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# Standing Committee on Transport, Infrastructure and Communities

EVIDENCE

**NUMBER 111**

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Chair: Mr. Peter Schiefke





# Standing Committee on Transport, Infrastructure and Communities

Tuesday, April 30, 2024

• (1105)

[*English*]

**The Chair (Mr. Peter Schiefke (Vaudreuil—Soulanges, Lib.)):** I call this meeting to order.

Welcome to meeting number 111 of the House of Commons Standing Committee on Transport, Infrastructure and Communities.

Pursuant to Standing Order 108(2) and the motion adopted by the committee on Tuesday, April 18, 2024, the committee is commencing its study of the state of airline competition in Canada.

Before we begin, I'd like to remind all members and other meeting participants in the room about the following important preventative measures.

To prevent disruptive and potentially harmful audio feedback incidents that can cause injuries, all in-person participants are reminded to keep their earpieces away from the microphone at all times. As indicated in the communiqué from the Speaker to all members on Monday, April 29, all earpieces must be replaced by a model that greatly reduces the probability of audio feedback. The new earpieces are black, whereas the former earpieces were grey. Please only use the black, approved earpieces. By default, all unused earpieces will be unplugged at the start of a meeting. When you are not using your earpiece, please place it face down, as indicated, on the middle of the sticker for that purpose—you will find it on the table. Please consult the cards on the table for guidelines to prevent audio feedback incidents.

Colleagues, the room layout has been adjusted to increase the distance between microphones and reduce the chance of feedback from an ambient earpiece. These measures are in place so we can conduct our business without interruption and protect the health and safety of all participants, including our interpreters. Thank you, all, for your understanding and co-operation.

Today's meeting is taking place in a hybrid format. In accordance with the committee's routine motion concerning connection tests for witnesses, I'd also like to inform you that all witnesses have completed the required connection tests in advance of this meeting and have passed those tests.

I'd now like to welcome our witnesses.

Appearing as an individual, we have Mr. John Gradek, faculty lecturer and program coordinator, aviation leadership, School of Continuing Studies, McGill University—my alma mater. He is joining us by video conference.

Welcome to you, sir.

As an individual, we have Mr. Karl Moore, associate professor, also from McGill University.

Welcome to you, sir.

[*Translation*]

As an individual, we have Jacques Roy, who is a full professor at HEC Montréal. He is joining us by videoconference.

We also have Mehran Ebrahimi, who is the director of the International Aeronautics and Civil Aviation Observatory and a professor at the Université du Québec à Montréal. He is also joining us by videoconference.

Welcome, gentlemen.

[*English*]

We will now begin with opening remarks.

For that, I will turn the floor over to Mr. Gradek.

You have five minutes, sir.

**Mr. John Gradek (Faculty Lecturer and Program Coordinator, Aviation Leadership, School of Continuing Studies, McGill University, As an Individual):** Thank you very much.

Thank you, members of the House of Commons Standing Committee on Transport, Infrastructure and Communities, for extending the invitation to me and my fellow colleagues in academia to speak to you today on the state of airline competition in Canada.

My comments on the subject come from close to 50 years of either working in the bowels of the industry or teaching managers around the world the dos and don'ts of how to best achieve respectable financial and operating performance in the industry. It might be said that I've observed the highs and lows of Canada's evolution with deregulation, starting in 1985 with our infamous freedom to move white paper; in 1987, the Canada Transportation Act; privatizing Air Canada; and many more, including, of course, the evolution of many commercial air carriers in Canada.

The state of airline competition in Canada has evolved significantly in recent times, exemplified in the eyes of the Canadian air traveller by the reduction in the operations of numerous operators that have branded themselves as either low-cost or ultra-low-cost carriers. Is that measure of activity really the right proxy we should be using to determine whether or not we are a hot spot for aviation competition? I asked that question rhetorically in a recent article in *The Hill Times*: Is there a crisis in Canadian civil aviation? The answer should be, no, there is no crisis. The industry is just going through what has been characterized as its usual bumps in the road—bumps in airline evolution.

Carriers have been launching themselves with great fanfare, with lower airfares introduced, to the glee of Canadian air travellers. There are great expectations being created for expansion to bring air service and lower fares to both the primary and secondary markets. Even greater benefits of multiple new carriers with similar strategies were launched. That's great news for Canadians who are, by nature, lovers of low airfares.

However bright the honeymoon phase, and within relatively short order, the competitive reality is that Canadian commercial operations affect the financial viability of these Canadian upstarts. The number of Canadian air travel markets in which these operators traditionally operate has been the same where Canada's established duopolies operate. Very few new Canadian metro centres have had the benefit of this increased competition. Very few metro centres in Canada have multiple airports and have the ability to support multiple carriers trying to build frequency. New carriers have built up presence on top of existing services, and price competition could only limit competitive response for so long.

As traditional carriers reacted to this competition and reduced fares along the way, new carriers needed to reduce fares consistently to maintain their competitive gap. The race to the bottom is on. We all know how this story ends. It's ended there time and time again since the early 1990s.

The federal government of the late Honourable Brian Mulroney, in the tenure of the late Honourable Don Mazankowski, had great ideals for the evolution of the Canadian airline industry—as enshrined in the Canada Transportation Act for many years—wherein competition and market forces both within and among the various modes of transportation are the prime agents in providing viable and effective transportation services. Unfortunately, the paucity of domestic air travel markets has made these ideals very difficult to obtain.

Canadian air travellers need a better set of measures of effectiveness when it comes to evaluating the state of airline competition in Canada. That starts off with a better set of attainable, realistic and viable opportunities.

Thank you very much.

• (1110)

**The Chair:** Thank you very much, Professor Gradek.

[*Translation*]

Dr. Roy, you now have the floor for five minutes.

**Dr. Jacques Roy (Full Professor, HEC Montréal, As an Individual):** Good morning.

First, I would like to thank the members of the committee for inviting me this morning to share with you my thoughts on the topic being studied.

I fully agree with Mr. Gradek's remarks.

As you know, we professors are used to discussing a topic for three hours, so I'll deviate from my text a little because I can't do it in five minutes.

I'd like to touch briefly on three themes: Canada's domestic market—Mr. Gradek spoke at length about this—regional transport and airports, my favourite subject that I'd like to say a few words about.

First, let's talk about Canadian domestic transport. For as long as I can remember, there's always been, essentially, Air Canada. For a long time, there was also a second carrier based in the west, Canadian Airlines International. The two competitors merged in the early 2000s.

Initially it was a bit of a forced marriage, but that merger later opened the door to WestJet, which was launched in 1996 as a low-cost carrier. WestJet enjoyed phenomenal growth between 2000 and 2016. In fact, its market share rose from 6% to 41%. This has obviously interested a lot of new players, who have decided to become low-cost carriers as well.

Then the Jetsgos of this world got into the game, which had a rather tragic end. Even Air Canada launched its Tango service and Zip subsidiaries. Everyone wanted to take over the low-cost carriers.

Lastly, WestJet itself realized the limitations of this model, because there are very few city pairs in Canada capable of supporting the presence of a discount carrier with aircraft like the Boeing 737. The market makes this Southwest Airlines model of low-cost, short-haul, point-to-point service very difficult to replicate in this country.

To grow, WestJet has had to open up to new markets and move into international ones, away from the conditions for success of low-cost carriers.

Today, new players are in the market, but we see that they are experiencing difficulties. These new players include Lynx Air and Flair Airlines, which continue to offer services. Porter Airlines is also looking for market share in certain niche markets.

Air Canada maintains its dominant position today. WestJet has lost almost 10% of the market to other carriers.

I'll now briefly address the issue of regional competition. The situation is even worse because the small number of passengers obviously means that carriers will use smaller aircraft, which means higher costs per seat. If there is difficulty filling the aircraft, the cost per passenger is higher, so fares are higher overall.

Countries around the world are realizing this problem and have set up programs to help. This is the case in the United States, Australia and Europe. In Canada, there are no assistance programs, but there were during the pandemic. In Quebec, the provincial government chose to set up an assistance program to reimburse a percentage of the price of airline tickets and offer subsidized tickets, if you will, for leisure travellers or tourists from major cities.

I would like to close with a word about airports. We sometimes wish that low-cost American carriers would come and offer some competition to enable our travellers to get to American destinations. However, we often learn that these carriers are somewhat reluctant to come to the country because of all the taxes that are applied and the high fees, particularly at airports.

Members of the committee, I think it's time for the government to take another look at airport governance. We realize that airport improvement fees are constantly increasing, that infrastructure and project costs and future investments are enormous. I think the government should take another look at its intervention model.

The airport authorities have perhaps been given a little too much leeway, and it's time to review their leases.

• (1115)

If you would like more details, you will find them in abundance in my latest book, which is on the subject.

I will be pleased to answer any questions you may have.

Thank you.

**The Chair:** Thank you very much, Dr. Roy.

Mr. Ebrahimi, you now have the floor for five minutes.

**Mr. Mehran Ebrahimi (Director and Professor, Université du Québec à Montréal, International Aeronautics and Civil Aviation Observatory):** Good morning.

Thank you very much for inviting me to participate in this meeting.

