SUBMISSION OF TRANSAT A.T. INC. TO THE *CANADA TRANSPORTATION ACT* REVIEW PANEL

Montreal, 21 January 2015

In the context of the statutory review of the *Canada Transportation Act* (hereinafter "the Act") launched by the federal Minister of Transport on 25 June 2014, Transat A.T. Inc. (hereinafter "Transat") is pleased to hereby submit its brief as formal input to the *Canada Transportation Act* Review Panel (hereinafter "the Panel") on key issues and challenges facing Canada's critical national transportation network. As our company is working actively with our industry associations that will also be submitting briefs to the Panel with respect to industry challenges of common interest, we will be focusing herein on corporate specific matters and recommendations, and will be endorsing and incorporating consensus industry positions via specific reference to same.

As a brief backgrounder, Transat is Canada's largest integrated holiday-travel and tourism services provider. With annual gross revenues of **$3.8 billion CDN**, we rank fifth in the world by revenue among such similar entities and employ over 6,000 people primarily nationwide in Canada, as well as in Europe, Mexico and the Caribbean. Our subsidiaries are active in our core businesses of wholesale / retail holiday-travel distribution, commercial passenger air transport and the provision of tourism services, thus giving us a unique and broad perspective on the challenges / risks facing Canada's important travel and tourism sector (a complete profile of our diversified travel group can be obtained on our website www.transat.com). Moreover, our international profile also allows us to appreciate global trends in our industry that will undoubtedly instruct Canada's policies in this sector and on which we will elaborate further hereunder.

Cost competitiveness / economic accessibility

As with many other industry sectors around the world, aviation-enabled travel and tourism has seen explosive growth in many emerging and low-cost economies that have invested enormous amounts of public funds in developing infrastructure and implementing tax-friendly policies that have fuelled this trend. Conversely, Canada's ranking as an international travel destination has fallen precipitously over the past decade, falling from 20.1 million arrivals in 2002 (7th rank globally) to just 16.6 million in 2013 (17th position).[1] Moreover, sensing obvious opportunities, US border airports have used public money to build infrastructure and to siphon over five million travelers a year from Canada, the equivalent lost opportunity of an airport the size of Ottawa International and its related economic benefits[2]. The briefs submitted by the *National Airlines Council of Canada* (NACC), the *National Roundtable on Travel and Tourism* (NRTT) and the *International Air Transport Association* (IATA) to this Panel all address these trends and resulting consequences in detail. We will therefore not elaborate further except to provide the following thoughts:

- The decision in 1994 to semi-commercialize airports has been a success in terms of improving the quality of air travel infrastructure in Canada, as evidenced by consistent recent positive rankings by the World Economic Forum in this regard.

- Conversely, in the world's second largest land mass with the 36th largest population, the federal government's decision at the same time to abdicate its responsibility for aviation infrastructure funding in the name of budget-deficit

[1] Tourism Industry Association of Canada, Annual Report 2014.
[2] *Driven Away: Why More Canadian are Choosing Cross-Border Airports*, Vijay Gill, Conference Board of Canada, October 2, 2012.

reduction *without* a plan to ensure continued growth in the sector and to monitor the impact of same in a timely manner over the last two decades has been a failure in terms of system cost competiveness[3].

- The issues regarding airport governance aside (and which are dealt with in more detail hereunder), the failure of the federal government to ensure under the *National Airports Policy* (NAP) that airports, particularly the ten largest NAS airports, were managed *primarily* as components of a broader and critical national transportation infrastructure has led to a disjointed network and major regional inconsistencies in terms of efficiencies and cost performance.

- The federal government's mantra of *user pay* in the air transport system is, in reality, *user subsidize...the taxpayer*. In 2014, the *Tourism Association of Canada* (TIAC) estimated that aviation-enabled travel and tourism generated almost $10 billion CDN in federal tax revenues across the country through the use of infrastructure *entirely* funded by users[4]. There are very few other sectors in Canada, *if any*, which provide such a net return to the taxpayer and to the country's economic well-being as a whole. Furthermore, given the numerous economic studies that clearly underline the major primary, secondary and catalytic impacts of our industry (especially with respect to air transport in terms of connectivity, as well as supporting export trade and commerce), it is perhaps time to shift the cost burden from the strict and narrow definition of direct system user to the broader (and fairer) concept of *economic / commercial beneficiary*. A type of value-added criterion.

