

Thank you Mr. Jameson for that kind introduction.

Honourable Ministers Baird and Lunn, Your Excellency Mr. Cary, distinguished guests, ladies and gentlemen, good afternoon. I appreciate that so many of you took the time to be here today in such impressive numbers.

It is always a pleasure to be here in Ottawa and it is sincerely a privilege to address the Canadian Club here.

While I know all of you are familiar with Air Canada and many of you are our regular customers, I'd like to provide you with some context on Air Canada, our future direction and where we see opportunities.

While I was only appointed CEO last year, I have been associated with Air Canada for nearly 25 years including having advised the company when it was privatized in 1988. So I can say with some authority, that John Baird is the best Transport Minister I have seen (and not only because he is sitting beside me) – approachable and available, great courage and vision, a very good understanding of our industry dynamics and above all, an ability to act with a sense of purpose, clarity and consistency. The industry is indeed fortunate to have you, Minister.

First some basic statistics. We are the 14th largest airline in the world based on traffic – and there are almost 1,000 airlines in the world. More importantly, however, we have grown to this size even though Canada is only about 36th in terms of population among the world's countries, and that relatively small population base is dispersed over a large and often challenging geography. So as a nation we certainly punch above our weight in aviation.

Each day, we operate more than 1,300 flights, which equates to an Air Canada flight taking off somewhere almost every minute of every day. We have annual revenue of nearly \$10 billion and we employ 26,000 people, making us one of the larger private sector employers in the country. We have an annual payroll of \$1.7 billion and we directly spend more than \$9.7 billion each year on goods and services.

2009 was a year of great challenges but also of accomplishments on many fronts for Air Canada. Starting with the dramatic fuel price spike in 2008 followed by the economic downturn in 2009, we encountered a series of interconnected events that created serious hurdles for our company. Expressed simply, we had many predicting our demise. However, we defied the naysayers and, against pretty large odds, we withstood the challenges of last year and managed to not only preserve shareholder value but actually improve it.

I often used the analogy of a Rubik's cube to describe our predicament. We were faced with multiple issues and none could be solved unless all were solved. We could not get additional funding without labour stability. We could not get labour stability without a pension solution. We could not get a pension solution without the funding. Moreover we could not get customers back unless we engaged with them. And we could not engage with them if we did not engage our own employees.

We needed to find unique solutions to very complex issues.

These agreements were all inter- dependant on each other as well as on improvements to agreements with key suppliers.

With everything in place, we announced on July 29 last year that we had raised more than \$1 billion from a diverse group that included our major shareholder, several key business partners and other lenders and stakeholders.

Following this key step, in October we completed an equity financing that strengthened our liquidity position by about \$250 million.

While our immediate priority last year was to stabilize the company, we were also determined to focus on re-engaging with our customers in a meaningful way during this very challenging period.

I was extremely pleased when the most frequent travelers in the industry, including our own customers, recognized what we are achieving. In late 2009, *Business Traveler* and *Global Traveler*, two industry-leading international magazines awarded us more awards than any other airline in the world, including:

- Best Flight Attendants in North America;
- Best In-flight Services in North America;
- Best Airline in Canada,

But the most significant accolade, the Academy Award of our industry, is the one we received last month when the independent research firm Skytrax ranked Air Canada Best Airline North America. This followed an exhaustive survey of more than 17 million air travelers from 100 different countries. So let me pause here. Despite the many challenges we faced in 2009, contrary to urban legend, Air Canada is the Best Airline in North America.

Following a luncheon discussion I had with a group of other Canadian CEOs several months ago I've started to challenge the organization to see if we have what it takes to be a Global Champion. These are companies that not only excel, but consistently excel, from year-to-year.

The international consultants AT Kearney publish a list of Global Champions every year- the 2009 list of 25 Global champions includes companies from the U.S., South Korea, Japan, Europe and even South Africa. No Canadian company made the 2009 list and none of the companies listed were airlines. What distinguished this select group is that they generated nearly 15 per cent value growth annually for the past five years. What also distinguishes many of these companies is that in virtually every instance there was a real desire of the population, the government and the business community of the given country to support the company and industry in question such that it has a real shot at becoming a Global Champion.

