 I have a pricing comparative, which demonstrates our prices compared to several other airports in Canada. Also, even though we have only about 580,000 passengers a year, our per passenger earnings are on a par with airports much larger, such as Vancouver, Edmonton, and Calgary. We endeavour to drive our costs down in order to keep those fees as low as possible. We also supplement our revenues through innovative business development ventures.

We have a marketing agreement with a Swiss company for snow clearing equipment. We've sold units to St. John's and Toronto, we have a unit on lease in Montreal, and we have another one in the United States, as part of our marketing agreement with that Swiss company.

We have also developed information technology solutions with a local IT firm, and we've sold those to several airports across the country, including an innovative airport billing solution.

We also, through our subsidiary company, Thunder Bay Airport Services, manage the Red Lake Airport, an airport with only 16,000 passengers, so we are familiar with the needs and the issues associated with very small airports.

• (1550)

Our non-traditional airport business in 2001 represented 2% of our total gross revenues; in 2003 it represented 17% of our total gross revenues; and we're expecting at least the same or better in 2004.

Our underlying business philosophy is continuous improvement. Our total revenues actually now exceed our total revenues when we had an airport improvement fee, and we're now generating those revenues through new business activities. The restrictions on activities, investments, and subsidiaries, contained in the former legislation that Transport Canada tried to push through, would have destroyed our unique business model.

I'd like to move on now to air liberalization. I mentioned I don't believe smaller communities really have a handle on the effects or the potential effects of air liberalization, and that's really because not very much research has been done, certainly to my knowledge, of what could happen in smaller centres. I believe we have two recent examples of what would happen in a liberalized environment. One was when WestJet became a transborder carrier and started serving markets in the United States, and the other is the more recent demise of Jetsgo.

What we saw when WestJet went transborder was that all of a sudden there were a lot of new opportunities for WestJet operating to California and Florida and who knows where else. The immediate effect for Thunder Bay was that we lost flights. We lost a significant amount of capacity. At least one flight per day from Thunder Bay was lost, and that capacity was redeployed effectively onto transborder routes.

When Jetsgo went out of business, it was planning to come to Thunder Bay with one flight per day and increasing to two flights per day. At the same time, WestJet was also looking at increasing capacity to Thunder Bay. When Jetsgo went out of business, of course, that Jetsgo capacity disappeared, but so did the interest from WestJet to add extra capacity in Thunder Bay.

So my feeling is if there was the opportunity for Canadian airlines to operate more extensively south of the border, particularly point to point, there would be a lot of incentive for them to deploy capacity south of the border and not that much incentive for them to remain in markets like Thunder Bay. For example, if you look at even the smallest of markets in the U.S., they are bigger than the small markets in Canada. The effect actually is continued in the form of pricing. I think everybody has noticed since Jetsgo went out of business the price of air fares has increased. My return trip, just the single leg of my trip back to Thunder Bay this evening, is costing \$812. That's the highest I've ever paid for a one-way trip from Ottawa to Thunder Bay. So we can see the effect of tightening the markets that the closure of Jetsgo has had already.

The issue of cabotage comes up. Could we realistically expect U.S. carriers to operate in Canada? The reality is that U.S. carriers operating transborder into Canada right now are legacy carriers, airlines like Northwest and Delta and American Airlines, that have a cost structure actually substantially worse than Air Canada's was before it went into bankruptcy. The notion that they would operate point to point in Canada is really not credible, simply because, first of all, they have all the markets to choose from in the United States, and secondly, for the same reason the Canadian operators wouldn't necessarily want to operate point to point within Canada when they have those markets open in the United States.

Just to give you an idea, of the top 100 airports in North America, only the largest nine Canadian airports are included. So, for example,

Victoria is number 96; Winnipeg is number 79; Vancouver is number 30; and Toronto is number 17. Basically, that says that all the other markets in Canada, with the exception of the major nine, are smaller than any of the top 100 markets in the United States.

• (1555)

These issues tie directly with smaller airport viability. One of the things we need to do is provide incentive for airlines to operate scheduled service into small airports and small communities. One of the incentives we have is the relatively small number of choices airlines have in markets in Canada. As soon as you broaden the marketplace, there is less incentive for them to operate between smaller airports. Obviously, a critical contributor to a strong economy in a place like Thunder Bay is good, low-cost air service.

The other major issue affecting smaller airports is the regulatory burden. I'd like to meet the person who said that airport authorities are unregulated monopolies, because as somebody who operates an airport, I can tell you we spend an enormous amount of our time dealing with regulations, from regulations as to how we're supposed to paint our lines on the airfield to regulations from the public accountability principles and the monitoring reports we have to do for Transport Canada.

There has to be, I believe, some sort of cost-benefit analysis. Transport Canada is supposed to do this, but it tends to be, I believe, overlooked, deliberately or otherwise, within Transport Canada.

Just on the issue of rent, quickly, slide 24 is a sample invoice from Thunder Bay Airport Authority. The reason I included it is that a lot of talk goes to rent and chattels and other cost issues facing airports. That's why I stated at the beginning that airport authorities are not-for-profits, and the reality is that what goes out must come in. We have actually put in place in Thunder Bay a methodology, agreed to by the airlines, where when we start paying rent in 2006, that rent will be passed on, dollar for dollar, to the airlines in a completely transparent manner. I don't want to do this, because ultimately it de-stimulates air travel, but as a not-for-profit operator that is very tight on costs already, there is no other alternative.

In conclusion, I would like to say that the Thunder Bay International Airport Authority's innovative approach to airport business has demonstrated that the governance process we have in place motivates us to act in the best interests of our community. We're concerned with the potential negative effects of air liberalization, and I don't believe there's been enough analysis done on the potential effects for smaller communities. To achieve smaller airport viability, we need to reduce, not increase, the regulatory and legislative environment on our airports. There is no need to put in place legislation for airports the size of Thunder Bay or similar.

That's the end of my formal presentation.

**The Chair:** Okay.

Mr. Gouk has some questions.

• (1600)

**Mr. Jim Gouk (British Columbia Southern Interior, CPC):** Thank you, Mr. Chairman.

Thank you for coming. I'm particularly concerned about smaller airports in the study. Naturally a lot of the problem rests with the big airports, but the small airport is still very important—and my airport makes yours look like a giant; I come from Castlegar, if you're familiar with it at all.

I have a few things. You mentioned that you did away with your airport improvement fee. So you did have one in place at one time, did you?

Did you collect it yourself, or did the airline collect it for you?

**Mr. Scott McFadden:** Yes, we did, and we collected it.

**Mr. Jim Gouk:** You collected it yourself. That takes care of that then.

You mentioned that you have a subsidiary that operates on a business model. I don't know whether it would have been affected, but are you familiar with Bill C-27, which the government introduced last time? It was going to basically curtail, I know, Vancouver YVR's operation in their subsidiary role. Would that have impacted on you as well?

**Mr. Scott McFadden:** Yes. As I mentioned, if that legislation had been passed, our business model, for all intents and purposes, would have been destroyed. We have taken the bull by the horns. We have developed new business opportunities, using our core strengths and expertise, and that is what has enabled us to eliminate our airport improvement fee. Definitely that legislation, in the restrictive way it affected an airport's ability to get involved in some of these other activities, would have basically destroyed all of that. We would have had to actually put back our airport improvement fee.

**Mr. Jim Gouk:** I would assume you have on-field firefighting at Thunder Bay. So CAR 308 wouldn't affect you, but is there a concern in an airport the size of Thunder Bay about imposing regulations—such as CAR 308 would have done on smaller airports who don't have firefighting.... Is there a concern from your airport that these types of things might get passed and download some new costs onto you that you would have no control over?

**Mr. Scott McFadden:** It's happening. I was involved at the CARAC with CAR 308, so I am familiar with it. It affects Red Lake, an airport we are managing.

The fact is, that's just the tip of the iceberg. There is a flood of new regulations coming from Transport Canada, everything from wildlife management to emergency response planning to CAR 312, which is the standard governing all aspects of airfield operations.

What Transport Canada does when they rewrite these regulations is start throwing in a whole bunch of new requirements. First of all, there's the cost, in that we have to be constantly on guard about these new regulations and what they mean to our operations. Ultimately, when we're unsuccessful in properly massaging the regulations to make them workable, we have the cost of the implementation and meeting the requirements.

I can tell you, after a recent inspection of our airport by Transport Canada, we had a significant number of findings. Many of them were where an inspector had gone out on the runway and taken a tape measure and said, literally, this white line is not wide enough, or it's one inch to the left, or what have you. This is no exaggeration.

This is the absolute truth. This is the regulatory regime we operate under right now.

**Mr. Jim Gouk:** Hopefully we aren't too far away from making some changes in that.

One other thing I wanted to ask is with respect to regulation. Is the new proposal for the approach bans going to impact negatively on Thunder Bay?

**Mr. Scott McFadden:** Fortunately, no.

**Mr. Jim Gouk:** So it won't hit you.

The one last thing is, as we've gone, as you said, across the country and had witnesses, largely we've heard the same thing everywhere, except, interestingly, when we got to Vancouver we heard a brand new term that hasn't been mentioned anywhere else: "rights of establishment". In contrast to open cabotage, where an American carrier would simply come up and carry on flying between Canadian cities, it's the right of a foreign carrier to establish a wholly owned subsidiary operating strictly a domestic service inside Canada.

Would that have an impact on you? Would it be good or bad?

**Mr. Scott McFadden:** I'm all for any foreign investment. Basically that's what you're talking about. Just at first blush, to me it seems like a good idea. The more you can encourage the development of new business, whether it's airline or other, it would be good. In fact, one of the reasons I'm a bit skeptical about air liberalization for Canadians and smaller communities is that Canada is very competitive from an aviation point of view. Operators who are based in Canada can be competitive on a global scale.

The notion that an American carrier might come to Canada and establish an operation here to compete, not only domestically but also on a global scale, actually is quite enticing. I would be at the table wanting them to establish their facility in Thunder Bay.

• (1605)

**Mr. Jim Gouk:** Thank you.

**The Chair:** Mr. McFadden, I want you to look for your little earphone. We're going to have questions.

*Monsieur Carrier va poser des questions.*

[Translation]

**Mr. Robert Carrier (Alfred-Pellan, BQ):** Good afternoon, Mr. McFadden.

You expressed a lot of reluctance about the air liberalization policy. You also talked about cabotage, which is a problem. If the air liberalization policy didn't include cabotage, what would your opinion be? Would it be good for you or just as harmful?

[English]

**Mr. Scott McFadden:** My feeling about cabotage is that it would generally be a good thing. My concern is that U.S. air carriers would not look at smaller markets within Canada, simply because they are too small. They don't warrant the attention.

I'm in favour of deregulation, which is what liberalization is. However, a degree of caution is needed. I don't believe that a thorough analysis of what might happen to smaller communities has yet been done, and I need to understand more about various scenarios to form a useful opinion.

[Translation]

**Mr. Robert Carrier:** I understand your reluctance about cabotage. A number of others have also expressed some. My question was more this: if the government didn't include cabotage in its air liberalization policy, would you be as troubled by that policy?

[English]

**Mr. Scott McFadden:** Because Canada has a competitive airline industry, any form of air liberalization is going to mean new opportunity for Canadian carriers. Because of market conditions rather than regulation or liberalization, I don't think there will necessarily be reciprocal opportunities for U.S. carriers. Air Canada and WestJet are now competing on a low-cost model, whereas the majority of airlines in the United States are competing on the old legacy model. They still have basically the same cost structure they had before September 11, 2001.

Their ability to operate within Canada, competing against Canadian operators, is limited. Conversely, Canadians' ability to compete on any route, whether it's a cabotage route or a transborder or international route, is very high. This situation creates opportunities for Canadian carriers. The perception is that these opportunities are more lucrative than operating between Thunder Bay and Winnipeg. To go transborder from domestic, WestJet redeployed capacity from the smaller markets in Canada.

•(1610)

**The Chair:** Thank you.

Ms. Desjarlais.

**Mrs. Bev Desjarlais (Churchill, NDP):** We've heard a lot about Transport Canada and the regulations and how it appears that sometimes someone is just sitting at a desk trying to think up new regulations to aggravate airport authorities and everybody else. You mentioned the issue of the white line—whether it was exactly the right width or in exactly the right place. I was reminded of the white line down the middle of the road and what it would be like if it was a foot too far to one side. And I thought before joining in the criticism, maybe I'd better find out just how much safety risk there would be if the white line was out of whack.

Are there safety justifications for some of these regulations from Transport Canada, or are they just more trouble than they're worth?

**Mr. Scott McFadden:** I truly believe there are people sitting behind a desk—several desks, somewhere—just thinking up regulations, because some of what is coming across is absolutely ridiculous.

In fact, if we look at CAR 308, if you take a look at the actual data, the actual history, and we did this research—Sypher:Mueller did it for us—if a CAR 308 type of regulation had been in place over the last 20 years, not one life would have been saved. In fact, not one life was at jeopardy for the type of service that CAR 308 is intended to provide.

When you look at something like CAR 308, if you look at it on a macro level, you can say that if we're prepared to spend that sort of money on a regulation, which is completely reactive—it's not proactive at all, it's a reactive process—that has little or no potential for saving lives or improving safety. And if you're going to spend whatever the number was, \$500 million over the next 20 years, there's a strong case that can be made that says if you're putting that \$500 million into this regulation, which is not going to save any lives, you could have put that \$500 million into a regulation or a process that would improve control flight into terrain, for example—there are a number of people killed every year because of it. Even if we took it a step further to controlling uncontrolled level crossings, you could spend the money there and have an actual, visible, tangible increase in safety.