- The idea that over $500 million CDN collected annually in airport rents is justified as a fair return for the taxpayer of the use of Crown lands is not supported by simple facts. In 1994, the NAS airports were collectively valued at approximately $1.4 billion CDN. Since then, the federal government has collected over $5 billion in rents with at least $3 billion more to come under existing ground leases. Add to that the enormous economic stimulus provided by over $18 billion CDN in user-funded capital spending and development, as well as the fact that it will all be returned to the Crown at the expiry of the various ground leases for not a single penny paid and the surrealistic picture is complete.

- As far as the costs of aviation security are concerned, it's probably no longer worth arguing that some form of national funding support is required, which most developed and G8 nations have dutifully accepted to undertake given the geopolitical climate and obvious risks to our collective societies that have been evident since 9/11, and never more so than today. Such arguments have routinely been ignored by the federal government. Rather, it may be henceforth preferable to simply militate in favour of full transparency and accountability.

- In brief, all the proceeds of the *Air Traveler Security Charge* (ATSC) are supposed to be used for funding aviation security mandates (which are growing exponentially). However, in 2013-2014 the federal government collected

[3] According to the 2013 report of the World Economic Forum's *Travel and Tourism Competitiveness Index, Canada's overall competitiveness ranked 124th out of 140 countries surveyed.*
[4] TIAC, Annual Report 2014.

$123.1 million CAD *more* in ATSC revenues than it actually allocated to CATSA for aviation security screening during the same period[5]. To the best of our knowledge, this entire amount was diverted into government general revenues. This is outright taxation without legislative authority, as opposed to a cost-recovery charge (as mandated by the applicable enabling legislation) that the ATSC is supposed to be. Many questions need to be raised here.

- If tax revenues must absolutely be extracted from an industry and users that fully pay for their infrastructure and already generate substantial cash flow for the public treasury, then they should be focused on *output* taxes, which are more efficient at supporting economic growth, rather than on input taxes that seriously undermine unit cost competitiveness. Moreover, industry has attempted to make the case for a clear "return on investment" for the taxpayer by foregoing the latter types of tax revenues in favour of the former with little or no buy-in and much skepticism from the finance department.

- Unfortunately, the related analysis has not taken into account the deleterious effects on sector growth potential and unit costs from a relatively small pie of 65 million enplanements per year in Canada having to directly support over $18 billion CDN in infrastructure capital costs and taxes per year. A proper and comprehensive analysis is urgently required to this end otherwise this will essentially remain a "chicken or egg" debate in terms of growing the base for output tax revenue by first reducing input tax costs and revenues.

Facilitation / Market Accessibility

The ability to ensure accessibility to our travel market and to process passenger flows through our airports and borders in an expedited and efficient manner is an absolutely critical element of sustained growth in traffic and enhanced connectivity. The NRTT brief will deal with this matter in detail and, as per the above, Transat subscribes entirely to its findings and recommendations. Additional thoughts and viewpoints:

- The most effective manner in which shrinking border control resources can meet growing demand / traffic and deal with increasingly sophisticated threats is through enhanced intelligence gathering capabilities and trusted traveler programs.

- As an international air operator, Air Transat has expended considerable resources in achieving inter-operability regarding advance passenger information collection and transmission, as well as reservation record sharing with border control agencies, and in particular with CBSA. As we move towards interactive boarding authorization technology in assessing security threats at offshore embarkation points, this capability should also be used in better managing risk and allocating scarce resources when processing entry at the actual border.

- The *Nexus* Trusted Traveler program has enormous potential to reduce congestion at Canadian ports of entry and effectively manage risk. However, it is far from achieving its potential in this regard as it currently counts less than one million members. The emphasis going forward must be on adequate funding to allow for

[5] Public Accounts of Canada and CATSA Annual Reports, 2013-14.

greater development, marketing and outreach of this highly valuable program. Furthermore, it should be expanded in scope to allow for entry by Canadians into the US from third-countries (similar to the US *Global Entry* program) and should be opened to nationals of additional trusted security partners including the United Kingdom, France, Germany and Japan.