I agree with everything my colleague and friend Mr. Gradek said and with what my colleague Dr. Roy said.

At the observatory, we look at the Canadian situation, of course, but also the global situation. A comparison is constantly being made between the evolution of our system and that of other systems around the world. It's with this in mind that I'm speaking.

It should be noted, however, that the issue of competition isn't the same in Canada as it is elsewhere in the world. Think of our neighbours to the south, the United States, or our European friends. There are a number of reasons for this, first and foremost distance. In Europe, an airline can fly from Paris to Barcelona four or five times a day. In Canada, because of the distance, a rotation between

Montreal and Vancouver cannot be done five times a day. So there's a kind of natural limitation.

There's also the issue of climate. Our climate means that airline operability and our infrastructure are a bit special. In addition, my colleague Jacques Roy very aptly mentioned population density, which isn't high enough here for the number of users to be equivalent. There's also a more sociological element, namely that airplane culture is less prevalent here than among our American and European friends. Add to that the issue of taxes, which has already been mentioned. You're looking at as much as \$150 in airport taxes, government taxes, and so on. Right from the get-go, this affects prices. It's important to bear in mind that the notion of competition in Canada is unique for these reasons.

There's also a certain lack of consistency here. One of the things that plays an important role, in addition to what my colleagues have quite rightly mentioned, is the availability of niche markets. This means that the major companies have their niche markets. However, smaller companies are suffering as a result. They're not able to get into niche markets. In addition, we mustn't forget that two major airports in Canada, Montréal-Trudeau and Pearson, will be doing major work within 10 years, which will reduce the number of markets available and reinforce this kind of concentration among the major carriers.

It should also be pointed out—and we may have the opportunity to come back to this—that the role of the airlines is really important, but the issue of infrastructure must be integrated into the thinking. As my colleague Dr. Roy mentioned, there is a problem with consistency and governance at our airports, which is causing major difficulties. We're not investing enough in airport infrastructure.

Take the U.S. government, for example: In the first weeks of the pandemic, it stepped in with colossal support for airlines, as well as major investments in airports. This amounted to between \$40 billion and \$50 billion. For our part, all we did during that period was initially force our airports to stay open. During that period, their revenues declined by about 95%. As a result, even airports with positive balance sheets ended up in debt.

• (1120)

The Canadian government's investment in all airports does not exceed \$500 million.

This kind of lack of consistency means that important competition instruments or levers don't work. Of course, it's in this context that small companies have a harder time positioning themselves and that competition becomes problematic.

**The Chair:** Thank you very much.

[English]

Concluding our opening remarks today, we have Professor Moore.

Professor Moore, the floor is yours. You have five minutes, sir.

**Mr. Karl Moore (Associate Professor, McGill University, As an Individual):** Thank you very much.

It's a pleasure to be here in Ottawa. People from Montreal generally don't say that, but it's the centre of the world for the Canadian Parliament and system, so it's part of the experience economy to be here.

My background is that I grew up in Toronto. I taught at Oxford for many years, and, about 27 or 28 years ago, I started working with British Airways and with Lufthansa. I have done many courses with IATA, which is the International Air Transport Association headquartered in Geneva and in Montreal. I have done a lot of work with foreign airlines, so I bring that perspective, which I know my colleagues have as well.

Canada is a different place; it is unusual in a couple of different ways. It's a different place in terms of the size of the country, a small population and winter. You are Canadian parliamentarians, so this is not a surprise. We have winter here in Ottawa. These factors make huge differences.

You might say that Australia and Chile have big countries with small populations. We have it harder than they do. One of the things we really do have a problem with is government taxes and regulations. We will get back to that in a minute.

We have three big cities—Toronto, Montreal and Vancouver—from a population viewpoint. My brother's family in Calgary may forgive me; I apologize to them. In Vancouver, it is not only the size, but connecting us with Asia. These are huge issues we have to wrestle with. We're different.

We also have a lot of foreign airlines that fly to Canada. From Europe, you think of British Airways. Lufthansa flies to Montreal, Toronto and other places across the country. We have the U.S. airlines, including Delta Air Lines. Its international parts division is run by Alain Bellemare, a McGill grad, a Canadian who used to run Bombardier. A huge number of flights come into our major cities from the U.S., so we have much competition, more than we might realize on the surface.

COVID happened. It was the worst time in aviation history, which seems like an overstatement, but that history really only started with the Wright brothers flying, so it's not going back to the Roman Empire. COVID was the worst time. We did not support airlines very well in Canada compared to the U.S. and Europe.

I remember visiting WestJet. I don't know if it's still true, but they had six plaques of airlines that have gone bankrupt in Canada. They did that to keep WestJet employees aware of the history here in Canada. It's terrible for airlines. Some of that goes to Air Canada's dominance and now WestJet's, but we also have Porter with fairly deep pockets and a lot of interesting new planes. They had the great asset of the island airport. I flew there last week because I wanted to be in the heart of Toronto. You're at the island.

You take a moving sidewalk. You take a free shuttle, and you're there. It's great, but they are now flying out of Pearson because the planes are too big for the island airport.

The biggest problem here is taxes. I took 48 McGill students to Morocco and Cairo in March. I'm getting prices right now to go to Kenya next year. I saw that \$1,458 plus taxes made it \$2,340. It went from we could afford it to we could not because of hundreds of dollars of taxes.

I have a radio show; I interview CEOs. I have interviewed the last four CEOs of WestJet, the last four CEOs of Air Canada, the CEO of Air France twice, KLM and so on. I have talked to many executives in the industry. There's little support for airports in Canada. This is the government's, Ottawa's, fault—or “approach” if I want to back off a little bit—and the government can improve this dramatically.

I have three key takeaways.

We have geography that's different from the rest of the world. We have to be aware of that, which we are; we're Canadians. We have huge taxes and fees. One of my neighbours works for IATA, and I have done a lot of work with them. We could not find a country of any size in the world that has the kind of burden we have. We may have missed one, but when we looked at the U.S., the EU countries, Australia and other places, they are not remotely at the same level.

We need low-cost carriers, LCCs, but how do they survive with all the fees the government places on them? Do we need more competition? Yes. What we need less of are burdensome taxes, airport fees, etc. from broadly speaking—not to blame you—the government.

• (1125)

I end with five seconds left. I feel excessively proud of myself.

**The Chair:** Thank you very much, Professor Moore.

We will begin our line of questioning today with Mr. Strahl.

You have six minutes, sir.

**Mr. Mark Strahl (Chilliwack—Hope, CPC):** Thank you very much, Mr. Chair, and thank you to all the witnesses for their testimony.

I want to go back to Professor Moore. He managed his time very well, but I wonder if he has more to say about what we just heard about the Canadian traveller bearing the highest taxes and fees in the world when it comes to our airfares.

We saw that, in the last budget, the government increased the security charge. I believe that comes into effect tomorrow, where our security charges will go up to more than twice what is paid for an international flight out of the United States.

I guess my question is, what's the low-hanging fruit? What are the taxes and fees the government can look to reduce or bring into line with our international competitors right off the hop?

Do we need to fundamentally alter the way our airports are run? Are there ways to look at reducing fees that will immediately benefit passengers who are looking for lower airfares?

• (1130)

**Mr. Karl Moore:** The airports, for all their faults, are well run. I sit down with the CEOs every couple of years. They're spending a lot of money at Pearson and Trudeau airports to improve them. They need to do that.

I think it's a matter of just reducing the fees and the government taking on the responsibility that most governments around the world take toward funding the industry and funding airports particularly.

I don't know if my colleagues have any comments to add to that.

**Mr. Mark Strahl:** Thank you.

I did want to talk to Professor Ebrahimi.

You talked about taxes and levies being \$150 to start. To get out of the gate, before you've stepped onto the aircraft, the airline's into a ticket for \$150.

How can an ultra low-cost or even a low-cost carrier be expected to compete in a marketplace where a round-trip ticket is \$300, even between, say, Calgary and Abbotsford, or a short, 1,000-kilometre distance like that?

How can we ever have more competition when the taxes and fees are almost double or triple the advertised prices that some of these low-cost carriers have?

[*Translation*]

**Mr. Mehran Ebrahimi:** You are absolutely right, sir.

This problem is primarily related to taxes. The philosophy here in Canada is to tax the user-payer. I think that's a very bad philosophy. If we taxed airlines and passengers to try and provide adequate infrastructure, I might even say that it's for a good cause, but that's not even the case.

If I take the case of the Montréal-Trudeau International Airport, about \$140 million or \$150 million, or close to 12% of its revenue, goes into the federal government's pocket in this way.

To come back to your question specifically, I can say that, when we look at competition elsewhere, in other countries, we see that it's not the traditional airlines that are creating competition. It's local players, including companies that offer low fares—very low fares—that are stepping in.

The main selling point of these companies is to offer attractive prices. When, from the outset, they have to start at \$150, that means that the price they offer, by definition, will be increased by that amount, which will increase, as you mentioned.

In a way, we are cutting off these companies from the outset, and we can't give birth to medium-term companies, as my colleague Mr. Gradek so aptly mentioned. They hold on, but at some point it

doesn't work. These taxes are really a major obstacle if we are to hope that low-cost companies will emerge in this country on a permanent basis.

