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Chair: Mr. Peter Schiefke



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• (1140)

[*English*]

The Chair (Mr. Peter Schiefke (Vaudreuil—Soulanges, Lib.)): I call this meeting to order.

Welcome to meeting number 112 of the House of Commons Standing Committee on Transport, Infrastructure and Communities.

Pursuant to Standing Order 108(2) and the motion adopted by the committee on Tuesday, April 16, 2024, the committee is resuming its study on the state of airline competition in Canada.

Before I begin, I would like to remind all members and all meeting participants in the room of the following important preventative measures.

To prevent disruptive and potentially harmful audio feedback incidents that can cause injuries, all in-person participants are reminded to keep their earpieces away from the microphones at all times. As indicated in the communiqué from the Speaker to all members on Monday, April 29, the following measures have been taken to help prevent audio feedback incidents.

All earpieces have been replaced by a model that greatly reduces the probability of audio feedback. The new earpieces are black in colour, whereas the former earpieces were grey. Please use only the black, approved earpiece. By default, all unused earpieces will be unplugged at the start of the meeting. When you are not using your earpiece, please place it face down on the middle of the sticker for this purpose, which you will find on the table as indicated.

Please consult the cards on the table for guidelines to prevent audio feedback incidents. The room layout has been adjusted to increase the distance between microphones and to reduce the chance of feedback from an ambient earpiece. These measures are in place so that we can conduct our business without interruption and protect the health and safety of all participants, including our interpreters.

Thank you for your co-operation.

Once again, today's meeting is taking place in a hybrid format in accordance with the committee's routine motion concerning connection tests for witnesses. I'm also informing the committee that all witnesses have completed the required connection tests in advance of this meeting.

I would now like to welcome our witnesses.

Appearing before us for the first hour, we have, from Air Canada, David Rheault, vice-president, government and communi-

ty relations. *Bienvenue*. We have, from Air Transat, Mr. Howard Liebman, vice-president, government relations. Welcome to you, sir. From WestJet Airlines, we have Andrew Gibbons, vice-president, external affairs. Welcome once again.

We'll begin with opening remarks. You will each have five minutes.

With that, I will start with you, Mr. Rheault.

[*Translation*]

You have the floor for five minutes.

Mr. David Rheault (Vice-President, Government and Community Relations, Air Canada): Thank you, Mr. Chair.

[*English*]

Good morning.

I am pleased to appear before you today.

[*Translation*]

Air Canada is proud of the services it offers Canadians. We serve more than 180 airports around the world, including 50 airports in Canada. In 2023, we offered nearly 55 million seats and welcomed more than 46 million passengers, whom I thank for having chosen us.

In the domestic market, we offered Canadians nearly 25 million seats. We are the only carrier to serve all the provinces every day of the year.

[*English*]

At the outset, I would like underline that the Canadian air travel market is highly competitive. Close to 70 international carriers operate to Canada and compete with Canadian airlines. Some of these carriers are two to three times larger than Air Canada, including Delta Air Lines, Air France KLM, British Airways, American Airlines, Turkish Airlines and others.

In fact, Canada has three of the world's 50 most globally connected hubs. This is a significant achievement. No other country, apart from the U.S. and China, has three hubs in this ranking. This highlights that the air travel market in Canada is dynamic and competitive and that Air Canada can compete and succeed at the global level. The level of connectivity offered by Air Canada facilitates trade, tourism and immigration. It allows us to employ 40,000 people and support more than 190,000 indirect jobs.

There has also been a significant increase in competition in the domestic market, with other carriers increasing capacity, including WestJet, Porter and Flair. While in 2001 Air Canada's capacity share of the domestic market was around 75%, it's currently around 43%.

There are 24 airlines serving the Canadian domestic market, including 20 offering more than 50,000 seats per year. Three carriers have more than 10% of the capacity for a total of 82% of the capacity. Let me share with you some facts to put this into a global perspective.

In Australia, Qantas has 58% of the capacity, and more than 90% of the total capacity belongs to two carriers. In total there are 13 carriers.

In France, Air France has 54% of the domestic capacity, and four carriers have more than 10%, for a total of 95%. There are 10 carriers.

Finally, in the U.S., by far the largest market, 20 times bigger than Canada, probably the most competitive market in the world, four carriers have at least 10% of the capacity for a total of 80%. Only 28 carriers offer more than 50,000 seats per year, compared to 20 in Canada.

• (1145)

[*Translation*]

However, we face unique challenges in Canada that limit the airlines' ability to stimulate the market, offer more attractive fares and develop our Canadian airports. First of all, our geography is a special challenge. Canada has relatively few major cities, distances are long and the climate difficult. We also have a model in Canada under which travellers bear all costs and certain revenues are not reinvested. Travel could be made more affordable if that model were reviewed.

[*English*]

For example, airports pay rent to the government, and that totalled around \$400 million last year. They also make payments in lieu of taxes to municipalities.

In addition, Canadian travellers are subject to high fees and charges. This includes security fees that have risen by 30% in the 2023 budget, now exceeding \$34 for an international flight. In the U.S. the equivalent fee is at \$5.60 U.S.

