

Western Canadian Aviation Forum

**Notes for Remarks by
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Hi everyone:

It's great to be here, I really want to thank Barry and Debra Ward for inviting me to this event.

I want to start my remarks with a short reading. John Byerly quoted Robert Frost, so I will add to the literary atmosphere by quoting Washington Irving.

"Times grew worse and worse.....He used to console himself by frequenting a kind of perpetual club of the sages, philosophers, and other idle personages of the village; which held its sessions on a bench before a small inn. Here they used to sit in the shade through a long lazy summer's day, talking listlessly over village gossip, or telling endless sleepy stories."

That's a passage from Irving's famous story of Rip Van Winkle. I place myself in the starring role, returning to the aviation business after a departure of about 8 years.

But unlike Rip Van Winkle – who woke to find everything changed – I have the eerie sense of returning to a scene which hasn't changed at all.

I recently had an exchange with a political staffer in the conservative govt. I was amused and somewhat outraged to hear the same arguments, actually the same phrases, that I was hearing from staffers who worked for Finance Minister Paul Martin.

Which is weird, if you think about it. Mr. Martin was finance minister a long time ago.

When I left the aviation sector, in February 2004, it was just a couple of months after Jean Chretien had stepped down as Prime Minister.

- We were still deeply involved in the post-9/11 overhaul of PNR data,
- We had recently been struck by the SARS outbreak,
- Air Canada had sought bankruptcy protection about 3 months before.

Since then we've had four elections, a massive recession, a huge tsunami in Sumatra, a huge tsunami in Japan, the Patriots went to the Super Bowl four times and won it twice...pick your measure. It's a long time.

During that time, we also had a government elected which styled itself as an aggressive reformer, and positioned itself as an aggressive tax-cutter. Federal annual tax revenues have risen \$50 billion a year since then.

But there have been no changes to the strategy of previous governments when it comes to a competitive airline sector.

And current staff are reciting lines written by Paul Martin's communications people.

We have to acknowledge that those of us who have argued for different strategies to strengthen the industry have failed to make our case.

Which brings me to a role I currently have as the policy guy at the Chamber.

The Chamber of Commerce is involved in business sectors and regional files which are heavily affected by the cost and service characteristics of the Canadian airline industry.

But today I will focus on one we are all close to – the tourism industry.

Almost any way you measure it, this sector is one of the nation's largest and most lucrative.

With a \$80 billion contribution to our GDP, and dependent employment of well over half a million, the sector also produces tax revenues in the tens of billions.

Everyone here is familiar with the data on international tourism arrivals – Canada falling from 8th to 18th in the world– a trend that started before the recession and seems, despite some rising numbers, to be stubbornly continuing.

Given the close relationship between air service and international travel, you would have thought we would see profound changes to an industry so central to the economy, and so important to one of our largest and most lucrative sectors – travel and tourism.

But instead we are seeing our competitive position weaken.

A couple of years ago, the Board of Directors of the Chamber charged us with creating a plan to focus our very broad activities more directly on the issue of business competitiveness.

It's the opinion of my Board, and my boss, that Canadians are dangerously complacent in the face of some quite worrisome declines in our national capacity to compete.

One of the tools we built to respond was an annual list called the "Top Ten Barriers to Competitiveness"

This has been a success for us – it's a simple document, very accessible.

We listed key structural issues, like a weak venture capital sector, and our overly complex taxation system.

We listed self-inflicted wounds like Canada's infuriating internal barriers to trade, and our sputtering performance in business innovation.

And this year we put "deficient strategies for tourism" on the list.

I think it's an obvious observation that an uncompetitive airline sector weakens our travel industries. And it's that belief that brings me to this forum today.

We have all observed that the federal government is treating the airline sector differently, and worse, than other sectors.

In his report two years ago "The Economic Impact of the Member Carriers of the National Airlines Council," Fred Lazar documented fees and taxes as a percentage of One-way Tango Fare or a One-Way WestJet fare between a sample of city-pairs.

Fred found these taxes and fees amounted to 66% of the base fare for Tango on the Ottawa/Toronto flight, and 49% of Toronto/Montreal. He found similar eye-popping percentages for WestJet flights – 69% of base fare on Quebec/Toronto and 46% of a Montreal/Regina flight.