- The new *Electronic Travel Authorization* (eTA) program must be viewed not only as an additional tool for border control enforcement and security, but also as a *facilitator* of travel to Canada. Indeed, nationals from low security risk countries should have existing visa entry requirements waived when eTA becomes operational starting with Mexico and Brazil, which are source markets that represent substantial potential benefits for Canada's tourism and hospitality sectors. Moreover, it is important to recall that eTA is a direct product of the *Beyond the Borders* initiative, which is primarily designed to keep southbound land transborder traffic flowing. Imposing a new travel authorization process on previously visa-exempt countries such as the UK and Japan represents significant downside risk for our industry that should be offset by upside potential from eliminating visas on the above-mentioned countries, among others.

- *Pre-board screening*: While CATSA has been the subject in the past of well-earned criticism by industry regarding poor customer service delivery, screening delays and disruptions, as well as for virtually no communication or consultation with key stakeholders, Transat nonetheless believes that there has been considerable improvement with respect to the above-mentioned matters in recent years. We therefore do not believe that on overhaul of its governance structure is needed at this time, although a doubling of air industry nominees from two to four on CATSA's board of directors would certainly help in terms of dealing with emerging challenges. The major problem going forward is the triple negative impact of frozen or shrinking federal funding, growing traffic and ever-expanding security mandates ex. 100% non-passenger screening. This is not sustainable and apart from the funding issue can only be dealt with through an enhanced emphasis on technology, as well as a risk-management based approach coupled with existing (and hopefully expanded per above) trusted traveler programs such as *Nexus*. This is the direction in which the US is moving and thus should be Canada's as well.

Airports Governance

One of the key shortcomings of the NAP was the glaring omission of a proper governance framework for, at the very least, the top 10 NAS airports. Rather than being subject to a regime that ensured that they were managed as strategic public assets of Canada's critical national air transport infrastructure that is essential for the industry's competitiveness and for supporting economic growth, airports were essentially taken over by narrow local / regional interests that were exempt from basic oversight, transparency and accountability principles and cared little about the bigger picture as long as their communities had the biggest and best airport facilities, regardless of what market realities would have normally dictated. This of course led to the well-known frenzy of capital development and spending over the last two decades, and to the resulting dramatic inflation in many cases of airside costs and passenger charges primarily in the form of Airport Improvement Fees (AIFs).

As this increase in costs (as well as the federal government's refusal to support any of same) is a key ingredient of the erosion of the aviation system's cost competitiveness, there

may understandably be a significant number of stakeholders that will advocate for some form of regulation or price controls imposed by a third-party arbiter as a means for counteracting and correcting this situation. While Transat empathizes with the concerns regarding severe airport cost inflation in Canada, we do not believe that formal price regulation is the solution, as this will only foster confrontation between airports and airlines, as well as lead to greater administrative and debt servicing costs for airports that will inevitably need to be recovered from users.

Instead, the emphasis should be on better positioning airports to meet growing competitive and customer service delivery challenges, as well as to maximize the commercial potential of existing developed infrastructure in order to grow traffic and consequently lower unit costs for users. To this end, we propose the following:

- There can be no "one size fits all" solution. Airports should be divided into three categories in the context of any governance deliberations - 1) Global hubs i.e. Toronto and Vancouver; 2) National Airports / Regional hubs i.e. Montreal, Calgary, Ottawa, Winnipeg, Halifax, Edmonton, St. John's, Quebec City; 3) Secondary Airports – i.e. all else.

- LAA / CAAs should be subject to an overriding principle of governance that airports in Canada must be managed as integral elements of critical *national* transportation infrastructure, which in turn must enable the global competitiveness of Canada's crucially important air transport and travel/tourism industries that together support almost 620,000 jobs nationwide[6].

- In order to ensure sufficient competency and management oversight, as well as to effectively meet growing challenges from competing offshore hubs and transborder airports, the ability for the airline industry to nominate directors to LAA boards is henceforth essential and should be enshrined in legislation or formal policy. To this end, the NavCanada governance model is instructive as commercial airlines have had the right to nominate members to NavCanada's board since 1996. The direct result has been one of the world's consistently recognized leaders in efficient and safe air traffic management based on a user-pay / cost-recovery model that has managed to keep fees frozen for the last seven years. NavCanada's management has openly recognized the value added to its work by the expert and sober reflective oversight of its board.

- Based on the NavCanada model, Transat recommends the following minimal airline-nominated board members: Category 1 - five; Category 2 - three; Category 3 - case by case.

- Minimal accountability / transparency standards and procedures should be adopted, particularly with respect to proposed measures or projects that have a direct impact on user charges, passenger fees and the cost competitiveness / accessibility of the airport in question. The details in this regard should be established through wider industry consultations.