So there's a strong argument that can be made that says putting the money into CAR 308 is actually having a negative effect on safety.

**Mrs. Bev Desjarlais:** You said CAR 308 was reactive. Can you tell us what 308 was in reaction to? You indicated you were involved with CARAC. What was Transport Canada's justification for the regulation?

**Mr. Scott McFadden:** There was none, to my knowledge.

The argument for CAR 308 originated out of the Fredericton accident. There were several things on the table at that time, but there was a commitment from the Minister of Transport of that time to review the provision of emergency response services at airports in Canada. That's where CAR 308 came from, even though the TSB concluded that there was absolutely nothing that the fire service in Fredericton could have done to change the outcome of that particular incident.

When I mentioned reactive, that's the unfortunate thing about emergency response services: they are reactive. You're reacting to an event that has already taken place, as opposed to safety measures that might be put in place to prevent an activity in the first place.

**Mrs. Bev Desjarlais:** What would be your thoughts on the security that has now been implemented at airports throughout Canada, not just the larger international airports but a number of the smaller airports as well? Do you think the security is justified in those airports?

•(1615)

**Mr. Scott McFadden:** Do I think security is justified? Absolutely. Do I think the security we have is justified? I think you could debate that for quite a while.

**Mrs. Bev Desjarlais:** Okay. Thank you.

**The Chair:** Mr. Bonin.

**Mr. Raymond Bonin (Nickel Belt, Lib.):** Thank you, Mr. Chair.

I have three questions. I won't take long to ask them, and I'd appreciate a brief answer.

On one, you have a flight this evening over \$800 one way, but there is a flight. What is the board's position in regard to stable service like that flight that you're taking versus opportunistic or seasonal service? The competition in Canada means that some carriers will come into a stable area, very expensive, mind you, but take the best times and the best seasons and then fly off, as happened in Sudbury. The competition didn't last very long. They took the best, and now they're talking of coming back next winter for the Florida markets. Do you not feel that you may lose your stable service if you encourage too much opportunistic service?

**Mr. Scott McFadden:** I've been in this business for 25 years, and there has never been a shortage of airlines and air operators. That being said, the benefit that accrues to a community like Thunder Bay by having low-cost air service is really quite dramatic, and we've seen it since WestJet came to town.

If you look back, from 1990 until 1999, when WestJet arrived, we had the duopoly of Air Canada and Canadian Airlines operating. Air fares increased, on average, 14% per year over that timeframe, and there was a corresponding decrease in air travel.

As soon as WestJet came to town that situation reversed. Where you really see it is at the airport. You see hockey teams and curling teams, gymnastics, diving, conventions, what have you—all of these types of activities start to happen in the community. They are key economic stimuli for remote communities.

**Mr. Raymond Bonin:** But you have no fear that the stable service is in jeopardy. You don't worry about that.

**Mr. Scott McFadden:** No.

**Mr. Raymond Bonin:** Do you have an industrial park close to the airport?

**Mr. Scott McFadden:** Yes.

**Mr. Raymond Bonin:** We always talk about passengers, but the other area of revenue is cargo. What percentage of the revenue for the airport authority is from cargo?

**Mr. Scott McFadden:** We have a very small percentage of cargo in Thunder Bay. Most cargo in Thunder Bay goes by road.

**Mr. Raymond Bonin:** The projections on future load factors or amount of use by airport authorities are confidential. We were told by department people it's information that airport authorities do not share with anyone. This is your projection for the next years as to what the numbers will be.

I asked them the question and they couldn't answer, so I'm going to ask you. Why would that be confidential when you're a public body and you have no competition?

**Mr. Scott McFadden:** I'm not exactly sure which data you're referring to.

**Mr. Raymond Bonin:** I mean when you establish the number of passengers this year and project the numbers for the next four years. We were told by the department people that's confidential to the airport authorities.

**Mr. Scott McFadden:** I'm not sure, but I believe the airport master plan is one of the documents we distribute publicly, and that information is contained in the airport master plan.

**Mr. Raymond Bonin:** The answer might have been wrong. I have difficulty accepting that a public body with no competitors would keep projections confidential.

Thank you.

**The Chair:** Thank you very much, Mr. McFadden. Unfortunately, our half hour is up. We much appreciate your presence and your input here today. Thank you for coming.

**Mrs. Bev Desjarlais:** I have a point of clarification.

**The Chair:** Yes.

**Mrs. Bev Desjarlais:** I don't have the report he was—

**The Chair:** We have received it, but it's not yet translated.

• (1620)

**Mrs. Bev Desjarlais:** Good. Thank you.

**The Chair:** Now we will have Mr. Phil Benson from Teamsters Canada. He's the only person I know who describes himself as a lobbyist.

Mr. Benson, we'll ask you to introduce your colleagues.

**Mr. Phil Benson (Lobbyist, Teamsters Canada):** Thank you, Mr. Chairman.

With me today is François Laporte, special assistant to Robert Bouvier, president, Teamsters Canada, as well as Guy Bissonnette, business agent with Local 1999 in Montreal.

I'll give a little bit of introductory comments from Teamsters Canada, Brother Bissonnette will share some of the experience that I hope will highlight a little bit of what it's like in a more local area, and François will finish off for us today.

Thank you for having us here. We greatly appreciate it. We're probably not going to give you many answers today because we have a lot more questions than we have answers.

Air transportation is a much wider world than just the commercial objectives of the transport providers. The transportation of goods and services, or the lack of it, can have a great, profound impact on communities. And we've just seen, in relation to Thunder Bay, what happens. If there's no profit, nobody flies. There's also a vital relationship between civil aviation and national security or national sovereignty. It's important that if we do move forward with liberalization of air travel, cabotage or otherwise, that it's done for our benefit as a country, as a nation, and not necessarily just as a whim or benefit for the free market.

Some key points are that if we do move forward we have to ensure that safety and security are not compromised by commercial considerations. We need clear lines of responsibility and accountability for safety and security, and the development of these types of treaties or ideas must be based on fairness, reciprocity, highest safety standards, highest labour and social standards, protection of jobs, working conditions, quality service, and fair distribution of benefits to the industry and also to the travelling public.

The key is there should be full and meaningful participation of trade unions and our representatives in all the intergovernmental discussions on the future of the industry and the future of where our members earn their livelihood. On this particular round we've been faced with several different opinions. On one side we have comments that perhaps the press is ahead of the minister; on the other side, this committee is ahead of the minister. Other people are saying, no, no, they're all behind the minister.

To put it into perspective for Teamsters Canada, we are an autonomous part of the International Brotherhood of Teamsters, the largest trade union in North America, with about 1.8 million members. Here in Canada, I'm not sure of our last tally—we're growing at a terrific clip—but we have at least 130,000 or more.

If we look inside the airline industry, people look at things like cabotage, a cheap airfare, or a flight from one place to another. If we take a place like Pearson, we have security guards, Teamsters; food handlers, Teamsters; jet refuellers, Teamsters; airlines that land, Teamsters. So just inside one little airport, never mind industry-wide, we're prevalent in the industry on a wider scale. In other words, we're not just flying the planes, we're not just being the flight crew—and when I say “just”, I do not mean that as a slight; I mean it in the sense of numbers.

Also, we're talking about air cargo and things like our small package division, Purolator, UPS—we all know those names—and there are many more that are key to a lot of Teamster families making an income. We also have a wide range of services that deal around airports. Our armoured car services division uses airports, of course, for servicing.

When we're talking about air liberalization, what are we talking about? The answer is we're not sure. We see more questions than answers. Are we opposed to it? No, it's hard to be opposed to something if you do not know precisely what is indicated. Are we for it? Certainly not at this time, because we do not have enough information.

Our message to you and to the minister and to the wider community is simply that the role of air travel or air services is not simply for people to get on a plane and fly. There's a whole group of people who make their living around airports, through airports. From Teamsters Canada's perspective, it isn't just Montreal, Toronto, or Vancouver; it is communities far and wide, all across the country, coast to coast to coast, who are all using those services. If a commercial carrier no longer flies, people look at the people who might be affected in flying, but from our point of view, it could also be small package cargo, air cargo, all sorts of services that our members rely upon.

• (1625)

With that, for more specifics, I'm going to pass it over to Brother Bissonnette to discuss some of the specific Montreal-Quebec issues.

[Translation]

**Mr. Guy Bissonnette (Business Agent, Local 1999, Teamsters Canada):** Good afternoon.

I represent the people who work in the aviation industry in Quebec. We have a big company, Air Canada Jazz, that runs regional flights. If air transport is liberalized, will the Americans be interested

in serving Val-d'Or, Sept-Îles, Schefferville and Wabush? I doubt it, but you never know. There's more than these big companies. There are little companies that only do charters. They run charters to the United States and run medical flights, paid for by the government, to transport people living in small centres who need care elsewhere.

I'd like to add to what Phil said. We don't know what position to adopt at the moment. There are still far too many questions. I represent all the people of Air Inuit in the Canadian High North, both pilots and flight attendants. They do a lot of freight because there aren't any roads there, as everyone knows. Everything has to be transported by plane, or by boat when the ice has melted.

We're very troubled and we aren't ready to give any answers. All our people are quite concerned about what's going to happen. We're monitoring the situation closely, and I hope everything will be for the best. We especially want to maintain the jobs of the people who work in the aviation field.

Thank you. That's it for my remarks.

**Mr. François Laporte (Director, Government Affairs, Teamsters Canada):** Here's our conclusion, Mr. Chairman. As mentioned, our concern is employment. The air transport industry has gone through quite a difficult period: it's a patient that needs stability. Is air liberalization the solution? We can't say for the moment. We have too many questions as well, as Phil mentioned. What will be the impact of this on regional transportation and service to the communities? That's also a very big priority for us.

There are a lot of other questions related to liberalization. For example, will industry people have to go through the entire security process and obtain cards to be able to work in the United States? Will the issue of U.S. and Canadian immigration laws have an impact on market liberalization? It seems to me that, before heading in that direction, we should have a better idea of the potential impact, benefits and costs. You should especially not forget to involve the union movement. We are a major partner in the industry, and you have to consider the people who work in it, the ones we represent.

Thank you very much.

[English]

**The Chair:** Merci.

Are there any questions?

Mr. Gouk, go ahead, please.

**Mr. Jim Gouk:** Thank you, Mr. Chair.

Actually, there are just a couple of things.



I want, first of all, to let you know that from our perspective—and I'll let the other parties speak for themselves—we are very concerned about the economics of any changes that are made. We're looking at it right across the board. We don't want to have cabotage if it's going to take Canadian jobs away and be harmful in any way to the Canadian economy. We are looking at it in terms of servicing the travelling public, but not for that alone at all costs. We're looking at it from a holistic point of view, so you can be assured that jobs are one of the factors we're looking at.

The one question I did want to ask that may affect you—I'm meeting with some other people from a different part of the transport industry, from ports, on this issue—is with regard to security, and specifically security checks for your employees, your members who work at airports. Has this been a problem? Do you have any concerns about it, or any comments that you think would be appropriate to share with us at this point?

• (1630)

**Mr. Phil Benson:** Are you talking about the Transport Canada security clearance passes?

**Mr. Jim Gouk:** Yes.

**Mr. Phil Benson:** Obviously, because they're Transport Canada security clearance passes, we won't get into too many of the details, though we do sit on the various committees—air, rail, road, and ports—because of the wide reach of Teamsters Canada in all those areas.

We support Transport Canada's security clearance passes. We find that compared to the other forms of security, especially cross-border, a lot of the privacy concerns we have with the other modes are dealt with. Also, as far as our relationship with the department goes, when they're having problems, they are rapidly dealt with. So from our viewpoint, that's a particular mode of security clearance system that we support.

**Mr. Jim Gouk:** Just so we're clear, I'm talking more about the background checks for you—

**Mr. Phil Benson:** That's exactly what I'm talking about, but obviously, because it is security, we've signed off on it. I will discuss it privately with you at another time, but in a public forum I'd rather not get into too many details, other than that the program is working and we support it.

**Mr. Jim Gouk:** Okay.

**The Chair:** Thank you.

Madame St-Hilaire.

[*Translation*]

**Ms. Caroline St-Hilaire (Longueuil—Pierre-Boucher, BQ):** Thank you, Mr. Chairman.

Thank you very much, gentlemen. I must say that the Bloc Québécois expressed the same reservations as you at the outset, when we began examining the question, in addition to raising the issue of French. We wanted to know whether U.S. or other companies would respect the French fact, knowing that's not always easy even in Quebec.

You referred to service in the regions. I understand your fears. We share them. However, if liberalization were ever achieved, what

would you demand or want in order to guarantee service in the regions and thus to maintain jobs?

**Mr. François Laporte:** A few years ago, we attended a meeting of the Finance Committee where a presentation was made on the budget. Reference was made to the transportation industry assistance provisions at the time. If my memory serves me, reference was made to the fact that there are subsidization programs in the United States to ensure that air carriers serve people in remote communities.

We think a program like that should be put in place in Canada. We're talking about liberalization and deregulation, of course, but, in some communities, the population obviously isn't big enough to interest the airlines in serving them on a daily basis. But those people should be able to travel. Alternative means of transportation often aren't valid: they take too long because people live too far away. We think one solution would be to establish a carrier assistance program to provide service in the regions, like the one in the United States.

**Ms. Caroline St-Hilaire:** Thank you.

[*English*]

**The Chair:** Thank you.

Ms. Desjarlais.

**Mrs. Bev Desjarlais:** I know you've indicated to Mr. Gouk, in regard to the security clearance, that because you were involved, you don't want to say anything publicly on it. However, there have been public comments on the security passes and the security clearance checks for employees that have come out publicly, so I'm not convinced on that side of it that you're jeopardizing security related to the port.