Dr. Lazar found a WestJet base fare of \$99 Quebec/Toronto. With taxes and fees the passenger fare is \$170. I don't need to tell anyone in this room about price elasticity.

When I was at ATAC, I found government officials focused on relative prices among carriers, or between modes of travel.

What they never acknowledged was that more people have \$99 dollars in their pockets than have \$ 170

Low cost air service is a business model which requires low costs. Not just relative to other airlines, but relative to all the other expenses a customer faces.

McLeans Magazine published a welcome article on this issue last year, citing sources who estimate the average airfare in Canada is \$120 higher than the average in the U.S.

The decisions to make the air sector entirely passenger financed, including NavCanada, CATSA, all the border services, is unique in developed nations.

This strategy, together with the “backlog” of deferred capital spending the airport authorities inherited - which suddenly showed up on the passenger ticket - contributed in no small measure to the costs passengers face, and especially to the lack of flexibility the industry exhibits.

Add the odd bit of feather – bedding, such as security charges in excess of the ongoing costs of the service, and considerable enhancements in the facilities demanded by public agencies in the airports....and you have a recipe for problems.

Well, the nice thing about recipes is you know what you’re going to get before you get started. We all predicted passenger defections – to other modes, to other jurisdictions, to other activities...and we were all right.

In our tourism project, the Chamber will raise this issue forcefully.

I recently had an exchange with the new Deputy Minister of Transport, Louis Levesque, and I asked him – in light of data showing about a quarter of all Canadian leisure departures now taking place in US airports – would he acknowledge the strategic approach was a failure.

It was a very unfair thing to do to him in his first month at Deputy, but his answer was very satisfying; he said he would promote evidence-based policies. I think he will be a strong player on this file.

The tourism sector is many times larger than the airline sector. The degree to which our strategies towards it are impacting the dependent industries downstream is a central concern of our competitiveness project.

But the political math still the same

What Finance says to its Ministers

- One, “the travel and hospitality industries have cost competitive problems far beyond the airline sector. They want us to give up all our money, but would saving \$300 million on rent really fix it? No.”
- Two, “the crisis is over. The numbers are coming back. We don’t have to do anything.”
- Three, “through elections in 2004, 06, 08 and 2011, our critics have been unable to get their issue heard, let alone moving any votes.”
- Finally, “this is our money don’t be a putz.”

When I was a boy the big name in pro football was Johnny Unitas. One time a reporter complained to him that he ran too many draw plays. And Unitas replied ; “I don’t run too many. I only run them until the defense makes me stop.”

I suggest that the Finance department will continue to brief its ministers the same way until we develop answers to those points I just listed.

So, let’s consider them.

Regarding cost competitiveness: Are government charges the only problem?

Do we need a larger examination of cost factors? If we had it, would it give us insights that could result in change?

I don't know the answer. But you've got some smart guys here today. Mike Trethewey is here, Glenn Hodgson too. We ought to ask them.

This is a question I would like to leave with you. Just demanding the government sacrifice its nice stream of revenues has not worked.

So maybe we need to know just *how* "Taj" the "Mahals" are you airport folk have built. And just *how* overpaid are those famously snooty flight attendants?

In Canada we are not often the price leader and we certainly won't be in tourism. Do we understand those parts of the industry which could be susceptible to cost improvements, and those which aren't? Would be craft different strategies if we had that understanding?

The second issue – things are improving - is really a problem. It was one thing to argue for change when the situation was deteriorating. It's another to fight about a situation that is improving, even very slightly. Yet we have to. We can't settle for poor, just 'cause it's not disaster.

In the meantime, will the inclusion of more and more affected players move the political math? That's essentially what the Chamber is trying to do, making this one of our issues.

Mobilized, our membership could be powerful. Goodness knows there are lots of them – about 200 thousand business in the network, and 90 industrial associations.

The challenge is to make them care.

At the Chamber we are spooling up a project which involves both the "usual suspects" of travel and tourism – the Airports Council, Airlines, Hotels – but also educators, cultural industries, attractions (like festivals, convention facilities). If we can get a good reaction, we can change the answer to point number three, and make politicians care.

You know, in the actual Rip Van Winkle story, the world he wakes up to is better than the one he was living in when he fell into his long sleep.

For the aviation industry, and for Canada, that isn't how the story is going to play out. The longer we are sleeping, the worse it gets. We need to wake up right now.

Thank you