Thank you Nick for that kind introduction.
I’d first of all like to say that it is a sincere pleasure to be addressing the Canadian Club here in Toronto.

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 for the company and also for this city. It is a rare business where almost everyone in the room is a customer over a twelve month period. - this is a privilege and responsibility I take seriously.

**CONTEXT & TORONTO IS OUR HUB**

I find people are often surprised when I quote some statistics about our company, as they do not fully appreciate the breadth and scope of our operations here in Toronto and on a network-wide basis.

Air Canada is the 15th largest airline in the world based on traffic – and there are almost 1,000 airlines in the world.

Significantly, we have grown to this size even though Canada is only about 36th in terms of population among the world’s countries. 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 26,000 employees stationed on five continents throughout the world and nearly $11 billion in annual revenue. In the course of a year 31 million people – virtually the entire population of Canada – walk through our aircraft doors. On a typical day we can fly the equivalent of the entire population of the City of Guelph and their baggage. Every year we board more than 15 million cocktail swizzle sticks.

Toronto is our biggest and most important hub. Each day more than 650 Air Canada mainline and Jazz flights arrive and depart from Pearson. On any given day, about 50,000
of our customers pass through this airport. We have 11,500 employees in Toronto and a payroll in this city alone of nearly $1 billion annually.

Just this past summer we hired over 500 employees in the Toronto area – at a time when according to a recent study, Toronto is still being hit by the recession harder than most of Canada and unemployment here is 9.2 per cent. I don’t think there are many companies who hired 500 people in Toronto this past year.

ACCOMPLISHMENTS

So we are a big company in a very tough and competitive industry. In my 18 months on the job our operation has been disrupted by volcanoes, hurricanes, earthquakes and last Christmas, the gift of an underwear bomber on another airline that turned global security upside down yet again.

And, certainly most challenging of all, a severe recession that reduced our business by as much as 30 per cent in key markets such as the Pacific.

Encouragingly, the airline business is improving around the world and IATA estimates the global industry will have profits of nearly $9 billion this year. This sounds good, but represents a razor-thin margin of less than 2 per cent.

For our part, we worked through significant challenges that threatened Air Canada’s very existence over the past 18 months. But even at the darkest depths we were planning our return and we vowed to win the customer back.

And we did just that – as we ended 2009, Air Canada was named Skytrax’s Best Airline in North America in a survey of 17 million frequent travelers worldwide. And 2010 has been a pretty good year so far.
• Our stock price has almost tripled since the start of the year and virtually all of the research analysts covering the company have a Buy rating on us.

• Last week we reported one of the best quarterly operating results in our history with operating income of $327 million, close to 400% over last year’s period.

• Our planes flew more than 84 percent full in the Third Quarter.

• Passenger revenues year-to-date have increased $780 million and cargo revenues increased 34% over the same period the previous year.

• Traffic is up more than 8.5 per cent overall with growth in all of our markets – led by a spectacular 22 percent growth in the Pacific.

• And remember Canadian GDP growth this year is expected to be less than 3 per cent.

• We have more than doubled our liquidity and now have over $2 billion in cash and short term investments and have opened up significant new capital sources and markets in both the U.S. and Canada.

These achievements did not just happen by chance – They are the direct result of very hard work by 26,000 people of whom I am very proud.

I am also proud of the strong leadership and responsibility shown by our five Canadian unions as we worked through the challenges of 2009 - Of the strong sense of partnership and support shown by Aeroplan, Jazz and ACE and other large suppliers and travel trade partners who stood beside us.

Now, as any of you who work or have worked in a large organization know, it is not always easy to get everyone working towards a common goal, especially in the kind of
business we are in. An airline is a 24/7 business with reliance on aircraft and engine manufacturers, Maintenance, Repair and Overhaul shops, IT, security screening, international language and training issues etc. etc.

But, you have to start somewhere, so we started by identifying a small number of key priorities that we were determined to tackle and by relentlessly focusing on them. Let me recap these briefly.

**PRIORITIES**

1) Our **Cost Transformation Program** is aimed at achieving $530 million in sustainable annual cost and revenue improvements by the end of 2011. And we are right on track, having already achieved our $300 million improvement for this year. We have committed to our shareholders that we will maintain this discipline including not succumbing to the temptation to add aircraft to our fleet unless we have a compelling business case and cost structure to do so.