[*English*]

**Mr. Mark Strahl:** Thank you.

Professor Roy, you stated in a news article that “if you want to become a millionaire, you start [as] a billionaire—then you buy an airline”. Others mentioned the need for deep pockets.

Do you think the foreign ownership restrictions that are in place in Canada should be looked at to allow for deep pockets from around the world to perhaps help out low-cost carriers or new entrants into the Canadian market or should we maintain our current foreign ownership restrictions?

[*Translation*]

**Dr. Jacques Roy:** Thank you for the question.

There are a lot of issues related to that foreign ownership limit. In my opinion, it isn't necessary to remove that limit.

[*English*]

There are enough rich people with deep pockets in Canada to actually invest in airlines. I don't think we need to open up this constraint.

[*Translation*]

That would also have all kinds of implications for bilateral agreements. For instance, if we were to do that, would our partners such as the United States and other countries also be prepared to follow suit?

Getting back to the issue of taxes, for argument's sake, let's say all carriers have to pay those taxes, so the rules of the game are fair. The taxes are high but at the same time it is reasonable for users to pay a price that actually reflects the services they receive.

My concern—

• (1135)

**The Chair:** Thank you very much, Mr. Roy.

**Dr. Jacques Roy:** To conclude—

**The Chair:** I'm sorry, the time is up.

[*English*]

Next we have Mr. Rogers.

You have six minutes, sir.

**Mr. Churence Rogers (Bonavista—Burin—Trinity, Lib.):** Thank you, Chair, and welcome to our witnesses today. It's great to have you here with all your experience and knowledge on some of the topics we're discussing in terms of competition.

Professor Moore, you talked about how Canada is a large country with a large geography where we have terrible weather at times and it impacts airlines. We saw some of that a couple of winters ago.

The biggest piece that I see flying from Newfoundland and Labrador to Ottawa on a regular basis is the challenge of getting into rural and remote areas, and not exactly totally remote, but very rural like Atlantic Canada, for instance. Most of the flights for me for the past couple of years have been in three segments: Ottawa to Montreal or Toronto, then to Halifax, then to Gander. So it's basically a full day of travel by the time you arrive.

The problem with that is that only one airline is going in there and that's Air Canada, that is now subletting to provincial airlines. There's no WestJet. There's no Porter. There's no Sunwing, except on a seasonal basis, charter flights or something along those lines.

There used to be a time when you could get into Gander at two or three or four different times a day, but not anymore. Have you seen a competition trend for regional airlines at smaller airports in Canada over the past few years, or even a few decades? Has that declined? Is it very different than what it used to be?

**Mr. Karl Moore:** I think you're right, Mr. Rogers. There are two trends. One is that one way of saving money is to fly out of second-tier airports. My brother lives in Abbotsford, and I remember flying out there, then to Calgary and on to Montreal. And it was great because they said, hi, Gary, to my brother. He still had to go through security, but the guard knew him. And there were three gates or something. It was a lot less expensive, a lot more accessible. It was great if you live on the east side of Vancouver. It actually saved you lots of parking fees and time.

So that's one element, and that's one way we can save money, but you need to have.... And you wouldn't have second-tier airports so much in the Maritimes. You do in Montreal, Toronto, that sort of thing, but you don't there, and we've seen a decline.

Part of it is the airlines are businesses. I'm a business professor; forgive me. The idea is to make money. Now, you can make excessive amounts of money, but given what happened in COVID and the lack of support compared to other countries, they've had huge financial issues to deal with, and they're going to fly where the money is, to a considerable degree. Now, that means it's going to be more expensive to fly to some parts of the world. I flew recently to the Yukon, and it was very expensive because of the lack of demand.

Part of it is the reality of the demand. WestJet has pulled back, to a certain degree, from eastern Canada to focus more on the west, under its new CEO. He's an ex-senior executive from Lufthansa. He knows Europe and he has a competitive approach.

**Mr. Churence Rogers:** That destroyed the competition factor in Atlantic Canada—

**Mr. Karl Moore:** Part of it—

**Mr. Churence Rogers:** —which has led to some very high prices. Flying from Halifax to Gander and return is costing more than \$1,000 on a return trip. It's way above where it used to be.

**Mr. Karl Moore:** If there is demand, sir—

**Mr. Churence Rogers:** That's the lack of competition. People complain in our region that competition is desperately needed to force Air Canada to drop its prices.

**Mr. Karl Moore:** If the demand is there, in our system competitors will come along to make money and become rich. This is how the system works. There are some unusual dynamics there, otherwise some of the competitors in Canada would be there to service that market. Partly it's the difference from their home base and some issues like that, but the system largely works in much of the world. It's a lack of demand and of support, and part of it is the sheer distances, getting pilots and planes there. There are some physical things as well, sir.

• (1140)

**Mr. Churence Rogers:** Professor Gradek, in your research, in the work that you've done, is there a region anywhere where you believe that competition in regional connectivity is higher or of better quality than we have here in Canada?

**Mr. John Gradek:** I don't think so. The world is having a problem serving regional markets that have insufficient densities, as Professor Moore mentioned. If you don't have the travelling public there to support an essential service you're not going to get direct service. I think there is no region in the world that has a characteristic that we should model.

The U.S. has what we call the essential air services act, which is part of their mentality. They identified a couple of hundred city fares in the U.S. that.... The U.S. government is, in fact, subsidizing air service. That doesn't exist in Canada. That is an opportunity for us, if we want to go down that path, to look at identifying which city fares should be considered as requiring essential air services and to act accordingly.

**Mr. Churence Rogers:** Mr. Ebrahimi, what are some of the barriers to more competition and not just excuses from airlines, "Our innovation, technology and all these investments go...", etc.? What are some things that you think could be removed to improve competition?

[Translation]

**The Chair:** There are 30 seconds left.

**Mr. Mehran Ebrahimi:** Thank you for your question.

First, I want to pick up on the lack of consistency.

On the one hand, people have been saying for years that there is no competition, while on the other hand, company mergers have been accepted. For example, WestJet's purchase of Sunwing was approved. That means that WestJet automatically gets 52% of all sun destinations, as they are known in Canada, and 72% of destinations in the west. Airline services became concentrated. That was accepted. Yet this flies in the face of competition.

Things changed a few years ago because of the COVID-19 pandemic. Air Canada's purchase of Air Transat was approved. So once again, an acquisition was approved. Canada's Competition Bureau approved it, but the European Union's directorate general for competition sounded the alarm.

So we see this inconsistency and lack of awareness of the repercussions. That is a significant obstacle.

**The Chair:** Thank you, Professor Ebrahimi.

Mr. Barsalou-Duval, you have the floor for six minutes.

**Mr. Xavier Barsalou-Duval (Pierre-Boucher—Les Patriotes—Verchères, BQ):** Thank you, Mr. Chair.

I want to thank the witnesses who are with us today.

I want to pick up on something Mr. Rogers touched on and that Mr. Ebrahimi said, namely, the presence of big players.

I am glad to see that companies of a certain size can base their operations here and serve international markets. I am thinking in particular of WestJet and Air Canada.

I am nonetheless concerned that a threshold could be reached under certain circumstances, which could be too influential. I do not have the exact figures, but if I recall correctly, Air Canada accounts for about 60% of the air traffic at Dorval in Montreal.

If I go to the grocery store and 60% of the merchandise on the shelf is made by the same company, is that a healthy market?

Should there be restrictions or at least restrictions on the number of time slots or the number of arrival and departure gates that are used?

Mr. Roy, could you speak to that?

**Dr. Jacques Roy:** I don't think Air Canada's activities need to be restricted since it is the main carrier in Canada. It is our flagship carrier in a sense. Traditionally, Air Canada has always been dominant and it now accounts for roughly 50% of the market.

It is true that Air Canada accounts for a lot of activity at the Montréal-Trudeau international airport, but that has not always been the case. In the past, Air Transat had more international destinations than Air Canada did. So there is already competition in international flights. I don't think that is the concern.

• (1145)

**Mr. Xavier Barsalou-Duval:** Mr. Ebrahimi, would you like to add something?

**Mr. Mehran Ebrahimi:** As my colleague Mr. Roy just said, weakening a national company is not a good idea. It naturally has a major presence in all countries.

The question we have to ask is what we are doing to make room for competition and other options. Canada does not have a national strategy for the airline industry, so it improvises. The money from the airlines, passengers and airports does not go back into the airline sector to improve infrastructure, for instance.

As my colleague Mr. Gradek said, Canada could establish measures such as reserving a certain number of time slots for small companies. The issue of taxes or taxation is extremely important. It

is a major barrier that is under the government's control. It can take action directly.

A number of countries including Norway select regions in which they want to intervene. They choose regions they consider important, that is, where air travel helps drive economic development. They intervene in various ways using various models.

The idea of weakening the national airline does not necessarily help other companies grow if there are weaknesses in the tax systems and infrastructure. I think we need to look at all of that as a whole and reflect on a national strategy.

In closing, Canada is nearly the only country that has good companies, significant know-how and expertise in the field but does not have a national strategy for the airline sector.

**Mr. Xavier Barsalou-Duval:** I do not want to talk about restrictions, but I would like to briefly discuss the threshold.

