

Remarks for the Transportation Committee Bill C-10

Merci pour l'occasion de m'adresser à vous aujourd'hui relativement à l'importance de moderniser la *Loi sur la participation publique au capital d'Air Canada* (LPPCAC), et, plus particulièrement, à la position d'Air Canada sur le projet de loi C-10. Avec moi aujourd'hui, j'ai Kevin Howlett, notre Premier Vice-président – Marchés régionaux et Affaires gouvernementales.

Je tiens à souligner au départ que nous appuyons ce projet de loi surtout parce qu'il vise à rendre Air Canada plus concurrentielle à l'échelle internationale.

Le projet de loi tient compte du fait que l'industrie du transport aérien s'est grandement transformée depuis la privatisation d'Air Canada il y a près de trois décennies. Il reconnaît qu'Air Canada est une entreprise entièrement du secteur privé, appartient à des intérêts du secteur privé et exerce ses activités dans une industrie mondiale hautement compétitive.

Air Canada apporte une importante contribution à l'économie canadienne et se classe parmi ses plus importants employeurs. L'an dernier, nous avons transporté près de 42 millions de passagers vers plus de 200 destinations au Canada, aux États-Unis et dans le reste du monde. Nous employons près de 28 000 personnes (33 000 en comptant nos partenaires commerciaux régionaux Jazz, Sky Regional et Air Georgian) et soutenons environ 30 000 retraités. Les salaires et avantages sociaux des employés d'Air Canada au pays dépassent 2,1 milliards de dollars et ses charges d'exploitation totales au pays s'élèvent à près de 10 milliards de dollars.

Let me start with a few words on the privatization of Air Canada in 1988-89. The company was sold to private investors over two years in two public offerings. The Government of Canada received gross proceeds of close to \$500 million for its shares (about \$2 B in today's dollars). Air Canada derives no ongoing benefits from its prior Crown corporation status that would put us in a privileged position vis-à-vis our competitors or for which the Canadian taxpayer hasn't been appropriately paid – none. We receive no subsidies, we have no protected monopoly routes, we have no privileged access to airports or facilities, we get no tax breaks, etc. etc.

A few words on the evolution of the industry and the competitive landscape. During the first half of the '90s, the airline industry experienced a worldwide recession, the Gulf War, 9-11, extreme fuel volatility and other adverse geopolitical and economic events. A number of airlines went bankrupt, ceased operations, merged or restructured. Air Canada went through its own court supervised restructuring in 2003-2004 which among other things, resulted in the sale of its heavy maintenance operations.

Low cost carriers (virtually all of whom outsource aircraft maintenance) also emerged over the last 20 years. Canada's own WestJet launched in 1996 and today operates with about 40% market share domestically, without any restrictions or obligations whatsoever under its constating documents regarding where it performs maintenance or how many jobs it should directly or indirectly protect.

The competitive landscape intensified in other ways too. Today, we have Open Skies agreements with close to 50 countries, including the United States and the 28 countries of the European Union. More than 70 foreign airlines fly to Canada, competing for our customers.

Legacy carriers around the world have been forced to radically change to survive and prosper and despite all this change, profit margins in the industry are razor-thin, ranging since 2008 from negative 5% to a 4 - 5% profit in a good year. Carriers have had to significantly contain costs and capital investments, including those for maintenance, repair and overhaul assets.

Turning to maintenance activities specifically, until the 1980s, network airlines such as Air Canada generally insourced all aircraft maintenance. The maintenance, repair and overhaul (MRO) business was not the independent and competitive industry it has now become.

Maintenance typically represents 10-15% of an airline's costs. Outsourcing certain activities to qualified MROs around the world, who actively compete for this work, has become a normal, healthy and essential development in our capital-intensive, highly-competitive and low-margin business.

A report prepared for the International Air Transportation Association, found MRO outsourcing worldwide has grown from approximately 30% in 1990 to 65% in 2013¹. This trend is projected to continue to increase, with estimates that outsourcing could reach 80%.

Quand Aveos a été créée dans le processus de restructuration d'Air Canada en 2003-2004, des institutions indépendantes ont investi 975 M\$ pour acquérir Aveos avec l'objectif d'assurer à cette dernière une plateforme afin d'attirer d'autres transporteurs en plus d'Air Canada. Cependant, Aveos a échoué à plusieurs reprises dans ses efforts de se diversifier avec d'autres compagnies aériennes. Dans les documents qu'elle a déposés devant les tribunaux en 2012, elle admettait n'avoir jamais parvenue à la productivité de ses rivales mondiales. Voilà, en fait, pourquoi Aveos a fait faillite.

