Transportation by Air

- Canada's Air Industry (Moving People, Moving Freight)
- Running the System (Planes, Airports, Air Navigation, Regulatory Setting)
- Key Indicators

Canada's Air Industry

There are 631 airports in Canada that handle commercial aviation. Most are small, regional airports or remote sites serving isolated communities. Smaller airports are important because they provide essential services to regional communities, create local jobs and connect smaller centres to larger airports. Twenty-six airports – mainly the larger ones, and those in our provincial capitals – are classified as National Airports System airports. They handle 95% of the passengers and 98% of the cargo carried each year.

In order to compete globally, Canada's major airlines are participating in international alliances with foreign carriers. This competitive tool permits airlines to expand their route networks, increase traffic and reduce costs without expanding their aircraft fleet.

Canada's airlines and airports have traditionally focused on the passenger market, so have not developed the cargo airlines that might be expected in a large, trade oriented nation. However, there is interest in establishing carriers to capture some of this growing market. Air cargo has doubled every 10 years since 1970 and shows no sign of slowing.

WESTAC, ***Moving Forward***

Industry Structure

In 1997, Canada's commercial airline industry generated $11 billion in operating revenues, up 10% from 1996. This is mainly related to passenger transportation activity:

- Passenger services: 89.5% of total revenues
- Cargo: 6.7% of total revenues
- Other (other flying services and incidental air transport services): 3.8% of total revenues

Current Situation:

On February 17, 2000, Transport Minister David Collenette tabled Bill C-26 in the House of Commons, which is based on A Policy Framework for Airline Restructuring in Canada (October 1999).

Bill C-26 is designed to protect consumers and to foster competition. It includes:

- ***new powers granted to the Canadian Transportation Agency to prevent price gouging and to deal with conditions of carriage for domestic service;***
- ***new powers granted to the Competition Bureau to regulate anti-competitive behaviour and to issue temporary orders to stop predatory behaviour;***
- ***enforcement of Air Canada's commitments to:***
  -provide service to small communities;
  -sell surplus aircraft to other domestic airlines;
  - ensure there will be no involuntary layoffs or relocation of unionized employees for a two-year period;
  -refrain from starting discount carrier operations in Eastern Canada for three years;
- ***the appointment of an independent observer to monitor the airline restructuring; and***
- ***raising the individual ownership limit of share holdings in Air Canada from 10% to 15%.***

On January 4, 2000, 853350 Alberta Ltd., a newly formed corporation owned in part by Air Canada, purchased approximately 82 per cent of the shares of Canadian Airlines Corporation. 853350 Alberta Ltd. is also acquiring the preferred shares of Canadian Airlines International Ltd., held by an affiliate of AMR Corporation, for approximately $59 million.

On December 21, 1999, Air Canada received permission from the Federal Government to acquire Canadian Airlines Corporation (Canadian Airlines), and/or Canadian Airlines International Limited (CAIL).

In a letter sent to the Minister of Transport by Air Canada, the company agreed it would:

- ***continue to provide domestic service to communities being served by Air Canada, Canadian Airlines, and their wholly owned subsidiaries for a three-year period; and***
- ***ensure that there will be no involuntary layoffs or relocation of unionized employees of Air Canada, Canadian Airlines, or their wholly owned subsidiaries for a two-year period.***

For more information about Canada's airline restructuring, visit Transport Canada ***or*** Air Canada***.***

Moving People

There are two main types of commercial passenger service:

Scheduled services

The provision of scheduled passenger services is dominated by Air Canada and Canadian Airlines International (CAIL) as well as their numerous feeder affiliates and subsidiary companies.

WestJet is the only independent regional carrier in Western Canada that provides scheduled services.

Charter services

Charter companies provide air transportation to tour operators that sell air travel on its own, and as part of a broader travel package. The charter operators cater mainly to leisure travellers. In Canada, three carriers (Canada 3000, Air Transat, Royal Airlines) offer domestic and international charter services and compete directly with the scheduled carriers on several of their destinations.