What is the threshold at which a company is too influential in relation to others or becomes a monopoly or a duopoly?

In terms of competition, when does that become a drawback? Would it be 70%, 75%, 80% or 90% of activities?

Is it possible to state a level or is it unlimited?

I would like Mr. Ebrahimi to answer first, followed by Mr. Roy.

**Mr. Mehran Ebrahimi:** Among national companies, British Airways has sustained operations at Heathrow in London; in Frankfurt, it is Lufthansa; at the Roissy airport, it is Air France. These companies are very important.

I don't think there is a threshold. What we have to consider is the effect it has. We now know that Air Canada accounts for 50% of the activities at Montréal-Trudeau airport. That is a fact. What can we do about it? It is not the 50% that is problematic. British Airways accounts for a higher percentage of activities at Heathrow. What are the other conditions under which low-cost airlines can develop? That is the issue.

We have to address various factors, such as poor departure or arrival time slots, very high taxes, poor weather conditions, large distances to be served and a labour shortage.

These are the issues that become decisive. It is not necessarily the percentage of activities conducted by a national airline at a given airport. Moreover, those are issues that can be addressed, although Canada has not done so.

I don't know if we have to focus on a certain percentage. I also don't know whether my colleague Mr. Roy, who is an expert on operations, could say. In any case, I don't think such a percentage exists.

**The Chair:** Thank you very much, Mr. Barsalou-Duval.

[English]

Mr. Bachrach, the floor is yours. You have six minutes, sir.

**Mr. Taylor Bachrach (Skeena—Bulkley Valley, NDP):** Thank you, Mr. Chair.

Thank you to our witnesses for being here and engaging with us on this topic.

I want to take it in a bit of a different direction. We're talking about competition in the air sector. Ostensibly, part of the conversation is how to resolve this issue of new entrants to the market having trouble competing with the big airlines. We've heard about taxes and fees, yet I think Mr. Roy made the good point that if you lower the bar for everyone, you're not creating a competitive advantage for smaller airlines; you're just making air travel cheaper and, of course, someone is going to have to pick up those costs.

Certainly, we hear the idea being floated that Canada should be subsidizing airports publicly in a greater way. What I want to ask about is the larger public policy objective when it comes to passenger transportation, because what we're talking about isn't how to make flying cheaper, but how to move people. I think it's a very worthy policy objective that we need to think about more broadly.

Only about half of Canadians fly regularly, or at least those were the last numbers I saw. They may be from several years ago. Perhaps more people are flying now. However, there's a significant portion of the population that doesn't fly. We're in a country that has no bus system. One of the least expensive ways to move people around a big country is by bus, yet we have virtually nothing connecting our country since Greyhound pulled out. Our passenger rail system is a shadow of what other countries are capable of having.

When we talk about scarce public finances, where do we invest those finances in the way that has the greatest benefit for the greatest number of people when it comes to transportation?

Is investing public subsidies in airports the direction we should be looking in, so that we can get more people flying more cheaply? Is that the primary public policy objective that we should be considering in this conversation?

I'm happy to direct that to whoever wants to answer it. Perhaps we'll start with Mr. Gradek and then we can go to Mr. Moore here in person.

• (1150)

**Mr. John Gradek:** Thank you, Mr. Bachrach.

I think you've hit the nail on the head in terms of where we, as Canadian people, ought to be putting our dollars and cents in trying to support transportation in this country.

The railways built this country 140 years ago. We've evolved the Canadian air transportation system over the last 110 years to the point that I now consider that Canadians feel air travel is an essential Canadian human right and we need air travel in order for this country to survive. Without air travel, how do you get to Vancouver from Toronto or Ottawa? There is no viable alternative that's really competitive with what's going on around us in the world.

Air is really an integral part of making our economy work. Now, the question becomes one of who pays for it. We've made a decision over the last 25 years, as Canadians, to basically say the users pay. Those people who use air services should be paying for air services. That's the model that's created all of these taxes that my colleagues and I have been saying over the years are a barrier to entry for many carriers into Canada.

However, that's a fundamental question. User-pay means that only air passengers should be paying for the infrastructure required to support air services. Unfortunately, while that model served its day, back in the mid-nineties and early 2000s, the world has changed. The world is now looking at air services, airport infrastructure and the whole airport as being an economic weight that has to be borne by the countries themselves.

When I look at investments in airports around the world, I see Saudi Arabia and the United Arab Emirates investing \$35 billion to \$40 billion in airports because they know that the future of their country and economy is based on airports. If there's one country that is really focusing on airports as a key piece of infrastructure, it should be Canada.

I believe you're right. Canadians have to change the model. The user-pay model doesn't work anymore.

**The Chair:** Thank you, Professor Gradek.

Thank you very much, Mr. Bachrach.

Next, we have Mr. Williams.

Welcome to the transport committee. The floor is yours.

**Mr. Ryan Williams (Bay of Quinte, CPC):** Thank you very much.

It's very nice to be here at the transport committee to talk about competition in our airline sector. Yes, we have a major problem with competition. We have a duopoly controlling over 80% of flights in Canada. I'm happy to participate in some of the questions with witnesses here on how to fix this competition problem we have with airlines.

To give perspective, Canada had 85 million domestic travellers in 2019—the year we could track before COVID. Compare that with Australia, which only had 63 million. We had a significant number of travellers domestically. If we include international travel, Canada had 166 million passengers on Canadian airlines in 2019. To say they're struggling is.... They're doing very well. Of course, it's split almost equally between WestJet and Air Canada. There was a comment made earlier that we allowed WestJet to buy Sunwing. That boosted those 166 million passengers into just two airlines, so we have a major issue with that.

Professor Moore, you talked about the demand being there for airlines, but I want to focus on the barriers. They are high, it seems, for new airlines to come in. What I want to specifically focus on is competition and what rules we need to change in Canada to enable more competition.

The example I'd give right now is this: If you were going to buy a round-trip flight between Toronto and Ottawa next week in an off-peak time, it's about \$585. If you're going to buy a round-trip flight right now between Toronto and Vancouver, it's only \$385. The difference is that Flair Airlines is trying to compete in the Toronto-Vancouver market. We have Porter between Toronto and Ottawa. You can see the difference.

What do we need to do to ensure there's more competition and that barriers are lower for any airline that wants to compete against the duopoly in Canada?

• (1155)

**Mr. Karl Moore:** It would be great to have some ultra-low-cost carriers.

I've sat down with Skúli Mogensen—who lived in Montreal and founded WOW Air—and the founding CEO of Southwest. I've talked to a bunch of CEOs about this. It's all about costs. This is one of the three basic strategies from Michael Porter at Harvard: low cost. Think about going to Walmart or Costco. The mindset is different when you go to the Ritz-Carlton or Holt Renfrew. You're in a different world. In airlines, ultra-low-cost carriers focus on that. The problem is that the high taxes and other high fees in Canada make it.... The difference between you and a fuller carrier, like Air Canada or WestJet, is much less in terms of the price difference, so you're not rewarded for that ultra-low-cost focus they know how to do.

It would help and encourage those competitors to come in and use their approach. It's interesting, because one of the things they'll ask is, "Oh, do you want water?" I remember asking for water in Icelandair and they said it's \$5. I thought it was a human right. They said, "It is, but it's \$5." Air Canada and WestJet are going after charging you for your seat. "Oh, do you want a bag? That will be this much," and so on. "Oh, do you want a meal?" You are old enough to remember when you used to get meals and all that.

We're adjusting that, but I think ultra-low-cost carriers are a good solution.

**Mr. Ryan Williams:** I don't know.

**Mr. Karl Moore:** I apologize. That was cheeky. For an older man, it's totally inappropriate.

**Some hon. members:** Oh, oh!

**Mr. Ryan Williams:** No, I am old enough, I believe.

The big thing is that you have competitors. Porter Airlines just expanded. It is a Canadian success story. You mentioned earlier that WestJet had the six plaques of airlines that went bankrupt. Porter has fought tooth and nail to keep on that island and fight its way out. It has 36 jets and is trying to compete. I'm old enough to remember when Porter was giving you a beer for free on the way to Thunder Bay. It was a service Air Canada and WestJet weren't doing—and we're going to hear from those airlines.

There are barriers to expanding—getting into the east side of Canada and going there. What is the government's role? How have they got it wrong? How does the government get out of the way a bit so Porter can expand? On the other side, do we need to look at Open Skies or cabotage to bring more competitors into markets where we don't have a choice?

The idea is that we want choice for Canadians in every market across Canada, because we have 166 million passengers on airlines. How do we do that?

**The Chair:** You have 30 seconds for a response.

**Mr. Karl Moore:** You can't own all 49% as a foreigner, which makes it much less attractive to invest in the airline industry in Canada. I'm not sure we have a lot of rich Canadians who want to get rid of their wealth by owning an airline. However, we have a lot of rich foreigners who would see opportunities if there were some changes to the rules in Canada. There would be greater investment.

Let's keep the 49% rule so Canadians are in charge, but allowing one organization to have the full 49% would be an interesting and helpful change, potentially.

**The Chair:** Thank you very much.

Next, we have Ms. Koutrakis.

