

# **Unbridling Canada**

## **Why A New International Air Policy is Imperative for a Competitive Canada**

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**A policy paper for the  
Government of Canada**

**September, 2006**



**CANADIAN AIRPORTS COUNCIL  
CONSEIL DES AÉROPORTS DU CANADA**

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## Executive Summary

Much has changed since Canada last conducted a review of its international air policy in 2001 under then Transport Minister David Collenette. New liberalized air service agreements have been signed with the People's Republic of China and India, and historic Open Skies agreements have been signed with the United States and United Kingdom.

Yet the federal government's approach to international air service remains far too preoccupied with the priorities of Canadian carriers at the expense of communities and other stakeholders. This is not in Canada's best interests.

Today, many more Canadian airports are seeking international service. Indeed, as locally managed entities answerable to the communities they serve, they are obligated to pursue international air service opportunities and the business and tourist benefits they bring.

At the same time, the rise of global alliances, liberalization in the U.S. and elsewhere, and the emergence of more international and multi-national carriers has made Canada's traditional approach to international air service even less relevant.

The Canadian airline sector has changed immensely since the days in which the bilateral approach to international air service was created. No longer are Canadian carriers publicly owned vehicles for social policy; They are private corporations no longer requiring shelter from international competition. It is time Canada's international air policy reflect this reality.

Canada's international air policy used to be oriented around a limited number of gateway cities. However, increased demand for air service in concert with new technology has since made this approach a relic of the past. More and more city pairs now are being served nonstop, but this requires the lifting of restrictions on points served and Canada's relationship with many nations falls short in this regard.

As a result of Canada's hesitation in liberalizing, the country risks being left behind. While Canada now has one Open Skies agreement<sup>1</sup>, the U.S. has 77. This puts Canadian communities at a competitive disadvantage that will only get worse if the U.S. is able to conclude an Open Skies agreement with the European Union.

The state of most of Canada's bilateral air regimes today is far too restrictive. Canada's air service relationships with some of the nation's biggest trading

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<sup>1</sup> While the Canadian government has characterized the recently reached new bilateral agreement with the U.K. as "Open Skies," it is not a true Open Skies environment as restrictions remain on fifth freedoms for U.K. carriers.

partners, tourist sources and international air travel hubs are characterized by limits on destinations served, frequencies, capacity and other restrictions.

Today opportunities for new international air service are being left on the table because the federal government has refused to reform key bilateral air service markets or temporarily provide access to foreign carriers based on demand in cases where the current air regime does not consider such service. International air service by foreign carriers brings Canadian jobs while policies that restrict it hinder competition and bilateral trade.

It is time for a change in Canada's international air policy. Canada needs an approach that aggressively pursues Open Skies regimes – not only with markets in which Canada's airlines have expressed interest. Community and other stakeholder interests need to be considered as well; Airports should be "at the table," in international air talks in recognition of the acute stake they have in the outcome. And when the current regime is lacking, foreign carriers interested in serving Canada should be allowed to do so in an expedient manner in advance of more formal talks.

At the same time, while Canada pursues liberalization, it must ensure that essential tools such as border services are able to facilitate the opportunities that liberalization will create.

In parallel with the pursuit of Open Skies for passenger service, Canada should unilaterally declare Open Skies for cargo now. Doing so would put Canada at a competitive advantage in the cargo sector and enable the country to experience the phenomenal cargo growth that has been experienced in other markets.

It is time for Canada to abandon the complex balancing and trade-off of benefits and rights that has resulted in an overly-controlled, unresponsive regime that hinders air carriers from meeting market needs.

In the context of a mature, sophisticated, privately held airline industry, government policy must focus on serving the needs of users by allowing the market to dictate which carriers provide service and in what form these services should be provided. This is best met by opening up access: Opening the Skies.

## The Domestic Context

The signing of significantly more liberal agreements by Canada since 2005 is an encouraging sign that the federal government may finally agree that liberalization of the skies is a good thing for Canada. Nevertheless, the government's approach to international air service still remains preoccupied with old bilateral strategies and does not yet fully balance community and other stakeholder interests with those of the nation's air carriers.

Although Canada's international air policy has continued to evolve over time, the essence of the current policy was formulated in the days when air transport was an embryonic, vulnerable industry, operated by state-owned airlines that offered an ambitious level of service to a small customer base and served as instruments of government policy.

Therefore it is not surprising that Canada sought to exchange traffic rights with other nations on a bilateral basis; this was standard practice around the world and it effectively allocated markets between respective flag carriers to ensure that each country's own flag carrier would be able to capture its "fair share" of the available revenues and minimise the need for public subsidies.

This policy enabled Canada's international air transportation system to develop in an orderly, albeit relatively sedate fashion. The policy led to the evolution of an extensive network of air services through which passengers could reach virtually any destination on an interline basis with foreign carriers whose networks evolved under similar conditions. Under the environment of the day, this was a reasonable approach.

Today, however, the Canadian aviation environment is different. Canada's airlines are privately owned, as are increasingly those in the rest of the world. The interests of Canada's airlines no longer are synonymous with those of the nation. Rather the experience of more liberalized markets abroad demonstrates that an international air policy that supports open, unbridled access delivers demonstrable benefits for consumers and commensurate increases in economic activity.

### ***A Privatized and Mature Airline Industry***

The Canadian airline industry is a privately held, for-profit industry. The federal rationale for restricting competition to protect taxpayer exposure to financial losses no longer exists.

As a result of domestic deregulation in the 1980s, carriers also are no longer required to serve as a social policy instrument for government. The compensatory rationale for sheltering carriers from market forces (i.e., using

profits from some markets to cross-subsidise imposed services in other markets) no longer applies.

Meanwhile, Canada's airline industry already is linked into supranational relationships through alliances and foreign ownership. Foreign investors can own up to 25% non-controlling voting interest in Canadian air carriers and up to one-third total financial interest – a figure that the previous government already had planned to increase to 49%. Both Air Canada and WestJet have significant foreign ownership levels.

Air Canada and Air Transat also have significant overseas business linkages – Air Canada through its membership in the global Star Alliance and Air Transat through its ownership of major French and British travel distribution networks. WestJet recently has been implementing technology changes that will enable it too to participate in international partnerships.

The Canadian airline industry is a mature, sophisticated industry that no longer needs to be directed and controlled by government in order to provide an effective network of services. With the sophisticated information systems available to them, air carriers know with far more precision than ever before exactly what signals the market is sending.

In fact, airlines using sophisticated, advanced yield management systems are in a better position now to respond rapidly to changing market conditions, especially if they are not encumbered by restrictive air transport agreements.

### ***Devolution of Airports***

In the early 1990s, Canada's major airports were owned and operated by Transport Canada. The viability of these airports was not an issue as capital requirements and any operating deficits were the responsibility of the federal government.