As well, airports charge airport improvement fees to fund infrastructure that can reach \$46 per flight in Canada compared to \$5.50 in the U.S., where the government reinvests excise taxes into the system and has announced \$40 billion U.S. to support airport infrastructure.

Finally, air navigation fees are also higher in Canada.

[*Translation*]

The impact of the Canadian model has been well documented and extensively studied.

The same findings were made by the Senate Standing Committee on Transport and Communications in 2012, in the Canada Trans-

portation Act Review, the Emerson Report, released in 2015, and, more recently, by the Montreal Economic Institute.

Here's an excerpt from the Emerson Report:

[*English*]

“Canada is unique among its competitors in charging onerous rents and taxes that undermine competitiveness.”

This committee issued a report last year, recommending a review of all costs imposed on airports and airlines and the reinvesting of all rents collected in airport infrastructure. We welcome that conclusion.

[*Translation*]

In conclusion, we are here today to state once again how important it is to adopt policies that acknowledge the role of our industry, which, as the Senate put it in 2012, is to be “a spark plug” not “a toll booth”.

Thank you.

The Chair: Thank you very much, Mr. Rheault.

[*English*]

Colleagues, I see that the bells are ringing for a vote. I would like to propose unanimous consent to allow our witnesses to conclude their opening remarks before we go to vote. Do I have unanimous consent to allow for that to happen?

I see no objection.

Mr. Liebman, the floor is yours. You have five minutes, sir.

[*Translation*]

Mr. Howard Liebman (Vice-President, Government Relations, Air Transat): Thank you, Mr. Chair.

Thanks as well to the members of the committee for the invitation to appear today on behalf of my 5,000 Air Transat colleagues.

Established in Montreal in 1987, Air Transat it is an affordable, people-centred, international holiday airline.

[*English*]

Air Transat connects Canadians to some 54 international destinations in more than 25 countries in the Americas and Europe—and soon, Africa—from eight Canadian cities. Air Transat carries five million passengers every year, including half a million visitors to Canada.

Air Transat is uniquely positioned as an affordable, reliable, international air travel option for Canadians. Our 37 years in the European and sun markets has enhanced competition and lowered prices for Canadians. Air Transat is eager to work with government and with Parliament to protect competition in Canada.

Air Canada is a dominant player, offering 39% of Canada's international airline seats. To southern sun destinations, WestJet and Sunwing together held 50% of our national market when they emerged, with a share of over 70% of western Canada seats to the sun. From Montreal to Europe, Air Canada has grown its seat offering by well over 60% since 2019.

Both Montreal and Toronto airports will undergo much-needed infrastructure upgrades and construction over the coming years. Airport infrastructure, slots and gates, especially at peak times and in peak season, will be in very high demand.

As the aviation experts noted to this committee on Tuesday, we will need to work closely with airports, partners and government to ensure that access to infrastructure during the coming years of construction and beyond at our key hub airports does not impair competition as dominant industry players continue to grow significantly.

The COVID-19 pandemic and the accompanying travel restrictions forced Air Transat, as a purely international carrier, to entirely suspend its operations in 2020 and 2021. Each time, we were making sure to repatriate tens of thousands of our customers safely back home from around the world at a cost of tens of millions of dollars. Eighty-five per cent of my fellow employees were laid off, and our revenues disappeared completely.

In our 33-year pre-pandemic history, Air Transat never sought financial support from government. We have rebounded from the pandemic and returned to our full pre-pandemic employment level of 5,000 workers, to revenues of \$3 billion and to a fleet of just under 40 large commercial jets.

Our previously debt-free company, which had almost \$700 million of liquidity in its coffers in 2018, was able to endure thanks to some \$800 million of emergency pandemic loans from the federal government under programs unanimously authorized by Parliament. Of the \$800 million loans, \$350 million flowed directly to passengers in the form of refunds in 2021.

Your intervention worked. These loans saved Air Transat and 5,000 jobs from the ravages of the pandemic to continue as a strong and reliable competitor in the market, and we are here to thank you for it. This was no small feat. As was noted in committee on Tuesday, Lynx is no longer in business, and Sunwing has since been acquired by WestJet.

Without the pandemic and our large resulting indebtedness, Air Transat would have been in a much more favourable financial position to grow and further enhance competition in Canada.

Three years later, market conditions have evolved significantly in our industry. We recommend that the government undertake a review of the pandemic supports that were offered, how these arrangements are now operating and whether adjustments could be made that would continue to enhance competition in the marketplace.

It may sound odd for an airline to say this, but we welcome fewer restrictions on ownership. We need more capital to be able to compete. While we would not change ultimate ownership restriction at 49% for non-Canadians, we believe it is futile to leave the

limit on a single foreign shareholder at 25%, particularly in the age of large global airline alliances.

In closing, while some airlines are exiting some markets, we are offering Canadians more choice. Air Transat has entered into a new commercial joint venture with Porter Airlines whereby the two airlines will code-share and offer convenient, seamless, affordable domestic and international travel options for Canadians.

We will connect Porter's growing domestic and North American network with Air Transat's expanding international network. This commercial agreement is a major win for travellers and for airline competition in Canada, with expanded service to more and more cities.

• (1150)

[Translation]

Thank you once again for your invitation to appear today.

