Emirates Submission to the Canada Transportation Act Review

Introduction

Emirates welcomes the opportunity to respond to the Canada Transportation Act Review 2014 and supports the objective of the review – 'to provide an independent assessment of how federal policies and programs can ensure that the transportation system strengthens integration among regions while providing competitive international linkages'. Emirates recognises the importance of transportation for Canada in an interconnected and globalised world.

About Emirates

Established in October 1985, Emirates is the largest of four designated airlines of the United Arab Emirates (UAE) operating from its home base in Dubai to 147 destinations in 84 countries – a global presence which has been built up in a progressive manner in line with demand. With a fleet of over 230 Airbus and Boeing aircraft, Emirates is the world's number one international carrier by international Revenue Passenger Kilometres (RPKs). In 2013/14, Emirates carried 44.5 million passengers, up 13.1% on the previous year, with an average seat load factor of 79.7%.

Contrary to what some allege, Emirates is a fully commercial airline, operating a transparent and non-subsidised business model. Accounts are audited by PricewaterhouseCoopers (PwC) in full compliance with international standards, and are publicly available at:
http://www.emirates.com/english/about/investor_relations/investor_relations.aspx and have been since 1993/94 (soft copy versions are available from 2001/02).

Emirates reaffirms its commitment to open and transparent operations and welcomes a fact based debate on everything ranging from subsidies to competition and believes this should apply to all industry participants and observers. From its establishment in 1985, Emirates has been unequivocal in its advocacy of the political, economic and consumer benefits that flow from aviation liberalisation. From its global hub in Dubai, Emirates operates in an open skies environment and is exposed to competing with more than 130 carriers. This has provided Emirates with a fiercely competitive environment which has delivered substantial dividends for the Dubai economy and consumers.

Emirates commenced services to Canada in October 2007, operating three flights per week from Dubai to Toronto – the maximum number of weekly flights the airline can operate under the UAE-Canada Air Services Agreement (ASA). In June 2009, Emirates deployed the Airbus A380 on the route in order to better satisfy the demand for this service with load factors since then ranging between 91 and 94%.

Global connectivity snapshot and Emirates

Emirates provides enhanced access between Canada and various regions of the world which are otherwise underserved from Canada. This means more competition, better choice of service and enhanced connectivity for Canadians.

Aside from offering connectivity to Dubai in the UAE, Emirates' three flights per week to and from Toronto offer one-stop connectivity to the world's fastest growing economies. Emirates for example operates the most weekly frequencies to the five BRICS nations than any other airline – 304 per week – and also have the most weekly frequencies to some of the fastest growing major economies – countries like Iraq, Vietnam, China, Singapore, the Philippines, Pakistan and Nigeria – than any other airline - 207 per week.

In that regard, Emirates contributes to Canada's connectivity needs in the Middle East, Africa and the South Asian subcontinent – operating to 58 points. Also, there is currently no direct competitive overlap between Emirates and Air Canada in the Middle East, Africa or the South Asian subcontinent as Air Canada only operates services to one point in these regions, which Emirates does not serve. However, Air Canada recently announced that from November 2015 they will be resuming four weekly flights between Toronto and Delhi, and launching direct services between Toronto and Dubai. Emirates welcomes these developments. Not only is that testament to the strength of Dubai as a market, it also signals that the Canada-Dubai market is currently underserved, despite the long-standing Transport Canada / Air Canada position that three flights per week are more than adequate to cater to the demand between the two cities.

In the past, Transport Canada and Air Canada have expressed concerns regarding Emirates' transfer traffic to and from Canada. All international airlines rely on the geographical advantages they possess to smoothly transfer any connecting passengers – so-called 6th freedom traffic. Transfer traffic makes up a significant portion of all hub-and-spoke international airline operations such as those of Air France-KLM, Lufthansa, British Airways and even Air Canada.

Furthermore, Emirates' current market share as a proportion of all international frequencies to and from Canada is a negligible 0.14% of all international frequencies to and from Toronto. With a daily Emirates service to Toronto for example, this market share would grow slightly to an estimated 0.28% – an insignificant position in comparison with Air Canada's market share of 46% to and from Toronto.

Future trends

According to the International Air Transport Association (IATA), global air travel demand will grow at around 5% per year between now and 2017. Airlines expect to see an 18.5% increase in passenger numbers between now and 2017, with total passenger numbers expected to rise to 3.91 billion then. Recent IATA forecasts also predict considerable growth over the next 20 years with 7 billion passengers expected by 2034. The Middle East region is expected to have the highest growth rate at around 4.9% each year, the same rate as Asia Pacific, while Africa will see a growth rate of around 4.7% each year. International departures from key emerging economies are rising an average of 13% per year, far above the 4% annual rise in global international departures.