The floors is yours for five minutes, please.

**Ms. Annie Koutrakis (Vimy, Lib.):** Thank you, Mr. Chair.

Welcome and thank you to our witnesses for appearing before our committee today.

Mr. Gradek, I'm going to start with you.

You've written about junk fees, which tend to form a significant part of discount airlines' revenues. Can you speak to what junk fees are, how they impact competition between larger and smaller air carriers, and how they impact consumers?

• (1200)

**Mr. John Gradek:** I didn't invent the term "junk fees." I'll just leave that to other pundits to claim ownership.

When we talk about junk fees, they're characterized as fees that are over and above whatever you pay as your base fare in an airline context. You pay for seat selection, a carry-on bag or a checked bag. People have considered those as junk fees, and they've been around a long time. They haven't been around just weeks, months or even years; they've been around for decades. Airlines have used them to create what we have traditionally called "fences" to make sure that, in fact, when you buy a fare, you will understand there are conditions associated with that fare. If you want to change your fare, itinerary or dates of travel, it's going to cost you something. Now that cost has the "junk fee" moniker associated with it, but they've been around a long time.

What has happened now is a proliferation of junk fees. That is really the moniker that has been applied to low-cost carriers looking to improve their financial performance by what I would call chunking out the services they would normally build for passengers. Now you're paying  $x$  dollars for your first checked bag and  $x$ -plus dollars for your second checked bag. If you want a seat at a window, a seat on the aisle or a seat with more leg room, those are all charges that have now become part of the modus operandi of ULCCs.

When you, as a customer, buy an airfare between Toronto and Vancouver on Flair Airlines, you see a ticket price and it's  $x$ —whatever the dollar amount happens to be. When you make the booking, they try to sell you up with a bunch of other conditions: checked bags, carry-on baggage, seat selection, meals and all kinds of amenities they want to throw at you. Those are the fees that sometimes make up the actual dollars you pay as a customer for that trip on a carrier such as Flair. The fees can be significant. In fact, Flair has admitted that over 40% of its revenue is based on its junk fees that are out there in the marketplace.

Junk fees are an important part of the business. They will not go away. My bet is there will continue to be a proliferation of these fees into the future.

**Ms. Annie Koutrakis:** Thank you very much.

Professor Moore, economies of scale must be critical to airlines' survival in the long run unless they offer something truly unique, like a niche market. Larger networks are typically more efficient and offer more travel options to passengers. Keeping that in mind, from your perspective, what are the factors that make the smaller airlines more vulnerable in Canada and elsewhere? Is it the same situation in countries across the globe?

**Mr. Karl Moore:** I'll defer to some of my colleagues who would know more about that. I'll put them on the spot.

Do we have a volunteer?

**Mr. John Gradek:** Thanks, Karl.

I much appreciate that.

When you talk about the proliferation of these carriers and how they operate, carriers tend to have a certain life in Canada that, unfortunately, is short. In the U.S., Spirit, Allegiant and Frontier have

been around for a number of years, as has Southwest. The modus operandi for a low-cost carrier in a given aviation environment is such that, when you talk about whether we can learn from those countries in terms of how they operate versus how we operate ULCCs in Canada, the answer, of course, is yes.

**The Chair:** Thank you very much, Ms. Koutrakis.

[*Translation*]

Mr. Barsalou-Duval, you have the floor for two and a half minutes.

**Mr. Xavier Barsalou-Duval:** Thank you, Mr. Chair.

There seems to be a consensus among the witnesses regarding the burden of the taxes and government fees added to the price of airline tickets. That brings something to mind.

The model we are talking about is a user-pay model, where the passenger pays the real cost of travelling that way. If we used other models such as by subsidizing air travel, we would end up funding the trips people take for pleasure, whether to lie on the beach or visit the Eiffel Tower or the tower of Pisa.

That means that the trips taken by people who are privileged enough to be able to afford to travel would be subsidized by the entire population.

Mr. Roy, do you think that is a desirable model?

Are there ways of reducing those fees without going in that direction?

• (1205)

**Dr. Jacques Roy:** I am not opposed to the user-pay principle. Air travel is a very expensive mode of transport. It is only natural that users should pay, especially if they are going to lie in the sun, as you said.

On the other hand, I would make a distinction between those people and people who live in the regions, in Sept-Îles, Îles de la Madeleine or Baie-Comeau, for instance. They need air travel. It is an essential service if they need to travel for personal or medical reasons and so forth. The federal government should look into that.

There are pairs of cities in Canada that are underserved. Sometimes Air Canada is the only option, if it has not yet completely withdrawn from those markets. There is simply no other airline to replace it. If there is one, those companies are vulnerable and are struggling.

It is time for the federal government to look into this issue and learn from how things are done in other countries, in the United States and Europe, because the market simply doesn't work.

**Mr. Xavier Barsalou-Duval:** Mr. Ebrahimi, would you like to add anything?

**Mr. Mehran Ebrahimi:** I completely agree with my colleague, Mr. Roy.

I would add that we have to consider the user-pay principle very broadly. We also have to remember that air travel is generally a productive sector. For every dollar invested in the sector, two, three or four dollars go back into the economy. In other words, it is not right to pay people to go lie on the beach. There is a whole range of related economic activities. That's why airports are often hubs. They generate economic activity and companies set up shop there.

Once again, the user-pay principle means that some people have the right to travel by air while others do not. In other words, in a democratic country such as ours, there is an unfair selection that allows some people to enjoy air travel while others have to stay home. To my mind, that is not acceptable.

The situation can be improved. There are things that can be done so that people who want to travel by air can do so. It is a chicken-and-egg situation. If air travel is inaccessible and too expensive, people will not use it. The fewer air passengers there are, the lower the demand and, if demand is low, the carriers will not offer service to remote regions.

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

[*English*]

Next, we have Mr. Bachrach. The floor is yours for two and a half minutes.

**Mr. Taylor Bachrach:** Thank you, Mr. Chair.

Mr. Roy was talking about essential travel from smaller, regional markets. This is a topic that's very germane in the region I represent, where most of our airports are served only by Air Canada. We have a huge price discrepancy when it comes to flying out of different centres.

From two of our communities, Smithers and Prince Rupert, to fly to Vancouver, you can pay as much as double on Air Canada what you pay flying from Terrace to Vancouver. The only difference is that the Terrace market has WestJet service as well, so Air Canada competes with WestJet and, as a result, the prices are far lower.

In smaller communities, there isn't room in the market for two carriers. I'm wondering what the policy options are. Is a public subsidy like the one Quebec has put in place the only option, or are there other policy measures that can ensure relatively affordable and fair air travel between these smaller communities and larger centres?

Maybe I'll ask that of Mr. Roy, since he was the one who was talking about it.

• (1210)

[*Translation*]

**Dr. Jacques Roy:** I can answer that question.

I think there are two possible approaches.

In Quebec, travel is of course subsidized through discounts, but we have to look at the supply and see if it is sufficient. Can someone get a return flight on the same day? Are there enough affordable flights for people who want to travel to visit family or for medical needs?

That takes work. The market has to be thoroughly analyzed and then we have to decide whether it is acceptable or whether we have to take action. In order to take action, a different approach is needed than simply thinking that competition will solve everything, because that does not work. I have been studying regional air travel in Quebec for 20 years. We always come to the same conclusions and find the same problems.

Perhaps the federal government would have to take a certain kind of approach—I would not go so far as to suggest regulation. It could learn from how things are done elsewhere so that Canadian air travellers can have an acceptable level of service.

[*English*]

**The Chair:** Thank you very much, Mr. Bachrach.

Mr. Muys, the floor is yours. You have five minutes, please.

**Mr. Dan Muys (Flamborough—Glanbrook, CPC):** Thank you, Chair, and thank you to all the witnesses.

Professor Moore, I want to follow up on your comments about secondary airports as a potential avenue for reduced fares for Canadians.

Hamilton International Airport is in my constituency. It's an example where you have proximity to a population of arguably five or six million people within an hour's drive. In fact, it was the WestJet eastern hub for a while until it moved to Toronto.

You talked about the decline of secondary airports. Do you see, as we get further from the pandemic, perhaps a rebound in the use of secondary airports? What is the government doing that's hindering that? What can it do to improve that situation?

**Mr. Karl Moore:** A part of it is the airport managers who use data from IATA to figure out.... Montreal is growing a lot. Airport managers said, "Look, if people are flying to Toronto, then on to Rome, let's just have a Montreal-Rome flight." You show the data, and you see that it makes sense. You go to Air Canada and Alitalia and say, "Here's the data. You should offer these flights."

There's a place for outstanding airport managers like that to go out there with their people and sell what they have to the airlines and get them to provide service. Again, you could get forwarded to Europe or the United States. You have more options than just within Canada. I think there's a role there for those people to do that.

Also, if you want to go for low cost—and secondary airports tend to be lower cost—if it's a low-cost carrier that likes that model, then you have to make the rest of the model work as well, and that gets back to the fees issue. You can't just remove a little bit of the cost but a substantial..., so that you can really say, "Instead of \$1,000, it's \$500, and we can still make money at it."