I will be pleased to continue the discussion with committee members.

The Chair: Thank you very much, Mr. Liebman.

[English]

Next we have Mr. Gibbons.

Mr. Gibbons, the floor is yours. You have five minutes, sir.

[Translation]

Mr. Andrew Gibbons (Vice-President, External Affairs, WestJet Airlines Ltd.): Thank you, Mr. Chair and members of the committee.

[English]

Thank you very much for having me here today.

My name is Andy Gibbon. I am the vice-president of external affairs for the WestJet group.

[Translation]

We are pleased to be here to express our views on the state of airline competition in Canada.

WestJet has been enhancing competition and offering Canadians a range of affordable air travel options for 28 years.

[English]

No company or individual has our vantage point for this discussion. WestJet is the company that made it. We took on the nation's largest carrier when many said it could not be done.

Canada is best served by a strong and profitable WestJet, but we can do this only thanks to our guests. They have a choice, and they choose us. We are grateful.

The democratization of Canadian air travel is a WestJet achievement. In our years of serving Canadians, WestJet has cut airfares in half and increased the percentage of Canadians flying by more than 50%.

Launched in 1996 with two aircraft, 200 employees, five destinations and a dream, WestJet has grown to more than 180 aircraft and 14,000 employees, flying to more than 100 destinations in 23 countries.

With great effort, we built an airline to serve Canada. Our plan is to continue to grow better, to connect Canadians with where they want to go and to support the recovery of the tourism industry across the nation. We are adding more routes, more services and more choices under our ambitious growth strategy, which is just shy of two years old.

While there are no barriers to entry into the Canadian marketplace, it isn't easy to grow and succeed as a new airline in Canada.

First, Canada's geography and market are challenges. To take one example, in Europe there are 100 air travel markets with a population of over 500,000, while in Canada there are 10.

• (1155)

[*Translation*]

Even though its area is similar to ours, Europe, with a population 20 times greater than that of Canada, has a market that can more readily support very low-cost carriers and market newcomers.

[*English*]

Second, we heard experts say on Tuesday that Canada has a high and uncompetitive tax and regulatory environment, with high mandatory third party fees. The most recent budget states, "It is only fair that Canadians have full transparency about the full cost of their flight." We agree. This must include the mandatory third party fees that truly drive up ticket prices.

Successful American carriers have found a way to serve Canadians through U.S. border communities. They do this because there are fewer fees. To them, Canada is a low-margin, high-tax and regulatory burdensome market. To this end, we recommend reviewing all taxes, fees and service charges to provide greater transparency for Canadians and a market environment to enable all carriers to thrive. This must be part of an overall review on whether the user-pay model is working for a modern Canada.

I'd like to briefly update from my last appearance at this committee to address the challenges we all face in the postpandemic start-up. We at WestJet are thriving once again. We have hired thousands of new staff. We are beyond 100% capacity and back to where we were before 2020. We have further expanded with new strategic routes while maximizing choice for Canadian consumers.

Our ambitious growth plan, which has been welcomed by Canadian communities in all regions, has three pillars. The first is to continue to be Canada's coast to coast leisure champion. The second is to provide western leadership and bring strategic investments

to historically underserved markets in the west. The third is to return to our low-cost routes.

This is what made WestJet successful and what Canadians fell in love with. We know that; we've heard that, and we are returning to what made us successful.

[*Translation*]

We are proud to be part of an industry that, despite across-the-board cost increases, has managed to maintain stable and constant prices.

[*English*]

Canada has a competitive air travel market, but we can work together to make it better in partnership with government.

We put forward the following recommendations for committee members:

First, review the user-pay model for a modern Canada. All government and third party fees should be reviewed for competitiveness impacts, intermodal equity and value for taxpayers' money.

Second, officially suspend all APPR policy developments. There is agreement across all communities, chambers, airports, airlines big and small, and provincial governments that these proposals do not help lower prices or increase competition. We do not believe changes should be contemplated until the current system works for Canadians. Currently, there is inconsistent application of these policies, and there are huge backlogs at the Canadian Transportation Agency that need to be addressed.

Thank you again for having me here today. I welcome your questions and look forward to this discussion.

The Chair: Thank you very much, Mr. Gibbons.

Colleagues, we're done with the opening statements. I'm wondering if we want to end it there. We have resources only until 1:30 p.m., and I'm wondering if you want to keep going to allow Mr. Williams and Ms. Koutrakis to at least get their 12 minutes. That will still leave us six minutes to be able to go and vote.

Does that sound reasonable to colleagues? Okay, seeing no objections, we'll begin with a line of questions from Mr. Williams.

Mr. Williams, the floor is yours. You have six minutes, sir.

Mr. Ryan Williams (Bay of Quinte, CPC): Thank you, Mr. Chair.

I appreciate that we're trying to get forward and, of course, we're behind schedule, but I just think we wanted to make Air Canada feel comfortable, being behind schedule in getting this meeting going.

I'm going to start with competition, what we're looking at here in Canada, what Canadians are feeling and what they're trying to get us to do here in committee and as parliamentarians.

We really don't have a lot of competition across all markets in Canada, across all provinces and certainly between all destinations. What we've seen with that is that there are three different problems.