To become a global champion requires taking some risk, seizing new opportunities, innovating and expanding with a clear vision for the future. On the whole, Global Champions pursue a strategy that balances economic, environmental and social considerations. Size does not matter but strong leadership, staying focused on the end goal and an ability to shift gears under changing circumstances are required.

At Air Canada, we have established four priorities that I believe put us on track to becoming a Global Champion. Whether or not we are actually ever recognized as a Global Champion is almost secondary – it is the aspiration and ethos of continuous improvement that matters to me. Already, we are seeing very encouraging results such as the awards I just mentioned. And I hope that those of you who are our customers are also seeing results of this transformation.

First, as with any structure, you start with the foundation. For a corporation that means get your finances in order so that you are more cost competitive. Our Cost Transformation Program is aimed at achieving \$500 million in annual cost and revenue improvements by the end of 2011. Already, we have achieved \$255 million of our \$270 million target for 2010, so we are right on track.

Importantly, we are doing this without compromising the customer experience or through employee reductions. But instead through better processes, new technology and by simply being creative.

Next, we will play to our strengths rather than see our legacy as a weakness. We are not a low-cost carrier – we are a full-service airline with legacy strengths.

We are therefore actively transforming the way we engage with our customers - with particular emphasis on our premium business product and the services we offer.

We know that no one owes us a living – we are not entitled to your business – we must earn it.

First, though, we have to listen more carefully to hear what you are saying. So we have created new communication tools and are holding face-to-face meetings with our top tier customers. We have criss-crossed the country virtually coast to coast, starting in Vancouver and going all the way to St John's. Last night, we met with our top tier customers here in Ottawa.

More tangibly, we have invested heavily in a new fleet of B777 and Embraer aircraft as well as industry-leading products such as our Lie-flat suites in international business class that lead the industry.

In addition, our top of the line in-flight entertainment system on the back of each seat shows films that are still in theatres.

Recently we strengthened our commitment to giving exposure to Canadian films and shorts by partnering with the National Film Board to enrich our Canadian content. Our Maple Leaf Lounges and our Concierge Program make the airport experience significantly more pleasant for our most frequent travelers. Aeroplan consistently ranks amongst the best airline reward programs worldwide.

Conversely, we admitted straight up when certain irritants were bothering customers. I have determined we will respect the motto – that we will eat our crow while it is young and tender. We eliminated the call centre fee. We increased the availability of Aeroplan reward seats. We allowed small pets back in the cabin. We improved our Super Elite members' access to revenue seats.

And we reached out to the travel trade community to restore commissions on some of our lower fare categories.

The third element of our transformation is what I consider our greatest challenge: changing the very culture at Air Canada. This must happen both in terms of how customers see us and how we behave as a company. This is the most important aspect of our transformation – as a corporate culture sets the tone for everything that you do. And when you are a 72 year old former Crown Corporation, that culture has been the by-product of the many policies, objectives, behaviours and habits acquired over the years – not necessarily the most conducive to competing in the complex universe of 2010, when the most successful airlines are barely 10 years old.

With the right drivers – both in terms of people and tools – Air Canada will absolutely become a more entrepreneurial and nimble company. A big company that behaves more like a small company, with simpler processes, fewer committees, less paralysis by analysis. A place where employees are empowered and able to make decisions. A place with a “Just Do It” culture, that can aspire to the Global Champion mantle.

We have had several opportunities in recent months to demonstrate the power of this culture change: The Icelandic volcano, the Olympics and the Haiti Earthquake.

The Icelandic volcano shut down of European airspace for a week in April, stranding thousands of our passengers.

We were amongst the first carriers to resume operations and in many cases we were able to carry passengers stranded by other airlines – and we received an unexpected avalanche of customer commendations for our employees’ handling of a very difficult situation.

During the Olympics, under Minister Lunn’s leadership and drive, Canada shone on the world stage and our airline delivered a world class performance by all accounts- from the support we provided to our athletes through to our sponsorship, to our flawless handling of the masses of visitors, bags and equipment coming through Vancouver.