You're not telling what the security is. We're basically asking if there has been a concern from the group that you represent in regard to the information on the security clearance. You don't feel that it's intrusive. You don't feel that some of it is unnecessary. We've been told—I think everyone has heard the same types of comments that I have—that there have been security clearances asked for family members, such as brothers, mothers-in-law. You have to get those kinds of security clearances. Is that the same type of information your members are being asked for?

**Mr. Phil Benson:** Again, on the particulars that are asked, we have made our comments very clear at the appropriate places about our concerns. Our position has been that we support the Transport Canada security clearance system—the biometric cards. At this particular time we have not seen the concerns and problems raised from our members. When there have been problems, we have found that they were addressed very quickly.

• (1635)

**Mrs. Bev Desjarlais:** Okay, that's fine.

**The Chair:** Mr. Karygiannis, did you have a question?

**Hon. Jim Karygiannis (Scarborough—Agincourt, Lib.):** I have a couple.

Gentlemen, I want to thank you for coming. To Scott, it certainly is a pleasure to see you here.

It's a pleasure that an organization such as yours takes interest in transportation issues throughout the country, and you are probably one of the largest unions—I could be mistaken, but I think you're one of the largest unions—internationally that provides transportation issues with a seriousness.

For my first question, I want you to elaborate on the workings you have—and any other comments you have—and the lead you might want to take on the possibility of using one security-issued card for your members when they go through the border, arrive at the airport, or go to port security. What light can you shed on the situation that we as a committee can propose in order to go forward?

I know some of your brothers, if you want to call them that, your brotherhood, go to a port to pick up a load and then they take it to the airport, and from the airport they might take another load and then cross the border.

**Mr. Phil Benson:** With all respect to other unions that have their particular concerns, this is key for Teamsters Canada because we are air, railroad, and ports. There is one small local in Quebec where I think members do 1,200 trips a week to the United States.

That's something we have been addressing quite rigorously. In fact, starting probably 18 months ago, through one government and through this one, we've had a lot of discussions with the minister's staff and the minister. President Bouvier, François, and I met the minister in Montreal, and this was one of the topics we raised. We are pursuing that very strongly.

We think if one understands how fast pass and NEXUS work—no slight against those excellent programs, but there's a real privacy concern that we think the Transport Canada security clearance addresses that those others do not. We prefer those decisions in security to be made by Canadians, not by foreign nationals. Our experience with it has been a lot friendlier, a lot...kinder is perhaps not the correct word, but there is some sensitivity that is not shared by foreign nationals.

In the long run, we can build as many bridges as we want to the United States. We support the Detroit tunnel project, for example, very strongly. At the end of the day, unless the security concerns are addressed at the border, we're going to continue to have, as Mr. Gallaway from Sarnia knows, backups every time there's an amber alert or a red alert, or whatever they call the alerts in the United States of America.

One way to resolve those problems is with the Transport Canada security clearance passes. From our perspective, if you have a Teamster who works for a courier company or a trucking company, quite clearly they can be going to an airport one day or one afternoon, going to a port the next, and crossing the border the next. Given the way some people wanted to do the security clearance system, our members would have been lit up like Christmas trees, not only with the passes they are required to work with, with the licensing they are required to work with, but by the time we pack on HAZMAT, access to ports, access to...it's absolutely ridiculous, when there's one pass that resolves all of those problems, which we believe would be accepted by the United States government as well.

So it's something we're pursuing very strongly, and we certainly hope that members of the committee would pass on to the minister that this might be a supportable item.

**Hon. Jim Karygiannis:** I have one further question. Can you please elaborate on what work your brotherhood has done in the United States to push this idea, to lay the foundation for legislative colleagues in the States to accept this and to help streamline that process, so that the same scenario happens with DOT as with the CTA in Canada?

**Mr. Phil Benson:** Certainly. I believe before the last election Mr. Gallaway and other members of the committee were down in Washington at the International Brotherhood of Teamsters' headquarters as part of their meetings in the United States. Although Mr. Gallaway is quite kind about calling me a lobbyist, and the lobbyist department is quite pleased, as one can see, we're very open and above board about what we do, including our titles.

My colleagues in the United States are as open as I am here. They are and have been willing to use their political capital, if you like, their experience, to promote that issue. It has been well received by the American government, the people they have discussed it with.

I think with a little bit of work and a little bit of a push, that's something we can move forward quickly with.

● (1640)

**The Chair:** Okay.

Mr. Bonin has a question—a short one.

[*Translation*]

**Mr. Raymond Bonin:** Thank you, Mr. Chairman.

You said you found it hard to take a position because this is new and definitely something we should be worried about. I think cabotage is a positive thing in certain respects, but, like you, I'm concerned about the small airports.

I have no questions, but rather a suggestion to make to the union. You can lobby so that, at least in the first phase, cabotage is permitted at airports with a certain number of passengers. We can start with the biggest ones, and if that works, we can continue. If cabotage is allowed across the country, I think it will be a disaster.

**Mr. François Laporte:** We'll take note of your comment, but I must say that the idea of cabotage and air liberalization isn't a new one. However, we don't know what its impact will be. Has Transport Canada taken the trouble to analyze its potential impact? For example, we talked about Thunder Bay. Has anyone talked about Sept-Îles? Are we going to talk about the airports in northern B.C., in Alberta, about the small regional airports? What will be the impact on those people?

Has anyone considered analyzing the capacity of the major airports, such as Winnipeg, Calgary, Vancouver, Montreal and Toronto, to receive new carriers? Is this feasible? We wait in line for tens and tens of minutes before going through the security procedure. We're in favour of security, and it's our members who are doing that work, but are the airports able to receive new carriers? I don't know. We want to know all these factors before saying yes or no to air liberalization.

**The Chair:** Mr. Carrier, you may ask one final question.

**Mr. Robert Carrier:** Good afternoon, gentlemen.

I'm surprised you don't have a clear position on air liberalization, since the subject is quite well known. During our cross-Canada tour, most presenters, including the chambers of commerce, tourism associations and airport administrations, said they were in favour of the principle. They think they're going to have more passengers and that that will open up new markets which are not currently being served. That seems to be the general view. You've no doubt heard that as well. If liberalization brings in more passengers and more business to the airports, that should be beneficial for you, who represent all airport employees, even though you can wonder how that will work. In general, if the comments we hear are accurate, it should be good.

**Mr. Guy Bissonnette:** I'm not convinced that the number of passengers who depart from Pierre Elliott Trudeau Airport in the morning for Sept-Îles will increase because we open up the skies. I can't tell you I'm pleased about that because I have no guarantees. I don't think the towns of Sept-Îles, Baie-Comeau and Rouyn-Noranda will start doing a lot more business because of liberalization. I went to Rouyn-Noranda on a Jazz flight two weeks ago. It was an aircraft that could carry about 40 passengers, and there were 22 of us. If the skies had been opened up, would there have been 100 of us? I don't think so.

**Mr. Robert Carrier:** I share your view about the small airports: this won't necessarily solve the problem. However, if there were liberalization, foreign companies, that is to say U.S. companies, could serve any airport and could bring in passengers from outside Canada to the various regions.

[English]

**Mr. Phil Benson:** We have read a great deal of what people think and we have seen a great deal of what people think. Though we have sought facts, we have not been provided with any. We have been provided with what people think.

As the Teamsters representing our members, we don't like to take action or take positions based on what people think. We really want to know. That's the only way we can go back to our membership—present them with the facts and evidence—to seek from them their guidance on which way we should go.

At this particular time we have some people saying that for various reasons this would be a wonderful thing. We have other people saying this is the end of the planet as we know it. But what we have not received are the facts. And for us, it's not just a matter of somebody in a plane, or the sugar-plum idea that I'm going to get a cheap flight from Montreal or Toronto or Vancouver to...pick a location. Because of the scope of our work and the scope of our

members' work, it's far too complex to break it down into such a small matter.

We have sought the information; we have not received it. And when we do receive it, we'll be in a much better position to go back.

• (1645)

[Translation]

**Mr. Robert Carrier:** Thank you.

[English]

**The Chair:** Mr. Benson, Mr. Laporte, Mr. Bissonnette, thank you for coming here today. Half an hour moves quickly, so thank you very much.

**Mr. Phil Benson:** Thank you very much. Thank you for your kindness. If you have any questions, please get hold of us.

Thank you, Mr. Chair.

**The Chair:** We now have ALPA, Mr. Adamus, Mr. Hardisty, and Mr. LaFlamme.

Jim, could you take the chair, please?

**The Vice-Chair (Mr. Jim Gouk):** Gentlemen, thank you for appearing before our committee. I think you've been here enough times that you know the drill. Give us a short presentation and then we'll have a round of questions from the members.

Go ahead whenever you're ready.

**Captain Kent Hardisty (President, Canada Board, Air Line Pilots Association, International):** Thank you, Mr. Gouk.

Good afternoon. I'm Captain Kent Hardisty and I'm here representing the Air Line Pilots Association, International. I'm the president of ALPA's Canada Board and a pilot for Air Canada Jazz. With me today is Vice-President Captain Dan Adamus, and ALPA senior staff representative, Mr. Art LaFlamme.

The Air Line Pilots Association, International, or ALPA, represents more than 64,000 professional pilots who fly for 41 airlines in Canada and the United States. Both as our members' certified bargaining agent and as a representative in all areas affecting their safety and professional well-being, ALPA is the principal spokesperson for airline pilots in North America. ALPA therefore has a significant interest in the economic health and well-being of the industry.

We have appeared before this committee several times over the past few years, and many of our recommendations have been accepted by the transport committee, but the government has repeatedly failed to follow up on those recommendations in any meaningful way. The government continues to treat the industry as a cash cow and employs piecemeal measures that treat the symptoms and not the root causes of the industry's financial woes. The recent failure of Jetsgo highlights the ineffectiveness of current government policy.

ALPA is opposed to any initiatives that would permit foreign operations within Canada's domestic market or that would relax foreign ownership requirements and effectively trade control of Canada's airline infrastructure to foreign interests. Given the current state of the industry, operations by foreign airlines in our domestic markets would be virtually certain to prove fatal to our Canadian domestic airline sector. Entertaining proposals that would seek to open markets to the U.S. and foreign carriers in the current aviation environment makes little sense, in our view.

Depressed revenues and higher costs continue to undermine the industry's immediate prospects for recovery. As costs continue to rise, airline management seems unable to pass those costs on to the consumer. Still, the Canadian government continues to levy excessive direct and indirect tax burdens upon the airlines. Airport rents, airport improvement fees, navigation fees, and security costs are all passed on to the airlines, and in a highly competitive market the airlines are unable to pass those costs on in turn to the customer.

New-entrant airlines exert additional downward pressure on revenues by undercutting established carriers' fares. Airlines do not have the pricing power to pass on all costs, such as higher fuel costs, to the customer and are compelled to continue to engage in destructive fare wars in an effort to either gain or retain market share, thereby further weakening the bottom line. To use an aviation term, the industry is in danger of spiralling down out of control.

While we believe that strong medicine is needed, ALPA is not, however, advocating a return to the days where the government controlled access and fares on each and every city-pair route in the country and where the government owned and operated airports and the air navigation system.

We recognize that Canada's prosperity is tied to the global marketplace. Canada needs to lay the foundations for a healthy and viable airline industry that results in affordable and accessible domestic and international networks. Further liberalization without fixing the fundamentals will only worsen what is already a grim situation, in our view. In this regard, we believe the government simply does not have the luxury of inaction.

Additionally, Canada's small population, the nature of its geography, and the reliance of many Canadians in both urban and smaller and remote communities on air transportation require a policy direction that maintains a domestic airline industry that meets Canada's needs and conforms to its national policies.

• (1650)

We believe maintaining current domestic ownership requirements, as well as retaining the current bilateral basis of international air service agreements, can best achieve this.

This submission sets out ALPA's concerns regarding the Government of Canada's policies in relation to the industry in which our members work and earn their livelihood. Most of what we state here we have said before. However, we believe those positions bear repeating. A made in Canada solution is required.

In ALPA's view, Canadian policy-makers should seek to create the conditions that permit a profitable, accessible, affordable, and stable Canadian airline industry. These objectives must be reached with a balancing of market-based solutions and government regulation that

establishes order in the marketplace and is appropriate to the specific circumstances facing us today. Canadians have worked too hard and at great cost to build the aviation infrastructures in our country. That proud legacy is far too rich to be given away or frittered away.

ALPA believes that entry into the marketplace is far too easy, allowing poorly financed airlines to start up without regard to the public interest. The result is excess capacity and below-cost operations. Canadian aviation history since deregulation in the 1980s is littered with the financial wrecks of airlines that have come and gone, the most recent being Jetsgo. Jetsgo lost more than \$55 million in the eight months prior to its grounding and has \$108 million in liabilities, including most of the \$30,000 collected from each of the company's pilots as a training bond.

This is the most recent in a long line of airline failures littering the business and social landscapes of Canada. Yet the owner of Jetsgo, Mr. Leblanc, who has been at the helm of three major airline failures, wants the court to approve a resumption of operations. That it might be possible is astounding and demonstrates the total inadequacy of air policy legislation in Canada. Such failures leave a trail of unpaid debt and worthless tickets, not to mention the dashed hopes and aspirations of the employees of those failed airlines and the employees' families.

A new entrant must be required to meet meaningful standards that are rigorously enforced. We believe the government, before providing a licence to a new entrant, must carefully consider the following criteria: current capacity in the system, financial viability of the new entrant, and the public interest.