Beginning in 1992, however, the federal government began devolving control of airports to local authorities under long-term leases. The transfers made local authorities responsible for all airport operating and capital costs, and raised awareness of the role of airports and their ability to generate economic development.

Since the transfer to local control, each airport now is accountable to the community it serves and with this comes the obligation to seek out international air service opportunities, and their benefits for increased tourism and business activity.

The days in which Transport Canada promoted only a handful of cities as Canada's gateways are long gone. Unfortunately, however, many of the

vestiges of this policy remain in place through outdated bilateral air service agreements that restrict the Canadian destinations that foreign carriers can serve.

### ***The Bottom Line***

The Canadian airline industry no longer even remotely resembles the industry that existed in 1945 when the Chicago Convention established the bilateral framework for traffic rights that gave rise to Canada's (and other nations') air policy.

While Canadian policy has continued to evolve since that time, it is still based on the same fundamental precepts – the need to nurture vulnerable, taxpayer-supported, air carriers. These fundamental precepts are no longer valid – that environment simply no longer exists in Canada.

The domestic context, therefore, suggests the need for a revolution in international air policy.

## The International Context

While there have been important changes to the domestic air travel market in Canada, the international context has shifted even more dramatically, adding further impetus to the need for a new policy approach.

Privatisation, deregulation, increased global integration, the maturity of the industry, and airport devolution also all come into play in the international context.

In addition to these factors, however, there are a number of other key international developments that are changing the international context and that should constitute determining factors in the development of Canada's international air policy for the future.

### *Global Airline Alliances*

A large portion of the world's international carriers now operate as part of global alliances that allow them to collectively provide a global network of services that bilateral agreements and national regulation often prohibit them from providing individually.

There are two important ramifications arising from this. The first is that airlines are using alliances to get around limitations imposed by foreign ownership regulations, domestic market access restrictions, and other air service restrictions, in order to provide a seamless global operation. This suggests these traditional limitations have outgrown their use.

Second, the consolidation of carriers into a very limited number of alliances has potential anti-competitive implications. As the table on the following page shows, the three main alliances combined fly nearly 60% of the world's passengers!

The government should be taking steps to ensure competitive access to markets by a number of alliances or independent carriers – and not simply providing access to a select group of carriers that may in fact be in a common alliance and thus not as vigorously competing with each other.

| The World's Airline Alliances                  |   |   |  |   |   |   |
|--|---|---|--|---|---|---|
|  | Star Alliance   |   | Oneworld   |   | Skyteam   |   |
| Passengers per year                            | 425 million   |   | 258 million  |   | 373 million   |   |
| Market share **                                | 23.6%   |   | 13.5%  |   | 20.7%   |   |
| Members, Pending Members and Associate Members | Adria Airways<br>Air Canada<br>Air China***<br>Air New Zealand<br>ANA<br>Asiana<br>Austrian Airlines<br>Blue1<br>bmi<br>Croatia Airlines<br>LOT<br>Lufthansa<br>Scandinavian<br><br>Shanghai Airlines***<br>Singapore Airlines<br>South African Airways<br>Spanair<br>Swiss<br>TAP Air Portugal<br>Thai Airways<br>United Airlines<br>US Airways<br>Varig | Slovenia<br>Canada<br>P.R. China<br>New Zealand<br>Japan<br>South Korea<br>Austria<br>Finland<br>U.K.<br>Croatia<br>Poland<br>Germany<br>Denmark<br>Sweden<br>Norway<br>P.R. China<br><br>Singapore<br>South Africa<br><br>Spain<br>Switzerland<br>Portugal<br>Thailand<br>U.S.<br>U.S.<br>Brazil | American Airlines<br>British Airways<br>Cathay Pacific<br>Finnair<br>Iberia<br>Japan Air Lines***<br>LAN<br><br>Malev***<br>Qantas<br>Royal Jordanian*** | U.S.<br>U.K.<br>Hong Kong<br>Finland<br>Spain<br>Japan<br>Peru<br>Chile<br>Hungary<br>Australia<br>Jordan | Aeroflot<br>Aeroméxico<br>Air Europa***<br>Air France-KLM<br><br>Alitalia<br>China Southern***<br>Continental<br>Copa***<br>CSA<br>Delta<br>Kenya Airways***<br>Korean Air<br>Middle East Airlines***<br>Northwest<br>Portugalia***<br>Tarom*** | Russia<br>Mexico<br>Spain<br>France<br>Netherlands<br>Italy<br>P.R. China<br>U.S.<br>Panama<br>Czech Republic<br>U.S.<br>Kenya<br>South Korea<br>Lebanon<br><br>U.S.<br>Portugal<br>Romania |

\*\* Source IATA 2005 Annual Report, includes departing Oneworld member Aer Lingus and does not include pending members

\*\*\* Anticipated/Pending Member or Associate Member

## ***International Liberalization***

At the time of the drafting of this paper, the U.S. had Open Skies agreements with 77 nations. This is nearly 50% more than when the CAC last presented a position paper on international air policy in 2001.

Canada now has just one Open Skies agreement – with the U.S.<sup>2</sup> The perverse result of Canada's delay in liberalization relative to the U.S. is that American carriers and airports are in many ways better placed to provide international service to Canadians than are Canadian carriers and airports.

This dramatic opening up of market access on a global scale has given U.S. carriers a tremendous advantage in their own market as well as in other markets. Ironically, as a result of the U.S. government's initiatives, U.S. carriers, with their open access to Canadian markets, can connect Canadians with more foreign destinations on a sixth freedom basis than can Canadian carriers, which have more limited access to foreign markets.<sup>3</sup>

Furthermore, liberalized agreements are fast becoming the norm around the world, and the concept is a driving force in global international air policy.

## ***Emerging Carriers***

Emirates, China Southern, Ryanair, Virgin: These are some of the biggest, most profitable and fastest growing airlines on the planet yet none of them even existed a couple of decades ago.

To an extent not even realized four years ago when Canada last reviewed its international air policy, today's international airline industry is dominated by newer airlines that have arisen to challenge the dominance of the traditional flag airlines.

This is true not only aboard, but also here in Canada: Air Transat has emerged as an international challenger to Air Canada in some leisure markets while Harmony Airways has serious China ambitions. These are just two examples of new, entrepreneurial carriers that have emerged due to the

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<sup>2</sup> While the Canadian government has characterized the recently reached new bilateral agreement with the U.K. as "Open Skies," it is not a true Open Skies environment as restrictions remain on fifth freedoms for U.K. carriers.

<sup>3</sup> Despite the inconvenience of an additional border crossing, Canadians do utilise U.S. gateways to access international points. As an example, a significant portion of Winnipeg originating passengers going to Europe connect through Minneapolis-St. Paul on Northwest Airlines rather than connecting at a Canadian point on a Canadian carrier.

tentative steps toward international air service liberalization that Canada began to take in the 1980s.

The airline industry today no longer resembles the industry of 10, 20 or 30 years ago. Canada needs an international air policy designed to support the opportunities created by a rapidly changing sector in which traditional flag carriers are less and less relevant each day.

