CANADA TRANSPORTATION ACT REVIEW

# Proposals to Modernize Canada's Air Policy Framework and Improve the Connectivity of Canadians to the World

**Submitted by Qatar Airways**

Canada Transportation Act Review Secretariat
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February 2015

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## INTRODUCTION

### Qatar Airways and the Canadian Market

Qatar Airways is one of the largest and fastest growing airlines in the world and currently operates a large fleet of aircraft from its global hub located in Doha, Qatar. It also has one of the fastest growing cargo networks. Qatar Airways serves over 145 destinations in all continents and uses one of the most modern and energy-efficient fleets in the industry.

Qatar Airways has been serving the Canadian market since June 2011, with three frequencies per week between the cities of Montreal and Doha. Under the terms of the current bilateral air service agreement between the Government of Canada and the State of Qatar, Qatar Airways can operate a maximum of three flights per week to any two points in Canada, with a maximum capacity of 335 seats per flight. These rights are fully utilized by Qatar Airways at the moment.

The current three restrictions of frequency, capacity and number of airports are a direct impediment to trade and traffic, and therefore a restriction on competition and service.

### Qatar Airways' Submissions

The following are further comments and submissions by Qatar Airways for the *Canada Transportation Act* Review Secretariat. We wish to thank the *Canada Transportation Act* Review Secretariat for the opportunity to discuss the various policies and legislation that affect the air transportation of passengers and cargo in Canada – from the perspective of the international airline industry in which Qatar Airways occupies a prominent position. These submissions are made in confidence to the Secretariat.

Qatar Airways will provide comments regarding:

1) **Canada's current approach to international air service agreements for passengers and cargo;**
2) **Current foreign ownership restrictions and rights of establishment;**
3) **Aviation and the environment; and**
4) **The post-privatization situation as it relates to air navigation services and airport policy.**

Qatar Airways believes that enhanced market access for foreign airlines and more competition can be beneficial for Canada. Additional international air transport services to/from Canada can benefit Canadians, the business community, the tourism sector, and the economy as a whole. More passenger traffic into and out of Canada can also generate more revenue for airports and the federal/provincial governments.

Ultimately, a healthy and competitive aviation sector can create more employment opportunities for Canadians and contribute to Canada's prosperity. We also subscribe to the view that one or two airlines cannot possibly connect Canadians to the world in a convenient way and still provide competitive fares to consumers. Foreign airlines have an important role to play in connecting the global community to Canada by providing new destinations, better connectivity through their networks, and competitive prices to Canadians.

## SUBMISSIONS

### 1. Canada's Approach to Bilateral Air Service Agreements for Passengers and Cargo

The Blue Sky policy was implemented on November 27, 2006 and provides the foundations to Canada's current approach to bilateral air service agreements. Its publicly stated objectives are, among others:

1) to provide a framework that encourages competition and the development of new and expanded international air services;
2) to provide opportunities for Canadian airlines to grow and compete successfully in a more liberalized global environment; and
3) to enable airports to market themselves in a manner that is unhindered by bilateral constraints.

Furthermore, according to the Blue Sky policy's website, "Canada will proactively pursue opportunities to negotiate more liberalized agreements for international scheduled air transportation that will provide maximum opportunity for passenger and all-cargo services to be added according to market forces". The policy "seeks to negotiate reciprocal Open Skies-type agreements when it is in Canada's overall interest to do so".

It is Qatar Airway's position that the current and very limited Canada/Qatar Bilateral Air Services Agreement should be immediately re-negotiated (in stages) to eventually transition to an "Open Skies" agreement, since it is in Canada's overall interest to do so. With regards to cargo, there should be immediate negotiation for a cargo "Open Skies" provision since it will immediately increase Canadian business and trade opportunities.

#### a) It is in the overall interest of Canada to adopt a more comprehensive view of the economic role of bilateral air services agreements

The notion of "Canada's overall interest", as currently implemented under the Blue Sky policy, should be broadened in order to include other aviation-economic interests and international trade (i.e., imports and exports). According to a study conducted by Oxford Economics in 2011, the aviation sector supports GDP growth and employment in Canada though four distinct channels:

1) Direct (i.e., the output and employment of the firms in the aviation sector);

2) Indirect (i.e., the output and employment supported through the aviation sector and the Canada-based supply chain);
3) Employment and output supported by the spending of those directly or indirectly employed in the aviation sector; and
4) Catalytic (i.e., the spillover benefits associated with the aviation sector, including the level of trade directly enabled by the transportation of merchandise).

The Canadian Trade Commissioner Service has also highlighted the importance of air transportation for Canadian exports. For some exported products, air transport is particularly vital. For example, based on numbers from the Office of the Chief Economist at Canada's Department of Foreign Affairs, International Trade and Development (DFAITD), 98% of precious stones and metals, 86.2% of scientific equipment, 81.6% of pharmaceuticals and 73.2% of electrical machinery were exported to non-NAFTA markets by air.