One, there's not a lot of competition in high-frequency routes. There is in some of them, but not all. Two, we have routes to less-travelled regions in Canada that really don't have a lot of competition and sometimes have only one or, if they're lucky, two carriers going into them. The third complaint we hear from Canadians is that it's really expensive to fly from Canada to international destinations compared to the experience of some Canadians who go across the border and find cheaper flights.

My question is for Mr. Rheault from Air Canada. Air Canada was just ranked dead last in on-time performance among North American airlines. In January 2023, 63% of flights did not arrive within 15 minutes of their scheduled time—63% of your flights.

Do you believe we need more competition to have Air Canada improve that ranking?

• (1200)

[Translation]

Mr. David Rheault: Thank you for your question.

First of all, our performance improved in the first quarter of 2023. Air Canada has improved its performance and is not dead last in North America.

[English]

Mr. Vance Badawey (Niagara Centre, Lib.): There's no translation.

[Translation]

The Chair: Mr. Rheault, it seems we've lost the interpretation. We'll do the necessary checks.

Mr. David Rheault: That's perfect.

The Chair: Mr. Rheault, it's all working now.

I'm going to give you a chance to answer Mr. Williams's question.

Mr. David Rheault: Thank you, Mr. Chair.

Thank you for your question, Mr. Williams.

We've considerably improved Air Canada's operational performance between the first quarters of 2022 and 2023. According to the operational statistics I have, Air Canada isn't ranked last in North America.

As for competition within Canada, as I mentioned in my opening remarks, the competitive landscape in Canada isn't different from that of most other regions around the world. There are a total of

24 carriers in Canada. How many carriers serve how many markets? That obviously depends on the relative sizes of those markets. Every carrier can serve those markets based on its own business model, but the relative sizes of the markets—

[English]

Mr. Ryan Williams: Thank you. I'm so sorry, Mr. Rheault; I have only so much time.

We're going to look at two major routes between two major city centres.

We'll look two weeks in the future between two routes. We'll look at Toronto to Ottawa, and then we'll look at Toronto to Vancouver. For Toronto to Vancouver, there's more competition, it seems. There seem to be four airlines: Flair, Porter, WestJet and Air Canada that are competing, and you can get a round-trip price with Air Canada for \$385, which seems pretty low, but if you look at Toronto to Ottawa, it seems that you have only Porter, WestJet and Air Canada, and that price goes to \$585.

For a destination, Toronto to Vancouver, that is nine times further than Toronto to Ottawa, it seems that the price goes way up with not having that competition.

How do you explain that you have a price that's so much higher for a local Toronto to Ottawa destination than for a Toronto to Vancouver destination?

[Translation]

Mr. David Rheault: The routes you mentioned are the ones with the most competition. For each of those routes, prices are determined based on respective market factors.

I can't comment on the specific examples you cited because I don't see them. The price of every route obviously depends on market conditions, available inventory, supply and demand in respective markets and the type of aircraft flown among the various cities in Canada.

[English]

Mr. Ryan Williams: Mr. Gibbons, you talked about government fees. Certainly, looking at fees south of the border compared to here in Canada, they seem to be different in different major centres.

Why does Canada have such high taxes and so many more fees than the Americans do, and how does that stop either your airline from entering other routes, like you said you want to, or new airlines from coming into Canada?

Mr. Andrew Gibbons: What's of value here, Mr. Williams, is what the American carriers have to say about why they avoid Canada.

Their testimony, whether it's the president of Southwest or Jet-Blue or what have you.... These are some of the most successful low-cost carriers in the world. Their public comments about why they avoid the Canadian market and how they serve from American airports is the most critical testimony you could find.

The reason, as I said in my original comments, is that I don't think we have a tax and regulatory environment for a modern Canada. There was a time when air travel was not the essential connective tissue of Canada, as it is today.

I have nothing against rail, but we see that in issues like the rail subsidy. Passengers from Moncton to Montreal are very heavily subsidized on a train. Is that essential for Canada today? We are now the essential mode for Canada.

It's not about us versus them; it's about a regulatory environment that believes that all modes should be treated equally and that we should prioritize a different psychology and culture around aviation.

• (1205)

Mr. Ryan Williams: When we look at aviation, too, there are certain taxes that get added. On the example I gave before, WestJet still fits in that higher category as well. It seems to be cheaper between Toronto and Vancouver than between Toronto and Ottawa.

When it comes to taxes, let's talk about one tax that airlines have on fuel—the carbon tax. Is there a carbon tax between Toronto and Ottawa and is there one between Toronto and Vancouver?

Mr. Andrew Gibbons: There is not a carbon tax for interprovincial travel. There is a carbon tax for intraprovincial travel. I believe it exists from Toronto to Ottawa. For intraprovincial flights in our industry, it does apply as part of the backstop.

The Chair: Thank you, Mr. Williams.

Thank you, Mr. Gibbons.

Next, we have Ms. Koutrakis.

The floor is yours. You have six minutes, please.

Ms. Annie Koutrakis (Vimy, Lib.): Thank you, Mr. Chair.

I wanted to advise that I will be yielding two minutes of my time to my colleague, Mr. Iacono.