And as for the tragedy in Haiti, we led North American carriers with the number of relief flights we operated under the leadership of our COO, Duncan Dee, delivering life-saving medicine and equipment and bringing back hundreds of earthquake victims including many orphans to Canada.

The fourth element of our transformation and our path to developing a Global Champion entails building on our position as one of the world’s leading international carriers.

We benefit from Canada’s excellent geographic position.

We have a vast network underpinned by an array of bilateral authorities to fly to other countries. And, more than this, we are a founding partner of the 27-member Star Alliance, the largest alliance of its kind. It enables us to seamlessly connect passengers with carriers that fly to nearly 1,200 airports in 180 countries. And this connecting traffic drives growth.

For example, Brussels Airlines' admission to Star Alliance last year has made it attractive for Air Canada to begin flying to Brussels. This opened not only another European gateway for customers to fly to France and elsewhere in Europe, but also a convenient connecting point for travel between Canada and Africa, which is well served by Brussels Airlines, but which Air Canada was not serving before.

In addition to Star, we have joined with Lufthansa, United Airlines and Continental Airlines to form Atlantic-Plus-Plus, a venture through which each carrier sells seats on the other as if we were one large airline with a single network. In effect, what we call metal neutrality. This results in new routes and city-pairings as we integrate our route maps to connect traffic flowing among the four partners.

We are putting our money where our mouth is on the international front. Since last year we have already added or announced new service from Canada to Geneva, Rome, Brussels, Athens, Copenhagen and Barcelona that will strengthen our European flagship routes of London, Paris and Frankfurt. In March, we also launched our first Calgary-Narita flight and last month we resumed our St. John's-London Heathrow service. We have increased capacity to China and Japan dramatically year over year and deploy more than \$2 billion in aircraft exclusively to our Asian routes.

Becoming a Global Champion will also require supportive partners. As I mentioned, we have tremendous support from our fellow airline partners in

Star Alliance, where we can seamlessly connect passengers from one point on the earth to virtually any other on a single itinerary, with full lounge access, interline baggage and frequent flyer miles for the entire journey.

Other crucial partners for us are the airports where we fly. This is particularly the case at the Ottawa International Airport, where Paul Benoit and his team have been unwavering in their support of Air Canada and the Canadian industry as a whole. They operate a first class facility and the entire Ottawa region should be grateful for their hard work and industry savvy which has paid off in increased services to the city and region.

Since 2004, Air Canada's capacity in Ottawa has grown 26 per cent, traffic is up 33 per cent and last year we flew over 210,000 more people to and from Ottawa than we did five years earlier.

The Ottawa Airport has been an instrumental partner in developing new routes, most notably the successful Ottawa-Frankfurt route that we started in 2008. These new routes create business, tourism and leisure opportunities for the region as there is a strong and direct correlation between air connectivity and true economic growth, real stimulus.

Even before the 2008 Report – “Compete to Win” – of the Competition Policy Review Panel chaired by Red Wilson, there was a lot of debate around whether or not it is desirable in Canada to nurture so-called global champions.

Let me tell you. There is no such debate in Singapore as to whether or not to develop Singapore into a global trade hub or to nurture a global champion out of its pool of companies in energy, metals, commodities, consumer, industrial products or airline. There is no such debate in Korea with respect to say, Samsung. There is no such debate in the United States with its “Buy American” stimulus programs. Moreover, there is no such debate in the UAE, either with respect to the State’s ownership, control and aspiration for its ports and cargo infrastructure or, of more relevance, of its ownership, control and aspirations for both its airlines and its airports.

This is also the proper starting point for the debate around air transportation in this country and Air Canada’s own aspirations:

- Do we want a viable airline industry in and from Canada to complement fair open skies with other countries:
- Do we want direct access from Canada to Asia, Europe, the Middle East, etc. from several Canadian cities including smaller catchment areas like Calgary, Halifax and Ottawa?
- Do we care about competitive aviation costs based on comparable costs south of the border, especially in the North American free trade context?