Qatar Airways believes that a strong and competitive air transport industry is extremely important to Canada's economy and long-term prosperity. Many industries depend on air transportation to conduct business, including the transportation of high-value and time-sensitive goods. We believe that a fully liberalized air cargo services regime can be a great enabler of international trade and economic development.

**b) Offering single daily frequencies should be a starting point of any bilateral air transport negotiation, including for countries with sixth-freedom carriers**

Qatar Airways believes that nothing justifies the current limitations of traffic rights under the single daily frequency threshold. The current frequency for Qatar is limited to three times a week. From a commercial perspective, infrequent air services (i.e., less than 7 flights/week) are unlikely to provide the level of service, competition and flexibility that most travellers – in particular business passengers – need or expect.

The local maximization model currently used by Transport Canada makes it difficult for foreign airlines to develop, grow and compete in any given bilateral market. In the long run, this model will discourage foreign airlines to enter the Canadian market as unreasonable limits are imposed on their commercial plans through restrictive bilateral air service agreements. The current model of bilateral air service agreement between Canada and Qatar restricts competition and service for Canada and Canadians.

### i) Sixth-freedom carriers create no harm to Canada's national airlines

In our view, implementing a global maximization model, i.e., one permitting single daily frequencies, creates no harm to Canada's national airlines – and their branded alliance partners – in the short run, as these are already using sixth freedom rights to connect passengers from the U.S./Canada via European Star Alliance hubs to other destinations in Europe, the Middle East, Africa, and Southeast Asia. Air Canada, in particular, has strengthened its business model in recent years by capturing sixth freedom traffic from the Northeastern U.S., where consumers are used to connect to international flights via major hubs like Washington D.C., Boston, and New York.

Furthermore, Air Canada's recent decision to launch direct services between Toronto and Dubai contradicts those who have seen – and still see – the Blue Sky policy as an instrument to ensure the preservation of a level playing field for Canada-based airlines. The main argument put forward by Transport Canada to limit traffic rights in 2010 was that UAE carriers (Emirates, Etihad) would steal traffic from Canada to beyond markets and "unduly" dump capacity in the Canadian market, thus destabilizing air services "valued by Canadian communities".

Five years later, it appears that Emirates and Etihad have actually stimulated demand in the Toronto-UAE market and such growth now allows for the entry of Air Canada in that specific market. If anything, Canadians have gained two more travelling options. More importantly, we note that there is no evidence that air services "valued by Canadian communities" would have been cancelled.

### ii) Transport Canada's narrow approach hinders passenger growth and overburdens passengers with multiple connections

So far, the view adopted by Transport Canada has been one that focuses mainly on ensuring the "gradual" supply of air services by foreign airlines to international destinations, but only through the grant of third and fourth freedom rights and regardless of the suitability of new destinations (and frequencies) for consumers and local business communities. For many years, the implementation of the Blue Sky policy has either hindered passenger growth – or overburdened passengers with multiple connections – in key emerging markets in South America, Africa, the Middle East, and South Asia.

In our view, the current approach is rooted in a “zero sum” logic in which choosing or protecting a national winner is done at the expense of other market players – often foreign airlines – who are willing to take risks and offer greater international connectivity to Canadians. The current policy also supports a single global hub approach and a single dominant carrier connecting domestic traffic through that hub. This approach hinders the ability of airports in secondary markets like Calgary and Montreal to increase their own international connectivity.

Qatar Airways’ model for the Canada – Qatar traffic is to link the Canadian hubs of the Canadian domestic carriers to the hub of Qatar Airways, making both networks more efficient and therefore offering better service, competition and pricing. This “hub-to-hub” model is beneficial to both countries and their respective airlines

Qatar Airways believes that it is important for Canada to adopt an approach that favours international connectivity from <u>all cities</u>. Under the current context, passengers in cities such as Calgary, Montreal and Ottawa have limited “direct” international connectivity. Allowing more foreign airlines to add capacity into these markets can fulfil one of the stated goals of the Blue Sky policy, which is to encourage competition and the development of new and expanded international air services.