Is Canada greater than the sum of its parts? We ask this because current policies are resulting in accessible and affordable transportation being well provided between major urban centres but not to and from small and remote communities. A particular area of concern is the loss of air transportation services to some remote communities.

A possible model for ensuring the provision of air travel services to remote or rural communities is the U.S. essential air service program. That program was established in 1978, when the airline industry was deregulated, as a response to the very real concerns that in a deregulated environment air carriers would cease offering scheduled air service to communities with low traffic levels. Through it, and with the help of federal subsidies, smaller communities are able to retain a link to the national air transportation system. EAS in the United States currently ensures commercial air services to 146 communities, 36 of which are in Alaska.

Further, it is ALPA's view that the myriad of taxes, charges, and additional costs the government has imposed upon the airline industry have had a significant and negative impact upon its viability. Aviation ties this country together and is important to the economic well-being of Canada. It employs tens of thousands of highly skilled workers who live in hundreds of communities across Canada, paying taxes. A great portion of the industry's woes are being caused directly by the federal government, which has created a significant and negative impact upon the viability of Canadian airlines. These costs are generally on a par with sin taxes for tobacco and liquor. Air travel in this modern, technological age is not a luxury, and the government's regressive taxation approach to aviation needs to be overhauled.

The federal government functions as landlord at most of Canada's major airports, which are required to pay rent to the federal government, about \$250 million last year alone. ALPA feels strongly that the government must stop collecting these rents and that airports should be required to pass on these savings through reductions in airport fees.

The Canadian airports act that was before a previous session of Parliament was deficient in that it did not require airports to conduct their affairs with adequate transparency and accountability. The current lease agreements in the proposed legislation did not have the requirement to have representatives of stakeholders, such as airlines, unions, and airport boards of directors. Neither were there controls, such as consultation requirements and appeal mechanisms, on inappropriate and unfair fee increases. The NAV Canada legislation does have these safeguards and should be emulated when the Canadian airports act is reintroduced before Parliament.

•(1655)

A number of industry observers have suggested that Canada should consider allowing foreign, and in particular U.S., carriers to carry Canadian, i.e., domestic, traffic. ALPA believes that permitting foreign airlines to conduct cabotage operations in Canada is both impractical and unwise for a number of reasons. Allowing a foreign airline to operate in Canada is quite different from allowing, for example, a foreign automobile maker to establish a manufacturing plant in Canada. That plant would have to operate as a Canadian company, subject to Canadian immigration, tax, language, labour, environmental, and other laws. Cabotage operations by foreign airlines, on the other hand, suggest mobile workplaces—the aircraft—subject to foreign, not Canadian, laws.

Thus, the notion of providing cabotage rights to foreign airlines is at odds with basic principles of Canadian law, such as the notion that businesses that operate in Canada's domestic market employ Canadians in those operations and apply Canadian labour laws to them. Allowing cabotage, both on a unilateral and a reciprocal basis, would be ruinous to the Canadian airline industry and result in reduced services to medium- and smaller-sized communities across the country. There is also no indication that the United States is considering eliminating its prohibitions on cabotage. The United States has repeatedly stated that it has no intention of opening its domestic markets to operations by foreign carriers. We believe Canada's resources should be directed to pursuing policies that have a real chance of strengthening our airlines.

One of the basic principles of Canadian air transportation policy has been the maintenance of Canadian ownership and control for Canadian airlines. ALPA continues to support that principle. And the relatively small size of the Canadian market imposes certain constraints. It remains a challenge to maintain a strong and viable Canadian presence in an increasingly global market as well as service at home that meets Canadians' expectations. It is difficult to conclude that foreign carriers could contribute meaningfully to that process.

It is imperative that Canada maintain its national interest in ensuring that it has a domestic airline industry. It is ALPA's recommendation that changes to foreign ownership rules should be considered only if the current Canadian air policy framework has clearly failed to provide for a viable and competitive domestic market, and even then, only when the safeguards that have been outlined above are in place and are capable of operating effectively to protect the interests of Canadians.

In ALPA's view, a healthy and viable industry is one that is profitable, accessible, affordable, and, we must stress, stable. Unless the fundamental deficiencies in Canada's air policy framework are fixed, ALPA believes it would be ruinous to further liberalize aviation in Canada. We urge the Government of Canada to adopt our recommendations, which we believe would promote a healthy, competitive airline industry that operates both in the best interests of the workers in the industry and the Canadian travelling public.

Our written submission, tabled before this committee, provides in greater detail our arguments and recommendations that we have outlined in our brief oral presentation today. Thank you for the opportunity to appear before the committee, and we'd be pleased to take any questions at this time.

Thank you.

**The Vice-Chair (Mr. Jim Gouk):** Thank you.

Mr. Scheer.

**Mr. Andrew Scheer (Regina—Qu'Appelle, CPC):** Thank you, Mr. Chairman.

I just have a couple of very quick questions.

This committee did an extensive amount of travelling throughout Canada. I can safely say there is quite a lot of unanimity from at least the airport authorities. Certainly chambers of commerce and tourism boards are also very much in favour of liberalization of airline policy.

Other than the labour concerns you've raised here, which I would assume could be sorted out if there was a deal signed between the U. S. and Canada—in the event that the U.S. decided to pursue such a thing—what other aspects of a more liberalized air policy would concern your organization?

**Capt Kent Hardisty:** Well, if I understand your question correctly, Mr. Scheer, you're asking what harm there would be in having a foreign operation in Canada, other than the labour issues. Is that correct?

**Mr. Andrew Scheer:** Yes.

**Capt Kent Hardisty:** I guess we would have to ask why. What makes it imperative at this time when you consider—I think I heard earlier in testimony—that there was a great interest in these various communities bringing in more traffic and so on, and therefore greater revenues, and the way to fix that was to have foreign operations? We submit that right now it's not a case of shortage of traffic. We have record levels of traffic at the present time. The question is, who's going to carry those people, and what will it cost the Canadian infrastructure for them to do it?

**Mr. Andrew Scheer:** We heard submissions from airports—I'm thinking right now of Atlantic Canada—saying that right now there is no traffic because there are no reciprocal rights between countries. I think the example we were given was Iceland.

It's not like there's a market there that's already being serviced. There is a market that would be serviced for people interested in travelling from Iceland into Canada and beyond, but because of our air policies, they're not able to. So rather than bringing in foreign competition or foreign operation, their argument, if I remember it correctly, was that it would be bringing in new flights, new traffic, new revenues, and not taking anything away from the current Canadian delivery of that.

• (1700)

**Capt Kent Hardisty:** That's an interesting assumption. Just wishing it, though, I suppose would be one thing, but making it happen is another.

I'll pass this question on to Mr. LaFlamme, if I may.

**Mr. Art LaFlamme (Senior Representative, Canada, Air Line Pilots Association, International):** Thank you.

Quite frankly, I think a lot of these communities are dreaming in Technicolor. If we look at the recent example of Prince Edward Island, there are no restrictions on Canadian carriers or American carriers flying into Charlottetown. However, the province has seen fit that they need to subsidize operations of Northwestern and WestJet in order to increase traffic into their communities. So opening it up to cabotage, or foreign operations, there are no restrictions right now with respect to transborder operations into that province, and domestically with Canadian airlines. I think that's a perfect example of why they're dreaming in Technicolor.

**Mr. Andrew Scheer:** I would just point out that we did hear of specific cases where there was an existing market that was pulled out because of Canada's air policy. I appreciate what you're saying, but I think in fairness they would probably counter with some specific examples of times when they've lost service.

**Mr. Art LaFlamme:** You're referring to the Iceland flights. That's one isolated example across the country that I think should be left as an isolated example.

**The Vice-Chair (Mr. Jim Gouk):** Mr. Carrier, go ahead, please.  
[Translation]

**Mr. Robert Carrier:** Good afternoon, gentlemen.

You represent the Air Line Pilots Association. Since you're an international association, if air liberalization really increased the number of passengers and promoted tourist traffic, would your association have additional responsibilities, or are you removed from that? Let's suppose the companies serving the new routes are

American. Do you represent the pilots of those companies, or do you only represent the pilots of Canadian airlines?

[English]

**Capt Kent Hardisty:** Thank you. We represent 41 airlines in both Canada and the United States. A majority of the major carriers we represent in the United States would be interested—we would assume—in operating in some form in Canada. If we may be blunt, these carriers have their own issues before them right now in terms of what's happening in the industry, both in North America and specifically in the United States, and the assumption that they would have an interest in backfilling some of the smaller markets in Canada I think again, to use my colleague's terminology, is dreaming in Technicolor. Clearly, any carrier that's going to want to operate in Canada, in our view, would be one that would want to take the routes they know they can create a margin in.

They have the critical mass to do it, even if they are perhaps in a situation not unlike some of our own carriers where they're under suppressed yields or revenues. But they can come in and take those routes from Toronto to Vancouver, Montreal and so on, and they're under no obligation whatsoever to then service the smaller communities or other communities in Canada. When that happens, and when you start to take away from the revenues and the margins of the existing Canadian carriers, that can only lead to further degradation in the Canadian sense.

Our colleagues south of the border that we represent feel the same way. They're just as protective in their own sense in terms of entry into the U.S. market, if that's a response to your question.

[Translation]

**Mr. Robert Carrier:** So you're not afraid of losing pilots jobs since you represent U.S. and Canadian pilots. You're thinking more of the negative consequences for the Canadian economy as a whole. Is that correct?

[English]

**Capt Kent Hardisty:** Yes, sir, that would be correct, because we do represent interests in both Canada and the United States.

**The Vice-Chair (Mr. Jim Gouk):** Ms. Desjarlais, go ahead, please.

**Mrs. Bev Desjarlais:** In your presentation you mentioned that you're in agreement with the present way the bilaterals or the agreements are set up. One of the concerns that was brought before us, I believe in Vancouver, was that there might be a destination in another country that Air Canada doesn't want to fly to, and if a foreign carrier wants to come in and fly that route, they presently can't because of the agreements. Would you see a situation in which that would be allowed if there wasn't a Canadian carrier to cover that route?

• (1705)

**Capt Kent Hardisty:** Art has spent more time in this area, so rather than me stumbling through the answer, I'll give it over to Art, if I may.

**Mr. Art LaFlamme:** The international bilateral agreements vary in scope. It's up to the two countries how much they want to allow. The recent agreement with China opens things up considerably with respect to the number of carriers and the number of cities that can be serviced. If the designated carrier cannot provide service, we're open to those agreements being liberalized to allow service by other carriers. We're all in favour of that aspect of changing the policies.

**Mrs. Bev Desjarlais:** As a pilots' association, you would see how this works—where you tend to fly into and where you don't. The way the agreements are set out—and I don't know how this came about—carriers might be able to fly into Vancouver once, into Toronto six times, and into Montreal not at all. Do you see a need for better balancing in the system?

**Mr. Art LaFlamme:** When Canada is negotiating with another country, it's usually on a reciprocal basis. It's not in this country's best interests to give more than we receive. It's up to the parties involved to work out a fair arrangement.

**Mrs. Bev Desjarlais:** Looking at it from a perspective of fairness or balancing between the different Canadian cities, there's a tendency to use Toronto as a hub. A little bit more might go to Vancouver or Montreal, or it might be divided around depending on where they're flying. This question seems to me to have created a bit of friction, and I'm wondering whether you see this too.

**Captain Dan Adamus (Vice President, Canada Board, Air Line Pilots Association, International):** You're talking about foreign carriers coming into Canada?

**Mrs. Bev Desjarlais:** Yes.

**Capt Dan Adamus:** They're going to want to come into a community that has a lot of passengers. Obviously, the major centres are Vancouver, Montreal, and Toronto. Canada is a huge country in the geographic sense, but we only have 32 million people across the country, with a third of our population in the three major centres.

**The Vice-Chair (Mr. Jim Gouk):** What we heard from these carriers is that they're only allowed 40% of the flights into Vancouver, 70% into Toronto, and 90% into Montreal. They wanted better access, particularly the Asian carriers, into Vancouver. They were denied this. That was where the inequity was, and we heard this from a number of carriers.

**Mr. Art LaFlamme:** Maybe they weren't willing to allow Air Canada or other Canadian carriers to fly into their countries on a reciprocal basis.

**The Vice-Chair (Mr. Jim Gouk):** We let them into the country; we just tell them whereabouts in the country they can land.

**Capt Kent Hardisty:** It is a negotiation, of course. We don't know what's at stake or what's on the table. Presumably, we're getting good value or fair trade in this situation. If the question is whether we have objections to the current bilaterals, the answer would be no. But the mechanisms for employing the bilaterals could perhaps be revisited.

**Mrs. Bev Desjarlais:** Do your pilots have any problem with the security checks, the background checks that are now being used? Have you had any issues with pilots having trouble getting through airport security because someone's on a no-fly list or something?

**Capt Kent Hardisty:** We supported all of the actions the government undertook following the 9/11 event. We support and advocate many of the security provisions that have been put in place.

So it's difficult for us to say we have a problem with it. Certainly, it's an intrusion at times, but it's a necessity, and I think all pilots understand that. As with anything, there has to be a measure of common sense in the application of these rules. At times we may question how the provisions are being applied, but in general we have been strong advocates of them.

• (1710)

**Mr. Art LaFlamme:** We've been supportive, as Kent has mentioned. However, there's no mechanism now, once a security background check, let's say, has been denied, and there's refusal to pass a person, other than for the person to go to the Federal Court, which is quite onerous and expensive. Also, while the benefit of passing a security criminal background check is to get a restricted area pass to go on the restricted sides of the airport, if that pass should be taken away or its issuance refused, there's no appeal mechanism in place to ensure the principles of common justice have been followed. That is the main concern. We support the concept, but there are inadequate protections to the individual with respect to this.