2) **Customer Service** - We are playing to our strengths rather than viewing our legacy as a weakness. We are therefore actively transforming the way we engage with our customers – with particular emphasis on our **premium business product, the services we offer and our reputation for safety and reliability**.

3) **Changing the very culture at Air Canada** - Significant progress has been made towards becoming a more welcoming, entrepreneurial and nimble company. In addition to our Best Airline in North America Award, an **Ipsos Reid Business Traveller survey** last month found we are now the favourite airline of 71 per cent of business travelers in Canada.

4) Building on our position as one of the world’s **leading international carriers** and this is where Toronto comes in. Along with Canada’s advantageous geographic location, Air Canada has a vast network supported by a wide array of bilateral authorities that enable us to fly virtually anywhere.
in the world. More than this, we are a founding partner of the 27-member Star Alliance, the largest alliance of its kind. Through Star we can seamlessly connect passengers with carriers that fly to nearly 1,200 airports in 180 countries. And this connecting traffic drives both growth and profitability.

Already this year, we have added new flights to Copenhagen, Brussels, Barcelona, Athens and Geneva. We will start service to Haneda Airport in Tokyo in the spring, in addition to our service to Narita. We have added new service to Rome and Mexico City from Montreal and Vancouver.

We have increased capacity to Asia dramatically year-over-year and now fly nonstop daily from both Toronto and Vancouver to Beijing, Hong Kong, Shanghai and Tokyo. As mentioned, our Pacific traffic is up over 22 per cent and this past summer we flew 70 times a week on 10 routes between Canada and the 5 major Asian cities. Put another way, we are deploying more than $2 billion in aircraft exclusively to our Asian routes.

Imagine any Canadian manufacturer building a $2 billion factory in Asia. That size investment would be a big deal for the country and certainly would get everyone’s attention. Aviation services are different from bricks and mortar but the financial commitment is the same. This is a significant commitment of resources and demonstrates we are serious about serving this important market and making Toronto and Vancouver global gateways to Asia.

Asia will continue to grow in importance for Air Canada. Last year, intra-Asia travel exceeded that of North America and IATA predicts that by 2013 an additional 217 million travelers will take to the skies within Asia-Pacific. The recent grant of Approved Destination Status to Canada will also stimulate Chinese tourism.

TORONTO KEY TO OUR STRATEGY
It is our emphasis on international growth that I wish to focus on today. This is because Toronto in particular stands to be a major beneficiary of our strategy.

We firmly believe that we can build a global hub for international air traffic right here in Toronto – This can be our chance and Canada’s to shine on the global stage – To play in the truly big leagues.

The global marketplace is increasingly becoming a battle of international hubs. And as the industry increasingly channels traffic through these select hubs, we see massive opportunities for Toronto. The GTAA, the Authority that oversees Pearson, has made many significant improvements, including terminal investments. This enabled us to concentrate all our operations and those of our Star partners under a single roof, thereby facilitating transfer traffic.

Connections are now seamless and crossing international borders is as easy as transiting from a domestic to an international flight.

Among other things, Toronto also has a fantastic geographic advantage. Pearson is located in the heart of one of the most populous regions of North America. It is in the centre of a very large catchment area of potential customers and is also a destination for even larger numbers of business and leisure travelers. Remarkably, a quarter of Canada’s total population is located within 160 km of Toronto.

The airport is also within a one day drive or a short-haul flight for 150 million people, more than 40% of the U.S. population.

Flight times from here to Tokyo or Beijing, for example, are shorter or the same as from the major U.S. eastern hubs such as New York and Chicago. In addition, Toronto has better weather and far less air traffic congestion that often disrupts travel. So we will increasingly encourage that traffic to flow over Toronto.
We have had significant success marketing this in the U.S. for those passengers who must connect from secondary cities for international flights. And we’ve seen this traffic, which tends to be higher-yielding, more than double over the past year.

This growth is partly due to our new revenue-sharing alliance, that we call A++, with our partners Lufthansa, and United Airlines (which now includes Continental Airlines post their merger.) We sell seats on the other as if we were de facto one large airline with a single network. In effect, we strive for “metal neutrality”, so that over time we become indifferent as to which carrier is flown over the Atlantic as long as it is one of the three. Earlier this month, we announced a similar venture in the Canada-U.S. market with the newly merged United Airlines, subject to obtaining regulatory approvals. We believe this agreement can be transformative. While we fly to 59 U.S. cities, United flies to 210 U.S. airports, so you can easily see how this will broaden the range of routings and destinations we will now be able to offer customers.