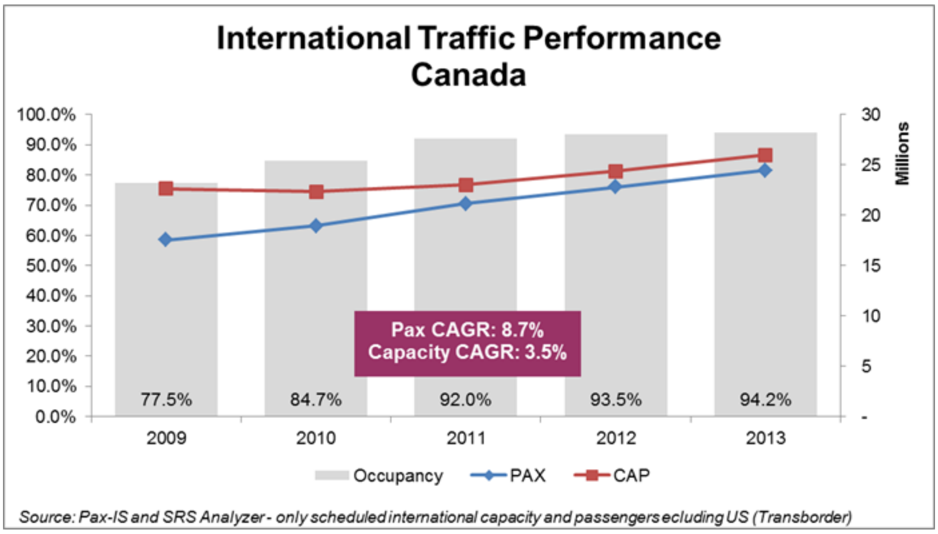
### iii) Agreement-restricted Qatar Airways only competes for 4.6% of the Canadian passenger revenue pie

In 2014, the International Air Transport Association (IATA) forecasted global passenger revenue to be close to $600 billion. The Canadian market is currently estimated at about $30 billion, of which 30% is domestic (i.e., $10 billion). The relevant market available to Qatar Airways, based on its current network and geographical reach, is estimated at about $1.4 billion per annum (or 4.6% of Canada’s total passenger revenue pie).

It is important to emphasize that this small market is highly contested as major American, European and Gulf carriers also compete to connect Canadians to the various destinations offered by their respective networks. These numbers demonstrate that Canada’s current approach to bilateral air transport agreements is actually impeding further passenger growth, thus negatively impacting the travelling choices available for Canadians and therefore actually restricting competition.

We also note that the capacity for international traffic – currently limited by restrictive bilateral air service agreements – has not kept with the pace of growth in passenger demand, thus challenging the common wisdom that limiting traffic rights for foreign airlines is in “Canada’s overall interest”.

Based on industry data (IATA Pax-IS), the growth of passenger demand from 2009 to 2013 has outpaced the capacity (supply) for international traffic, with an average Compounded Annual Growth Rate (CAGR) for passenger of 8.7% against an average CAGR in capacity of 3.5%, resulting in an average load factor increase of 16.7 percentage points (from 77.5% in 2009 to 94.2% in 2013).




## 2. Foreign Ownership Restrictions and Rights of Establishment

Countries around the globe have adopted different approaches towards foreign ownership restrictions in the airline industry. The United States, for example, has decided to maintain a 25 per cent cap on foreign investment. Australia and New Zealand have so far embraced a hybrid model that limits foreign investment on international carriers at 49 per cent while allowing 100 per cent of foreign ownership in domestic airlines. The European Union has accepted to bring foreign ownership limits to 49 per cent.

Chile, an emerging country deeply concerned with improving its levels of connectivity to the rest of the world (similar to Canada), has lifted all restrictions in recent years. New Zealand has allowed the establishment of domestic airlines entirely financed and operated by foreign carriers. In both cases, the liberal approach embraced by these countries, as well as the ensuing results have proved beneficial for their respective economies.

It is due to the current foreign ownership restrictions imposed by governments on their respective airlines that lead to the current "network" based air transportation system. It is this further complexity and the variations caused by the "network" system that has the effect in certain areas to restrict airline alliance flexibility and therefore competition.

### a) Canada should further relax foreign ownership and control limitations

Qatar Airways is of the view that Canada should consider removing all foreign ownership restrictions in the airline sector. Allowing the free flow of foreign capital into Canada's airline industry can benefit new market entrants in emerging regions such as Western Canada and those small or regional airlines with the objective to challenge powerful incumbents such as Air Canada and WestJet in high yield markets.

Alternatively, Qatar Airways proposes that limits be lifted at least to 49 per cent for foreign investors, with no reciprocity strings attached. The reciprocity approach is a mechanism that inevitably entrenches incumbent interests and potentially runs against basic principles of Canadian corporate and securities law as it involves the creation of different types of investors within the same class of shares. We also note that the 2009 amendments to the *Canada Transportation Act* on foreign ownership have not yet been implemented. We urge the Government of Canada to implement these amendments as soon as practicable.

Qatar Airways believes that less or no restrictions on foreign ownership are likely to attract more capital, thus reducing the average cost of capital currently paid by airlines and allowing for debt consolidation in cases of near-bankruptcy. A relaxation in foreign ownership limits could also provide Canada-based airlines with management expertise, knowledge transfer, skills and resource sharing. Ultimately, allowing more foreign investment into Canada's aviation market is likely to benefit smaller airlines and start-ups, thus unleashing various cycles of innovation and competition that will make Canada’s domestic network more competitive and efficient.