Thank you to our witnesses for appearing before our committee once again. I'm sure that you've become regulars in the last little while. Thank you for your testimony.

My first question is for Mr. Rheault.

[*Translation*]

At our last meeting, witnesses told us we should focus on making room in the industry for low-cost carriers to operate instead of undermining our national carrier.

Do you agree with that statement? Can you tell us what has to be done to promote that environment?

Mr. David Rheault: Thank you for your question, Ms. Koutrakis.

I obviously agree that Air Canada is a source of pride for Canada. It connects Canada to the world, and it's good for the country when it prospers.

Yes, there are ways to work together to improve market conditions and make all carriers more competitive both in Canada and internationally. For example, as we discussed, you could review the

taxes and fees applicable to the industry. Your colleague Mr. Williams mentioned that many American carriers serve Canadians in border states. There's an airport in Plattsburgh that calls itself "Montreal's U.S. airport".

That's a symptom of a situation that encourages Canadians to cross the border to catch a flight. We should work together to see what could be done to keep our passengers in Canada because we're also losing jobs here.

Ms. Annie Koutrakis: Do you have any recommendations to make in that regard? How can we do that?

Mr. David Rheault: First of all, as I said in my remarks, the committee has recommended that the taxes and fees applicable to the industry be reviewed.

You could also look at how to reinvest that money in the industry. Airport rents are money that the airports remit to the federal government every year. Last year, in committee, they requested that this money be reinvested in infrastructure. We aren't asking that it be given back to the carriers. We're asking that it be reinvested to modernize infrastructure, which would help us be more competitive globally.

[*English*]

Ms. Annie Koutrakis: Very quickly, I will go to Mr. Gibbons.

Thank you for your testimony.

Mr. Gibbons, as you know, this is a study on the recent events of Lynx Air.

I'd be curious to know from you how you benefited from the closure of Lynx Air.

Mr. Andrew Gibbons: We don't sit around and calculate benefit when an airline fails.

As I said in my remarks, we are the company that succeeded. So many others have not. It's not a day of joy around our office when an airline fails. Actually, competition makes us stronger.

I'd submit to this committee that we've made Air Canada stronger. Air Transat has made us stronger. New carriers make us stronger.

It's not a day of celebration for us. What I can tell you is what we're doing to serve that market. What we're doing to serve that market is reconfiguring all of our aircraft so that there is an ultra-low-cost part of the cabin on every WestJet airplane.

Our determination is not different from Lynx's in that we ran Swoop; we owned Swoop and we operated Swoop. Our determination as a company was that this market segment can best be served within WestJet. Instead of having to stimulate 180 seats, you may have to stimulate only 40 or 60.

We believe that is the path forward for Canadian travellers. We think that is what they want. We'll come back in a year to find out how it's going.

We serve that market too, but it is not a day of celebration for us when an airline fails.

• (1210)

The Chair: Thank you, Ms. Koutrakis.

Mr. Iacono.

[*Translation*]

Mr. Angelo Iacono (Alfred-Pelland, Lib.): Thank you, Mr. Chair.

Thanks to the witnesses for being here.

My riding, Alfred-Pelland, is demographically quite diverse. Many constituents have expressed concerns to me because they travel long distances to countries such as Italy, Haiti and various countries in the Maghreb and Latin America.

What steps are Air Canada, WestJet and Air Transat taking to make international travel more affordable for families who find the cost of such travel prohibitive?

Mr. David Rheault: Mr. Iacono, thank you for your question.

Many of our employees live in your riding because it's located near our international hub in Montreal.

All carriers keep a close eye on costs to make sure they can offer an affordable and competitive product, and not just compared to other airlines in the country.

You mentioned international travel, where the competition is global. Since we fly to Morocco, we compete with Royal Air Maroc. We also fly to Algeria, and Air Algérie also has flights to Montreal.

Canadian carriers have to offer a product at a competitive price so passengers will choose to fly with us. That in turn helps us create jobs here at home.

Mr. Angelo Iacono: Mr. Liebman, would you like to add something?

Mr. Howard Liebman: Thank you for your question.

In June, Air Transat will be launching a brand new flight to Africa, more specifically, to Marrakesh, in the Maghreb. We are also the only carrier that serves Haiti. It's very important for us to serve those destinations.

As for rising prices, I did a bit of research and discovered that prices for international destinations in the markets we serve are roughly 20% to 30% lower than those of our competitors.

Mr. Angelo Iacono: Mr. Gibbons, would you like to add anything?

[*English*]

Mr. Andrew Gibbons: With respect to Italy specifically, we have a very successful direct flight from Calgary to Rome, which is in its second season. It's very heavily subscribed, so that's bringing a western component to Canada's connectivity to Europe.

I think the reality in a market economy is that the European market was red-hot last year. The Delta Air Lines president said in February or March that they had already sold 75% of all their transatlantic seats. We are talking about the hottest, most sought-after travel market in the summer in Canada.

To your question of what we can do, we can add more routes and fill the market void that we think exists. We've done that in western Canada.

The Chair: Thank you very much, Mr. Gibbons and Mr. Iacono.

Colleagues, we'll now suspend this meeting until the vote has concluded.

• (1210)

(Pause)

• (1235)

The Chair: I call this meeting back to order.