**The Vice-Chair (Mr. Jim Gouk):** Okay.

Mr. Karygiannis.

**Hon. Jim Karygiannis:** Good afternoon, gentlemen, and thank you very much for coming. I have just a couple of very short questions.

We heard from other groups regarding airport governance that it's not necessary for small airports. I was wondering if your organization has a view on that.

**Capt Kent Hardisty:** I think we would. I think we've stated that obviously any type of governance has to be transparent and fair. We're of the view at this point that that's not what's taking place. Whether it's a large airport or a small one, it obviously has to meet certain criteria, and we're not sure that's happening right now.

Again, Art's been very active in this area. Perhaps he would like to comment.

**Mr. Art LaFlamme:** I support Captain Hardisty's statement on transparency and accountability. As a basic principle, the board of directors has to be more reflective of the industry at large. Right now the airports have, in our view, too much authority as to who sits on their boards of directors.

Second, there's no requirement for consultations on changes to airport fees. No appeal mechanisms are in place. There are things that exist within the NAV Canada legislation, for example, on how NAV Canada cannot change its fees without going through a consultation process. Then, even if they do change their fees, they're appealable to the Canadian Transportation Agency.

There are all those things. If you look at the NAV Canada board, it's very reflective of the aviation industry in Canada as a whole, for the most part. I think airports can't have it all ways. Without some legislation to put these principles in place, we feel it's lacking.

**Hon. Jim Karygiannis:** Should airport authorities have representation from airlines and air pilots' associations on them?

**Capt Kent Hardisty:** Yes.

**Hon. Jim Karygiannis:** The major airports should have representation from your association. Should the smaller airports also have the same—from unions, say?

**Capt Dan Adamus:** Certainly the users should be on the boards.

I believe if the users of the airports were on the boards and had some input into the design of a lot of the newly built airports across Canada, I don't think these airports would be nearly as extravagant as they are. They are nice, but they're rather extravagant, and I'm not too sure whether we actually needed that.

**Capt Kent Hardisty:** If I may, is the question should the unions have that input, or stakeholders? Obviously we believe stakeholders should, and by extension unions. We are stakeholders and we believe we obviously have a stake in the outcomes. We believe using the same NAV Canada model would provide for that.

**Hon. Jim Karygiannis:** I've heard from individual pilots about when they go through CATSA screening. Let's say they're given the same screening as any passenger. One of the pilots said he had the biggest thing there is; he was driving this plane and could take it anywhere. He was looking for some relaxation of the rules as they go through, some special consideration. I was wondering if you can give us a little bit of insight as to your association. You are the umbrella organization for the pilots. What would your views be on that? Should pilots be given a special consideration to go through? Should they be given the same amount of scrutiny when they go through screening on the front end?

• (1715)

**Capt Kent Hardisty:** There are better ways to do it. Everybody should be subject to some level of scrutiny; it's just how you apply the basic principles. We've supported the creation and implementation of the biometric cards, the passes that would permit positive identification, and so on, and how you use that.

It's not only intrusive; more to the point, it's disruptive. In certain airports there's no consistency. Right now some airports require pilots to submit to a full examination in front of all the passengers. Really, you have to question the value of that procedure at the present time. Others have bypass procedures, and so on.

We need consistency. We need to be able to positively identify who the individuals are, and do it in a meaningful way, and we need to revamp the system. We've been working on this biometric approach for some time now, and it's still in the beta phase, if you will.

If the question is whether we should be subject to some level of scrutiny, of course, but the current method, in our view, is not satisfactory. It's not working. It's not consistent.

**Hon. Jim Karygiannis:** Have you brought that to the attention of CATSA?

**Capt Kent Hardisty:** We have.

**Hon. Jim Karygiannis:** Is there a response from them?

**Mr. Art LaFlamme:** More importantly, it's Transport Canada that sets the rules and policies, and CATSA just follows them. It's really Transport Canada that's responsible for them.

**Capt Kent Hardisty:** Just to add another layer to that, then of course there are the airport authorities. As long as they meet the minimum requirements in terms of what they're doing with Transport Canada and CATSA, they can add another layer if they so desire, it seems, in the current governance.

**The Vice-Chair (Mr. Jim Gouk):** I have just a couple of quick questions.

You talk on page 5 about maintaining the current domestic ownership. Were you talking about 25% versus 49% ownership?

**Capt Kent Hardisty:** I think our consistent answer throughout the years, if we're talking about foreign ownership requirements, has been that control and direction should remain in Canadian hands. There have been times when, if a clear issue was before us in terms of whether or not that foreign investment was going to make or break the difference, we obviously had to move with that and ensure our interests were met. We're fearful that if interest is given away, if you will, if it's traded away to outside interests, we will no longer have that control in Canada; the infrastructure will suffer and, of course, by extension, the employees and the stakeholders.

**The Vice-Chair (Mr. Jim Gouk):** Where are you on increasing the amount of foreign-held participation up to 49%?

**Mr. Art LaFlamme:** We prefer the present system, but if it's viewed by everybody that it's not working, we're open to changes as long as control remains in Canadian hands.

Again we have to be careful, because 49% ownership by a foreign airline is quite different from 49% ownership by a foreign bank, for example. We saw that with American Airlines and Canadian Airlines. American Airlines is controlling which routes Canadian can fly on, what systems they can use and not use, and so on. You have to be very careful about how that's structured. I don't think it's as simple as a percentage, or another percentage.

**The Vice-Chair (Mr. Jim Gouk):** Where you talk about new airlines starting up, one of the criteria you suggest is current capacity in the system. Are you suggesting that even if a route is being filled to capacity, no one new should be allowed to come on that route and compete?

**Capt Kent Hardisty:** I think my learned colleague here used a good example earlier when we were discussing the CRTC. Obviously when you're looking at licensing for a product you look at what the interest is, what the market saturation is, and so on. We don't see why that shouldn't be applied in the current environment.

**The Vice-Chair (Mr. Jim Gouk):** Air Canada has consistently indicated before us and in personal talks with them that they are very much in favour of cabotage, as long as it's reciprocal. Yet if I understand you correctly, you are not too hot on it. Why the contradiction?



**Capt Kent Hardisty:** That's an interesting one. To be frank, I don't think we understand exactly what they're saying, and what end they're trying to achieve. If they're talking about full-out cabotage—I don't think so. First of all, it takes two to tango, and you're not going to engage the other party right now south of the border, from all indications we have. It's difficult for us to understand how that would be in the best interests of Air Canada as a corporation, but that's up to them to answer, of course.

• (1720)

**The Vice-Chair (Mr. Jim Gouk):** I find the contradiction interesting.

**Capt Kent Hardisty:** We don't support that view.

**The Vice-Chair (Mr. Jim Gouk):** Thank you very much for coming before us. Hopefully we're going to put all this to very good use, either before or after the election.

**The Chair:** Mr. Lefebvre, welcome. Your presentation is being passed out now, so please go ahead.

**Mr. Paul Lefebvre (President, Airline Central, Local 2323, International Association of Machinists and Aerospace Workers in Canada):** Thank you, Mr. Chairperson and fellow honourable members of the Standing Committee on Transport, for the courtesy you've extended to hear the thoughts of the members of the largest air transportation sector union in Canada. We have over 15,000 members, and they literally keep our country flying from coast to coast and beyond. In every meaning of the word, we are stakeholders in a vital but oftentimes misunderstood sector of our country's transportation infrastructure.

The history of the airline industry in Canada since inception of deregulation has been largely negative for the carriers, shareholders, and employees alike. The litany of bankruptcies, stranded passengers, and job losses continue. We're in fact just where my predecessor predicted in a presentation to Transport Minister Mazankowski in the mid-1980s.

Unfortunately, the euphoric projections of a totally unregulated and privatized industry overshadowed any other opinions seeking a more detailed review of the matter prior to implementation. What we are left with today is the inevitable conclusion of deregulation in our vast and sparsely populated country, an unstable national carrier and two low-cost models all fighting for market share.

Until the sudden but not unexpected disappearance of Jetsgo, consumers were enjoying the temporary benefits of unsustainable low fares. This benefit, of course, has only a short lifespan, as fares would inevitably begin to reflect the real cost of operation when failure and consolidation resulted in market dominance. Should this be the driving factor for our government, to seek complete air transportation deregulation between Canada and the United States, we would once again request that a full long-term view be taken on the matter. We don't believe our industry is in any shape to benefit from further liberalization at this time.

For the following reasons, we, the stakeholders, urge the Standing Committee on Transport to insist that Parliament fix the inherent problems here at home prior to considering implementation of a deal that we believe would prove to be universally negative for Canada and Canadians.

From the workers' perspective, we observe that reorganizing U.S. airlines are dumping their pension plans into the U.S. government guarantee fund. An Air Canada subject to full U.S. competition will feel compelled to seek similar cost relief. What will happen to the retirement savings of airline workers in Canada who don't have such a fund to fall back on? Is our government willing to offer similar guarantees?

I'll move on to the infrastructure and cost disparities of Canada versus the U.S. We're certain this committee has heard numerous submissions outlining the need for change regarding infrastructure costs. These include a myriad of tax levies and surcharges that stifle and harm our air carriers. The following big-cost items must be addressed to get our house in order before inviting our neighbours in. They are, as you've heard, airport rents that are approaching \$300 million, projected to go to \$500 million; airport authority unaccountability for spending and collecting what are now some of the highest user fees in the world; air navigation fees that continue to escalate unabated; and security surcharges much higher than in the U.S.

It is our opinion that our government must reign in the airport authorities and force cost discipline upon them. A good first step would be to designate them under federal law as a commission, council, or tribunal. I believe that's under section 18 of federal law.

The next logical step would be to address airport authority governance. Someone needs to introduce accountability in the selection, term, and mandate of these now unaccountable, self-appointed, self-perpetuating organizations. Who is in charge? Who chooses them? What are the criteria? What is their mandate? Are they accountable to anybody, and if so, to whom? These are questions that require answers.

As for the cost inequities with the U.S., we need to reduce or eliminate the rents that are paid to government for facility use. The savings must then be mandated to be passed on to the users.

Air navigation costs, once included in a single user fee structure under Transport Canada direction, are forever increasing. Do they answer to anyone for approval regarding their charges?

Security fees seem to be inexplicably high, given the optics of more visible and thorough U.S. security processes versus those in Canada. What are we getting for such high fees?

We need a level playing field if we are to consider further liberalization in a transportation system with the U.S.

I have a pro and con document. I have a larger report commissioned by Professor Louis Gialloredo. He was part of the original negotiation of open skies with the United States. What I've done is a pro and con document from that report. It's a much lengthier document.

•(1725)

As you can see on the pro side, air fares are to drop in the top 15 domestic markets for a period of time, for example, Montreal-Toronto. Smaller communities will lose services. Canadian carriers defend top markets and drop smaller, less profitable ones. Eventual government subsidy is required, and examples are the Maritimes and the Prairies.

A pro is that Canadian carriers enter U.S. domestic markets offering U.S. customers more competition; a con is that Canadian carriers will have limited success in U.S. markets versus growing U.S. low-cost, low-price competitors.

A pro is that Canadian carriers may gain access to new international routes via U.S. gateway points; a con is that U.S. air carriers will add capacity on Canadian national route sectors, thus poaching traffic.

Canadian carriers earn more revenue in U.S. dollars. That presumes the U.S. dollar has a higher value than the Canadian dollar. U.S. low-cost carriers enter domestic markets and drive prices down, thus reducing Canadian carrier revenues at home.

Some Canadian airports benefit from an initial increase in aircraft movements.

The need for U.S. customs and immigration pre-clearance is extinguished, thus speeding up airport processing times. However, there are significant sovereignty-linked issues such as safety and certification of aircraft operated on cabotage sectors, security, personal data access, enforceability of labour agreements, customs and immigration, and anti-trust regulations that would need to be resolved first.

Canadians get more air service options on larger domestic routes.

Coincident with the next downturn, there will be significant job losses and further bankruptcy activity for Canadian carriers, as they become part of the U.S. domestic aviation cycle.

As you can see, the rest of it is all negative. Canada signs a deal that gives the U.S. full access to Canada but gets partial access to the U.S. market, which in relative terms is of equal value. If the U.S. grants similar or overlapping rights in its domestic market access to other foreign carriers, this would reduce the value of access for Canadian carriers, and right now the EC is involved in talks with the U.S.

Since the U.S. market in itself is deregulated, there may also be U.S.-based new entrants that will provide lower-cost price competition for Canadian carriers.

If current Canadian carriers are pushed into bankruptcy or a merger with a U.S. airline, there may be no Canadian majority-owned airlines to operate international, bilaterally allocated routes ex Canada. Bilaterally allocated routes may only be operated by carriers that are majority owned by nationals of that country.

Canadian carrier access to slot-constraining U.S. fortress hub airports could be restricted, thus further devaluing rights of access to the U.S. market.

The incremental liberalizations have, in most cases, resulted in significant reductions in shareholder value and employment, especially among older legacy carriers. Job losses would reduce the tax revenues flowing to the Canadian government.

Finally, the U.S. has several larger network carriers, thus making the failure of any one or two somewhat less than cataclysmic. Here in Canada, on the other hand, we have but one. If the survival of this one carrier were imperilled, which could very well happen in the next downturn, Canada would be stuck with basic market service issues or be forced to prop up its national carrier. Would the U.S. allow that in a common market situation? That's a question.

The research for the pro and con document, as I said, was conducted by Louis Gialloredo of Stowe & Breton Consultants out of Montreal. We wanted to get their view. They do a lot of consulting around the world on bilateral issues and airline issues bilaterally.