Brazil provides a great example of how quickly things change. Varig, the country's traditional flag carrier and designated Brazilian carrier to Canada, was once the largest airline in South America. VASP, which was the second biggest in international service, is Canada's second designated Brazilian carrier.

Today VASP is gone and after more than 75 years in operation, in less than two years Varig's financial troubles have led the carrier to cancel most of its domestic and international flights. In their place, fast-growing low-cost carrier Gol has emerged as a leading domestic and regional player while TAM has begun operating key routes overseas.

Around the world we find more and more examples of emerging international carriers that could connect Canada with the world. In Australia, Ansett no longer exists while six year old Virgin Blue is looking at expanding into trans-Pacific service to the U.S. Nigeria Airways has long since disappeared and Virgin Nigeria now connects the huge Nigerian market with London, the Middle East and possibly soon to the U.S.<sup>4</sup> (but not Canada, as Canada does not have a bilateral with Africa's most populous nation).

In India, where years of protectionism meant stagnation for national carriers Air-India and Indian Airlines until recently, liberalization has fueled the emergence of Jet Airways and Air Sahara as overseas operators. Upstart Kingfisher Airlines prepares to launch its own overseas operations in two years time.

Even among established carriers, the bilateral system is inconsistent with the evolution of the airline industry – one of the last remaining barriers to the emergence of global, multinational airlines. Swiss International Air Lines is now owned by Lufthansa of Germany while Air France and KLM are now the same company.

Meanwhile South American aviation is largely dominated by multinational airline groups. Lan Airlines has units in Chile, Argentina, the Dominican Republic, Ecuador and Peru and Grupo TACA operates units in Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Peru. Panama's Copa also runs a subsidiary in Colombia and both carriers are closely aligned with Continental of the United States.

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<sup>4</sup> An application is pending with U.S. authorities

## ***Technology and Volume***

The development of new aircraft types over the years has coincided with (and in many cases spurred) an increase in passenger volume that, when taken together, has rendered the old approach to international air service increasingly less relevant.

Until at least the 1980s, international air travel generally involved a country's international gateway airport or airports. A passenger from Calgary wanting to travel to Edinburgh, Scotland, for example, might travel on one airline to Toronto or Montréal, where she would likely connect onto a large widebody aircraft seating between 250 and 325 passengers destined for London. From London, she would connect to a smaller plane or a train for the final leg to Edinburgh.

Since those days, much has changed. The advent of smaller widebody intercontinental aircraft such as the Boeing 767 and Airbus A310, along with increased demand for air travel, made Calgary-London nonstop flights viable – so viable that as of Dec. 1, 2006, both Air Canada and British Airways will operate nonstops on the route. Continued advances in technology are making additional city pair combinations more attractive for airlines so that one day that same passenger may fly nonstop to her destination.

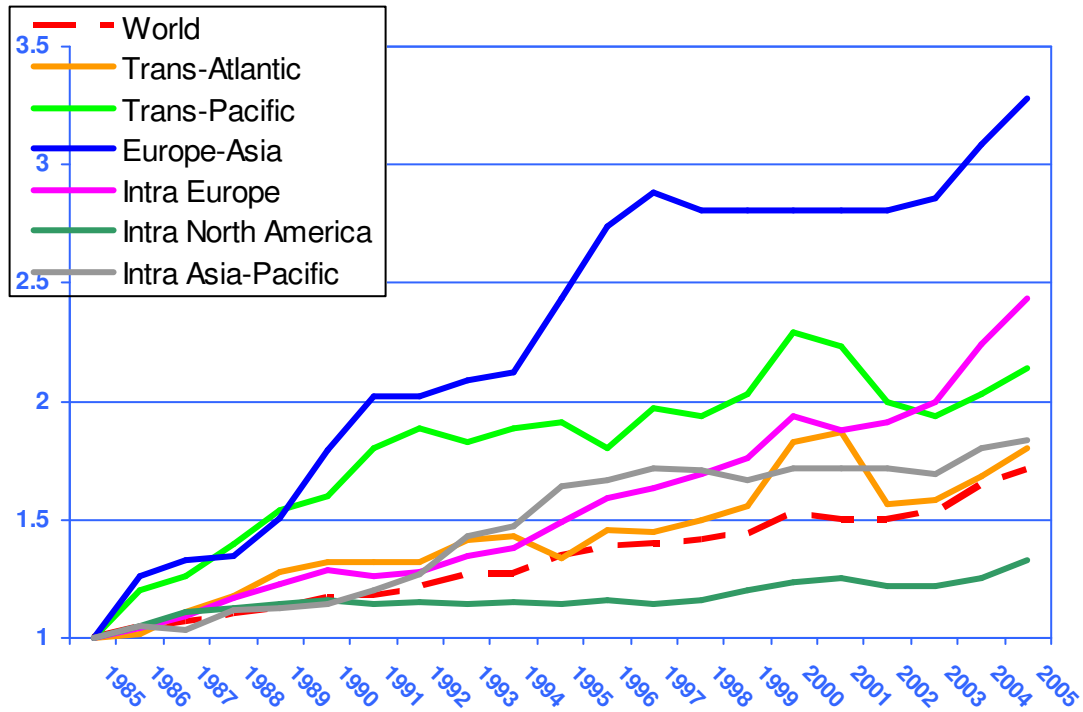
This technology change has occurred in concert with an international traffic increase of more than 260% in just the last 20 years.<sup>5</sup>

Taking these two developments together, the number of world city pairs on which there are nonstop routes has continued to climb. With the latest long-range aircraft models being proposed by Boeing and Airbus, we can expect this to continue. But unfortunately many of Canada's bilateral air service agreements contain restrictions on the airports that can be served by airlines from each side.

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<sup>5</sup> International Air Transport Association passenger traffic numbers, 1985-2005

**Portion of 3 million city pairs served directly is growing... in new, developing and even mature markets**



Source: Boeing Commercial Airplanes

## ***Common Aviation Markets***

As Canada contemplates whether or not to change its international air policy, other regions of the world have leapfrogged past the bilateral approach of the past to establish common aviation markets.

In order to bring air transport services into the spirit of their Closer Economic Relations Trade Agreement, in 1996 Australia and New Zealand signed an agreement that creates a single aviation market encompassing the two countries.

In this common market, carriers are generally free to operate domestic services within Australia and New Zealand. These carriers may also carry traffic, including cabotage traffic, on co-terminal international services between airports approved for international services in the other country.

There are no limits to the number of eligible carriers, nor are there limits to the capacity that each carrier offers. No approvals are required for tariffs for air transport services between and within Australia and New Zealand. There also are no restrictions on ownership: New Zealand's second biggest carrier is owned by an Australian airline.