- Mandatory performance-monitoring and benchmarking is also key to ensuring maximum efficiencies and potential for growing traffic. This should cover such

[6] TIAC, Annual Report 2014.

areas as pre-board screening and border-control processing / wait times; aircraft de-icing and snow removal; IT system performance (especially for common-use platforms; baggage delivery and processing (inbound and outbound) and the handling of irregular operations.

- The federal government should ensure that *all* airports in Canada that handle at least 10,000 enplanements annually be subject to the unequivocal requirement of providing access to their facilities to air operators on an *equitable and non-discriminatory basis*, as is the case with the largest NAS airports. As an example of the need to urgently act in this regard, Air Transat was denied such access to Saguenay-Bagotville Airport over the last several years when it attempted to introduce new package tour services to popular sunshine destinations. Rather, the airport accorded exclusive rights to serve the routes in question to another Canadian air carrier, thus depriving local consumers of competitive price and service options that are taken almost for granted at Canada's largest gateways. We do not see any possible justification for such inconsistency in federal policy.

Air Navigation Services

As mentioned briefly above, NavCanada is one of the world's safest and most efficient air navigation services providers. Their governance structure is a major reason for this success. However, while they have indeed managed to keep fees frozen for the last seven years, in fact it could reasonably be argued that fees should have been considerably *reduced* for each of the last three years at least. There are two primary reasons for this: 1) an overly cautious / risk-averse philosophy that results in almost $90 million CDN in user-fee revenues being trapped by management in a rate-stabilization account in the event of unforeseen disruptions to revenue and 2) crushing legacy defined-benefit pension plan costs. While the former is a management judgment call that can be debated and is not appropriate for the current policy discussion, the latter is the direct consequence of the disconnect resulting from a rich public sector, taxpayer-funded legacy pension fund for air traffic controllers being unloaded through commercialization on to industry users with far more limited resources to support what is now increasingly rare in terms of private-sector retirement regimes.

While industry has placed pressure on management to resolve this cost burden through comprehensive reform, they have not been able to make considerable process as they are not willing to risk a national strike. While this may sound prudent, it is in the context of negotiations with a bargaining unit that single-handedly has the power to shut down Canada's air transport system and throw the nation into chaos. There is no other single bargaining unit in the country with that much power and ability to inflict major economic losses on system users, which makes the bargaining process in this case almost farcical. Consequently, in order to re-establish equilibrium between the parties, the federal government should declare air traffic control as an essential public safety service and remove the right to strike from controllers. The parties would instead have recourse to binding arbitration.

Airline Consumer Rights

In 2010, the Parliament of Canada was presented with an opportunity to adopt a bill that would create a legislative framework for airline passenger rights in Canada. After

considerable consultation and democratic debate, it chose not to do so. Since then, the duly elected Government of Canada has had several opportunities to propose an airline consumer rights policy or directives, and has each time declined to do so. This is where the *Canadian Transportation Agency*, with the assistance of a self-declared and self-appointed airline passenger rights advocate, went to work.

Indeed, the individual in question quickly began filing "consumer" complaints against various airlines alleging their tariff provisions were not consistent with obligations imposed by the Montreal Convention 1999 in the event of flight delay, as well as baggage loss / damage. That the "complainant" never actually flew on the airlines in question was irrelevant to the Agency.

Inevitably, the eventual ruling by the Agency on the issue at hand would be based on the preponderance of evidence presented by both parties i.e. which of the two presented the more convincing arguments as to how the relevant provisions of the Montreal Convention should be applied and interpreted. The decision, almost always in favour of the "complainant", would then serve as cited precedent when the crusader in question would bring a "complaint" against another airline. It should also be noted that the rulings only applied to the affected airline, which created significant level-playing field issues with non-affected airlines.

The matter of standing to bring complaints notwithstanding, Transat does not dispute that the issues raised by the "complainant" were legitimate given the full legal status of the Montreal Convention in Canadian law. However, when we pointed out that these issues should instead have been part of a broader policy debate / consultation led by the federal government and involving all stakeholders (not just the parties to the complaint in question), we were rebuffed and the Agency continued to allow the use of its legitimate consumer complaint process to establish a *de facto* airline consumer rights framework. For the reasons outlined out the outset of this section, we do not believe they had the legitimate legislative or policy mandate to do so.