The Canadian Industry Minister, James Moore, previously stated on his website that "Canadian consumers know instinctively that more competition will serve their families well through better service and lower prices". It is our view that the consumer interest should always be paramount in discussions about competition, whether for aviation or any other sector. Consumers always win when competition is enhanced. For example, in April 2013, a poll from the Consumers Association in Canada found that 77% of Canadians believe allowing more foreign airlines to fly to Canada would lead to more competition for their travel dollar and better travel options.

The rise in international migration is also driving more international travel as migrants, and their friends and family, make trips to visit one another. According to Deloitte, in 2011 30% of foreign travellers to Canada said visiting friends and family was the main purpose of their trip. With approximately 41 million more people anticipated to be living and working in foreign countries by 2030, this trend will only continue. However, without increased connectivity, countries like Canada could struggle to keep pace with these air travel trends and remain competitive in the growing global economy.

Trade links between Canada and third countries – with focus on the UAE

The UAE is Canada's largest export market in the Middle East and North Africa. In total, Canada's two way trade with the Middle East reached CA$15.21 billion in 2013 – a 47% increase from 2009. Emirates' direct financial contribution to the Canadian economy in 2013/14 reached CA$125 million on expenditures such as Canadian food, aerospace products and services, fuel uplift, landing fees and advertising. The impact of Emirates' three flights per week to Toronto translates into 951 Canadian jobs, CA$117 million to Canada's GDP and CA$11 million in tax revenues, according to a report by InterVistas in February 2010.

Emirates is the largest airline in the Middle East, so it is uniquely positioned to stimulate further growth between Canada and the fast growing Middle East region. More recently, Emirates examined the impact on bilateral trade after six years of operating services to Canada and found trade between the UAE and Canada had increased from CA$1.16 billion trade value in 2007 to CA$1.73 billion trade value in 2013 – an increase of 48%.

Currently, there are over 1,100 Canadian firms registered in Dubai. These include companies like Tim Hortons, Canaccord, Ellis Don, Bengal Energy, Rocky Mountaineer, Opentext and CAE. Many of these companies have expressed their support for increased flights between Canada and Dubai in order to enhance mutual economic ties and increase trade between the two countries. The Canadian population living in the UAE has grown by 60% since 2009 and there are now over 40,000 Canadians living in the UAE.

According to a 2010 study by independent transportation experts InterVistas Consulting, if Emirates were granted additional flights to Canada this would result in $480 million GDP in new economic activity, around 2,800 additional jobs and CA$82.6 million in direct new tourism spending annually.

In a recent report from Deloitte, 'Travel fosters trade', Canadian data was analysed using established empirical techniques to show that a rise in business or leisure travel between countries can be linked to subsequent increases in export volumes to the visitors' countries – as well as an increase in the variety of goods exported.

A study by the Department of Foreign Affairs, Trade and Development in Canada highlighted how international air connectivity boosts services trade, an increasingly important segment of the global economy. "The link between air services liberalisation and Canadian trade" found that Air Service Agreements (ASAs) contributed to a measurable effect on stimulating bilateral trade between nations, both in terms of goods trade and services trade. The study recommended that "Canada would benefit not only from signing new ASAs, but also from liberalising its existing ones" and moreover found that ASA liberalisation leads to lower prices and higher volumes of air traffic (both passenger and cargo), has positive impacts on trade, employment, tourism and GDP, and is welfare-improving for the economy as a whole.

In April 2013 Emirates welcomed the launch of the Canada and United Arab Emirates Shared Strategic Agenda (SSA). The SSA has helped to increase cooperation between the two countries and the pursuit of shared goals including; enhanced economic prosperity and strengthening of security. The launch of the SSA had led to further initiatives, including an announcement by Minister Fast in November 2013 regarding Canada's Global Market Action Plan (GMAP), in which the UAE was named as a priority market. Since then, the Department of Foreign Affairs, Trade and Development has stated that Canada is committed to increasing the number of air travellers between the two nations.

Emirates believes that substantiated, qualitative aspects of improved international linkages and trade connectivity should play a more prominent role in the assessment of Canadian air transport policy going forward. This should include airports, the tourism industry, and provincial/territorial governments on their overall international priorities and commercial interests to a larger extent compared to practices today. For example, Canada's trade relationship with the UAE and the ability for it to flourish further will continue to remain constrained by a lack of air connectivity.

<u>Governance and regulation</u>

"The Blue Sky Policy" in place since 2006 states that Transport Canada will continue to encourage competition and seek more Air Transport Agreements (ATAs) to promote the interests of Canadian consumers, as well as their trade and tourism sectors. At the same time, the discussion paper published in connection with the Transportation Act review ascribes (section 8.) foreign competition restrictions in Canadian air policy to "user pays" principles and a small internal market. From Emirates' perspective "The Blue Sky Policy" has not delivered the intended outcome in terms of encouraging competition and supporting trade and tourism objectives. It is often applied selectively, and in the process ignores some of Canada's important trading partners, for example the UAE.