The European Union also has taken an ambitious approach, opening up air transport within the union in a series of liberalisation steps. Back in 1987, a degree of flexibility was introduced to the previously rigid allocation of flights under bilateral agreements. By 1990, flexible rules on codesharing had been authorised, effectively allowing increased access by European air carriers.

Three measures were introduced in 1992 that harmonised the conditions for granting of licenses, fully liberalised tariffs as of January 1993, and abolished restrictions on 7<sup>th</sup> and 8<sup>th</sup> freedom traffic by April 1997. With these changes, any EU carrier can carry traffic between any country within the EU, as well as within any country of the EU. For example, Lufthansa can not only carry traffic between Paris and London, it can carry traffic between Paris and Lyon.

The EU also has broadened its "internal" market by signing treaties with a number of non-EU states (Iceland, Norway and Switzerland, for example). This provides them reciprocal access to internal EU markets with no limits on routes, capacity or fares.

Meanwhile, the EU has been busy signing aviation agreements with nations around the world that allow carriers to fly between that nation and any EU member state. The agreements remove nationality restrictions and already have been signed with Chile, Singapore, Ukraine, Georgia, and several Balkan countries. The European Commission has successfully negotiated similar agreements with 23 countries in total, including Australia, Malaysia, Morocco, and Lebanon.

## ***Anticipated U.S. Agreements***

For two years, negotiators from the U.S. and the EU have been working to conclude a trans-Atlantic Open Skies agreement that would open the markets between the two regions and treat the EU block as a single aviation market. Both groups are highly motivated to conclude an agreement, making it increasingly a matter of not if, but when.<sup>6</sup>

U.S.-EU Open Skies is a big deal: An estimated 17 million passengers and more than \$5 billion in annual consumer benefits have been predicted.<sup>7</sup> But the deal will not include Canada.

When the U.S. and EU do reach a new agreement, Canada will suddenly be at a much greater competitive disadvantage with a continued patchwork of disparate bilateral agreements negotiated with individual EU members. In the absence of an EU-wide agreement for Canada, it is imperative that Canada accelerate liberalization of the regimes with the union's individual members, which already make-up some of Canada's biggest air markets.

The cooperative nature of the commercial aviation sector in Latin America means that it is highly likely that there will eventually be a common aviation market between the U.S. and a group of some or all Latin American states as well. The current bilateral reality is one of the biggest impediments to a full merger for the region's Grupo TACA and Lan Airlines groups of carriers.

## ***The Bottom Line***

Airline privatisation, domestic deregulation, increased global integration, the maturity of the industry, airport devolution, existing models of single internal markets that not only allow full third, fourth, and fifth freedom rights, but also allow full seventh and eighth freedom services, and a number of global initiatives that are pushing liberalisation of air transport ever further are all part of the context within which Canada must make its own international policy decisions.

This view, as broad as it may seem, is still narrow from the perspective of what is driving all these changes: The changing demands of air transport users.

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<sup>6</sup> In the U.S., the Bush administration is in favour of Open Skies. The biggest current hurdle is U.S. foreign ownership limits of 25% of voting stock and 1/3 of board of directors. The U.S. Department of Transportation has proposed a change to the rule, to which labour groups and some in the U.S. Congress are opposed. According a July Reuters article, the DOT hopes to finalize the foreign investment rule change by the end of the year.

<sup>7</sup> European Union Ambassador to the United States in a *Seattle Times* editorial on June 23, 2006

A protective aviation policy and restrictive air transport agreements are not only undesirable and counterproductive from the perspective of users and the airline industry itself, they are futile. It is a truly global industry that facilitates a global economy and requires the elimination of restrictions in order to function globally.

The question becomes not "Do we liberalise our policy?" but rather "How do we transition from the current approach to an Open Skies environment?"

## **The Result: Canada is Being Left Behind**

The result of Canada's reluctance to more aggressively pursue a liberalized air environment is evident in the state of Canada's air regimes today: A patchwork of restrictive bilaterals that limit potential new service and stifle competition.

Canada now has one Open Skies agreement<sup>8</sup> but the U.S. has 77. The rest of Canada's bilateral agreements are characterized by restrictions on carrier designation, points served, capacity and tariffs. Reticence by other nations to open their markets sometimes plays a big role in the problem, but the Canadian government has held on to its own old fashioned ideas about air policy for far too long.

Canada's air regimes with some of the country's most important economic partners and sources of tourists – markets such as Japan and South Korea – are characterized by limitations that restrict carriers and communities from realizing their full economic potential.

At the same time, Canada has restrictive agreements (or no agreement at all) with nations in which it is on public record that there are carriers interested in serving Canada or increasing service to Canada. Most notably, this includes the huge sixth freedom markets of Singapore, Luxembourg and the United Arab Emirates.

In the absence of air agreement provisions allowing foreign carriers to introduce or increase service to Canada, carriers find it difficult to navigate the current regime. Unlike in the U.S., where foreign carriers can be temporarily granted access until a new agreement can be reached, in Canada this has been an obstacle to new carriers.

Even in markets in which there may already be service and room to grow, restrictions remain. Agreements with markets such as the Netherlands and France, for example, include restrictions that keep domestic and foreign carriers from adding some of the services they might be interested in adding.

### ***Liberalization Works***

Time after time, experience has demonstrated that liberalization leads to increased traffic and commensurate economic benefits for the markets involved. In short, liberalization works.

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<sup>8</sup> While the Canadian government has characterized the recently reached new bilateral agreement with the U.K. as "Open Skies," it is not a true Open Skies environment as restrictions remain on fifth freedoms for U.K. carriers.

The Canada-U.S. transborder agreement of 1995 is an important example of the benefits of liberalization. A 2005 study by the consulting firm InterVistas showed that the number of transborder routes nearly doubled during the 10-year period after the agreement was signed.<sup>9</sup> On these routes travelled about 3.3 million more passengers a year. The increased service had a direct impact of an estimated 4,500 person years of Canadian employment a year and had a \$300 million impact on Gross Domestic Product.<sup>10</sup>

Similar results are seen around the world. An InterVistas-ga<sup>2</sup> study estimated traffic growth in markets in which liberalization had occurred at 12-35% - in some cases it exceeded 50%. The firm estimates that liberalizing just 320 of the thousands of bilateral agreements in existence would create 24.1 million additional jobs and generate an additional USD \$490 billion in Gross Domestic Product (GDP).<sup>11</sup>

### ***Foreign Carriers Bring Canadian Jobs***

One of the Canadian federal government's foremost responsibilities in any policy decision it considers is the impact that it will have on Canadian jobs – as it rightly should. However, what is left out of the government's traditional approach to international air service are the direct and indirect jobs created by air service to Canada from foreign air carriers.

Foreign airlines employ local managers and customer service personnel. They engage fueling companies, cleaners, caterers, freight and baggage handlers and other vendors. And they bring people to Canada to stay in Canadian hotels, eat at Canadian restaurants and shop in Canadian stores. Foreign airlines bring jobs to Canada.