Consequently, Transat recommends that the *Canada Transportation Act* be amended to enjoin the Agency from creating new consumer rights through its complaints process, and that they be required to refer the matter to the Minister of Transport, who would be compelled to provide direction. On this latter point, Transat believes it would be in the interest of industry and consumers to have a clear policy framework in place regarding airline consumer rights that would be based on IATA's Core Principles (see attached) and the following basis tenets of liability / tort law:

- Proportionality of mandatory compensation (if any) compared to fare paid.
- Non-liability of air carrier for acts reasonably beyond its control and of third-parties, as well as for events of *force majeure*.
- Exoneration of air carrier where reasonable measures taken to avoid loss.
- Non-liability for any acts taken by the pilot-in-command that are reasonably considered as being in the interests of flight safety.
- Duty of care (if any) limited in time and scope.

Competitive Marketplace Distortions

Since 1988, the Canadian commercial aviation market has essentially been deregulated and subject to market forces in terms of decision-making with respect to route entry & exit, capacity and fare-setting. With the liberalization of almost all of Canada's air transport agreements with its major partners including the US and European, the same can be seen for the majority of international air services operated to and from Canada. All this, of course, has been beneficial for consumers in terms of new competitive pricing, service offerings and innovation.

Unfortunately, since this development the federal government has nevertheless seen fit on at least three occasions to actively intervene in favour of a market participant and to the detriment of its direct competitors. While in fairness it can be conceded that Air Canada's failure in 2003 would have resulted in considerable disruption to the air transport system and Canada's economy, the same cannot be said of decisions to intervene in the marketplace that were taken by the federal government in favour of Air Canada in 2011 and 2013. The former involved strike-breaking legislation and binding arbitration that *directly* led to the creation of a low-cost carrier subsidiary, while the latter was an extension of relaxed federal pension funding requirements at a time when the carrier was not in financial distress whatsoever, thus freeing up cash for capacity acquisitions, market-share expansion and fighting competitors. In a truly competitive and deregulated marketplace, any of the above should normally have been achieved through the collective bargaining process.

Since the federal government was directly responsible for this distortion in the market's competitive dynamics, it should be prepared to bear the consequences. This would include preempting similar strike threat action, as necessary, at direct competitors and allowing *either* of the parties to avail themselves (without necessarily the consent or agreement of the other) of binding arbitration as an alternative solution and to ensure fairness in competing with Air Canada and, in particular, with its so-called low cost subsidiary *Rouge* that was directly germinated by government intervention. Similarly, given the increasingly clear evidence that the recent pension funding extension was not required, the government should immediately rescind same and ensure that Air Canada remains subject to normal federal pension funding rules going forward.

Wet-Leasing Policy / "Sham Dry-Leasing"

Wet-leasing of aircraft and crew has, for many years, been a legitimate practice by airlines to procure temporary capacity to avoid disruptions to flight schedules and travelers in the event of unforeseen or uncontrollable circumstances ex. late delivery of new aircraft, un-scheduled maintenance, hull loss, etc. Occasionally, it can be used to temporarily add a mission-specific aircraft type to a fleet that is primarily dedicated to a different route network or business model. However, when the regular wet-leasing of foreign aircraft and crew becomes a mainstay mechanism for rapidly ramping up capacity for a business model predicated essentially on seasonality and maximization of fleet synergies principally for the benefit of offshore interests, legitimate policy questions and issues automatically arise. This is the case with a specific Canadian air operator that serves the package tour sunshine destination market, and which capitalized greatly on the gaping hole caused by the *laissez-faire* wet-leasing policy approach prior to 2013.

Thus, in response to numerous complaints and clear evidence of adverse impact on Canada's skilled commercial pilot labour market, the Minister of Transport announced the current wet-leasing policy framework that was, in essence, a good-faith attempt at compromise between allowing a limited amount of seasonal foreign wet-leasing flexibility while imposing an overall cap on such capacity. In reality, however, it has continued to provide unfettered opportunities for the above-mentioned operator to augment and complement its seasonal offshore-sourced capacity at the expense of competing Canadian air carriers that have made massive investments in year-round operations and crew training, and by definition incur considerable fixed costs in order to serve this country's communities and employ Canadians, per the objectives of recently reformed temporary foreign workers policy.