**AVIATION AS ECONOMIC DRIVER**

But in order for Air Canada to capitalize on the advantages and potential that Toronto has as a global hub, we as a country need to recognize with certainty and conviction that the airline industry is indeed a powerful engine of economic growth, in the same way that several other countries, especially emerging economies have.

To this end, I have been saying publicly for some time now that we need to amend the policy framework around our industry to make Canadian airlines more competitive with carriers around the world. And that means adjusting rates and charges and overall policies for airports, rail infrastructure, air navigation, security, fuel excise taxes, income taxes, trade policies etc. etc.

Air Canada is recognized as the Best Airline in North America and to my thinking there is no reason why, in the right environment, it cannot truly become a champion on a global scale in the airline sector.
Economists tell us that transportation is one of the four sectors that are vital to our economy—along with finance, telecommunications and natural resources.

There is a 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, to find the next wave of so-called stimulus programs, enhancing the competitiveness of air travel should be a preferred way to achieve these twin goals.

Airlines in general are at the centre of the air transport industry. They are the focal point in an important value chain—globally and nationally—which includes feeding directly or indirectly these industries:

- Manufacturers of airframes, engines and mechanical systems
- Aviation services such as aircraft leasing, maintenance and fuel
- Airports, catering and inflight services, Air Navigation Services;
- Hotels, restaurants, car rental companies, travel agents and other tourism companies; and
- The cargo industry etc. etc.

According to a recent independent study for the National Airlines Council of Canada, the air transport industry directly generated $6.5 billion of Canada’s GDP in 2009. The total GDP impact of the industry is estimated at $12 billion and once the aggregate economic impact (direct, secondary and catalytic) is taken into account, that impact exceeds $35 billion in GDP. Air Canada’s own contribution is estimated at slightly more than 50 per cent of the Canadian industry, including that of foreign airlines operating here. So I would argue that this is an industry that we, as a country should be paying attention to.

**WHAT DOES IT TAKE TO WIN/ GLOBAL CHAMPIONS**

Outdated policies respecting aviation that originated with previous governments not only hobble airlines but frankly the entire country and the economy in this global environment.
Even before the 2008 report “Compete to Win” by 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. We saw this debate again with the recent takeover attempt of Potash Corporation.

In my view, Canada needs to be more strategic as to maintaining corporate or global champions in industries that are core drivers of our economy - such as natural resources, transportation, telecommunications and finance.

As I’ve said before, we cannot be boy scouts running around in short pants when it comes to global competitiveness especially when we see what other countries are doing.

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 such sectors as energy, metals, commodities, consumer and industrial products or airlines.

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.

Or closer to home, there is no such debate in the UAE, either with respect to the state’s ownership, control and aspirations for its ports and cargo infrastructure or, of more relevance to me, of its ownership, control and aspirations for its airlines and airports.

I commend the Federal Government for having the backbone to put the overall interest of Canadians before other considerations on the two issues that have been the subject of so much heated debate recently – the foreign takeover of Potash Corporation and the Canada-UAE bilateral air negotiations. In both cases the Government’s actions are in the interests of Canadian commerce, Canadian jobs and encouraging growth in the Canadian economy. There would be no net benefit to Canada to caving in. This Government’s approach is key to assure the long term viability of Canadian companies in two of the key sectors that drive our economy.
COMPETITIVE FRAMEWORK

A domestic competitive framework is essential to becoming a global champion. So in Canada, with respect to our aviation industry, we need to decide.

• Do we want a viable airline industry in and from Canada with one or more major world class gateways to complement fair open skies with other countries?

• Do we want direct access from Canada to Asia, Europe and South America from multiple Canadian cities, including smaller markets such as Edmonton, Halifax and Ottawa?

• Do we care about competitive aviation costs based on comparable costs, particularly south of the border in light of the North American free trade context?

We can continue to debate, but as we do so other regions of the world are actively working to create global aviation hubs and gateways. In certain parts of the world, we are seeing impressive construction of massive airport capacity exceeding Heathrow, Frankfurt and Charles De Gaulle combined. We are seeing massive aircraft orders. We are seeing huge investment in rail infrastructure.