These air carriers serve three distinct markets:

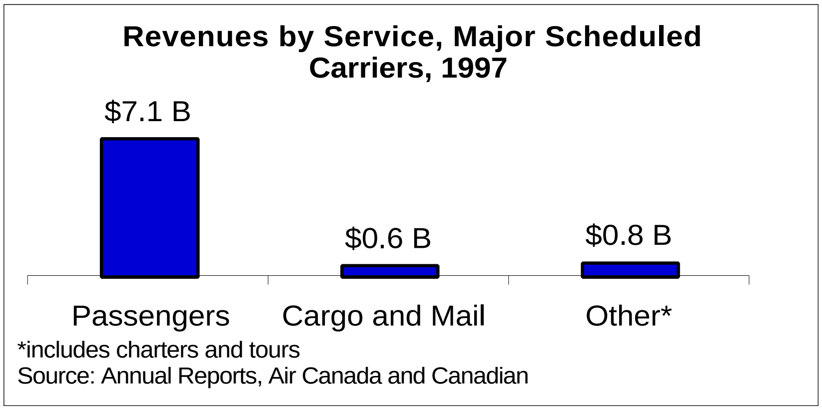
- Domestic
- International
- Transborder

Private-sector aviation

This sector includes:

- recreational aviation, which accounts for more than two-thirds of Canada's pilots and three-quarters of the country's aircraft; and
- business aviation (privately owned aircraft are an alternative to commercial air services).

Moving Freight
Most Canadian air carriers carry cargo in the belly of passenger aircraft to help improve aircraft utilization and generate additional revenues.

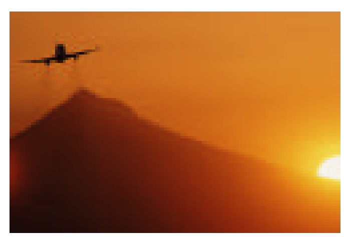


All-cargo air services into Canada are provided only by foreign carriers (Air France, Lufthansa, Cathay Pacific Airways and Korean Airlines). Foreign carriers also provide charter cargo services. Cargo handling facilities are located at most major airports in conjunction with passenger services.

<u>Canada/US Cargo Market</u>
Imports
In the transborder market, 1997 imports were $16.8 billion. The top imports were:
- Telecommunications equipment ($3.6 billion of total air trade from the US)
- Electronics and computers ($3.0 billion)
- Transportation equipment ($2.4 billion) and;
- Other equipment ($2.1 billion).

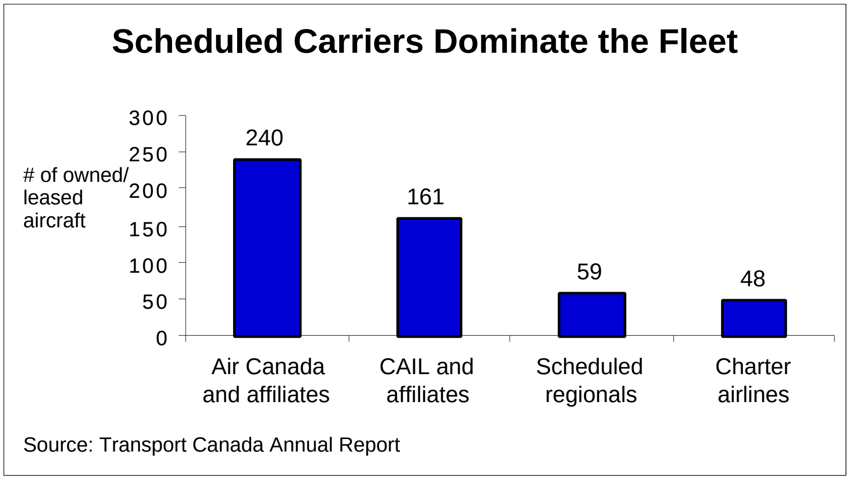
Exports
Exports by air to the US were valued at $12.2 billion. The top exports were:
- Aircraft equipment ($2.8 billion);
- Office machine equipment ($2.2 billion); and
- Telecommunications equipment ($2.0 billion).

<u>International</u>
Canada's airfreight trade with other countries is valued at $28.3 billion, with imports dominating ($19.4 billion) over exports ($8.9 billion). Ontario and Quebec are the two dominant air trading provinces with shares of 59% and 24% respectively. The main trading partners are Western Europe and Pacific Rim countries.