The 20% policy cap on foreign wet-leased aircraft is currently based on the number of Canadian-registered aircraft on the applicant's air operator certificate at the time the application is filed. Recent experience has demonstrated that this has been easily manipulated through the filing of the application in question concurrently to when the number of foreign-sourced short-term *dry-leased* aircraft (the number of which we believe is unduly inflated by an incorrect and unjustified application of foreign pilot licensing validation rules by Transport Canada) is at its seasonal peak.

Thus, the percentage is easily inflated to meet the needs of the seasonal strategy approach. While we have no qualms *per se* with a commercial model that focusses on specific seasonality, there are alternatives with respect to the procurement of air capacity that do not unduly impact the Canadian labour market and do not ultimately provide clear commercial benefits for offshore airlines and interests. A *Canadian* AOC should first and foremost be about building and operating a *Canadian* airline.

Fortunately, the solution is simple: amend the policy to base the percentage cap on a benchmark representing the number of aircraft that have been registered on the applicant's AOC *for at least 12 months* prior to the filing of the wet-leasing application. This would continue to provide seasonal flexibility while encouraging the operator to transition to a permanent core fleet that would provide maximum benefit for Canadian consumers and stable, year-round employment opportunities for workers, consistent with federal policy objectives to this end. *That* would be a genuine compromise.

Additionally, if there can indeed be policy consensus around the notion that the privilege of holding a Canadian air operator certificate should be primarily about serving Canadian industry, national transportation and consumer interests, then inevitably the issue of what the US Federal Aviation Administration has labelled "sham dry leasing"[7] needs to be actively addressed. This concept refers to the practice of a national air carrier procuring temporary or seasonal capacity through aircraft dry-leases with a foreign certificated lessor airline while concurrently sourcing supporting labour (usually foreign type-rated commercial pilots) though separate arrangements with either the same or other foreign-based carrier in virtue of temporary foreign worker laws.

Thus, rather than proceed with an "all-in" foreign aircraft and crew wet-lease arrangement based on a single per block hour cost, the onshore lessee simply breaks up the two principal aspects of this arrangement and thus preempts the enforcement of any applicable wet-leasing policy and related quotas or limits. The practical result, however, is *exactly* the

[7] FAA Advisory Circular AC 91-37A.

same i.e. an onshore AOC holder operating foreign airline-owned aircraft with foreign crews. Consequently, Transat strongly recommends that a serious policy debate be undertaken as to whether such *de facto* wet-lease arrangements should be captured under applicable policy to this end.

Environmental Sustainability

Environmental sustainability has rapidly become a corporate pillar for many major companies in Canada's travel and tourism sector, and particularly for those that operate internationally such as Transat. On the aviation side, there has been much debate about how to mitigate the impact of carbon emissions produced by aircraft engines on climate change, with work ongoing in this respect at the *International Civil Aviation Organization* (ICAO) on a global framework. While this is obviously an international effort, Canada has and will continue to play an integral role in this process. Notwithstanding, the following needs to be considered in terms of policy and approach going forward:

- There is far too much emphasis in the current ICAO process on developing a global market-based mechanism (MBM) and not enough on coordinating a plan for maximizing investments (public and private) in cleaner technologies, enhancement of operating efficiencies (primarily through improved air traffic management) and strategies for alternative fuel development and accessibility.

- While MBMs can play a legitimate role in providing commercial incentives for companies to operate more efficiently, they can also inadvertently have the effect of discouraging travel through higher cost for operators and consumers. Indeed, this is the openly stated objective of various environmental lobby groups (primarily in Europe) and, from a policy perspective, is totally unacceptable to Transat. Canada needs to maintain vigilance in this regard and should support IATA's proposed compromise of a carbon-offsetting scheme *without* revenue generating capabilities for governments.

- At a time when Europe is being roundly criticized by the global industry for being quick to push revenue generating MBMs but has dragged its feet for over three decades on achieving Single European Sky (SES) that would save over 75 million tons of greenhouse gasses a year alone, Canada should provide the example of enhanced air traffic management producing real results for the environment. Specifically, Transport Canada needs to move faster on implementing new regulations that would enable the full potential of performance based navigation (PBN) technology currently available on many Canadian commercial aircraft. The NACC has provided government with clear business cases underlining substantial reductions in fuel consumption and related GHG production *without* compromising safety as a result of PBN capabilities.