A 2005 economic impact study conducted for Vancouver International Airport, for example, found that each time one of its Asia-Pacific carriers lands at the airport with a local crew, it generates nearly 790 hours of employment. Over a year, the carrier's twice daily service is estimated to generate 369 person years of employment.<sup>12</sup> Of the 64 carriers serving Vancouver, more than 40 of them are foreign carriers.<sup>13</sup>

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<sup>9</sup> *Transborder Air Services Since 1994*, InterVistas, June 2005

<sup>10</sup> *The Economic Impacts of the Open Skies Initiative: Past and Future*, InterVistas, June 2005

<sup>11</sup> *The Economic Impact of Air Service Liberalization*, InterVistas-ga2, 2006

<sup>12</sup> *The 2005 Economic Impact of the Vancouver International Airport*

<sup>13</sup> Vancouver International Airport Annual Report 2005

Similarly, Calgary International Airport estimates that a new daily Boeing 747 service connecting the city to Asia would support about 700 jobs, \$30 million in labour income, and \$58 million in GDP activity.<sup>14</sup>

## ***Cargo Left Out***

While most of this paper concerns passenger service, air cargo is a \$40 billion (USD) business<sup>15</sup> and Canada's current approach to international air service, focused on passenger service, has done cargo a disservice.

The business of dedicated freighters is quite different from that of passenger carriers that also may carry belly cargo. While in passenger service, for example, fifth freedom rights provide "gravy" for carriers to pick up some extra passengers on an intermediary stop, for freighters fifth freedoms can be essential to a viable operation. Also, unlike passengers, cargo does not return, so one-direction freighter services are common.

Unfortunately for freighter carriers, however, Canada's current air regime does not distinguish much between passenger and freighter service. Available capacity in a given market often is taken up by passenger carriers, to the exclusion of freighters. And Canada prioritizes its pursuit of new air service regimes based on the priorities of Canada's air carriers, which are primarily motivated by passenger demand.

As a result, Canada is not the global leader in air cargo that it could be. In fact, not a single Canadian airport is in the top 50 list of cargo airports around the world.<sup>16</sup>

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<sup>14</sup> The 2004 Economic Impact of the Calgary International Airport, RP Erickson & Associates, Sept. 2005

<sup>15</sup> The International Air Transport Association (IATA)

<sup>16</sup> *Airline Business The Airline Industry Guide 2005-06*

### Canada's Air Service Relationship with Top Trading Partners

| #        | Market             | Imports/Exports       | Agreement Year | State of the relationship   |
|----------|--------------------|-----------------------|----------------|---|
| 1        | United States      | \$581 billion         | 2005           | Open Skies to go into effect soon   |
| 2        | China              | \$36.6 billion        | 2005           | Increased capacity, more markets open in both countries   |
| <b>3</b> | <b>Japan</b>       | <b>\$23.9 billion</b> | <b>1955</b>    | <b>Priority market, Canadian carriers at capacity limits, significant appetite for more capacity</b>            |
| 4        | United Kingdom     | \$18.6 billion        | 2006           | Significantly more liberal agreement to go into effect soon   |
| 5        | Mexico             | \$17.8 billion        | 1961           | 2 carriers from each side designated for each city pair, charter flights not subject to this limit              |
| 6        | Germany            | \$13.5 billion        | 1973           | Fairly open, restrictions on fifth freedoms   |
| <b>7</b> | <b>South Korea</b> | <b>\$8.1 billion</b>  | <b>1989</b>    | <b>Priority market, strict capacity limits that only gradually have expanded, both sides at capacity limits</b> |
| 8        | Norway             | \$7.6 billion         | 1989           | Carriers not operating in this market   |

|           |               |                      |             |  |
|-----------|---------------|----------------------|-------------|--|
| <b>9</b>  | <b>France</b> | <b>\$7.5 billion</b> | <b>1976</b> | <b>Priority market, only Toronto and Montréal designated as points in Canada, limitations on fifths</b>                  |
| <b>10</b> | <b>Italy</b>  | <b>\$6.5 billion</b> | <b>1960</b> | <b>Single by route designation, Rome, Milan, Toronto and Montréal only designated points, restrictions on codeshares</b> |

Sources: Industry Canada, Transport Canada

### Canada's Air Service Relationship with Top Tourist Sources

| #  | Source             | 2005 Visitors  | Air Regime   |
|----|--------------------|----------------|--|
| 1  | United Kingdom     | 847,000        | Significantly more liberal agreement to go into effect soon  |
| 2  | <b>Japan</b>       | <b>437,000</b> | <b>Priority market, Canadian carriers at capacity limit</b>  |
| 3  | <b>France</b>      | <b>341,000</b> | <b>Priority market, Canada seeking liberalization, currently routes restricted to Toronto and Montréal, limitations on fifth freedoms</b>  |
| 4  | Germany            | 318,000        | Fairly open, restrictions on fifth freedoms  |
| 5  | <b>South Korea</b> | <b>191,000</b> | <b>Priority market, strict capacity limits that only gradually have expanded, both sides near capacity limits</b>  |
| 6  | Australia          | 185,000        | Fairly open but limitations on fifth freedoms, talks coming soon   |
| 7  | Mexico             | 177,000        | 2 carriers from each side designated for each city pair, charter flights not subject to this limit   |
| 8  | <b>Hong Kong</b>   | <b>121,000</b> | <b>Significant limitations on fifth freedoms</b>   |
| 9  | Netherlands        | 120,000        | Open   |
| 10 | <b>Taiwan</b>      | <b>109,000</b> | <b>Priority market, current limited to 10 frequencies a week for each country and three flights a week from Kaohsiung to anywhere in Canada by Taiwanese carriers, no fifth freedoms</b> |