### b) Canada should allow foreign airlines to start domestic operations

Rights of establishment (ROE) can be defined as the ability of a foreign equity owner – often a foreign airline – to establish an airline in a foreign country and to provide domestic services to whatever cities they wish in that country. Some restrictions can sometimes be imposed by national regulators, namely (1) the newly-created airlines might not be allowed to expand into international routes and (2) some may not be permitted to code-share with international airlines due to antitrust concerns. New Zealand and Australia have adopted ROE.

Qatar Airways believes that foreign airlines should not be prevented from starting domestic operations in Canada for two reasons. First, as reported in various expert assessments, the current duopolistic environment maintains airfares at artificially high levels for consumers in the domestic market. In our view, the introduction of one or more players could only create a more competitive environment and better fares for Canadians. Second, the launch of a domestic carrier by a non-Star Alliance airline would also create the potential of increased alliance competition through competing feed arrangements.

Is it our view that allowing for rights of establishment in Canada would open the door for more competition in the domestic market and more than one branded alliance in the U.S.-Canada trans-border market currently dominated by Star Alliance partners Air Canada and United/Continental. We believe that a move from two to three or four airlines in Canada’s domestic market would result in a reduction in airfares and an increase in levels of service.

## 3. Environment

According to IATA data, aviation has dramatically improved its environmental performance since the early days of jet aircraft. For example, fuel efficiency has improved by some 70% (per passenger/km) since 1960. Today’s aircraft are 75% quieter than those manufactured 50 years ago, and levels of carbon monoxide have come down by 50% in recent years, and unburned hydrocarbons and smoke by around 90%.

Qatar Airways supports Canada's various policy initiatives to protect the environment and invites the CTA Review Panel to recommend establishing regulatory standards that go beyond industry best practices for fuel and environmental management. Qatar Airways works actively to reduce aviation's impact on global climate change, noise, and local air quality, among others.

As an example, Qatar Airways' newest fleet of Boeing 787s and Airbus A350s can be referred to, and rightly so, as one of the world's most fuel efficient and environmental friendly aircraft. These aircraft are built to address recent environmental concerns generating lowest level of pollution and significant reduction in $CO_2$ emissions. The current restrictions in the Canada/Qatar Bilateral Air Services Agreement prohibit the use of those newer aircrafts into Canada by Qatar Airways.

Qatar Airways also invites the CTA Review Panel to support the development of cleaner fuel alternatives. As a matter of fact, Qatar Airways is currently leading the way in the development of cleaner-burning alternative fuels that reduce aviation's impact on air quality. Our strategic partnerships with Qatar Petroleum, Shell, Airbus, Rolls-Royce, Qatar Science & Technology Park, and Woqod, allow our company to contribute to the advancement of alternative fuels on commercial flights.

## 4. Post-Privatization Comments

### a) NAV Canada

It is clear that the privatization of NAV Canada has been beneficial for Canada and the various aviation stakeholders that use air navigation services. NAV Canada's modernization processes have continuously led to increased efficiencies and safety, as well as the reduction of operational costs for airlines. Qatar Airways is of the view that NAV Canada is heading in the right direction when using advanced technology such as:

1) ADSB in areas that the use of radar are not feasible, i.e. the Hudson's Bay;
2) Domestic and North Atlantic Traffic, DCPC (Direct Controller Pilot Communication – data link); and
3) Domestic and North Atlantic Traffic RVSM (Reduced Vertical Separation).

## b) Airport Policy

Qatar Airways notes that Canada's privatized airports have struggled to remain competitive and financially viable in recent years. The issue of property rents being charged by the federal government to the NAS (National Airport System) seems to limit their ability to become truly competitive. In addition, the lack of a comprehensive airport policy that puts emphasis in all regions of Canada has allowed some airports to become quasi-fiefdoms and charge airlines – and passengers alike – unreasonable "user fees".

This tendency can be clearly illustrated by the approach adopted by Toronto Pearson International Airport where there was significant expansion (and debt brought on by that expansion), which was not solely for the benefit of the travelling public. This has caused a rise in the cost of landing fees, which are detrimental to airlines and their customers.

We also note that the issue of passenger leakage to U.S. airports have been in the policy discussion agenda for some time. It is our view that Canada's aviation industry, working in conjunction with the federal/provincial government, needs a collective approach to addressing this imbalance. At a minimum, the federal, provincial, and municipal governments must begin to view airports as generators of economic activity and not merely as sources of revenue.

The effect of the airport privatization policy has fragmented Canada's National aviation policy by handing the management and direction of Canada's airports to the municipal governments without giving them the tools, resources, training and a cohesive structure. This area should be re-visited by the Government of Canada to create a more viable National aviation policy.