By way of example, the UAE-Canada ASA remains one of the most restrictive, despite the thriving economic and political ties between the two countries. Out of the 80 countries Emirates operates passenger services to, Canada is the only country that allows just three weekly flights. An increase in frequencies would help cater to the demand that exists in this underserved market. The following chart illustrates Canada's stance on airline competition from an Emirates perspective compared with other G7 members:

G7 nation	Emirates entitlements	Frequencies/week
UK	Open Skies	112
US	Open Skies	77
Germany	Unrestricted to any 4 points	63
Italy	49	49
France	32	32
Japan	35	21
Canada	3	3

Many governments around the world recognise Emirates' ability to stimulate markets and generate new demand. Emirates' operations stimulate total market size and do not merely re-distribute market share. Australia is an example of a market that has a number of shared economic and social characteristics with Canada, but which allows Emirates to operate up to 84 weekly flights to five different points, (increasing to 91 in March 2015) resulting in significant trade, tourism and investment gains.

Whether pursuing the "Blue Skies Policy" policy will provide a net benefit to the Canadian economy as a whole and serve Canada's ambitions in terms of competitive international linkages in the context of the projected growth in air travel in the coming 20 years remains to be seen.

Ultimately it is for the Government to decide which policy changes could be implemented that would help enable the aviation sector to better provide Canadians with the air connectivity, and choices of service and price that would be required to support economic growth, trade links and tourism opportunities in the decades ahead.

Tourism potential

Tourism forms an important part of Canada's economy. The sector employed over 618,000 people, represented over 2% of national GDP (CA$33 billion) and generated around CA$84 billion in tourism revenue in 2013.

However, according to Deloitte's 2014 report 'Passport to Growth', Canada was the world's second most popular destination in 1970. In 1990 Canada was ranked tenth, and then by 2011 it was ranked eighteenth, trailing behind countries such as Ukraine and Saudi Arabia. Deloitte's research also showed that Canada needs a strong, internationally competitive tourism sector as this can play an important role in opening up new markets for Canadian companies. Since 2000, the number of international travellers visiting Canada has dropped by 20%. In February 2009, the Canadian Tourism Commission stated that, trips to Canada from Asia were down over 15% year on year. Also, the World Economic Forum ranked Canada 124th in terms of travel and tourism price competitiveness in 2013.

With the number of international air travellers set to continue to rise significantly in the years to come and considering this growth is predicted to be between, with and among developing countries, Canada has a tremendous opportunity to adapt transportation policy to an extent it caters to increases in tourism flows and in turn helps sustain an important aspect of the Canadian economy.

US border leakage

Three quarters of the Canadian population live within a ninety minutes' drive of the US border and due to high airline fares and limited choice in Canada, many of the population choose to travel from US airports instead of their own. It is estimated that 4.8 million Canadians flew out of US airports in 2011 and the loss to the Canadian economy due to this border leakage was US$1.1 billion – according to the Canadian Airports Council. The airlines serving Canada lose out on an estimated US$1 billion in revenue each year because of this border leakage. In 2012 the number of Canadians crossing the border and flying out of US airports grew to over 5 million.

The reason for higher fares in Canada has often been attributed to fees and taxes imposed by the Canadian government. However, researchers at the University of Maryland found that higher fees and taxes in Canada could only account for between 17 to 37% of the fare differential. A lack of competition was also an important factor. The authors of the report argued that reductions in taxes and fees will have a limited impact on fares, and instead what is really needed are “policies that promote greater competition on air routes”.

A study by Canada’s Fraser Institute in 2014 also revealed the extent of the higher ticket prices from Canadian airports. Within Europe, fares between city pairs of approximate distance averaged CA$690, while comparable routes in the US cost CA$840 and routes in Canada were even higher at CA$1,815. The Institute found that Europe has better deals despite higher taxes and fees. “Europe’s pro-consumer ticket prices are explained by one word: competition”.

Ambarish Chandra, an economics professor at the University of Toronto, also attributes the lack of competition to the US border leakage trends. Chandra pointed out in a newspaper article in the Toronto Star in June 2012 that when Canadians want to fly abroad “it is often difficult to do so on anything other than Air Canada or one of its Star Alliance partners”. The only way to drive fares lower in Canada is to open the market to foreign competition, he argued.

Conclusion

In the context of aviation growth patterns and considering that approximately 7 billion people are expected to use air travel in 2034, Emirates believes qualitative aspects and economic benefits of improved international linkages and trade connectivity should play a more prominent role in the assessment of Canadian transport policy in the short term future.

The Transportation Act Review Board should review the conclusions in “The link between air services liberalisation and Canadian trade” and consider the benefits of further trade growth through air services liberalisation. More and more countries are recognising that liberal air access has a positive multiplier effect on their economies.

Ultimately, embracing a less restrictive international aviation strategy would further promote trade, regional connectivity, investment, tourism and employment, thus generating substantial economic and social benefits to Canada and its consumers. Similarly, a less restrictive policy may well also serve Canada’s ambitions in terms of competitive international linkages.

Emirates would like to thank the Transportation Act Review Board for the opportunity to submit comments and remain available to elaborate further if required.

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