Running the System
<u>Planes</u>
The fleet of aircraft operated by scheduled carriers has changed significantly in the past decade. This is mainly due to a freer regulatory environment which has allowed Canadian carriers to add to their destinations (both domestic and international), and to a reorganization of operations around a hub and spoke structure. Consequently, feeder services with smaller aircraft (propeller-driven) are now provided mainly by regional and affiliated carriers while the major scheduled carriers concentrate on long-haul routes requiring larger aircraft (wide and narrow-bodied).

A new 747-400 jet costs approximately $150 million (US), and a McDonnell Douglas MD-11, some $100 million (US). Factors such as the type of aircraft, seating capacity, and flight range all affect the price.



<u>Airports</u>
In 1997, Canada had over 1800 airfields/airports. The majority are under private ownership, and some are owned by municipalities, provincial/territorial governments or the federal government.

There are 631 Transport Canada-certified airports that handle Canada's commercial aviation. These include basic sites with a single runway and one multi-purpose building, to large complexes with multiple runways, hangars, terminals and warehouses, and Customs, immigration and agricultural inspection facilities.

In 1994, the federal government announced a new policy designed to commercialize most federally owned airports. The transfer process, once completed, will affect 136 of 149 Transport Canada airports.

Canadian Airports as of March, 2000

Type	**Status**	**Number**
National Airport System (NAS) airports	· federal government continues to own, but has divested airport operations to not-for-profit authorities under long-term leases* · 22 airports transferred; 4 to follow by early 2000	26
Regional and local	· 60 airports transferred; 10 to follow by early 2000	70
Small and satellite	· no scheduled passenger services · 25 airports transferred to local interests; 6 to follow by early 2000	31
Arctic	· based in Yukon and NWT · all 9 have been transferred to territorial governments	9
Remote	· provide year-round access to isolated communities (one in each of BC, Alberta and Ontario; two in Manitoba; eight in Quebec) · continue to receive federal assistance; not slated for transfer	13

* Except Whitehorse and Yellowknife, which have been transferred to territorial governments, and are included as NAS airports even though they are Arctic airports.

Source: Transport Canada

Commercial passenger aviation activity is mainly conducted at the 26 airports that form the ***National Airport System*** (NAS). Together, these airports account for 94% of the enplaned/deplaned passenger traffic at Canadian airports.

Air Navigation

Canada's Civil Air Navigation System consists of:

- 44 air traffic control towers;
- 86 flight service stations (supports some 6.8 million aircraft movements a year), and;
- 7 area control centres.

In 1996, Transport Canada completed the commercialization of the Air Navigation System, resulting in the transfer of more than 6,000 Transport Canada employees to NAV CANADA, a private, not-for-profit corporation. NAV CANADA provides air traffic control, flight information, weather briefings, airport advisory services and electronic aids to navigation. The corporation employs over 2,200 air traffic controllers in all regions of the country.

Regulatory Setting

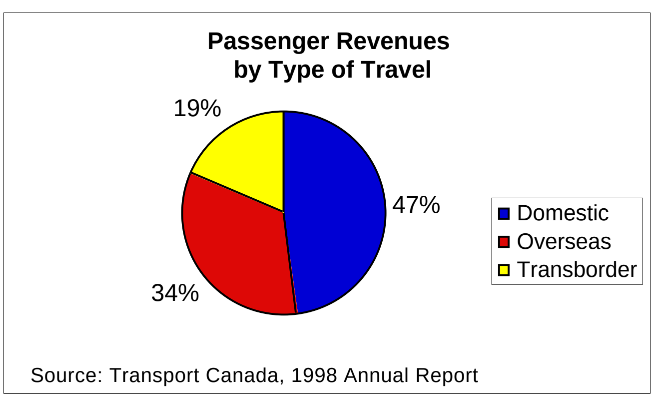
The federal government is the main legislative and regulatory body for air transportation (economic and safety).