- A national alternative fuel strategy is required if the aggressive goals being set by the industry for carbon neutral growth are to be achieved starting in 2020. While the technology exists and is advanced, it is in fact the challenges related to distribution and accessibility (both physical and economic) that must be

addressed as the existing airport fuelling infrastructure is principally owed, operated and controlled by carbon-based (i.e. petroleum) fuel distributors.

- Transat is a strong proponent of overall sustainability in travel and tourism, in addition to our proactive approach and efforts with respect to managing and reducing our carbon emissions. To this end, we have taken initiatives aimed at encouraging suppliers and industry partners to adopt best practices, particularly at leisure and holiday destinations that we serve worldwide. As a proud member of the *Global Sustainable Tourism Council,* we also take a leading role in working with NGOs to give back to communities, both in Canada and abroad, through various humanitarian aid and relief programs. While the private sector continues to lead on this front, Transat nevertheless believes that government can play a useful role in supporting such efforts, primarily through the use of existing resources that can help coordinate, facilitate and expedite such work. We would therefore suggest that consideration be given to establishing a consultative committee or work group that could jointly explore such avenues of public-private sector cooperation concerning this critical mission for humanity.

Air Market Access – Blue Sky

Transat believes that the *Blue Sky* policy framework is working relatively well in achieving liberalization and additional market access opportunities in many of our key markets. At the same time, it allows for a discretionary approach when the potential benefits of liberalization for Canada with a particular country are not clearly demonstrable and there are risks of unfair and/or subsidized foreign competition that would hurt Canadian industry. Thus, we do not believe that it requires substantial overhaul at this time, subject to the following considerations:

- While we recognize the importance of Air Canada's international network, the development and / or protection of same must not be undertaken through the pre-empting of new market access opportunities for competing companies such as Transat *unless* the above-mentioned risk of unfair state-owned and/or heavily subsidized foreign competition is clearly present. This is especially important in the context of our comments above regarding acts of the federal government that can, and have distorted normal marketplace competitive dynamics.

- As Canada is a relatively small player, and in the context of booming emerging and a resurgent US travel market, Transat believes that there will be considerable growth opportunities in the future through access to third-country air transport markets for Canadian air carrier licensees. While the *Blue Sky* framework encourages liberalisation of the first six freedoms of the air, these are generally more conducive to the development of network third-country access models, especially open sixth-freedoms. They do not provide real commercial or operationally effective third-market access opportunities for point-to-point operators such as Transat. Rather, active consideration should be given to the exchange henceforth of limited passenger seventh-freedoms or even rights of establishment with certain key markets where clear commercial opportunities for Canadian industry exist and are of a net potential benefit for Canada.

- Canada should prioritize the conclusion of a fully open *Blue Sky*-type agreement with Mexico *as soon as possible*. Mexico is Canada's third largest air travel market after the US and EU, and the continuing market access restrictions in the existing regime, particularly with respect to third-market access, remains an anomaly in our current network of liberalized air agreements.

- Given the large-scale and longstanding presence of Canadian industry in the Caribbean basin, Canada should consider proposing a comprehensive open aviation area agreement with CARICOM representing its member states. Among other elements, such an agreement could allow for open one to seven freedoms, as well as possibly enhanced foreign airline ownership opportunities, subject to the implementation of the appropriate policy and legislative framework is this regard.

Conclusion

With a mature home travel market, an innovative and resilient airline and travel industry, world-class aviation infrastructure and strategic geographic location as a potential gateway to the US, Caribbean and Latin American, Canada should have been well on its way to reaping the rewards of continued and robust growth in global air and tourism travel. Instead, because of a lack of policy focus and a refusal to embrace aviation-enabled travel and tourism as a strategic industry and engine of economic growth as is the case in so many other countries, we are on a perilous downward slope in terms of global market share loss, and we must continue to bear witness to the embarrassing spectacle of millions of Canadian travellers fleeing the country via US border airports as though our industry and facilities were somehow toxic. While these obvious warning signs continue to be ignored by policy-makers, it is the lost opportunities over the long term that will inevitably prove most costly.

In brief, a paradigm and cultural shift in how decision-makers view our industry is required if we are to regain upward momentum and unleash the full potential of our industry to grow the economy and jobs, connect communities, support vital trade objectives and compete globally. We are mindful that the mandate of the current consultation process may not be sufficiently wide in scope to achieve this goal. Nevertheless, serious consideration of the recommendations outlined herein by Transat in conjunction with those of our industry representative partner associations contained in their respective briefs would be a positive first step.

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