This is a short presentation. We just wanted the committee to have a look at the full picture.

It's our position that the Americans aren't really interested in a full mirror-image open skies, so it would be an asymmetrical open skies. There are some things in the U.S. that I understand they have with regard to the service of smaller communities. When they deregulated, I believe in 1978, the have communities demanded there be a section in that act that should they become have-nots, in terms of air service, there would be a subsidization process. Keep in mind that in the U.S. you're not at that point until you're down to the 200-city pairing, where in Canada you're probably looking at a 25- to 30-city pairing where you're going to enter that zone if you were to do something similar. Anyway, in that process they do have some sort of catch-all for that. Here we don't seem to have that.

In our opinion, the air industry right now is again being treated by government as some sort of cash cow.

•(1730)

In the U.S. model, the U.S. government subsidizes the airport facilities. Right now we're taxed to death.

We've just come through the CCAA bankruptcy proceedings with a gun to our head, and we're of the opinion that this is going to lead to another filing and another one. It almost seems like part of the business plan of the airline industry now—it's inherent in it—is that when there's a downturn, they're going to file.

What we are saying in our presentation is, let's get our house in order first before inviting the neighbours in.

Thank you very much.

**The Chair:** Thank you.

Questions? Mr. Gouk.

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

Much of the information and many of the ideas you shared with us we've certainly heard before, and we've expressed concerns ourselves.

With regard to airports and some of the facilities they've built, there's a mixed thing there. I have a problem myself with the extent of some of them and the grandiose design that's gone into them, yet we hear from most of these airport authorities, without rebuttal from the airlines, that the airlines have signed off on their plans. We have a little bit of a mixture there that still needs to be sorted out.

In your presentation you made reference to the air navigation fees escalating unabated and forever increasing, and you asked if anyone approves their charges. They seem inexplicably high, I think is what you're suggesting. When we look at some of the airports and we see some of the things they've built, we can see where that question might arise. In raising this question with respect to NAV Canada, do you have any example of where NAV Canada seems to be spending money in excess of what the industry actually requires for navigation purposes?

**Mr. Paul Lefebvre:** No, I don't have any evidence of that.

What I was looking at overall was this. When Transport was running the airport in Toronto in particular, which is where I come from, there was a single user fee to land and park an airplane at a terminal building and to leave, for the cycle through there, and now it's piecemeal. Security is this much, the user fee for the airport is that much, and there's navigation. Every time we turn around it seems those rates are going up, so the costs go up, and in our business that means they come looking at the employees for cost relief.

**Mr. Jim Gouk:** Actually, there always was a landing fee that went toward operating the airport system. There was a ticket tax that went toward operating the air navigation system, and while the security tax is new, a similar type of structure is there.

I understand what you're saying, and I sympathize with you about some of the cost downloading that's going on in the industry, but NAV Canada seems to be always getting a bad rap. Really, they're providing what navigation system is required by the users themselves, and being a not-for-profit corporation, they're passing that cost on.

One of the things that has driven the price up is failures in the industry. If Jetsgo fails and owes millions of dollars to NAV Canada, that's revenue they haven't collected. Somebody has to pick up the tab, and that's probably where a lot of the escalation is coming from. That's one of the things we'll be looking at very carefully.

•(1735)

**The Chair:** Thank you.

Monsieur Carrier.

[*Translation*]

**Mr. Robert Carrier:** Good afternoon, Mr. Lefebvre. With a good French name like yours, I suppose you speak French. No?

In your brief, you discuss the problems inherent in our air system that should first be solved, such as the problem of rents or that of the security tax.

You're nevertheless still negative about the air liberalization that might be implemented. You believe we should solve our domestic problems first. Your position surprises me a bit. Most of the stakeholders we've previously met are in favour of liberalization because it would increase passenger volume. Some airlines serving small airports told us they weren't afraid of competition, wherever it comes from, because they're very competitive. These are our Canadian businesses, and they have no fears on that subject.

I wonder what's the basis of your fear with regard to the liberalization policy as a whole.

[*English*]

**Mr. Paul Lefebvre:** My unilingualism is an accident of birth. I was born in Windsor. My father was born in Windsor, Ontario, so we never picked up on French. At the time I came through school they were just introducing it.

As far as my negativism towards open skies goes, it's based on looking at the reality out there. We're not going to get the same access.

For instance, if there was going to be the notion of full mirror-image open skies, the relative values aren't there. Allowing the carriers in the U.S.—who really aren't interested in this right now, from what I understand—to come into Canada and saying to them, look, you can go anywhere you want, means they'll get the slots and the gates here in Canada. We're not congested like they are in the U.S. In the U.S., what we're looking at is that they're not going to give us equal value. We're seeing that as not an equal value situation, given the other parameters out there. The Asians and the EEC want a similar deal in the U.S.

So it seems that we're the one requesting the deal; the Americans aren't the requesters. Therefore, we're walking in and saying, could we have a liberalized air deal where you'll give us this, this, and this? If it was full mirror-image access, with guaranteed slots, that sort of thing, I could see it working.

The other thing I guess you prefaced the question with was the cost structure, the fuel taxes, all the other issues that make it an unlevel playing field for anybody on this side of the border. If that was magically addressed at some point, and it was full mirror-image, I could see some support for that.

[*Translation*]

**Mr. Robert Carrier:** All right. Thank you.

[*English*]

**The Chair:** Ms. Desjarlais.

**Mrs. Bev Desjarlais:** You mentioned the air navigation fees as well as the other fees in the first paragraph or so of your brief in terms of the cost disparities between Canada and the U.S. Do you know how the U.S. bills out its air navigation fees?

**Mr. Paul Lefebvre:** I'm not entirely sure how it's billed out to the carriers there, but I guess what I was referring to—and it's not my area of expertise at all—was the overall cost that it used to cost my original employer, Air Canada, to pull into Pearson airport.

**Mrs. Bev Desjarlais:** No, I understand that part. It's just that when you were doing a comparison, you mentioned...I thought you might have evidence—

**Mr. Paul Lefebvre:** I don't have the evidence, no.

**Mrs. Bev Desjarlais:** In the study you have, you indicate it was done by the same fellow who did the initial open skies agreement. Are your pros and cons that you've put in here a summary of what's in his document?

**Mr. Paul Lefebvre:** Pretty much, yes.

**Mrs. Bev Desjarlais:** I can't help but note all those cons on the Canada side, and I'm wondering why he was possibly negotiating an open skies agreement when there are so many cons on the con side for Canada. I'm curious as to your thoughts on it.

• (1740)

**Mr. Paul Lefebvre:** Do you mean the author? He was actually an executive with Air Canada during open skies. He was part of the process of gaining access to the U.S. at that time, getting a reciprocal agreement. We went to him for that reason, to understand a little bit more what we're up against, whether it would be good or bad for us. He's the one who said, look, the Americans aren't interested in this right now. As far as he was concerned, it was a dead issue, to be frank.

But he said we were not going to get full mirror-image, and if we were going knocking on their door and asking for something, they were in a bit of a pickle with the EC at the time. The EC was demanding open skies with the U.S., and they were starting to play hardball with the U.S.

So if we walk in, they're not going to hand us something they're not prepared to hand the Europeans, and they are very protectionist towards their own system.

**Mrs. Bev Desjarlais:** Again—and I guess it's just my take on this that I can't help but wonder...I guess you've explained it. He was representing Air Canada, so it wasn't really what was necessarily best for Canada; it was what was best for Air Canada.

**Mr. Paul Lefebvre:** Are you talking about the time he did the original work in 1995?

**Mrs. Bev Desjarlais:** Yes.

**Mr. Paul Lefebvre:** He was given marching orders as an executive of an airline to go out and look for the best deal possible for us. I think in some ways it was a good deal, the original, especially with the strategy of using the regional jets to cut out the hubs and the delays and the potential delays. I think the marketing was quite good.

But going further, whether that will be the same way this time, given those parameters, there's doubt. One of the big concerns we have as employees, to tell you the truth, is that throughout CCAA we took pay and benefit cuts so that we could keep our pension plan, our defined benefit plan. Parliament, of course, is helping us out with a change in the law, I believe, to go from five years to ten years to top that up.

US Airways and United Airlines have already dumped their plans on to the U.S. government guarantee fund, which we don't have in this country. I can just see Robert Milton, or whoever the lovely fellow is in charge of Air Canada at that time, lining up at the border and saying, sorry, we can't compete because we've got to pay these costs and the other guys don't. I don't want you to throw us into the deep end, basically, without a paddle, so to speak.

**Mrs. Bev Desjarlais:** Quite frankly, I certainly wouldn't put my life in Robert Milton's hands. I'm glad Air Canada employees are flying the planes rather than Mr. Milton.

Mr. Gouk made a point of mentioning that NAV Canada had to pick up the extra costs for Jetsgo. They also picked up a lot of costs that came from Air Canada when they filed.

Quite frankly, as beneficial as the new pension announcement was, in this case, you're absolutely correct that the government ended up picking up the costs, because the airline industry didn't fund pensions properly. We probably need to make some other changes within Canada's pension legislation, not only because of the government fronting the money to keep the costs down for airlines.

That's it. Thank you.

Are we going to get a copy of that report?

**The Chair:** Yes.

**Mrs. Bev Desjarlais:** Thank you.

**Mr. Paul Lefebvre:** I have a simple suggestion in that regard. Before a company decides they're going to take a holiday from contributions, it might trigger a test for permission to take a holiday.

**Mrs. Bev Desjarlais:** My thought would be that there should be no holiday from contributions.

**Mr. Paul Lefebvre:** That's my thought too, one that will pass the scrutiny of everybody.

**Mrs. Bev Desjarlais:** Thank you.

**The Chair:** Mr. Karygiannis, do you have any questions?

**Hon. Jim Karygiannis:** Thank you for coming.

I have a couple of questions for you.

In the EC and the United States, can you describe how that progress is coming along, if you're familiar with the open skies agreement? How has your union participated in and/or observed this?

**Mr. Paul Lefebvre:** I am not aware of that on the international scale, but we had discussions about it through Professor Gialloredo. He basically said that the Americans are not going to want this right now. In fact, a few days ago, when I spoke to him, he said that, in his opinion, the issue was dead.

**Hon. Jim Karygiannis:** About Canada?

• (1745)

**Mr. Paul Lefebvre:** Canada and the U.S.

**Hon. Jim Karygiannis:** I'm talking about Europe.

**Mr. Paul Lefebvre:** In that context, he thought the hardball going on between the U.S. and the EC would preclude anything going on between Canada and the U.S. That's why he said that any deal right now would probably be very negative towards Canada.

**Hon. Jim Karygiannis:** Thank you.

**The Chair:** Thank you very much, Mr. Lefebvre. It was very interesting. Thanks for coming.

We now have Mr. Balnis, from CUPE.

Thank you for coming, Mr. Balnis. I know you've been watching with great interest this afternoon.

If you want to proceed, please do so.

**Mr. Richard Balnis (Senior Researcher, Canadian Union of Public Employees):** A copy of our submission has been distributed in both languages to you, and I'll just quickly summarize it.

CUPE thanks you for the opportunity to appear before you today. CUPE is Canada's largest union, representing 550,000 workers across Canada. The airlines service division of CUPE represents 8,000 flight attendants at five airlines: Air Canada, Air Transat, Calm Air, Cathay Pacific in the Vancouver base, and First Air.

We offer our views under three headings, and I'd like to go quickly to the first one, which is the economics of airline deregulation.

We submit that you need to understand that first before we try to apply it on a continental or international basis. Under airline deregulation, the text book model of a perfectly competitive industry offers no practical public policy insight. Rather, there are several distinct stages of oligopolistic competition that are characteristic of a deregulated airline industry, whether it's in Canada, the United States, or Europe, as shown on page 2 of our brief. The dynamic is made worse by periodic economic and other booms and busts in the industry.

As a result of deregulation in Canada, airlines have taken full advantage of the deregulation to increase their average fares faster than inflation, at a greater rate than in the years prior in 1987 when there was some oversight. Fares to some smaller communities are increasing much faster and exceed the actual cost of delivering the service.

However, despite these rising average fares, the industry is not profitable. The figures presented by the CAW indicate that the industry has collectively lost \$7 billion. There is also growing evidence that travel is becoming less convenient as a result of the hub and spoke system, and many passengers are not happy with air travel under deregulation. Direct non-stop air service is being increasingly replaced by circuitous routing through hub airports. There have also been declines in the level and frequency of services in some regional centres in parts of the country.

Airline deregulation has produced an extremely volatile industry. As you can see, in 1992-93, the first Air Canada-Canadian Airlines merger failed and American Airlines moved in. In 1996, Canadian

was near bankruptcy. In 1999-2000, CAIL was bankrupt again and there was a merger between Air Canada and Canadian. Then in 2003-04, Air Canada went under CCAA protection.

Throughout the period, government has stood by lamely watching this scenario unfold for the last 15 years. Meanwhile, for airline workers, deregulation and privatization has meant loss of jobs, job insecurity, poor working conditions, wage freezes and cuts, and a climate of fear in the workplace.

As a result of this continuous tumult, we have appeared before the Standing Committee on Transport many times and urged action. In this regard, we have always advocated what was sagely suggested by the Standing Committee on Transport in June 1993 that we have to regulate better and smarter. We would suggest that needs to be done in our airline deregulation industry today.

When we look at the minister's reference document, there is really no analysis of the impacts of deregulation. These deficiencies are most evident when you look at the question of the impact on communities. As we've tried to submit, one of the points not mentioned by open skies advocates is the freedom not to fly. As you're structured through hubs, you begin to have more circuitous routings through small and medium-sized cities. We suggest in our analysis that an open skies agreement would probably reduce the current level of non-stop service available to many small and medium-sized Canadian communities, even to the United States, as traffic is routed south of the border.

