

Speaking Notes Open Skies Summit

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Ladies and gentlemen, thank-you for the opportunity to address you today at British Columbia's very first Open Skies summit.

On behalf of the Canadian Airports Council, I would like to thank the province for shining the light on this important subject – for Open Skies truly does directly benefit the trade and tourism fortunes of our provinces and communities here in Canada.

Your letter inviting me to speak today makes the point that the lack of progress on Open Skies is hurting every province in Canada and costs our economy hundreds of millions in lost opportunities.

At the CAC, we agree, and the support and pressure from provinces like British Columbia are vital if we expect to make any progress in influencing Ottawa to open up our skies to greater competition on international routes.

We encourage you to continue this pressure by bringing this issue to the forefront in your dealings with the federal government and members of parliament.

As we move together in applying more pressure to bear on the need for Open Skies agreements it is important to understand the position of the CAC.

Our position is clear, Open Skies period. We define Open Skies for passengers and cargo to include open 5th, 6th and 7th freedoms.

Our position is based on a single principle; one that we believe defines the issue in a simple yet meaningful way. Open Skies is about the CONSUMER, the leisure or business traveler that spends the money to go from one place to another.

The consumer wants choice, and with a choice of where to fly and what service provider to use comes OPPORTUNITY.

Free trade agreements have proven over and over again that giving consumers a choice is good for Canada. Our eight free trade agreements and 11 others that are in negotiation are testament to this fact.

Last week in a speech to New York business leaders where the Prime Minister addressed how Canada got it right in the global recession, he said, *"a second reason for Canada's relatively strong economic performance is our unwavering commitment to free trade and open markets...we in Canada have redoubled our efforts to keep trade flowing...we've been very outspoken about this at the international level"*.

Mr. Prime Minister, the CAC says thank you, we look forward to the same redoubling of our efforts to keep the Opens Skies efforts flowing.

This morning I will focus on two areas we believe are important for Canada to improve on if we are to take full advantage of the changing reality on today's aviation market.

So what is the work we need to do some might ask when Canada has completed;

- eight Open Skies-like agreements have been completed;
- six other expanded agreements;
- seven new agreements; and
- a comprehensive air transport agreement between Canada and the European Union.

Open Skies-like, expanded agreements and other terms, while they are positive and do provide for greater foreign carrier access, are not necessarily true Open Skies agreements.

So, back to to the work we have to do, I think last week in Washington Mr. Giovanni Bisignani, president of the International Air Transport Association, in his speech to the International Aviation Club of Washington said it best, "we must cooperate with governments to liberalize this crazy industry."

Before the Blue Sky policy was released, in a letter to then Minister of Transport Laurence Canon, we said that true air service liberalization is premised on an approach that seeks reciprocal rights, Canada should not seek reciprocal benefits as a guiding principal for negotiation.

As long as reciprocal rights would be secured through an Open Skies agreement, Canada's airports contend travelers, communities and the air carriers will take care of the rest. In other words the market will drive success.

The second issue we need to work on going forward is our approach to air service talks. Transport Canada takes an origin and destination approach to how we negotiate and select countries to negotiate with. That is, the department looks at particular market from the narrow perspective of traffic only between Canada and that other country.

This approach ignores the current day business reality, hinders our ability to take advantage of transit markets and is grounded in the old Chicago Convention. We need a new model.

I will come back to this in a moment.

CAC members are very pleased with the recent progress on the comprehensive air transport agreement with the European Union. Even here though, there are milestones that need to be met before we can call the agreement a true Open Skies agreement.

When discussing Open Skies, it is important to note the historical context in which all of this discussion takes place. Back in the old days, airlines "flew the flags" of the countries they served.

Over the past 15 years, this has been changing around the world as governments have gotten out of aviation, through deregulation,

privatization of carriers and – increasingly – corporatization of airports.

Canada's airports have been at the forefront of the Open Skies movement in Canada.

When airports assumed control over their own destinies through the devolution of airport control from the federal government to local airport authorities in the 1990s, it was with a strong mandate for developing air service into our communities.

Certainly, this means working with our Canadian air carriers. It also means promoting our communities as destinations for foreign carriers as well.

We acknowledge some tremendous work that has been done by our government in liberalization with several particularly important trade and tourism markets.

But with many other countries around the world, our government is slow, reluctant or downright hostile to opening up market access. Canadian consumers, the tourism sector and the business community all suffer as a result. Singapore, the United Arab Emirates, and Panama are examples of countries with whom we should have an Open Skies agreement, but we do not. Why?

As CEO for the Winnipeg Airport Authority I often get asked should Canadians care whether or not an airline from the Philippines or Latin America flies into Winnipeg?"

And my answer is that international air service into a community directly translates into new business opportunities, more tourists and jobs right here in the community. Real, tangible jobs – directly attributable to the daily arrival of just one large aircraft from another country.