Sources: Statistics Canada, Transport Canada

**Canada's Air Regime with Top 15  
Overseas International Cargo Airports**

| Airport             | Country              | Thousands of Tonnes a Year | Regime   |
|---------------------|----------------------|----------------------------|--|
| <b>Hong Kong</b>    | <b>Hong Kong SAR</b> | <b>3,132</b>               | <b>Restrictions on fifth freedoms</b>  |
| <b>Tokyo Narita</b> | <b>Japan</b>         | <b>2,373</b>               | <b>All available Canadian capacity used by passenger aircraft, which have reached capacity limits</b>  |
| <b>Seoul</b>        | <b>South Korea</b>   | <b>2,133</b>               | <b>Strict capacity limits that only gradually have expanded, both sides at capacity limits</b>   |
| <b>Frankfurt</b>    | <b>Germany</b>       | <b>1,839</b>               | <b>Restrictions on fifth freedoms</b>  |
| <b>Singapore</b>    | <b>Singapore</b>     | <b>1,796</b>               | <b>No air service agreement at all</b>   |
| <b>Taipei</b>       | <b>Taiwan</b>        | <b>1,701</b>               | <b>Priority market, currently limited to 10 passenger frequencies a week for each country and three flights a week from Kaohsiung to anywhere in Canada by Taiwanese carriers, no fifth freedoms</b> |
| Shanghai            | P.R. China           | 1,642                      | New agreement in 2005, more markets open in both countries   |
| <b>Paris</b>        | <b>France</b>        | <b>1,638</b>               | <b>Priority market, Canada seeking liberalization, currently routes restricted to Toronto and Montréal, limitations on fifth freedoms</b>  |
| <b>Amsterdam</b>    | <b>Netherlands</b>   | <b>1,467</b>               | <b>Restrictions on points served and fifth freedoms</b>  |
| London Heathrow     | UK                   | 1,412                      | Significantly more liberal agreement to go into effect soon  |
| <b>Dubai</b>        | <b>UAE</b>           | <b>1,169</b>               | <b>Very restrictive agreement with interested foreign carrier being left out</b>   |
| <b>Bangkok</b>      | <b>Thailand</b>      | <b>1,058</b>               | <b>Very restrictive capacity limits</b>  |
| <b>Osaka</b>        | <b>Japan</b>         | <b>887</b>                 | <b>All available Canadian capacity used by passenger aircraft, which have reached capacity limits</b>  |
| <b>Luxembourg</b>   | <b>Luxembourg</b>    | <b>713</b>                 | <b>No air service agreement and interested foreign carrier being left out</b>  |
| Beijing             | P.R. China           | 669                        | New agreement in 2005, more markets open in both countries   |

| <b>Important Transit Markets with Restrictive/No Bilaterals in Place</b>                           |                             |   |
|--|-----------------------------|---|
| <b>Country</b>   | <b>Imports/<br/>Exports</b> | <b>Comments</b>   |
| <b>European Union</b>  | <b>\$70.1 billion</b>       | <b>#2 trading region, agreements are on a member-by-member basis</b>  |
| <b>Japan</b>   | <b>\$23.9 billion</b>       | <b>#3 in exports, #4 in imports, important visitor market, Canada at maximum allowed under current agreement</b>              |
| <b>Qatar</b>   | <b>\$132 million</b>        | <b>Aiming to be major traffic hub for Africa and the Indian subcontinent, hundreds of aircraft on order for future growth</b> |
| <b>Singapore</b>   | <b>\$1.6 billion</b>        | <b>Major traffic hub for Southeast Asia, the Indian subcontinent, huge trading market</b>                                     |
| <b>South Africa</b>  | <b>\$1.2 billion</b>        | <b>Africa's biggest economy and hub for traffic in southern Africa, expatriate community in Canada</b>                        |
| <b>Taiwan</b>  | <b>\$5.2 billion</b>        | <b>Asian hub, business center</b>   |
| <b>U.A.E.</b>  | <b>\$653 million</b>        | <b>Major traffic hub for Africa and the Indian subcontinent, hundreds of aircraft on order for future growth</b>              |
| <b>Sources: Industry Canada, Transport Canada, Airline Business Airline Industry Guide 2005-06</b> |                             |   |

# **A Proposed Framework for Canada's International Air Policy**

The international air service policy framework that is in place has created a disproportionate focus on the interests of Canadian carriers with very limited consideration of airport and community concerns. This is not in Canada's best interests.

There are three main difficulties with the framework. First, as noted previously, such a heavy-handed approach by government is inconsistent with the increasingly liberal domestic and international context for international air policy.

Second, the complexity of determining an appropriate balance between competing interests means that it is increasingly difficult for government to mandate a solution that satisfies everyone. A continuation of this approach will likely lead to the situation in which the government is unable to satisfy anyone.

Third, the protectionist approach has not worked. Canadian Airlines failed despite actions to protect it in its most valued international markets. Where the policy was less protectionist, for example in the transborder market with the U.S., a home carrier emerged as the major player. As has been proven in the U.S. and abroad: liberalization works.

Therefore, Canada's airports propose that the Government of Canada aggressively pursue liberalized air regimes – Open Skies. Only this approach will ensure that Canada's airlines, airports, communities, travellers, shippers, tourism and export industries, and by extension, most Canadians enjoy the maximum benefits from the international air transportation opportunities available.

## ***Policy Objective***

Promote the broad economic and social interests of Canadians by eliminating policy-based intervention, thereby facilitating and promoting the operation of market forces to provide Canadian communities with a world-class air transportation system that offers the broadest possible range of competitive passenger and cargo services.

## ***Policy Principles***

The purpose of international air transportation is to serve the needs of

passengers and shippers. Air services do not exist because of some inherent need to purchase and operate aircraft, purchase fuel, provide employment to people, or earn foreign currency revenue – even though these are important outcomes. Air carriers only exist to serve their users – therefore air carrier interests are necessarily subjugated to user interests. If air carriers fail to meet the needs of their users – they will fail. Policies designed to promote carrier financial interests at the expense of user interests are inherently self-defeating.

In an open environment, air carriers are well positioned to determine what services the market demands. In other words, in a competitive environment, carriers are able to, and motivated to, respond to the services passengers, shippers, tourism and trade interests, communities and airports are telling carriers they need.

Indeed, the carriers' own prosperity or even survival depends on their ability to satisfy market demands. Business decisions as to what markets should be served, at what frequency, with what equipment, with what schedule, and at what price, should therefore be left to the carriers – not government.

Since international air transportation is a mature and generally competitive market, economic regulation is generally not justified and government oversight of international air transport should therefore be limited to facilitating the development of services and ensuring that services are provided in a safe and secure manner.

Only when competitiveness and service to consumers are at risk, should the government intervene in the marketplace. This is particularly true in the context of evolving global airline alliances that might limit the number of competitive choices available to users.

Thus government has a responsibility to ensure the market functions in a competitive manner, and should protect users against market abuses such as monopoly pricing or predatory activities. This should be done by exception (e.g., upon complaint) rather than by a building up of an onerous regulatory regime or requiring pre-approval of tariffs.

The Canadian airline industry is a widely based industry with a number of current and potential operators. Government policy should not favour one carrier over another and instead should let market forces prevail. In exceptional circumstances, when market forces clearly fail, government intervention would be warranted to assist, or discipline, a particular carrier in order to preserve a competitive market.

In situations where there is not yet an open environment and restrictions exist, the government will continue to need stakeholder input to determine what traffic rights should be provided for. In light of the recognition that the purpose of air transport is to meet user needs, the definition of stakeholder

needs to be broadened to include all key user groups. This broadened stakeholder base should therefore include passengers, shippers, tourism and trade interests, communities and airports, as well as carriers.

In addition, in keeping with the government's commitment to transparency, when negotiating bilaterals Canada should adopt a transparent approach (no confidentiality provision). The only exception to this should be matters of national security.

All-cargo and joint production airline services are distinct products with different characteristics serving different markets. Even bellyhold space on passenger flights offers far different product characteristics than main deck freight space. Canadian policy should thus deal with these as separate issues.