[*Translation*]

We will continue the round of questions.

Mr. Barsalou-Duval, you have the floor for six minutes.

Mr. Xavier Barsalou-Duval (Pierre-Boucher—Les Patriotes—Verchères, BQ): Thank you very much, Mr. Chair.

Thanks to our witnesses for being here. The topic we're discussing today, the state of airline competition in Canada, is very important.

I'll go first to the Air Transat representative for a simple reason. We are actually conducting this study as a result of Lynx Air's bankruptcy. In recent years, WestJet has acquired Sunwing. There's also Swoop, which belongs to WestJet, and Flare Airlines, which is now in trouble. Porter is in business, but it doesn't necessarily offer international flights.

In one sense, Air Transat is the lone bulwark against a potential Air Canada-WestJet duopoly.

Not so long ago, many people were skeptical about Air Transat's future, assuming that the business would go bankrupt. However, it made it through the pandemic and now seems to have a sound growth plan.

How did your company manage to navigate the crisis when others failed?

Mr. Howard Liebman: Thank you for your question.

I have to say it wasn't easy. The pandemic was our biggest challenge. As I admitted in my opening remarks, we're now deeply in debt. If the pandemic hadn't occurred and we hadn't taken on all that debt, Air Transat would have been able to bring even more growth to the market. However, we want to work with Parliament to find a way to continue growing.

I also mentioned our alliance with Porter, with which we've entered into a commercial agreement to offer more options and choices to all Canadians and Quebecers. We're also going to add new destinations, such as Marrakesh, Morocco, and Lima, Peru. We've also maintained the sole link between Montreal, Canada and Port-au-Prince, Haiti.

Mr. Xavier Barsalou-Duval: Thank you.

I have to admit that people around me often say they choose Air Transat because they're certain, or feel guaranteed, that they'll get good service in French, which I think is very important.

Some witnesses told us at a previous meeting that one of the factors that might help improve competition is good time slot and gate access. However, they also said that shouldn't come at the expense of an established business. When I asked Air Canada, which holds a major market position, if it should limit its growth, I was told no.

How do you limit Air Canada's growth while allowing smaller players to grow? I assume there'll be construction at the major airports and that slots will be limited.

Is there a way to do both?

Mr. Howard Liebman: That's a very important question, and it's also one of our concerns.

Yes, Montreal and Toronto airports will be under construction for many years. It will be very important for our competitors and us to work with the airports to ensure adequate access to infrastructure such as gates and time slots. Otherwise there won't be a lot of competition.

• (1240)

Mr. Xavier Barsalou-Duval: Is there any kind of specific mechanism that would help facilitate that access?

Mr. Howard Liebman: Not that I know of, because it's managed by the airports locally. We're good partners for the airports, but it's important, when addressing this issue, to ensure automatically that competitors have adequate access to airport infrastructure, especially airports serving hubs, such as Montreal and Toronto airports, for example.

Mr. Xavier Barsalou-Duval: Many people have pointed out that we use the user-pay model in Canada. Under that model, users pay fees based on the costs that the infrastructure generates. A somewhat different model is used elsewhere in the world, under which governments subsidize airports.

So here's a naive question: If we decided to fund the expansion of infrastructure where that investment could help create competition, would that be a good way to create that competition? We could allow the airport to expand, but by first allowing smaller businesses to have access to it.

My question is for Mr. Liebman, but I'd be glad if Mr. Rheault and Mr. Gibbons wanted to answer it as well.

Mr. Howard Liebman: As regards the model, the problem today is that carriers, Nav Canada and the airports are enormously indebted. The pandemic added a considerable amount of it. However, under the Canadian model, the biggest airports pay the federal government rents representing 12% of their revenues, and that money, amounting to \$400 million or \$500 million, goes into the federal government's coffers and isn't necessarily reinvested.

Consequently, if the federal government takes in hundreds of millions of dollars a year, you may wonder where the necessary funding for our air infrastructure will come from. In the United States and Europe, that's money that the central governments invest because aviation is an essential economic driver.

The Chair: Thank you very much, Mr. Liebman.

Mr. Barsalou-Duval, you are unfortunately out of time.

[English]

Mr. Bachrach, the floor is yours. You have six minutes, sir.

Mr. Taylor Bachrach (Skeena—Bulkley Valley, NDP): Thank you, Mr. Chair, and thank you to our witnesses for being with us today and answering our questions.

Mr. Rheault, you described Canada's airline sector as “dynamic and competitive”. It seems like a message that is in stark contrast to the one that we heard at our last meeting, when we heard from researchers and academics who work in this space and look at the structure of the air travel sector.

One of the questions that came up was one I thought was really good. Our chair, right at the end of the meeting, essentially asked this: If we were to take up this recommendation to reduce fees and charges and make it cheaper to operate an airline in Canada, what would prevent airlines from simply increasing their prices, charging the same amount to passengers and taking that as profit? The answer we got back was nothing, essentially. “Welcome to capitalism” was basically the answer we got.

The question for you would be this: What would ensure that those savings would be passed on to customers?

I would argue that we don't have a very competitive airline industry. Certainly, the communities I represent don't see that competition translating into lower prices.