It helps to be at Hamilton as opposed to Pearson for a number of reasons. That can be put forward, but I think there's a role there for reducing the fees as well so that the ultra-low-cost model is more attractive, is doable and is a business.

**Mr. Dan Muys:** I had a similar experience to your friend in Abbotsford, going through Hamilton. It's a smaller lineup.

Let me ask a question, Mr. Gradek. You've been before this committee a number of times, I believe, but I recall once in November 2022. I don't expect you to remember exactly the context, but we were having a discussion about coming out of the pandemic and problems at airports. You referenced the European Union model as one where the regulatory regime is more efficient than what we have in Canada.

I'm wondering if you could expand upon that in the context of this study here.

**Mr. John Gradek:** When we talk about the regulatory regimes in which airports, airlines and the rest of the aviation community work, I think you want to make sure that you're looking into a regime that removes as many operational and financial constraints as possible to ensure that you're giving the airlines and the airports a chance to survive.

We talked about the taxes this morning. That's a significant one. It's a level playing field if you were to replace it, but that's the price you have to pay to play in this game in Canada.

I think you want to try to understand the overall government policy of how we work as an integrated system across all of these components: airplanes, airlines, airports, CATSA and NavCan. All of those players have to work together. Unfortunately, in Canada, we still seem to have a situation where the data that we need in order for us to really make effective decisions around how the business operates is still not being shared properly. The Europeans and the Americans have done an exceptional job in terms of making sure that the players have the means to share data, future data in terms of where their plans are going and how things are going.

Right now, we're having a problem in Canada getting all of these players to share data to make the job a lot easier in planning what this business will look like. The Montreal airport is going through a \$4.5-billion expansion. Pearson is going to go through x billion dollars' worth of expansion. Unfortunately, I'm not sure whether all the cards are on the table for some of the other players to make sure they're making the right decisions.

• (1215)

**The Chair:** Thank you very much, Mr. Muys. You're just on time at four minutes and 58 seconds. Wonderful.

Next we have Mr. Badawey.

Mr. Badawey, the floor is yours. You have five minutes, sir.

**Mr. Vance Badawey (Niagara Centre, Lib.):** Thank you, Mr. Chair.

I'm going to go with Mr. Gradek with respect to my questioning.

I would like to get a bit more granular on the business side of how to make this happen with respect to a more healthy environment for our airline sector. I'll preface my comments by saying that,

having spent many years in business, although subsidies are always, I guess, a go-to for government as well as others to take advantage of, what's more important in the business world is to have—I think Mr. Gradek touched on it—better and more strategic policies in place by government to allow for better decision-making within the private sector.

Canada is a big area with a small population. Therefore, what I'm going to concentrate on, Mr. Gradek, is integrating our supply networks. We looked at fluidity with respect to moving people and trade. Based on that fluidity, we looked at having more cost-efficiency built into the system. Of course, a lot of that depends on the policies that are put in place by government. On the operational and capital side, it's about sustainability and not isolating the movement of goods and/or people, but actually integrating the movement of goods and people and therefore integrating our supply chains, integrating our networks. As well there's recognizing where those regional hubs are, where those markets are, and the strengths of each. As well there are the supply chains, people and goods, logistics, integrating supply networks. Finally, with that, there's the integration of a multimodal network that exists in Canada but has never been taken fully advantage of when it comes to that integration. Therefore, once again, there's the fluidity and the cost-efficiency.

With all that said, Mr. Gradek, I want to give you the opportunity, based on your experience, to comment on how to bring all that together and then have the proper policy put in place by government to allow for a more robust airline network.

**Mr. John Gradek:** You're touching on something that's been close to my heart for the last couple of years, following up the national supply chain, policy papers and the view about what's wrong with our supply chains in Canada. Airports are an integral part of that supply chain.

One thing that we have seen is that we keep pointing the finger at the government for a lack of integrating capability across all the different players out there. The world of supply chain has changed significantly and it's going to change even more. We're going to move into very much a digital world. We're going to be moving into a world in which, as I mentioned a few minutes ago, data is going to be the important driver of decision-making and of efficiency in our supply chains.

I'm a wholehearted supporter of the need for us to have an integrated view of how stuff moves across this country and of making sure we're using the right of mode of transportation to move stuff from point A to point B. Our international partners depend on it. Our export economy depends on it. If we don't do it, we're going to be playing second fiddle to a number of international organizations that have done a better job of integrating.

Yes, there is a need. How that need gets expressed and how we do it....

The national supply chain officer is an interesting concept, but it's more of a band-aid at this point in time.

We need some effective processes in place that industries can adhere to, so we can measure how well we're doing as compared to what our competitors are doing, and whether we are moving the needle in terms of improving our efficiency and effectiveness when it comes to supply chain network management.

We haven't done that yet.

• (1220)

**Mr. Vance Badawey:** Thank you, Mr. Gradek.

What I'm getting out of those comments is the expectation to go to the supply chain office and do two things. One is that, when they are bringing forward their supply chain logistic strategy, it includes not just the movement of goods but also the movement of people,

On the capital side, with respect to strategic investments, for example, the HFR or high-frequency rail is now going to separate moving people and goods onto two separate pieces of infrastructure and therefore create more fluidity and more possibility for that integration between the different modes of transportation.

I guess the next question, Mr. Gradek, is with respect to the need to be focused also, especially with air, not only on domestic travel, but on binational travel with our American partners, as well as international travel. Of course, that's going back to our comments about the integration of a multimodal network.

What are your thoughts on that?

**Mr. John Gradek:** Talking about the way we operate across borders is key. In the conversations I've had with U.S. transportation officials, they are keen to look at—some how, some way—harmonizing the practices across our border. They know that we are in a state of flux in terms of what the Canadian government's policies are. I think it's time for us to make sure that we have at least an integrated North American strategy that deals with the supply chain issues that we all know exist.

Yes, there is an opportunity. We shouldn't be wasting it, but the clock is ticking. We have to make sure that we have policies in place that in fact promote effective and very efficient supply chain network policies across the borders, at least.

**Mr. Vance Badawey:** Thank you, Mr. Gradek.

I appreciate your comments. This is near and dear to my heart as well. Our discussions with our American colleagues over in Washington not only look at strategic policy that we can harmonize but also look at strategic investment set from the capital side to better integrate our transportation systems. I thank you for that validation.

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

Next we have Mr. Strahl.

The floor is yours. You have five minutes, please.

**Mr. Mark Strahl:** Thank you, Mr. Chair.

I want to get into the differences in taxes and fees between Canadian fares and American fares. We do have competition in my neck of the woods in British Columbia. I live in Chilliwack, which is

about half an hour from the Abbotsford airport and about 45 minutes, or an hour tops, from the Bellingham airport.

We have seen some analysis that says the flight price in Canada includes 43% in taxes compared with 15% in the U.S. When talking about airport rents, the federal government collected in 2022-23 \$419 million in airport rents, an increase of 42.5% in just 10 years. As of May 1, tomorrow, travellers in Canada will pay \$9.94 for a domestic flight and \$34.42 for an international flight on security fees. The same fee in the United States is less than \$15.30.

Maybe I'll go to you, Professor Moore. You referenced the Abbotsford airport, which is the closest international airport to me. Do you think the federal government cares that millions of Canadians every year are choosing to fly out of Bellingham, Sea-Tac, Billings, Great Falls and Buffalo? They're making the choice that Canadian air travel is unaffordable. If you're taking a family of four to Disneyland for maybe a once-in-a-lifetime trip, or if you're doing recreational travel, I can tell you that all my constituents who do that travel are not just examining WestJet and Air Canada. They're also examining Vancouver International Airport versus Seattle-Tacoma.

Can you talk about whether this is quantified? Does the government monitor that? Do you think they particularly care if Canadians fly out of U.S. markets instead of Canadian ones?

• (1225)

**Mr. Karl Moore:** It's not difficult to monitor. Plattsburgh is an hour and a quarter from Montreal. I went down to do a PBS interview last week. The sign at Plattsburgh says, "Montreal's U.S. Airport". They're not subtle about it. PBS is interested in Montreal, because there are four million people, a million of them anglophones, versus upstate New York. They know where the market is.

At one level, it's not as fast for Canadians to go to Plattsburgh, but if you live on the south shore of Montreal, it's almost as fast to go to Plattsburgh if you have Nexus than it is to go to Trudeau on a certain day. That's overstating it, but I see the same thing with my brother who lives in Abbotsford, who goes down to the U.S. to save money.

At one level, that's helping Canadians, so we like that. It's providing jobs in the U.S., not Canada, and the government is aware of that, but it has chosen a certain approach that helps a lot of Canadian families. I'm trying to remember geography class, but I would say that the majority of Canadians live within a short distance of the U.S. I can think of Montreal, and when I lived in Toronto, we'd go down to Buffalo. It's a little further. If you live in Hamilton or Niagara Falls, flying out of Buffalo is not difficult to do. I've done it. Montreal, Toronto and Vancouver, our biggest cities, all have....

Now, for Edmonton it's more of a challenge. I agree. It's a long drive. But it is something that a lot of Canadians benefit from. The government is aware of it. They've chosen that path. I can't entirely disagree that Canadians get a good bargain out of it.