As the market functions best when information is widely available to the decision makers, the Government of Canada also should ensure that adequate data on passenger and cargo activity, as well as on fares and rates charged, are made publicly available to industry stakeholders in a timely fashion.

### ***Policy Recommendation: Open Skies***

The policy objective would be best met, and the policy principles best upheld, in an environment in which licensed air carriers are free to provide the services the market demands – in other words, in an Open Skies environment. Canada should adopt Open Skies as the basic premise for negotiation of its international air bilateral agreements. Open Skies generally is defined as an absence of restrictions on:

- The number of carriers that can serve any market
- The points that can be served by any given carrier on international service<sup>17</sup>
- Frequency or capacity
- Prices charged
- Intermediate or beyond points selected, or ability to transport passengers and cargo to/from these points on a fifth freedom basis

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<sup>17</sup> This would not include the right to provide service between domestic points (i.e., cabotage) unless these rights were exchanged on a reciprocal basis and controls were in place to ensure such services were not concentrated on a limited number of high-volume routes. It would, however, include the right to operate to multiple Canadian (or foreign) points on a co-terminal basis.



## **An Approach to Open Skies for Canada**

Air bilateral negotiations by government have historically been prompted by expressions of carrier interest in a potential service. In the current environment, however, the critical importance that international air service has for airports, communities, tourism, trade, passengers, and shippers means that it is often these stakeholders that uncover air service opportunities. Thus Canada's priorities for air bilateral negotiations need to be responsive to requests for negotiations by Canadian airports and other stakeholders, as well as airlines.

It is expected that Open Skies agreements will become the norm for Canada. In some cases, however, negotiation of an Open Skies agreement might not be possible because of resource pressures that preclude the timely scheduling of negotiations. In the past this has been an absolute obstacle to new service being started by interested carriers.

In such circumstances, Open Skies access should be granted by Canada, subject to reciprocity in a "reverse onus" manner. This would function as follows: in the absence of a formal agreement, a foreign carrier desiring access to Canada would be granted access that would remain valid unless Canadian carriers were explicitly denied reciprocal rights to that carrier's home markets. Canada should then pursue a formal agreement through later talks.

In other words, Canadian carriers would not have to actually use equivalent traffic rights or even go through the steps of getting authorised to provide such service in order to trigger foreign carrier use of their rights. In fact, Canada would not necessarily even have to go through the steps of actually securing those rights until such time as specifically requested by Canadian carriers.

Given resource limitations, requiring formal air bilateral agreement negotiations before foreign carriers are granted rights may result in a slow liberalisation process. The foreign carrier rights could thus be granted through a simple Memorandum of Understanding until a formal Open Skies agreement can be reached.

Given developments and trends in air cargo and Canada's geographic location, there also is a window of opportunity for Canada to play a much bigger role than it has to date in the air cargo industry. To do so requires Canada to open access in the most expeditious manner possible.

In the case of all-cargo services, Canada should unilaterally declare Open Skies. These extra-bilateral rights would provide benefits to Canadian shippers and consumers. They would provide Canada with a competitive advantage in the cargo sector and allow Canada to experience the kind of

phenomenal cargo growth that has been experienced in other markets that have liberalized.

One need only look at Dubai, which unilaterally opened its cargo market (as well as its passenger market) to see what can happen. Dubai-based Emirates SkyCargo now is one of the world's biggest cargo carriers.

Canada also should grant observer status to interested airport authorities for all international air bilateral negotiations. Airports can provide valuable insights into the broader economic and social issues and address regional and market issues that arise during negotiations. Furthermore, airports have a critical stake in the outcome of these talks.

### ***Air Service as an Economic Trade Issue***

International air service is a vital component of Canada's overall economic trade relationship with foreign nations and Canada's airports believe that a liberalized *air service* regime is essential to ensuring the full realization of trade potential between Canada and a given country.

In cases where a particular nation may be reluctant to liberalize its air service market with Canada, it may be helpful to approach the issue as part of a broader trade initiative in conjunction with the Department of International Trade and Industry Canada.

### ***Common Aviation Markets***

Canada should join with like-minded nations to achieve Open Skies on a wider basis than is possible on a country-by-country basis.

In particular, Canada should be part of the moves to create a trans-Atlantic Open Skies agreement between the U.S. and EU. An Open Skies environment that includes the U.S. and Europe but not Canada would have significant consequences for Canadian trade and tourism. Non-participation could effectively exclude Canadian air carriers from the market since they would not have the operational flexibility of their European and American competitors.

### ***The Right of Establishment***

Canada should allow the Right of Establishment. This would permit foreign investors to establish an air carrier in Canada, and provide domestic services as a Canadian carrier as long as it met Canadian staffing requirements and registered its aircraft in Canada.

Such a right could, and should, be granted unilaterally. It is recognised that measures might have to be taken to avoid concentration of such services on high-density corridors and provide competition in the areas where it is most needed. Consultation on appropriate measures should be undertaken with airports and other affected stakeholders, as well as airlines, if this is deemed to be an issue.

The rationale for including an ostensibly “domestic” issue in the international air policy review is that the right of establishment has significant implications for international air access. Foreign carriers and carrier alliances that do not have a Canadian partner currently may not have on-line access to traffic behind/beyond Canadian gateways thereby inhibiting access to competitive air services to many Canadian transportation consumers. Carriers set up under the Right of Establishment policy would enhance competition on international markets as well as domestic markets by providing alternative choices to Canadian consumers of air transportation.

As an example, in Australia, a minority-owned affiliate of Britain’s Virgin Group, Virgin Blue, began domestic passenger service in Australia in 2001 as the country’s first low-cost carrier. The airline, which is majority owned by Australians, now is the second largest airline in the country with 30% of the domestic market. The dominant carrier in the market has since responded with a domestic low-cost carrier of its own.

The Virgin Blue model has been successful for the carrier and indeed for the Virgin franchise – Virgin Nigeria and Virgin America have since been developed for Nigeria and the U.S. But the biggest beneficiary of Virgin’s entry into Australia has been the Australian consumer, through fares more than 30% lower than they were before the entry of Virgin Blue.<sup>18</sup>

A franchise like Virgin is less likely to be launched in Canada, however, due to Canadian restrictions, including Canada’s prohibition on the Right of Establishment.

### ***Facilitating Open Skies***

While Open Skies will greatly increase the opportunities of Canadian communities to take part in the global trade of business and tourists, impediments to growth will remain unless the government also commits to providing adequate border resources.

Canada Border Services Agency (CBSA) border services are an essential element of Canada’s infrastructure for international travel and trade.

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<sup>18</sup> According to domestic discounted fare data from Australia’s Bureau of Transport and Regional Economics

Canadian airports and the communities they serve need CBSA services to be provided in such a way that these services keep up with demand.

## **Conclusion**

The end result of the government's review of its international air policy should be a new policy that is very simple to administer. It should not require anything other than a new negotiating mandate and minor government oversight (beyond continuing to ensure safety and market competitiveness).