COSTS

A competitive framework means addressing costs. Canada’s aviation sector has taxation and other fiscal burdens which are a net drain of resources from this critical sector. Air travel in this country is subjected to more “sin taxes” than tobacco or alcohol!

And to make matter worse, funds collected from the industry are generally not re-invested in the industry or its infrastructure development.
This is in direct contrast to other places around the world including 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 domestic economy and social connectivity.

1) **Airport rent.** Although Canada privatized its airports in 1992, the Consolidated Revenue Fund of Canada 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, thereby making Canada less competitive.

Indeed, we increasingly see Canadians driving across the Border to Buffalo, to Plattsburg, to Seattle to get on flights because they are cheaper.

Consider Buffalo – nearly 40% of the cars parked at that airport’s long term spots sport Canadian license plates and the airport is not shy about advertising its advantages on radio, billboards and websites in the Toronto market. Yes the price of a ticket on a low cost carrier out of Buffalo is less expensive than what Canadian competitors can offer but that carrier does not pay a fuel excise tax in Buffalo and the cost to land an Airbus 320 on average in the U.S. is less than half of what it costs in Toronto.

2) **Air Travellers Security Charge.** The Canadian industry paid more than $380 million from this fee in 2009. Early this year it further increased this charge by as much as 50 per cent.

3) **Fuel excise taxes** In Ontario alone, in 2009 Air Canada paid $31.5 million to the Province in fuel excise taxes.

So, between airport rent, airport infrastructure, navigation fees and charges, and other direct and indirect taxes, we estimate Air Canada would save approximately $1B if it was a U.S. airline with the same volume of business. $1B - This $1B million could be
reinvested to develop new routes, acquire new aircraft, create jobs and build new facilities.

**INFRASTRUCTURE**

A competitive framework also means a competitive aviation infrastructure – Despite decades of talk and some good work by the GTAA, we are still years away from having a high speed airport link here in Toronto. We are getting close but I still don’t see it. And it won’t happen before 2015 at the earliest. Vancouver is the only city in this country with a rapid transit link to the airport and the Olympics had a lot to do with timing, having been forced on the decision makers, leaving them little choice but to accelerate.

**TRADE AGREEMENTS**

A competitive framework also means having balanced trade agreements. Air Canada is fully supportive of fair and balanced Open Skies with all countries where there is reciprocal demand.

We have welcomed liberalization agreements with the United States and more recently with the European Union, two of the most competitive markets in the world where there is real two-way demand with Canada. And we are actively encouraging agreements with other countries such as Japan. However, I work for our shareholders and our customers and have responsibility for 26,000 employees and 25,000 retirees. So, we are not supportive of demolishing our hubs and gateways or turning over our hard-earned network and flow traffic to state supported carriers of other countries where there is no such reciprocal demand. Ultimately, this will translate into less economic activity, fewer jobs and fewer routes served.

**FUTURE OF TORONTO AS A GLOBAL HUB**

A competitive framework for Canadian aviation also means partnerships with airports to build strong hubs that in turn become global gateways. International gateway airports like
Toronto are considered by economists to generate far more value for their respective regional and national economies than regional hub, or stub airports.

And with very few exceptions, international gateway airports develop because major carriers use them principally for their networks.

I want to pause here and acknowledge the tremendous efforts of the GTAA in working in partnership with us to transform Pearson into a global hub. While our relationship has, in the past, been somewhat strained, I can tell you categorically that they get it. They understand the value of a global hub and of flow traffic. They have worked very hard to reduce costs and improve facilities. And their efforts are also getting recognized by others. At this year’s IATA AGM in June, Pearson was named the Most Improved Airport in the World.

I guess the message I want to leave you with is that collectively, you and we have huge opportunities here in Toronto if we play our cards right. And if we have the right policy framework underpinning our industry.

- We have the very best airline in North America with our major hub right here in Toronto
- At Pearson, we now have a fantastic facility from which to operate.

Toronto is strategically situated from a geographic point of view to truly compete with other global hubs such as Atlanta, Chicago and Detroit.

- We have strategic alliances that will support new non-stop routes.
- We have new aircraft on order that will make new non-stop routes viable.
- This hub is already a major contributor to the local economy and a strong driver of jobs and spin-off activities. It also has significant further upside potential
- And above all, I can tell you that Air Canada is developing the mindset, the culture and the capabilities to win – on a consistent, sustainable and globally competitive basis.

Thank you