For us, the impact on flight attendant jobs—on page 6 of the brief—is perhaps most important. Through a combination of relaxed foreign ownership and the granting of right of establishment, airlines will be free to set up their operations on a continental basis. This is the biggest threat facing our jobs. Where we now crew flights operated by Air Canada and Air Transat around the world, such new arrangements would allow these carriers to contract out our jobs to new subsidiaries in the United States using non-union flight attendants.

• (1750)

Such prospects for growth may be excellent for Air Canada and its shareholders. In fact, they may be quite willing to trade the domestic market for a 2%, 3%, or 4% share of North American travel, but there is no guarantee that any of this growth will benefit Canadian workers. There can be U.S. and Mexican bases for flight attendants for this new continentalized Air Canada or even other carriers. The emergence of such bases would lead to fewer jobs in Canada as these megabases then start to do the work of all of North America.

Finally, on the impact on safety, the whole issue of the “flags of convenience” I think has been put forward in evidence before you. I really won't dwell on that because I'd like to touch on some of the very specific questions the minister has asked you. Under our section C, we urge SCOT to conduct a careful analysis of air fares, service to communities, workers, and the maintenance of sufficient safety oversight before you give any advice to the minister.

On the six issues we identified in the minister's document on foreign ownership, in anticipation of your question, CUPE has historically not seen any benefit to going beyond the 25%. The only argument we've heard is to have access to foreign capital. Air Canada has successfully restructured out of CCAA while respecting the current foreign ownership and control arrangements. Air Transat has just recently restructured its shareholdings to meet that requirement. We would agree with the NDP and Bloc Québécois reports to the December 1999 SCOT report that asked that the 25% limit be legislated and not be a regulation that four ministers of the Crown can change on agreement.

On the matter of a domestic right of establishment, given the threats to our jobs on a North American basis and the fact that we do not believe the industry can support such competition, we do not think this is viable.

On cabotage, the position is the same. We are concerned, though, that the minister may try to do unilateral cabotage. We think this approach would be misguided.

On the question of the Canada-U.S. Open Skies Treaty “Plus”, which is the addition of fifths and sixths, depending on the corporate strategy and the use of gateway airports, we believe there could be damage to existing Canadian international routes and operations. You in fact would divert traffic away. We suggest that a more balanced exchange is in order.

In terms of the single North American civil aviation market, we are concerned that there will be a loss of jobs and that the playing field will remain unlevel for a variety of reasons that various witnesses have given you already.

Finally, on international air navigation, we would recommend a gradual and phased approach. The Canada-China negotiations perhaps are the best example. In addition, we would recommend very strongly that labour representatives be included as part of those negotiations.

Thank you for the opportunity to appear today. I am open to your questions, and I urge SCOT to do the necessary research and deliberations to make sure its recommendations to the minister on this most important topic are sound and a way forward.

Thank you.

**The Chair:** Thank you, Mr. Balnis.

We're going to start with Monsieur Carrier.

[*Translation*]

**Mr. Robert Carrier:** Thank you.

Good afternoon, sir. I carefully read your report, which is quite comprehensive. I simply wanted to ask you a question about Canada's two official languages.

Since you represent approximately 8,000 flight attendants, who are in contact with the clientele, I wanted to know your opinion on respect for the two official languages. Air Canada is currently the only airline subject to the act. With air liberalization, should that obligation be extended to all airlines so as to ensure that the two official languages are respected in Canada?

• (1755)

[*English*]

**Mr. Richard Balnis:** Air Transat, which is the other large carrier, is in fact more francophone than English. In many respects, they conduct their business entirely in both languages. I'm not sure if any of the other three carriers we represent—Calm Air in Manitoba, the Vancouver base of Cathay Pacific, which is in fact a fifth-freedom base that we have organized, and First Air—would meet any of the francophone requirements of the Official Languages Act. But Air Canada, you're right, is subject. Air Transat is already meeting it. I don't think Air Transat would have any objection to being subject to that legislation, because that is just the way it functions. It does it in both languages almost seamlessly.

[*Translation*]

**Mr. Robert Carrier:** I asked you whether, in the context of a new air liberalization policy, this obligation should be part of the agreement to enable other airlines to serve our airports.

[*English*]

**Mr. Richard Balnis:** Well, then, I'm not understanding your question. Are you suggesting that as part of the new treaty with the U.S., there should be an official languages requirement on, say, American Airlines? I'm sure they'd turn around and say that's an unlevel playing field, and unfair. But if they start operating service into Quebec, they should be subject to those requirements. There is a need for it, and they should be providing that service, but whether you could get it into the U.S. treaty...

The United States is arguably the most powerful country in the world, and they're tough negotiators. As I understand their negotiations, they have a negotiating committee and then they have about 50 people watching them from airlines and labour organizations. I'm sure the airlines would raise powerful objections that they simply didn't have the people. If the requirement, as I think Mr. Karygiannis suggested, was for Spanish, they might be able to do that, but I don't think they have the capacity.

So they would object very strongly, and then it would become an issue to be traded off in the bargaining. I'm not sure if our negotiators would be able to bargain that into the treaty. Although I can understand perfectly why you're suggesting it, I don't think the U.S. will tolerate that in their treaty.

**The Chair:** Ms. Desjarlais.

**Mrs. Bev Desjarlais:** I don't have any questions.

**The Chair:** Mr. Karygiannis

**Hon. Jim Karygiannis:** I have two small questions. You said air carriers using flags of convenience. Can you give a couple of examples of that, please?

**Mr. Richard Balnis:** There are no air carriers using flags of convenience, because of the foreign ownership restrictions. The flags-of-convenience model I'm giving to you is from the maritime sector, where you can have a ship with English owners, Swedish officers, Filipino deck hands, and Liberian registration. It's a maritime phenomenon, and the fear is it's spreading to civil aviation. There is no example currently, because there are mostly foreign ownership restrictions now.

**Hon. Jim Karygiannis:** Are there, anywhere in the world that you're aware of, flags-of-convenience airlines?

**Mr. Richard Balnis:** No.

**Hon. Jim Karygiannis:** The other question I have for you, and we've heard from different parties.... When it comes to the airport authorities, is there any representation from...? We heard about stakeholders being part of, probably, the board of governors. What is your opinion, as far as CUPE is concerned, on that? Should unions or large unions be represented on the board of airport authorities?

**Mr. Richard Balnis:** I think the issue of how the board is chosen.... It is usually through self-appointment, as well as...for example, the GTAA has so many appointed by the Greater Toronto Airports Authority as well as other bodies. You would have to amend that. We have very little access to anything that airport has. For example, we're not even routinely involved in their security consultation committees, because they don't want us there.

We would appreciate the opportunity to be on the board, but I would imagine they would not want us there, so it would be a struggle. We would see value in it. However, it'll be a tough fight. I hope you do make that kind of recommendation, but just as on the question of bilingualism, it will be resisted fiercely.

● (1800)

**Hon. Jim Karygiannis:** If you have an opportunity.... In conversations, how we provide governance for airports and airport authorities is being talked about. In those negotiations, in those discussions, in CUPE's suggestion or thoughts, would airport authorities be better off, better represented if unions were also part of it—let's say one union, or two or three, whatever—so there was also a stakeholder from the union side on the board of directors?

**Mr. Richard Balnis:** There would be benefit in that, yes.

**The Chair:** Okay.

Ms. Desjarlais has a quick question.

**Mrs. Bev Desjarlais:** On the security issue, during the normal course of how you operate now, without being on the boards, is there

any kind of consultation regarding security issues with the people you represent?

**Mr. Richard Balnis:** The consultation occurs through Transport Canada security. Unfortunately, unlike the Transport Canada safety side, they are less open. They do have consultations. CATSA has a number of consultations, but when CATSA talks to the airports, when they come up with delivering something, we are not part of those discussions. We are usually told by Transport Canada that something is under way, but we are not part of how CATSA and the airports deliver something. That is unfortunate, because I think they would benefit from our perspective, since we are either the users or victims of anything they come up with.

**Mrs. Bev Desjarlais:** I'm quite surprised that they wouldn't involve flight attendants in all cases as part of the security consultations—it only makes sense that they would have an up-front knowledge of what types of issues they're dealing with—as well as get the input of others in spreading that message to other flight attendants. It's quite surprising that you wouldn't be more involved.

**Mr. Richard Balnis:** Just to give you a concrete example, we have been arguing since September 11, 2001, about the development of a better restricted area pass. We had an assistant deputy minister advisory committee. We spent about two years coming up with recommendations. We reached some loggerheads that they went away and thought about. In the last two years they've been sitting down with the airports and developing a new security pass system, and we only saw the regulations about a month ago.

When we raised questions—what about this, what about this—they said, “We'd better go back and talk to the airports about it.” We said, “Hang on, why aren't they at the table? This is a pass that affects our livelihood in getting to our aircraft, to work, and an airport can just pull it without an appeal mechanism. Why hasn't that been fixed?” They said, “Well, the airports don't want it.” We said, “Well, hang on here. We had talked about this for two years prior with the assistant deputy minister; we thought it was fixed.” And they said, “Ah, well, he went and talked to the airports.”

They are a very powerful group. I guess once you privatize an entity, they can become very organized and almost sometimes an impediment to getting things done in the air transportation system.

That's just my view.

**The Chair:** I'll give the last word to Mr. Karygiannis.

**Hon. Jim Karygiannis:** You made me lose my train of thought.

I've asked this question of another union, and I'd like to ask it of you. As unions, let's say, take on different sectors of transportation—today you may not have any truckers, tomorrow you will—what is the view of CUPE as far as there being one pass that would allow you to get into a port, into an airport, across the border, one pass to get through all security, versus having to have different passes for...? When you get through the border and you're driving a truck...if you arrive at the airport, you need a different pass, or if you go to a marine port, you need a different pass.

Are there any recommendations or thoughts from CUPE on that issue?

**Mr. Richard Balnis:** I think we spent about four years trying to develop a better restricted area pass for airport workers. I would suggest we may be a year or two years away from that. Developing a single pass may take a long time.

It seems to me it has enormous merit. Right now, CATSA is the arm that is doing it for airports. Who would be the body—just to think off the top of my head—that would be able to do it for all transportation? The government would have to come to grips with that. Government had to think, after September 11, 2001, how they were going to improve airport screening services, so they created CATSA, right off the bat.

We were at an advisory meeting on security where the chair of the committee we were advising actually said they didn't even have a structural plan. I asked them, how does security work; who decides what? They said, we don't have one. They came the next day with a flow chart of all these different bodies, but it's not the official one, they said.

There's an enormous lack of coordination amongst all the security bodies to do what you're suggesting, but it would seem to me that if it were biometric and met the security standards, it would be appropriate.

The issue, though, is the privacy concerns of the workers. In some instances, in the case of the port workers, they pushed the envelope and have gone way beyond. You may hear representations from them about how they feel about their pass. When their pass was put on us in 1985, we had a lot of privacy concerns with them. We still have concerns about it that still haven't been worked out.

I think any system would have to involve working out all the wrinkles precisely before you spread it everywhere.

•(1805)

**The Chair:** Thank you, Mr. Balnis.

I'm not certain we are working out wrinkles here or identifying them, but we certainly thank you for your input here today.

We are going to suspend for a few minutes.

•(1806)

\_\_\_\_\_ (Pause) \_\_\_\_\_

•(1807)

**The Chair:** Mr. Hayes, Mr. Chedore, welcome.

You've been watching, I know. If you want to, please start.

**Mr. Bill Chedore (National Coordinator, Health and Safety, Canadian Labour Congress):** We're going to try to be brief, so

we're not going to read the entire brief. I'm going to refer to various sections of it, and because my copy has different page numbers from yours, I'll tell you what page I'm on in your document, if you wish.

First of all, my colleague Kevin Hayes and I are pleased to be here today. On behalf of the three million members of the CLC, we want to thank the transport committee for giving us the opportunity to present our views on air liberalization and the Canadian airport system. The CLC brings together Canada's national and international unions, along with the provincial and territorial federations of labour and 137 district labour councils whose members work in virtually all sectors of the Canadian economy, in all occupations, in all parts of Canada.

Air transport is an absolutely essential industry to our economy and to every community in our country's vast geography. It is integral to our sovereignty as a nation. Air transport provides employment directly and indirectly to well over 100,000 Canadians working for air carriers, airports, aerospace, and a wide range of services that support it.

Before considering further liberalization of air transportation, domestic or international, we need to carefully examine our experience with air liberalization launched domestically nearly two decades ago and with the U.S. ten years ago.

On continental liberalization and cabotage, the CLC is opposed to an expansion of bilateral or continental liberalization in air travel, including proposals for cabotage. The negative consequences and longer-term risks of more liberalization outweigh, in our view, any short-term competitive benefits that particular airlines or airport authorities think they could capture.

Cabotage is not the silver bullet that will force our own carriers in our domestic market to provide better service to more destinations at lower cost. We have now had enough years and results to know that the fundamental problem of our domestic airline industry is too much competition and not too little.

Going on to page 4 of your document, the woes of the industry are due to liberalization policies and excess competition facilitated by the ease of start-up and the resulting entrance of under-capitalized airlines. They all expect to grow and prosper, but they almost always fail. Cheap fares as the result of carriers holding a series of going out of business sales are not the basis for a viable industry.



In your document on page 5, under “Cabotage and Canadian Ownership Rules”, diluting Canadian ownership and control requirements of air carriers would essentially abandon the possibility of ever effectively regulating the air transport for the benefit of Canadians and Canadian communities. Without ownership restrictions, carriers could fly flags of convenience, as was stated earlier in CUPE’s brief, registering in countries with low safety and other standards.

