

Bridging Today into the Future An Airline Perspective

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Network Matters

- You are either a hub or a spoke
- Critical mass is required
- Not only where you go but when and how often
 - Time of day and capacity matters
 - Frequency to address the business requirements
- Benefits increase exponentially
 - With 5 points, 20 ODs
 - With 10 points, 90 ODs
 - With 20 points, 380 ODs



Economic and Social Benefits

- Air transportation has a spending multiplier of 5-7x
 - Each \$1 spent on air transportation, creates \$5 - \$7 in economic activity
 - IATA estimates 2004 world airline jobs at 5 million direct and total 29 million (direct, indirect and induced)
 - World wide aviation transports close to 3 billion guests annually
- It is the only time efficient way to travel large distances
 - Around the world in 80 days?
 - One of our aircraft if it could fly non-stop could do it in less than 2 days (47 hours)
 - Agent for economic development

Cautions

- The airline industry is very sensitive to economic conditions
 - Demand is price elastic
 - Must stringently control costs, to deliver low fares
 - The production factory can readily be moved to another location
- Taxation and fees are a major inhibitor to the growth and sustainability of the Canadian airline industry

Route		Base Fare	Fees and Taxes	Total
JFJ-BOS	(JetBlue)	\$48	\$13	\$61
YYZ-YUL	(WestJet)	\$49	\$51	\$100

- Belief by most taxation and fee authorities that their 'small fee' will not impact consumer demand. Its just \$5, what's the big deal?
 - **The big deal is that WestJet, on average makes less than \$8 per guest!**
- Traffic leakage to US border cities is a major concern
 - Last year, approximately 4.5 million trips were taken by Canadians from border airports
 - Equivalent to a fleet of 98 x B737-700 operating for a year

Airline Competition

- Global airline alliances were formed as an interim solution to bypass Foreign Ownership Limits
 - Next natural step was Immunized Agreements (**Anti-trust** protection)
 - Creates barriers to entry for all non-immunized airlines
 - Logical next step is to establish **Immunized Joint Ventures**
 - Canadian Competition Bureau is opposing the proposed Air Canada-United Joint Venture for transborder routes
 - Transatlantic JV is already approved
- Open-Skies Agreements if not structured correctly can potentially enable foreign airlines to use Canada as a dumping ground for excess capacity
 - Foreign airlines can price at below marginal cost
 - No commitment to Canada, can withdraw on a whim
 - Harm well managed, profitable Canadian airlines

Our plans

- Add 35 more B737 NG aircraft over the next 7 years
- Looking at additional fleet opportunities
- Continue to build YYC, YYZ and YVR as hubs
 - Direct Hawaii flights
 - More destinations from the hubs
 - Continued expansion of Alliances and Interline/Codeshare agreements
- Work with airport authorities and other stakeholders to ensure a strong future.