¹ *Airline Maintenance Cost Executive Commentary – An Exclusive Benchmark Analysis (FY2013 data). IATA MAINTENANCE Cost Task Force (November 2014), at page 13, fig. 16.*

Après cette faillite, Air Canada s'est tournée vers d'autres fournisseurs de services de maintenance qualifiés au Canada et ailleurs dans le monde pour ses travaux d'entretien lourd. Depuis, le temps d'utilisation de nos appareils (« Turn-Around Times ») a grandement progressé et nos coûts de maintenance ont diminués.

MROs today compete globally for an airline's heavy maintenance business, based on centres of excellence – not regional work. And to be globally relevant, these businesses must maintain significant capital investment in areas that are non-core for airlines – such as equipment, tooling, licenses, R&D, etc. Starting a new MRO business without significant third party business would not be realistic.

Our own Air Canada line maintenance labor force has more than doubled over the last ten years. Today, we employ approximately 2,400 maintenance employees in Canada, plus more than 1,000 at our regional partners Jazz, Air Georgian and Sky Regional. This is far more than at any other airline in Canada, and we perform many specialized maintenance tasks ourselves in this fashion regularly, that would previously have been performed in a heavy maintenance environment.

While we have sent some of our heavy maintenance abroad since Aveos closed, we have also significantly increased the volumes of work outsourced to companies in Canada. Premier Aviation in Trois-Rivières performs airframe maintenance for our Embraer Fleet. Avianor in Mirabel undertakes aircraft conversions and other maintenance work on several fleet types. Airbase in Montreal performs cabin equipment and other interiors maintenance. Hope Aero in Toronto overhauls wheels, brakes and batteries. These latter two suppliers will soon also establish activities in Winnipeg as well. Jazz maintenance for our regional fleet is performed in Halifax, Calgary and Prince Edward Island. All this work employs thousands of Canadians. And in an open economy with a private sector employer, competition, rather than statutory prescription, is the way to create and sustain jobs.

Bill C-10 acknowledges the changes in the industry and provides the greater flexibility and certainty of interpretation Air Canada requires to compete globally. Air Canada will be able to determine, at its commercial discretion, the volume and type of aircraft maintenance it does globally and in Canada, including the work done in Manitoba, Quebec and Ontario - and who performs this work, based on competitive proposals from suppliers.

No other airline in Canada, and to our knowledge, no other airline in the world is subject to maintenance restrictions such as those imposed on Air Canada by the ACPPA. Not WestJet. Nor Porter. Not AirTransat. Nor SunWing. Not British Airways, Air France, American, United, Cathay Pacific, Singapore Airlines, etc.

These airlines make their decisions based on the competitiveness of the quality and pricing of the services contracted and their turnaround times. We expect the same flexibility to use our business judgment, because at the end of the day, we compete in the same markets, for the same customers.

We have concluded settlement agreements with the Governments of Quebec and Manitoba which should create more aerospace maintenance jobs in Canada. We have agreed to collaborate to help establish Centres of Excellence in each of these provinces which should be capable of attracting work from other airlines if competitive. GE has successfully created such centres of excellence around the world to bring together people with particular expertise to focus on and improve specific products or processes through research and sharing best practices. They drive innovation and create value, drawing more investment and generating additional jobs.

La lettre d'intention que nous avons signée avec Bombardier pour l'acquisition d'appareils C Series est un autre résultat concret de notre compétitivité accrue à l'échelle internationale. Nous sommes fiers d'être le premier grand transporteur nord-américain à commander l'appareil

C Series. Nous estimons avoir envoyé ainsi un puissant message qui a donné à d'autres transporteurs, parmi lesquels Delta Air Lines, la confiance nécessaire pour acheter cet appareil de nouvelle génération. Au prix courant, notre commande est évaluée à 3,8 milliards de dollars U.S. pour la commande ferme seulement. Voilà un engagement substantiel à l'égard du programme C Series et de l'aéronautique canadienne, des commandes telles que la nôtre contribuant à fournir du travail à des milliers d'employés de ce secteur.

La Loi sur Air Canada a été adoptée il y a plus d'un quart de siècle, alors que l'industrie du transport aérien était entièrement différente. En rétrospective, les choses sont toujours plus claires; mais avec respect pour ceux qui l'ont rédigée, cette loi aurait dû prévoir la possibilité que l'industrie évolue, même s'il n'était pas possible d'anticiper toutes les éventualités.

Je vous remercie de votre attention. Air Canada est fière d'appuyer l'industrie aéronautique canadienne.

En créant des conditions plus équitables, le projet de loi C-10 nous permettra de rester compétitifs et de contribuer à la création d'emplois dans l'aviation, le tourisme et l'aéronautique au Canada pour bon nombre d'années.