Right now, both Air Canada and WestJet are posting profits. I think Moody's projects that those profits are going to be even greater in 2024. It seems like you're doing fine under the current regulatory, tax and fee structure.

Why do those need to be lower?

Mr. David Rheault: I would say, first, as I mentioned in my remarks, that the market in Canada is very competitive if you compare it to other jurisdictions.

[*Translation*]

With your permission, I'll continue in French.

In 2012, the Senate considered the same question that the chair asked last time, and prepared a report on it. It considered what would happen if taxes and fees declined. One element of consensus among the witnesses and one of the report's recommendations was that, if the cost base were lowered for operators, that would help large and small airlines further stimulate the market. Stimulating the market will generate more volume and enable more carriers to offer more capacity at more affordable prices.

You and the chair asked the same question: If fees go down, by what mechanism will the savings be reflected in ticket prices? The answer is that it will do so through competition because, if a carrier wants to make a profit, competition will enter the market.

• (1245)

[*English*]

Mr. Taylor Bachrach: The argument is that if you lower those fees, charges and taxes, then the barrier to entry for smaller carriers will be less, and there will be more competition, which, theoretically, will drive down prices.

Mr. David Rheault: It will.

Mr. Taylor Bachrach: The flip side of that is that someone has to pick up those costs. The idea being presented by both the airports and the airlines is that the Canadian public should subsidize the air travel sector. This is the argument that—

Mr. Andrew Gibbons: No one is saying that.

Mr. David Rheault: No one is saying that.

Mr. Taylor Bachrach: We have heard that we should move from a user-pay situation, in which air travellers pay the freight for the air travel sector, to a situation in which the government invests in air travel as a public good and part of the economy.

This is the argument we heard at our last meeting.

Mr. David Rheault: I would say that we're not even at a user-pay model here in Canada, because there is revenue that is taken from the industry that is not reinvested. The first example is the ground rent. The second example is fuel excise tax.

If you look at the U.S., all amounts that are taken from the industry are put into a trust fund that is reinvested in infrastructure. This is more like a real user-pay model. It's taking all of the charges and fees from the industry and reinvesting them in industry. That's number one.

Number two is that some people think air travel benefits only people who travel. In fact, in a globalized economy like Canada's, a lot of communities rely on air travel for tourism, immigration or trade. There is definitely a public aspect to air travel that justifies government support for the infrastructure necessary to enable it.

Mr. Taylor Bachrach: I take the point. It does benefit air travellers more than non-air travellers, though. I think you would accept that.

I want to shift to this question around smaller rural markets. You know that this is a real preoccupation of mine, because my con-

stituents are paying exorbitant costs to fly with Air Canada for short distances between communities like Smithers, Prince Rupert and Vancouver.

In the one market in northwest B.C. where we see competition from WestJet, the flights are consistently cheaper. We talked to Air Canada several years ago about this situation. The message we received was, "Don't worry. WestJet's pricing is artificially low. Eventually things will stabilize and we'll see equity between those markets." We haven't seen that. People are having to drive over two hours in order to access affordable flights.

Why is there such a huge discrepancy between those markets?

Mr. David Rheault: You're probably making reference to Smithers and Terrace. I checked yesterday, and the basic fare difference is about \$15 to \$20. It depends on the time of day and the inventory available. We have increased the capacity in Smithers. We have a new flight this summer.

I'm going to quote what the mayor said. "I am delighted to know a second flight is being added by Air Canada to the Smithers Regional Airport," she said. "The new schedule will allow residents and business travellers to plan more easily for connecting flights."

You can see that we're taking steps to increase capacity.

[*Translation*]

The Chair: Thank you, Mr. Rheault.

[*English*]

Thank you, Mr. Bachrach.

We'll go to the second round. We'll start that with Mr. Strahl.

Mr. Strahl, the floor is yours. You have five minutes, sir.

Mr. Mark Strahl (Chilliwack—Hope, CPC): Thank you, Mr. Chair, and thank you to the witnesses.

Mr. Gibbons, I want to start with you. You mentioned the history of WestJet coming up against Air Canada and overcoming that to become a dominant national carrier. You also talked about the high taxes and fees that the government imposes on airline travellers.

In the last meeting, we came up with a figure. I believe it was somewhere between \$100 and \$150 for a round trip ticket before an airline takes a dollar from a passenger. Would you say that's accurate, or do you have a different figure in terms of how much the government and the airports, CATSA, Nav Canada...?

If someone's trying to buy a ticket, how much of that right off the top is going to government or federally regulated entities?

• (1250)

Mr. Andrew Gibbons: Thank you very much, Mr. Strahl.

The figure we've used is about that, publicly. We say that, for a domestic return flight, it's about \$160 before the WestJet group's base fare is applied. We think that's high. Lynx thought that was high.

Most importantly for this discussion, it stifles competition. You can stimulate the market only so much when you're starting at \$161. I think that's the issue.

That's the issue you see in your community, with your constituents going to Washington state. They don't have better planes, crews, staff or service. They're there because of that barrier, which has nothing to do with our company.

Mr. Mark Strahl: The government taxes and fees actually make U.S. airports competitors to Canadian airports and make U.S. airlines competitors to Canadian airlines.