Canada must abandon the complex balancing and trade-off of benefits and rights that has resulted in an overly-controlled, unresponsive regime that hinders carriers from meeting market needs.

In the context of a mature, sophisticated, privately held airline industry, government policy must focus on serving the needs of users by allowing the market to dictate which carriers provide service and in what form these services should be provided. This is best met by opening up access: Opening the Skies.

## Summary of Recommendations

- **A Policy of Open Skies** – Acknowledge the economic and social benefits of air service liberalization enjoyed by an increasing number of countries and aggressively pursue Open Skies in air service talks.
- **Community Priorities and Competitive Economic Interests** – Discontinue the practice of allowing Canada’s air carriers to establish Canada’s international air policy objectives and agenda by consulting airports on community air service priorities and concerns, thereby allowing Canadian communities to pursue the kind of new international air service that improves trade links and community economic competitiveness.
- **A Seat at the Table** – Entrench responsiveness to communities and transparency by allowing Canadian airports to join their air carrier counterparts as observers in international air service talks as a community interests counter balance to the interests of Canada’s for-profit air carriers.
- **Transparency** – In keeping with the government’s commitment to transparency, when negotiating bilaterals adopt a transparent approach (no confidentiality provision). The only exception to this should be matters of national security.
- **Unilateral Open Skies for Cargo** – Greatly improve Canada’s competitiveness in international air cargo by unilaterally declaring Open Skies for cargo.
- **A Multilateral Approach** – Acknowledge the increasing multi-national nature of the airline industry and, where possible, pursue Open Skies multilaterally.
- **Right of Establishment** – Enable creativity, foreign capital and increased competition to be injected into Canada’s domestic air market by allowing the Right of Establishment – the ability for a foreign carrier to create a Canadian subsidiary to operate domestic-only air service within Canada using Canadian-registered aircraft and air crews.
- **Border Services** – Ensure Canadian opportunities are able to fully realize the opportunities available to them through liberalization by increasing Canada Border Services Agency (CBSA) border services at airports where it is warranted by demand

## About the Canadian Airports Council

The Canadian Airports Council (CAC) is the voice for Canada's airports. Formed in 1991, as the devolution of airports to local control was beginning, the CAC has established itself as the reliable and credible federal representative for airports on a wide range of significant issues and concerns.

Canada's airports are engines for economic development in the communities they serve and one of their most important elements of local infrastructure: Our communities' vital links to intra-provincial, national and international trade and commerce. Our 45 members include more than 150 airports, including all of the National Airports System (NAS) airports and most significant municipal airports in every province and territory.

Together, CAC members handle virtually all of the nation's air cargo and international passenger traffic and 95% of domestic passenger traffic. The economic impact of CAC member airports is staggering. They create well in excess of \$30 billion in economic activity in the communities they serve. And more than 150,000 jobs are directly associated with CAC member airports, generating a payroll of more than \$8 billion annually.

The privatization of Canada's airports has been a real success story. Since devolution, CAC member airports have committed to more than \$9.5 billion in infrastructure improvements completed or underway. Canada's airports have constructed new terminal buildings, access roads, bridges, runways and taxiways. This investment is a significant contribution to Canada's role in global trade, and Canada's airports have made this investment in lasting infrastructure at no cost to Canada's taxpayers.

There is no doubt that air transportation is an economic growth enabler and airports are the essential link that connects communities and air travel. From safety and security to facilitation and infrastructure to economic issues, Canada's airports speak with one voice through the CAC. That is why our organization's vision is: Canada's Airports: *Working Together, Moving Forward*.

## Appendix 1: U.S. Open Skies Agreements

| U.S. Open Skies Agreements |                |                        |                |
|----------------------------|----------------|------------------------|----------------|
| Partner                    | Year Concluded | Partner                | Year Concluded |
| 1. Netherlands             | 1992           | 40. Dominican Republic | 1999           |
| 2. Belgium                 | 1995           | 41. Portugal           | 1999           |
| 3. Finland                 | 1995           | 42. Slovakia           | 2000           |
| 4. Denmark                 | 1995           | 43. Namibia            | 2000           |
| 5. Norway                  | 1995           | 44. Burkina Faso       | 2000           |
| 6. Sweden                  | 1995           | 45. Ghana              | 2000           |
| 7. Luxembourg              | 1995           | 46. Turkey             | 2000           |
| 8. Austria                 | 1995           | 47. The Gambia         | 2000           |
| 9. Iceland                 | 1995           | 48. Nigeria            | 2000           |
| 10. Switzerland            | 1995           | 49. Morocco            | 2000           |
| 11. Czech Republic         | 1995           | 50. Rwanda             | 2000           |
| 12. Germany                | 1996           | 51. Malta              | 2000           |
| 13. Jordan                 | 1996           | 52. Benin              | 2000           |
| 14. Singapore              | 1997           | 53. Senegal            | 2000           |
| 15. Taiwan                 | 1997           | 54. Poland             | 2001           |
| 16. Costa Rica             | 1997           | 55. Oman               | 2001           |
| 17. El Salvador            | 1997           | 56. France             | 2001           |
| 18. Guatemala              | 1997           | 57. Sri Lanka          | 2001           |
| 19. Honduras               | 1997           | 58. Uganda             | 2002           |
| 20. Nicaragua              | 1997           | 59. Cape Verde         | 2002           |
| 21. Panama                 | 1997           | 60. Samoa              | 2002           |
| 22. New Zealand            | 1997           | 61. Jamaica            | 2002           |
| 23. Brunei                 | 1997           | 62. Tonga              | 2003           |
| 24. Malaysia               | 1997           | 63. Albania            | 2003           |
| 25. Aruba                  | 1997           | 64. Madagascar         | 2004           |
| 26. Chile                  | 1997           | 65. Gabon              | 2004           |
| 27. Uzbekistan             | 1998           | 66. Indonesia          | 2004           |
| 28. South Korea            | 1998           | 67. Uruguay            | 2004           |
| 29. Peru                   | 1998           | 68. India              | 2005           |
| 30. Netherlands Antilles   | 1998           | 69. Paraguay           | 2005           |
| 31. Romania                | 1998           | 70. Maldives           | 2005           |
| 32. Romania                | 1998           | 71. Ethiopia           | 2005           |
| 33. Italy                  | 1998           | 72. Thailand           | 2005           |
| 34. U.A.E.                 | 1999           | 73. Mali               | 2005           |
| 35. Pakistan               | 1999           | 74. Canada             | 2005           |

|               |      |                        |      |
|---------------|------|------------------------|------|
| 36. Bahrain   | 1999 | 75. Bosnia-Herzegovina | 2005 |
| 37. Argentina | 1999 | 76. Cameroon           | 2006 |
| 38. Qatar     | 1999 | 77. Kuwait             | 2006 |
| 39. Tanzania  | 1999 |                        |      |