Diluting Canadian ownership raises other questions. If we have no rules on what constitutes a Canadian carrier, on what basis do we even deal with other countries? Do our current bilateral air agreements become invalid? Allowing foreign carriers cabotage rights in Canada would have the same effect. Major routes would be dominated by larger foreign carriers with no interest in any but our largest markets, leaving smaller centres with high-cost service or without network service altogether.

On U.S. security and economic concerns, boosters of air liberalization will point to the rapid expansion of transborder air services in the second half of the nineties in making the case for more liberalization. It’s important to note that the expansion was not due to the 1995 Canada-U.S. open skies agreement; it was driven primarily by general economic expansion. Transborder capacity is now back to where it was ten years ago.

On page 6 of your document, we have several other concerns about open skies with the U.S. One is our vulnerability in Canada to U.S. measures aimed at protecting domestic carriers as well as their workers and shareholders, U.S. concerns with their own homeland security, and the mistaken belief that our costs are lower. With the exchange rate recently above 80 cents, Canada’s airline industry cost structure is not lower. It’s no secret that the U.S. carriers are struggling to survive. They will do everything they need to do. In addition to lobbying politicians for protection and assistance, they will do what they have done well for decades, and what they did after 9/11: cut fares below their cost to drive out the Canadian airlines from their market. Since 9/11, homeland security and the continuing U.S. war on terrorism will not be easy for Canadian airlines. In the U.S., security trumps trade any time.

On page 8 of our document under “The Need for Stability Not More Turbulence”, competition, the basis for this latest liberalization initiative, is the same formula that generated excess capacity and endless losses and bankruptcies.

● (1810)

In those two decades of deregulated domestic air transportation, workers have experienced ongoing dislocation, uncertainty, job loss, and a marked deterioration in the quality and conditions of work.

The flying public have clearly experienced greater uncertainty and risk in their travel decisions, the most recent being the tens of thousands of stranded Jetsgo customers. The quality of air travel has also clearly deteriorated. The pressure to cut costs at all cost has produced a lower quality of service and has meant that air travel is increasingly seen as a burden and a hassle, rather than an enjoyable and valuable experience.

On average, deregulation has not led to lower prices. The very brief price reductions in 1989, following deregulation, were quickly

offset by sustained and dramatic real price increases. The industry has been dominated by repeated cycles of overexpansion followed by crisis, collapse, and contraction. This pattern shows no signs of stabilizing.

Excess capacity and the hemorrhaging of red ink are not ways to make the airline industry soar. Workers fare even worse than shareholders as their jobs and working conditions deteriorate in the face of their financially desperate employers.

Turning to the alternative to more liberalization, intercontinental routes, still the most heavily regulated part of the airline industry, are also the most consistently profitable segment of the industry. They are the major reason for Air Canada’s current faster-than-expected recovery. When Air Canada’s financial difficulties worsened in 2003, its growing losses on Canada-U.S. routes were in fact one of its biggest problems. The regulated intercontinental air transport demonstrates that the industry can take advantage of technological change and introduce efficiencies and reduced fares. By helping the industry find a better match between capacity and demand, a match that the private sector is unable to attain in Canada, regulations actually help reduce realized unit costs.

On the question of airport authorities, we are pleased to see that the committee is going to look at airports. The governance of airport authorities needs reform. They are publicly built monopolies with enormous power and influence. The largest airports have tens of thousands of workers, are central to the economy of the regions they serve, and have an enormous impact on the natural environment. Despite the clear public interest and the need for democratic structures with transparency and accountability, they are governed and managed as private corporations. There is little public scrutiny.

With this structure, management and senior staff wield enormous power. Privately run airports and a privatized air navigation system have not added efficiency; they have contributed to further fragmentation of airline transportation as a coherent system.

Turning to the heading, “Not more destructive competition”, 20 years of airline failures, disruption, and job loss should caution us about further liberalization. Curiously, there has been very little study of the impact of air transport liberalization or deregulation by the proponents. There is almost nothing on the likely impacts of even more liberalization.

Financial stress often accompanies operational stress. It raises significant safety concerns. Financial stability must be a precondition for permission to operate an airline. Airlines will cut corners, including public safety, if they are so financially strapped that they are scrambling to sell enough tickets to pay for the jet fuel on the next day's flights.

Air transport is too important to be driven by private business decisions that are often short term and lead to market concentration, monopoly, and airline failure. We need an air transportation policy that serves all Canadians.

We submit this respectfully on behalf of the Canadian Labour Congress.

•(1815)

**The Chair:** Thank you very much, Mr. Chedore. I don't know if we have questions or not.

[Translation]

Mr. Carrier, do you have any questions?

**Mr. Robert Carrier:** Yes, I have a brief one.

Good afternoon, sir.

**On page 11 of your brief, you say:** Airport authority boards are governed by a random, self-perpetuating people who serve part-time and represent a variety of local interests.

When you say "random", that troubles me. That's not the impression I had, which was that people are appointed by various organizations. I know there's a whole list of organizations that delegate representatives. Even the minister appoints one or two in some cases. You're saying this is done randomly. If that's truly the case, it's disturbing. I'd like to hear what you have to say on the subject.

[English]

**Mr. Bill Chedore:** Well, appearances are sometimes everything, and it appears to us the system of finding the people who are on the airport authorities is at random. However, I'm sure there must be some—hopefully—system in place whereby they're picked. I know that in terms of the stakeholders who should be represented on these airport authorities, we do not have the representation we think labour should have, considering the impact everything decided by those boards has on our people, the thousands of people we represent in the airline sector.

The whole issue of governance has to be looked at in terms of everything, including how those people are appointed to the boards. I'm not sure the system in place currently is the appropriate system.

[Translation]

**Mr. Robert Carrier:** You maintain that the department should review the way in which these directors are appointed?

[English]

**Mr. Bill Chedore:** I think that's one of the issues that should be reviewed in an overall review of airport authorities in general.

[Translation]

**Mr. Robert Carrier:** Thank you.

[English]

**The Chair:** Mr. Chedore, I wanted to ask you this. I think it's on page 5 or 6 of what you provided us with. You said "Trans-border capacity is now back to where it was ten years ago". What do you base that on?

**Mr. Bill Chedore:** I'll let my colleague answer.

**Mr. Kevin Hayes (Senior Economist, Social and Economic Policy, Canadian Labour Congress):** I think we're talking more about the number of employees. We're almost back to where we were about ten years ago. After 9/11 there was a—

**The Chair:** You're not talking about capacity. You're talking about employees.

**Mr. Kevin Hayes:** More so, yes.

**The Chair:** Thank you.

I was quite astounded by that assertion.

Ms. Desjarlais.

**Mrs. Bev Desjarlais:** Actually, I was going to ask a question on the transborder side of things as well.

As to the number of routes Air Canada presently has in Canada compared to what they used to have, they have fewer areas they fly to now, yet they've had a tremendous increase in the number of places they fly to within the U.S. Have you noticed, or has it been brought to your attention from the different unions you're involved with, that there is any decrease in employment in those areas as a result of more flights in the U.S. and fewer in Canada?

•(1820)

**Mr. Kevin Hayes:** No, we haven't done that kind of analysis. What does worry us is that in fact there is a job shift going on as a result of the changes in routes and so forth, and we've not been capturing the number of jobs we ought to have in these agreements, in these arrangements.

**Mr. Bill Chedore:** One of the issues we're also concerned about is basically the level of service in various communities. I come from Atlantic Canada, and at one time I used to be able to fly from Ottawa to a number of cities in Atlantic Canada. Now I have to make at least one stop to change planes, sometimes two, depending upon where I want to go. That is a noticeable difference in basically trying to do business. Just for me to get some place in Atlantic Canada or even on the Prairies, frankly, is not as easy as it used to be. It all has to do with where airlines think the most profit will be in terms of capacity.

I come from Campbellton, New Brunswick. I was thinking this morning on my way here that we used to have an airport. I remember when that airport opened, and it was a big thing. It used to be a big deal to go down on Sundays and watch airplanes land and take off. Well, you can't do that any more because there's only one airline that goes in there. It flies out of Saint-Hubert, Quebec, and it only flies a couple of days a week. That airport is just basically a white elephant. It's not one of the biggest white elephants we have in this country; it's a white elephant because it is not being used for anything other than one small airline going in a couple of days a week.

**The Chair:** Mr. Karygiannis.

**Hon. Jim Karygiannis:** I have a couple of questions for you.

You, as well as the previous presenter, talked about flags of convenience. Please qualify that.

**Mr. Bill Chedore:** Again, I think the explanation given by my colleague Richard Balnis.... We have concerns.

One of the things I've been doing personally over the last couple of years has been dealing with some issues related to the aviation sector and the marine sector. It is specifically in the marine sector that the flags of convenience have been quite a problem for years, we think. It's one of those things where you can say it isn't happening now. Well, there are a lot of things that didn't happen in the past, but because of various changes in policy or regulation or legislation, the potential for things like that to happen could be put in place. It would cause us great concern if that happened in the airline sector, because we know and deal with some of the problems it causes in the marine sector.

**Hon. Jim Karygiannis:** In the unlikely probability—you say probability, so I'm not going to argue with you—that were to happen, are you suggesting the consistency of the aircraft mechanics and the security would be lax in different countries?

**Mr. Bill Chedore:** It really depends on what's going to be negotiated between Canada and other countries, because we're told that the rules and regulations, laws, safety regulations, labour laws and everything, no matter what, would be that any airline would have to follow Canadian laws. My fear is that when you're negotiating major deals like this between or among countries, things sometimes get diluted to the point where things happen that you wouldn't think could or should happen. It's just a fear we have. There's no guarantee that we and the tens of thousands of people we represent would have any presence during any of these negotiations. You have to understand it would cause us great suspicion and consternation if that happened.

**Hon. Jim Karygiannis:** In all reality, you're not suggesting that the United States has more lax rules than we have.

**Mr. Bill Chedore:** In a lot of areas, some of the rules in the U.S. are less than ours. We think we have very good rules and regulations in place. In a number of areas those rules are being relaxed. In the field I work in most, in the areas of occupational health and safety, the rules of the United States and a lot of areas have been relaxed substantially by the current administration. There's the fear that if they can do it in areas like that, they can do it any kind of area.

• (1825)

**Hon. Jim Karygiannis:** Can you provide some examples, please, on relaxation of rules pertaining to the airline industry, be it security or other issues?

**Mr. Bill Chedore:** On the security issues, I don't think I could provide you today with any examples. I can provide you with examples of what I just said and what I experienced in other areas, in

terms of health and safety nationally in the United States. There are issues where the rules have been changed and relaxed that we feel cause greater—

**Hon. Jim Karygiannis:** I take you back to the flags of convenience, as far as the airline industry is concerned. I want you to keep that in mind and not side-track. Are you suggesting that any country in the world will provide lesser...or any airline will go running to a country to have a flag of convenience, and then be able to fly into Canada with less security and less stringent levels of mechanics on the flights?

**Mr. Bill Chedore:** I hope that wouldn't happen.

**Hon. Jim Karygiannis:** Are you suggesting it's possible it could happen?

**Mr. Bill Chedore:** If we're not careful...

**Hon. Jim Karygiannis:** But you were the one who said flags of convenience. You're presenting to us, and my question to you is whether you foresee this happening. Do you have any examples of this happening? Do you have any fears of this happening?

**Mr. Bill Chedore:** I have fears of issues like this coming forward.

**The Chair:** Ms. Desjarlais has the last word.

**Mrs. Bev Desjarlais:** Just following on that—and I'm not sure if you have experience in this area—right now transportation is not subject to NAFTA. What would happen if we allowed some of what's suggested under open skies to take place within the airline industry, in your view, or if you have any background knowledge? Would this then subject our entire transportation industry, and not just the airline industry, to NAFTA?

Would some of those exact things you're talking about be seen, like on the environmental side when we tried to bring in certain legislation and were told it wasn't allowed under NAFTA because it was going to jeopardize our right to make additional dollars? Could you see something like that coming into play within the airline industry?

**Mr. Kevin Hayes:** As we cite in the brief, the European Union has the oversight of the European Commission, as well as the European Parliament. We don't have that under NAFTA. So some of those undesirable things can happen through the back door because we do not have the oversight. We have the examples of BSE, softwood lumber, and everything else. Why would airlines be any less subject to the vagaries of trade? We haven't had a very good track record there.

**The Chair:** Those being all the questions, we thank you very much for coming. It's been very helpful and interesting. Thank you.

The meeting is adjourned.





**Published under the authority of the Speaker of the House of Commons**

**Publié en conformité de l'autorité du Président de la Chambre des communes**

**Also available on the Parliamentary Internet Parlementaire at the following address:  
Aussi disponible sur le réseau électronique « Parliamentary Internet Parlementaire » à l'adresse suivante :  
<http://www.parl.gc.ca>**

---

**The Speaker of the House hereby grants permission to reproduce this document, in whole or in part, for use in schools and for other purposes such as private study, research, criticism, review or newspaper summary. Any commercial or other use or reproduction of this publication requires the express prior written authorization of the Speaker of the House of Commons.**

**Le Président de la Chambre des communes accorde, par la présente, l'autorisation de reproduire la totalité ou une partie de ce document à des fins éducatives et à des fins d'étude privée, de recherche, de critique, de compte rendu ou en vue d'en préparer un résumé de journal. Toute reproduction de ce document à des fins commerciales ou autres nécessite l'obtention au préalable d'une autorisation écrite du Président.**