**Mr. Mark Strahl:** We've talked a bit here about the user-pay model. Some of the panellists have gotten behind it and said that the users should pay, certainly when it comes to recreational travel. We've just done a study on HFR, high-frequency rail, where the analysis is that the government should pay for all of the infrastructure and subsidize the travel for a portion of the population that does not include any western Canadians, for instance.

Is there a logical discrepancy here? I would argue that air travel is more accessible to more Canadians than high-frequency rail will ever be. Why do you think there is such a difference in approach? The government is saying that if you're flying, you pay the full freight, but if you're taking a train, they'll subsidize you to the tune of hundreds of dollars per passenger.

**The Chair:** You have 30 seconds, please.

**Mr. Karl Moore:** There is an environmental element of it as well. Very clearly in France if you have trains that go to a destination—I believe it's two hours—you can't fly. This environmental aspect of it has really been taken on board around the world, when we think about it.

However, we can look at parts of the U.S., and Europe and so on, where they have great trains, and I think we're rightly jealous.

You're right that it's Toronto, Montreal, Ottawa, particularly, and maybe Edmonton and Calgary, but it's limited in northern B.C., for example, for our friend Taylor here. It's just not going to happen in our lifetime.

**The Chair:** Thank you very much.

**Mr. Karl Moore:** I'm older. I'm sorry. That was an old-person comment, so my lifetime is shorter than yours, sir.

**Voices:** Oh, oh!

**The Chair:** Thank you very much, Professor Moore.

Thank you, Mr. Strahl.

Next we have Ms. Murray.

Ms. Murray, the floor is yours. You have five minutes, please.

**Hon. Joyce Murray (Vancouver Quadra, Lib.):** Thank you.

This is a very interesting discussion. It's not like there is a silver-bullet answer here. There might be a user-pay versus government-subsidized...which seems very complex.

One question I have is this. If there were to be subsidies for remote and necessary travel—Îles de la Madeleine was given as an example—what would be the logical order of government to subsidize that travel? Would it necessarily be federal, even if it's federally regulated air travel, or would it be more logically provincial, territorial, or even local?

If anybody wants to weigh in on that, I'm interested.

• (1230)

**Mr. John Gradek:** I'll jump in on that one to start the ball rolling.

When we talk about the way we look at services in Canada, if there is one part of the population in Canada that really is getting the short end of the stick when it comes to air services, it's the north. The north has been served by carriers that are subsidized by various levels of provincial governments over the years, and the first nations themselves are subsidizing some of that traffic.

However, it is very expensive to fly in northern Canada, and we need specialized pieces of equipment, specialized pilots to fly in that part of the world. If we consider that we need to invest in the future of our country—and the north is very much a part of this country—I would say that the backstop should be the federal government.

The first level of support should come from the provincial governments. They know best. They know the communities that need it, and they've built and supported the infrastructure in those communities. There should be decisions made based on provincial government needs, but there should be a corresponding backstop by the federal government when it comes to funding required to support those services.

**Hon. Joyce Murray:** Thank you. That's interesting.

I'm thinking about this project of pulling all the players together to address systemic challenges and correlating that within national supply chain integration discussions. Even though I've heard there isn't a model for our air travel experience and costs, given Canada's unique factors, where we could say to do it like they're doing it there, is there a model for the complicated initiative of pulling all the players together to smooth out the system? Is there some jurisdiction that's done that, so we don't have to reinvent the wheel?

**Mr. John Gradek:** I think our friends in the northern Scandinavian countries have done a pretty good job of looking to try to coordinate among the different levels of government. The level of aviation support in those communities.... If you really want to have a look at how they've done it, it's an interesting model. Would it be applicable in Canada? I don't know.

There are, of course, learnings. Let's understand how they've done it. Understand that they went through some trials and tribulations in getting their model right. Is it the perfect model? Of course not. Is it better than Canada's? I don't know. I haven't drilled down to that point, but it works.

There are services provided in the northern parts of Scandinavian countries that have a certain level of funding, probably from the state or regional governments. It works. There are some learnings there.

We shouldn't shy away from taking on the initiative in Canada and really trying to develop a Canadian solution. We've been in this business for a long time. We've been flying to the north for decades. We know what some of the issues are. We know what it's going to take to make these things work. We just have a lack of will, direction or intestinal fortitude—for lack of a better term—to make something happen.

The north is waiting. We need to get off our collective butts and get the north operating in a way that makes it a lot more effective than it is today.

**The Chair:** Thank you very much, Mr. Gradek.

Thank you, Ms. Murray.

• (1235)

[*Translation*]

Mr. Barsalou-Duval, you have the floor for two and a half minutes.

**Mr. Xavier Barsalou-Duval:** Thank you, Mr. Chair.

I really like the direction the discussion about regional air travel is taking. We would probably agree that the user-pay principle does not work in the regions.

Mr. Ebrahimi, if that model were to be reviewed, what would you suggest?

What specific costs would have to be covered some other way?

**Mr. Mehran Ebrahimi:** I have been working on this for a number of years and I agree with what my colleague Mr. Gradek said.

The problem with this model is that air travel is considered a goal in terms of regional development. I think that is misguided. In the Scandinavian model, that dynamic is actually reversed. In Scandinavian countries, air travel is considered a driver of regional development and regional development is considered essential, both economically and for tourism. They found that involving local stakeholders in regional development creates demand.

In Quebec, we have lovely regions, but the tourism infrastructure is lacking. If you land at a regional airport, you will not find car

rentals, hotels and so forth. The tourism potential is not fully developed.

In Denmark, on the other hand, regional airports have been built even in very remote regions in northern Denmark, and economic activity has been created around those airports. So the demand was created. In Norway, industrial zones were developed around regional airports, with the participation of local stakeholders. Companies were encouraged to set up shop near those airports. That proximity boosted the airport's activities and stimulated the economy. So they created demand, including from business people who travel from those regions to the big cities.

Once the demand has been created, whether from tourism or industry, companies set up shop and projects develop, making regional economic activity permanent. That is the approach we should take. Unfortunately, people think the problem will be solved if an airline is established. That has never been the case.

**The Chair:** Thank you very much, Mr. Ebrahimi.

Thank you, Mr. Barsalou-Duval.

[*English*]

**The Chair:** Next, we have Mr. Bachrach.

The floors is yours for two and a half minutes, sir.

**Mr. Taylor Bachrach:** I'd like to take another crack at this question about rural airports and smaller regional centres.

Mr. Moore noted that most of the Canadian population lives within a few kilometres of the U.S. border. We live a short distance from the U.S. border too. It's just the other U.S. border in southeast Alaska, and really, the issue, I think, is that a lot of people feel that the big airline is gouging consumers. There's basically zero competition and they're able to charge whatever they feel people will be willing to pay. When it's essential travel and people have to get to a larger centre—for a medical appointment, say—they're willing to pay whatever it takes to get there.

Short of doing what Quebec has done—and maybe some other jurisdictions—where they subsidize the cost of those flights, what other policy options are available to government to ensure airlines are charging a fair price? I think everyone accepts that there are costs to running an airline and that a company like Air Canada deserves to make a profit, but it feels like what's being paid in some cases is exorbitant. Are there any other policy options that can ensure fairness for consumers?

I'll start with Mr. Moore since he's right here beside me, and then, if I have time and the chair allows, I'll turn to other witnesses.

**Mr. Karl Moore:** I just came back from Morocco. One thing that struck us was the government's role in creating clusters. They created a hub, which we stayed at, to bring families to very nice hotels. They created that and they're bringing flights there, so they're creating a reason to be there.

Whether it be tourism—you have a beautiful part of the country—or industry, such as mining as we see in Labrador City, there's that sense that there's some reason to go there. I've been up there to visit the mine.

It means that there will be greater volumes, and you're more apt to get a better number of flights and better prices. That's a medium- to long-term policy that we should think about. What is it that would take people to remote parts of Quebec? That's where I'm from, and it's enormously beautiful there. Let's build that infrastructure that someone pointed at.

That's one thing, but I think there are other things as well that we could do beyond that. That's a medium- to long-term thing that I just saw in Morocco and really comes to mind as something that we could think about, which we're doing some of, but we could do more.

• (1240)

**Mr. Taylor Bachrach:** Mr. Gradek, do you have any thoughts on that topic?

**Mr. John Gradek:** Yes, I do.

As I mentioned, I've been around this business for a few decades. I remember the days of regulation. I remember the days of price control. I remember the days in which you established a direct relationship between the cost of flying passengers from point A to point B and the price you charged passengers from point A to point B. In the day, Transport or the CTA or its precursors validated any attempt by the carrier to raise its prices over and above the cost of doing business.

We got away from the regulatory model because we felt that we should let the market decide how airlines should behave from a pricing perspective and let the market decide how prices should work. In my opinion, we've let the marketplace evolve over the last 50 years, and we're saying, "What's the relationship between price and cost?" We can't find it.

The price is what the market will bear, as you mentioned. Yes, you're paying big bucks coming out of non-competitive markets. How do we fix it? Can we fix it? Should we fix it?

**The Chair:** Thank you, Professor.

Thank you, Mr. Bachrach.

Mr. Williams, once again, the floor is yours for five minutes.