As a country, we can continue to ask ourselves these questions and shuffle deck chairs on the Titanic while Emirates Airlines orders another 32 additional Airbus 380's for \$11.5 billion as they did last week, bringing their total order to 90 A380's – or we can get on with identifying what the real competitive issues are for our industry, keep our heads down and “get on with it” – as we did in the face of the numerous challenges last year.

Based on the legacy of old airline policies that pre-date this government, we have many barriers from truly and freely competing with the Emirates Airlines of this world or even, frankly, with our U.S. peers. And these barriers are:

- High taxes, rates and charges, - “sin taxes” in effect rather than fair charges essential transport;
- Higher labour and health care costs;
- Limited commitment to education and training in this country;
- Infrastructure inadequacies- e.g. (no high-speed rail link, etc.)

Canada's aviation sector has taxation and other fiscal burdens which are a net drain of resources from this critical sector. This is in direct contrast to the U.S. where carriers and air navigation services all receive fiscal support to enable them to fulfill the strategic role they play in the U.S. economy and social connectivity.

Airport rent - although Canada privatized its airports in 1992, the Government continues to collect nearly \$300 million annually in rent for these facilities. This is something no other developed country does and it drives up our costs dramatically and unfairly, making Canada less competitive. Indeed, we increasingly see Canadians driving across the Border to Plattsburg, to Buffalo or to Seattle to get on flights because they are cheaper. Plattsburg blatantly and boldly advertises itself in Montreal as Montreal's second airport.

Between airport rent, airport infrastructure, navigation fees and charges, and other direct and indirect taxes, Air Canada would save approximately \$750 million if we were a U.S. airline, with the same volume of business. This \$750 million could be reinvested to develop new routes, acquire new aircraft, assist in infrastructure etc.

To give you a concrete example of the impact of landing and terminal fees, consider what it costs us to land a 146-seat Airbus A320 at various airports. About \$1,800 in Calgary, \$2,200 in Vancouver, \$2,600 in Montreal and \$3,400 in Toronto. By comparison, the average for seven major U.S. airports is only about \$1,600. - less than half of what it costs in Toronto. These significant cost differences must be made up in airfares paid by consumers. And perhaps more importantly, it is not re-invested in airports or airlines' own infrastructure to make the passenger experience more efficient or to build high speed train links etc. It also costs jobs.

A second concern is the Air Travellers Security Charge. The industry paid more than \$380 million from this fee in 2009 and early this year it increased this charge by as much as 50 per cent in some cases, given the requirements for new equipment and other security improvements at airports.

A third concern relates to fuel excise taxes, from which the government received \$40 million last year. While these apply only to domestic travel they still represent a significant cost for the industry given the large quantities of fuel we purchase – at Air Canada, for example, fuel is our single largest expense. Curiously, the tax was put into place many years ago to finance airport infrastructure but after the airports were divested, this tax was maintained and the funds now just goes into general revenue.

And unfortunately the differences with the U.S. do not stop here.

Canadian airport authorities pay PILT (Payment in Lieu of Taxes) to municipalities, they do not have access to tax free bonds as in the U.S. and airlines pay GST on all value added services in the aviation chain including infrastructure. This is not the case in the U.S. where taxes collected on airline tickets are channeled back into the aviation system.

So, not only do these various fees, charges and taxes make it more expensive for Canadians to travel, it also puts Canada at a significant competitive disadvantage. A problem further compounded when we try to compete for connecting passengers with countries that have little or no taxation, and who stimulate rather than constrain air travel.

There is a definite and well-documented correlation between air connectivity and economic growth so any disincentive to travel de-stimulates the economy. At a time when all countries are looking to promote competitiveness and economic growth, enhancing the competitiveness of air travel should be a preferred way to achieve these twin goals.

As for liberalization of air services, Air Canada is fully supportive of fair and balanced Open Skies with all countries where there is reciprocal demand. We have welcomed subsequent liberalization agreements with the U.S. and recently with the European Union, two of the most competitive markets in the world.