A worldwide report for the International Air Transport Association studied the link between air service connectivity and labour productivity and GDP growth. It found that a 10% increase in connectivity to the global transportation network can produce a long-term increase in productivity and ultimately gross domestic product of 0.07% a year or greater.

To put it more simply, every time a Boeing 777 operated by a foreign carrier lands here at Vancouver International Airport, close to 795 hours of employment are created.

These are local jobs, right here in the Vancouver area, that are a result of just one daily flight from a foreign carrier.

International air service – whether it is aboard a Canadian carrier or a foreign carrier – also brings business opportunities.

We actively market our communities to air carriers, working to get them to come to our communities, to help us grow trade and expand tourism.

And here is where we run into problems.

The world has changed; the aviation industry has changed as well.

We need to change with it.

The approach we take to negotiating air service agreements, only looking at origin and destination factors and how we are bound by the old rules of the Chicago Convention do not reflect the changes happening all over the world.

Based in the Middle East, Emirates is a growing carrier serving not only the metropolis of Dubai but connecting people from around the world – from the U.S. to places like Sri Lanka. From Australia to Britain.

In his remarks to the Aviation Club of the UK in February 2006, ACE Aviation Holdings Inc. Chairman, President & CEO Robert Milton said, "Rather than fighting over whether Emirates is operating in an artificial environment, the real question is whether the basic regulatory foundation of the industry, such as the Chicago Convention and foreign ownership restriction, need to be not only modernized – but turned on its head. The answer, for me, is yes"

And the answer for the CAC is also yes.

So what happens when we convince a particular airline that a community has something to offer them and it turns out the rules don't allow them to come?

Unfortunately, that's the situation in which we often find ourselves today here in Canada. There are air carriers banging on Canada's door, practically begging to hire Canadians, help connect us to the world, and provide more choice for consumers. Often times, they want to provide service to parts of the world in which Canadian carriers haven't the least bit of interest. But our government says "no."

Why?

We can only speculate that someone thinks they know better than the market or anyone else what air services we should have access to.

In a speech that the president & CEO of Emirates gave in Ottawa in June of this year, Tim Clark quoted from a letter saying "no" to its request for more access. The letter to Emirates said that Canada did not want to "...divert revenues from Canadian carriers and bilateral partner airlines operating to Canada".

Mr. Clark came to the conclusion, as do I, that it means "protectionism for the national carrier AND also for Star Alliance partners like Lufthansa."

Critics point to transit markets like Dubai and say "that country is too small for more than a few flights a week to Canada. The passengers on those planes are all going somewhere other than Dubai." Well even if that were true, I respond "Who cares?" What makes the origin or destination of a passenger even relevant?

The airline industry is global and quite a few people flying through Canada have no intention of staying here either.

The next charge is that the carriers are state owned. Well in an era in which Canada owns part of General Motors, this doesn't seem to be a valid concern either.

"State funded airports!" critics cry. But airports are federally funded in the U.S. and we have Open Skies with the U.S. No, the arguments are shallow and just do not stand up to scrutiny.

In no other industry is such a high level of interference tolerated. Can anyone imagine Ikea being told, no, you can't sell furniture here because you're Swedish and the Swedes already sell too much furniture for a country its size. Starbucks? Sorry. We can't let you in because Tim Horton's might get upset.

The idea is ludicrous, and yet this is essentially how our government behaves when it comes to air carriers from many parts of the world.

Not only is Canada losing opportunities on the table because of this, we are losing air service we've already got.

I am reminded of the words of Singapore Airlines' Vice President for Canada Campbell Wilson said a couple of years ago at the CAC's Airports Canada conference. Of service to Canada, he said "*We like it here. We want to grow here. If only we're allowed.*"

Limited to just three flights a week from Korea, Vancouver last year lost Singapore Airlines. One of the world's most popular, most successful airlines left Canada because the operating environment was too rigid for it to be successful here. And there were Vancouverites who lost their jobs because of it.

I'm reminded of another airline executive's comments. "Governments around the world have a choice. They can block carriers like Emirates from accessing their markets...something akin to blocking foreign made ovens to protect domestic make ones. Or they can open up the skies and allow airlines to operate like other businesses – free from economic and political regulation."

These are not my words, again they are the words of Mr. Robert Milton, Chairman, President & CEO, of Air Canada parent ACE Aviation Holdings Inc.

Today is a great opportunity to take a step back and ask ourselves if Canada's approach really makes sense today. Our world is a globally integrated one. Canada's economy is heavily dependent on foreign trade and tourism.

For aviation Open Skies is no different than free trade, we need to restate our unwavering commitment to open markets, redouble our efforts, and be very vocal about this at the international level.

Thank-you for your time.

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