**Mr. Ryan Williams:** Thank you, Mr. Chair.

Professor Moore, when you were giving your intro, you were talking about how this is a problem that is the government's fault.

**Mr. Karl Moore:** To a considerable degree.

**Mr. Ryan Williams:** Sure, but I'd like you to expand on that a bit if you could. What regulations and what problems are the governments creating rather than solving?

**Mr. Karl Moore:** Well, there's the sheer number of fees, the amount they add to tickets in Canada—airport fees and things like that—which in most jurisdictions are funded by the government rather than the flying public. There's a certain logic to saying, "let the people who fly do it", but it's such an important part of our economy, and not just to travellers. Business travel is very important to getting business done here and abroad: You have to go and see a customer sometimes.

Airports are really strong economic drivers. We see this in Hamilton. It's very helpful when you have an airport that works well and is not irritating to go through, so Pearson and Trudeau are both spending a lot of money to make it a better experience.

**Mr. Ryan Williams:** On that note, do you believe the government policies have left airports inadequately capitalized and that they're creating service levels and constraints?

**Mr. Karl Moore:** Yes, but let me turn to my colleagues to modify that and qualify it, as I'm sure they're apt to, as good academics.

**Mr. John Gradek:** Yes, the question becomes one of if you let the system decide on its own what they think is best for them. Right now in the current governance model we have for our airports, the independent authorities that run these airports decide by themselves what's good and what's not good for them. There's no oversight, they spend money based on what they think is important. Trudeau airport decided that \$4 billion is needed to fix road access to the airport and parking, but what are they doing about air access? What are they doing about gates? What are they doing about the terminal building? They decided on their own that their priorities are road access and parking. Is it the best use of money? I don't know.

**Mr. Ryan Williams:** In other words, we don't have targets and if we're not measuring those targets when it comes to competition, then those airports obviously are not going to put competition first.

A good question along those lines is what should we be doing to create competition through the airport side? That could be real estate. As an example, I got off a flight and it was an Air Canada alley; it seemed entirely owned by Air Canada. So real estate seems to be an issue too. How do we entice airports to create competition through the gates in terms of having priorities on competition? How does that work?

I'll start with Karl Moore.

**Mr. Karl Moore:** It's something where there is a fair bit of competition. When you look at food, it really has improved a lot in the big airports in Canada; it's much better than it used to be. Some improvements have happened over time, I would say. There's still room for more competition for sure. To some degree, Trudeau may compete with Plattsburgh, but it doesn't compete that much with Pearson, other than on some international flights. This has improved over the last five or 10 years; there are more flights going from Montreal than there used to be. So you don't compete with Pearson too much—in my experience, anyway.

• (1245)

**Mr. John Gradek:** I think one of the things we're seeing at Trudeau airport and at Pearson as well is that the decisions that are being made and the investments being made in the airports really are what the.... They don't really understand the impact of those investments on the whole of air transport and travel through the airport. Montreal is going to be a mess for the next two to three years as they go through this parking and road access investment. What are they doing about improving the connectivity of passengers inside that building? Nothing for now.

**Mr. Ryan Williams:** I want to talk about Nav Canada's budgetary structure factoring into the level of fees facing both Canadian airlines and air travellers. Could moving Nav Canada into the Department of Transport's funding umbrella like the FAA in the United States potentially reduce airport fees?

**Mr. John Gradek:** It could. I think NavCan in terms of its investment profile and the way it's been managing its own fate over the last few years has been exemplary. I think it is considered one of the better-run nav centres around the world. I think one of the things that's happening in the U.S. is that there's been a lack of investment in the U.S. navigation systems, and it's coming home to roost. The FAA is finding it has some issues about navigation, which is forcing it to have a different governance structure. I'm not sure we have that same issue here in Canada.

**The Chair:** Thank you very much, Mr. Williams.

Finally for today, we have Mr. Iacono.

[*Translation*]

Mr. Iacono, you have the floor for five minutes.

**Mr. Angelo Iacono (Alfred-Pellan, Lib.):** Thank you, Mr. Chair.

I think we have to remember the following. I often hear my colleagues opposite blame the government. To their minds, it is always the government's fault. You will agree with me that it is easy to blame our government all the time. Airports have been around for a long time though, long before 2015. If there is a process in place now, that is because it has always worked that way.

Our government has invested a great deal in airports. You have to admit that the federal government does not control all the airlines. It plays a certain role, and has something to say about airports and how they operate. Yet I have never heard anyone say that the federal government directly controls all the airlines.

You also have to admit that airline companies also have something to say and have their own ways of doing things. Ultimately, it is a question of co-operation between the two parties.

That said, the federal government it is not entirely to blame. I have to say that everyone is in fact to blame if there is a lack of co-operation.

[*English*]

At the end of the day, everybody's just interested in making money. That's what it's all about. However, there's a problem: You're making money, but what about the service? That's where the Government of Canada steps in, because the service is being penalized. Everybody's out there to make money, and the service is getting worse and worse.

[*Translation*]

Mr. Ebrahimi, can you tell the committee about the relationship between performance management and the price of airline tickets?

**Mr. Mehran Ebrahimi:** Thank you for your question, Mr. Iacono.

First, the goal isn't to assign blame to any particular government. You're right. Here in Canada, the issue is endemic. It has been going on for some time. My colleague, Mr. Gradek, provided a brief history of the situation.

**Mr. Angelo Iacono:** The Canadian government isn't solely responsible for the issue.

Do you agree with me on this?

**Mr. Mehran Ebrahimi:** For at least three decades, successive Canadian governments have failed to fulfill the role that they could have played in improving the situation. I can say that. Why am I making this statement? You're right to say that everyone wants to make money. However, if you look closely at the situation, Lufthansa is making money, and German airports are well managed. They generate profits, and the accessibility is good. The Paris airport and Air France are also making money, and accessibility is great.

Our airports are governed in such a way that everyone does more or less as they please. There isn't any type of overall consistency. The decision was made to spend almost \$4.5 billion at Montréal-Trudeau airport, and up to \$10 billion at Pearson airport.

However, the federal government can decide that the additional slots created will be allocated to airlines that generate competition. The government can tell airlines that, if they have highly profitable international flights, they must also provide and maintain regional flights. The government can do this, because it's a federal responsibility. It can do these things.

That said, the goal isn't to become dictatorial or to impose a planned economy. However, with the co-operation of industry players, the government can find compromises. It can be done.

We can generate a certain return, while serving the public properly.

• (1250)

**Mr. Angelo Iacono:** Thank you.

The airfare reduction program has been in place in Quebec for almost 10 years, if not more.

Could we learn any lessons from this program? If so, what lessons?

**Mr. Mehran Ebrahimi:** Quebec's various programs have never resolved the regional flight issues, despite its good intentions. Each investment has resolved the issue only for a limited time.

The Quebec government recently launched a program to provide \$500 airline tickets. In the end, the results showed that it was a failure. Once again, for air transportation to play its part, there must be a demand. This demand is created when the necessary economic and social activities exist. These factors weren't addressed.

**Mr. Angelo Iacono:** Thank you.

Has this program affected service quality?

**Mr. Mehran Ebrahimi:** Not really.

**Mr. Angelo Iacono:** Thank you.

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

[English]

If there are no objections from the committee members, I'd like to ask one question of the witnesses.

I see none. Thank you, colleagues.

The question I have is for all three of the witnesses who are still with us. We have a model in Canada that is more of a pay-as-you-go model than that in the United States, where they tend to spend more federally to invest in reducing the taxes on the price of tickets.

What if we put forward an argument that it would be in our best interests to take off some of the taxes that are currently on plane tickets?

We had Mr. Rogers speak to the taxes that are added on, and we had several of our witnesses speak to that as well. You had refer-

enced the fact that your starting price is this, and when you're done, it reaches that.

Let's assume we removed all of that and absorbed those costs as the government and made it a government expense. What would stop companies like Air Canada, for example, from saying, "Canadians are paying \$1,000 for this exact ticket price right now, and the federal government, by removing all those fees, is absorbing \$300 in taxes, making it \$700?" What is to stop those companies from raising that price to \$1,000, basically making it the same price for Canadian consumers, but the money would be going into the pockets of the companies, and taxpayers would be paying that amount?

Does anybody want to comment on that?

**Mr. John Gradek:** Welcome to open competition. That's the price we pay.

Unless you walk in there and start talking about controls, the market will in fact decide the pricing structure that's going to be in place. There's nothing preventing the airlines—

**The Chair:** To be clear, there is the possibility that the companies could just raise their prices and consumers end up paying the same amount. In fact, they'd be paying more because they'd be paying through their taxes.

Is that correct?

**Mr. John Gradek:** That's correct.

**The Chair:** Thank you very much, colleagues. I appreciate you allowing me to ask that question.

I have one last housekeeping note. I've spoken to most of you about this.

We have to adopt the budget for this study. It was circulated on Friday.

Do we have any objections? Do I have unanimous consent to adopt the budget for the study?

**Some hon. members:** Agreed.

**The Chair:** Seeing no objection, it is adopted. Thanks to all of our witnesses for being with us today and for lending their expertise to this very important study.

I will now adjourn the meeting.







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