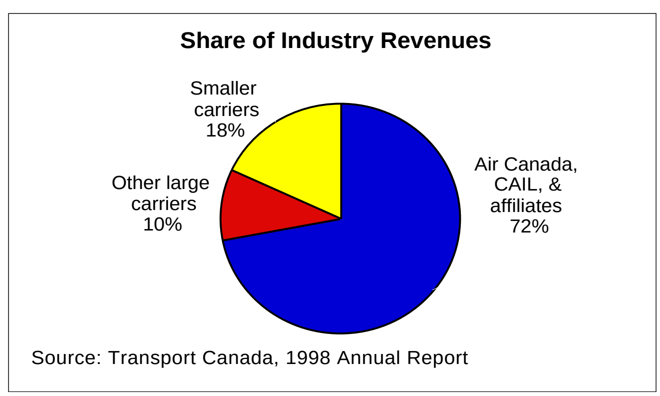
Transport Canada, through the ***Aeronautics Act***, certifies aviation equipment and personnel, airports and air navigation systems, and ensures compliance with safety requirements. It is also responsible for domestic and international air policies.

The Canadian Transportation Agency (CTA) is responsible for licensing air carriers that wish to provide domestic or international services. It also administers bilateral air agreements.

Key Indicators

- In 1997, the combined operating revenues of the two major carriers and their affiliates accounted for about 72% of the total revenues generated by the airline industry in Canada.
- 90% of the combined revenues of the two major carriers, their affiliates, and the large independent carriers came from passengers, the rest came from freight movements and other flying services.
- The split of revenues between scheduled and charter passenger airlines is 89% and 11%, respectively, 47% of the revenues were from domestic services, 34% from oversea services, and 19% were from transborder services.





Traffic

Domestic

Air Canada and CAIL traffic is concentrated on a few key city pairs and routes. Feeder services operated by their affiliates are mainly on low-density routes to hub airports (e.g., Sept-Iles to Quebec City).

Top 10 City-Pairs in Canada (1997)		
	City-Pair	Total Passengers
1.	Montreal - Toronto	1,286,632
2.	Toronto - Vancouver	1,051,798
3.	Ottawa - Toronto	689,367
4.	Calgary - Vancouver	611,776
5.	Calgary - Toronto	573,603
6.	Toronto - Winnipeg	527,843
7.	Halifax - Toronto	408,640
8.	Edmonton - Vancouver	381,149
9.	Edmonton - Toronto	324,881
10.	Calgary - Edmonton	309,127

Source: Transport Canada Annual Report 1998
N.B. By enplaned plus deplaned passengers.

International

The Canadian government has added to Canada's international destinations by negotiating numerous bilateral agreements with other countries, allowing our airlines to serve more cities worldwide. The formation of alliances among major carriers worldwide have also given Air Canada (STAR) and CAIL (OneWorld) the opportunity to extend their market reach by using code-sharing* on flights to foreign destinations. In one week in October of 1998, Air Canada added over 600 US flights, although not one was performed using Air Canada aircraft!

Transborder

The major Canadian international airports (Toronto, Vancouver, Montreal, Calgary, Ottawa) are the most popular departure points for direct transborder traffic provided by Air Canada and CAIL. The number of destinations served in the US is, however, limited by the availability of airport slots to entrant carriers at US airports. As is the case with international services, alliances and code-sharing agreements have gained in popularity as a means of reaching new markets. For example, CAIL, through its alliance with American Airlines now offers more than 1,400 flights daily to more than 100 cities in the US. Air Canada's code-share with partner United Airlines generates over 1,050 flights daily on 172 North American routes.

Between the period of 1987-1998, transborder air traffic grew from around 12 million to over 18 million passengers. In 1998 there were 31 Canadian companies authorized to operate in the United States and 24 American companies to operate in Canada. This growth has been aided by the 1995 Canada/US "Open Skies" agreement

*Code-sharing is the marketing of seats by an air carrier on a partner's flight. Under code-sharing agreements, passengers are ticketed with one airline but travel on a partner's aircraft.

Global Alliances

Two major global airline alliances are:

- The OneWorld alliance - 9 major carriers (CAIL*, American Airlines, British Airways, Cathay Pacific, Finnair, Iberia, Aer Lingus, Qantas and LanChile**) and their close affiliates - serves more than 650 destinations in 138 countries.

- The STAR alliance - 11 major carriers (Air Canada, Lufthansa, SAS, Singapore Airlines, Thai Airways International, United Airlines, Varig, Ansett Australia, Air New Zealand, All Nippon Airways, and the Austrian Airlines Group) and their close affiliates - serves over 800 cities in more than 130 countries.

* as of June 1, 2000 Canadian Airlines International Ltd. will no longer participate in the OneWorld alliance due its purchase by Air Canada.