Inevitably, when I talk about liberalization, the issue of the UAE carriers and their endless lobbying and media campaign arises. It is well known in our industry that the state-owned and subsidized Emirates Airlines is pushing hard to capture and divert to Dubai as much global traffic as possible even if the point to point market between the two countries is very thin.

Indeed, the whole UAE has gone on a petro-dollar fueled airline binge. They are currently building three new airports all within a couple hundred miles of one another that when complete within five or six years will have more capacity than Heathrow, Charles de Gaulle and Frankfurt airports combined.

The current bilateral rights between the UAE and Canada more than satisfy demand for point-to-point traffic and that is the test. Few Canadians actually travel to Dubai and fewer still residents of Dubai travel to Canada. So why then is Emirates flying an Airbus A380 with roughly 500 seats to Toronto and clamoring to send more of these giants to Canada?

Now, I'm sure you're thinking: "what is wrong with flooding the market? It gives me more travel options."

Well, at first blush it might seem so. But the impact is devastating and would have the effect of restricting the growth of services to and from Canada, and that is not just Air Canada's services; that is all airlines' services. When an international carrier dumps seats into a market like Canada, it becomes harder for Canadian airlines to operate internationally and for other foreign airlines to fly here. Ultimately, this translates into less economic activity, fewer jobs and fewer routes served. Jobs may be created, but long term those jobs would be exported. Yes, you will still be able to still get to anywhere. But you will have to go via Dubai to do it.

Consider your own Ottawa airport. As you know, we have introduced a flight between Ottawa and Frankfurt giving the region a direct link to one of the most dynamic aviation hubs in the world.

But when you look at who travels on this flight, only 15 per cent is made up of people going between Ottawa and Frankfurt. The other 85 per cent are connecting in Frankfurt to fly somewhere else, and of those, 15 per cent go to the Middle East. It is the connecting traffic that makes that route financially viable because not enough people fly just point-to-point between Ottawa and Frankfurt. If another carrier dumps capacity into the market and siphons off even just that 15 per cent headed for the Middle East, then the route is no longer viable due to the narrow profit margins in our industry. Consequently, the city could lose that direct Frankfurt connection.

Air Canada is not afraid of competition- quite the contrary. As I mentioned, given the opportunity with Open Skies between Canada and the US we have captured the largest share of the transborder market. Similarly with the U.K., we are also the biggest player in the market between those two countries.

But liberalization in the airline industry is like any trade agreement in that it must be beneficial to both sides. For our industry, that means passenger flows must be balanced so both sides benefit. This is not the case with the UAE where liberalization would lead to a lopsided flow of traffic, with most people flying to Dubai to connect to go somewhere else. Because the reverse is not possible, Canadian hubs would become mere stubs at the end of the many spokes leading to Dubai.

Our concerns are really rooted in the nature of the international air transport regime, which dates back to the middle of the last century. It is predicated on bilateral rights and really did not envision modern international traffic flows. Now, if this were to change, and we were to have true liberalization with cabotage -- that is flying point to point within a foreign country -- and the elimination of foreign ownership restrictions, and the introduction of conventional trade rules related to dumping and unfair subsidies, then that is a different story. I think Air Canada could expect to do very well in such a scenario where airlines are treated just like any other industry.

But the fact is we do not live in that world yet and it would be costly for Canada to unilaterally step outside the existing regime on the basis of inflated, even fantastical, traffic, job and economic growth projections such as Emirates promises.

Let me end on a very positive note. We have the very best airline in North America right here in Canada. We have stabilized our financial picture. We are committed to stimulating international growth and providing direct access from cities like Ottawa. The culture of the place is changing -- it's a dynamic and engaging environment. Yet we need to have the support of the community and the various levels of Government to remove the many barriers to truly allowing us to compete and flourish domestically, on the transborder and on a global scale. A strong Air Canada is good for Canada. It means economic growth, good jobs for Canadians and a wide choice of services and routes for Canadian consumers.

We are a market leader yet we are committed to further enhancing our network and product and taking customer service to the next level. Moreover we are firmly determined to become a Global Champion, which is a goal entirely within our grasp.

Thank you.