I want to give a quote here from the Montreal Economic Institute. It says, "Ottawa prefers to treat our airports as cash cows, rather than the essential transportation infrastructure that they are."

Do you agree with that statement?

Mr. Andrew Gibbons: I think that's the record, honestly.

The government does overcollect for services it provides to the Canadian traveller. I think it's about the traveller and the consumer.

One quick example is CATSA. I have nothing against CATSA's leadership—they're doing their best job for the people of Canada—but that fee was raised by 29.5%, and we have questions as to whether that money.... That is a fee paid by our guests. We believe that that money should be held in public trust and should be directly tied to the services rendered by the organization. It's not that straight a line, and it's quite confusing at times to understand where the fee goes versus what the allocation of the budget is to the organization.

The new concern that we have, Mr. Strahl, is that the fees travellers are paying for their security are sometimes going to general revenues, and there's an overpay.

It's a small example of where a fee goes, and we think that if consumers and our guests are paying the fee, there should be a greater level of transparency around it.

Mr. Mark Strahl: Is it your testimony today that if the government were to reduce these fees overall—to lower taxes, lower airport rents and reduce the fees they charge for things like security—to make it more competitive with the U.S.... If these fees were reduced from \$161 by the government, would that have a positive effect on your offerings? Would you be able to offer more routes and more competitive pricing to your customers?

Do you think that other entrants, like Lynx, which have failed—I think there are eight that have failed since the early 2000s...? Do you believe that if Canada cut fees and became more competitive on the fees side, it would increase competition in Canadian airspace?

Mr. Andrew Gibbons: I don't think there's any doubt about it. This is what the witnesses said on Tuesday.

On top of that, we've fallen victim in this country to the "it's just". "It's just \$3. It's just \$4. It's just \$5." We've had a cumulative impact of these fees, and the most measurable impact, Mr. Strahl, is the seven million Canadians who use U.S. border airports for no other reason than the issue you're asking about.

If we could repatriate those guests.... Why are we gifting the United States and those companies those travellers? We should work to arrest that.

The Chair: Thank you.

Mr. Andrew Gibbons: I have one more quick comment.

Our guests are paying these fees, and they're overpaying. This isn't a tax cut or something to be conferred upon a Canadian company that you may or may not think acts in the public interest. This is about the traveller and what they're paying.

The Chair: Thank you very much.

We'll next go to Ms. Murray.

Ms. Murray, the floor is yours. You have five minutes, please.

Hon. Joyce Murray (Vancouver Quadra, Lib.): Thank you, Chair, and thank you to the witnesses for their testimony and this interesting discussion so far.

I'm going to pick up on a comment that was just made. I think I heard that it's seven million Canadian travellers who are using U.S. airports, and that was attributed to fees.

The other day we heard that the key challenge for the Canadian air industry is the size of our country combined with the smaller population.

To what degree do you think the U.S. airlines are more competitive because of the basic structure of the U.S., with 10 times the population of Canada and a similar size, versus being about fees?

• (1255)

Mr. David Rheault: My counterpart said there are seven million Canadian travellers who fly from the U.S. That's an indication that it's cheaper there.

I will also give you another indication. If you look at U.S. carriers' presence in Canada outside the four major airports in Canada, since the pandemic their presence at other airports here is down by 40%. A lot of routes have not been re-established by U.S. carriers in Canada, because, when they have to decide how to allocate an aircraft, they look at many opportunities. Whether allocating an aircraft in Canada or the U.S., it's the same aircraft and the same crew. The fact that they're not coming back to Canada shows there is a cost challenge here that we should address together.

Hon. Joyce Murray: Thank you for that.

I understood that Canadians are voting with their wallets, and it's cheaper, but I was asking whether it's cheaper because of the structure of the U.S. market in terms of the number of people who travel compared with the number in the Canadian market.

Anyway, I want to move on to something else.

Mr. Liebman, I'd like to explore a bit about your joint venture with Porter Airlines. Can you paint for us the picture of how that makes Air Transat more competitive than it otherwise would be?

Mr. Howard Liebman: Very briefly, given the time, we have historically been a point-to-point international carrier. You would catch an Air Transat flight in Quebec City, Montreal, Toronto, Halifax, Moncton or where have you, and you would fly to an international destination.

The joint venture with Porter is a commercial agreement. We're two separate companies and will remain so. As Porter begins to grow its service from all across Canada—cities across the country—and all across North America, it will bring flights and passengers in to connect with Air Transat's international flights. You can buy a ticket in Winnipeg, Regina or Edmonton, fly to Toronto or Montreal, and then go on to Lyon, Bordeaux or Rome, for example.

That's a new choice that's in competition with perhaps Air Canada, perhaps WestJet or perhaps a foreign carrier. It's an additional option for Canadian travellers, and it will be competitive.

Hon. Joyce Murray: We've talked about fees. We understand that user fees have the customer bear the cost of the experience, as opposed to the taxpayer.

Is there something the government can do to remove barriers or increase the opportunities for the kinds of co-operative arrangements you're describing as a possible reduction of the challenges to competition and service here in Canada?

Mr. Howard Liebman: Again, very quickly, at a high level, Transat, Porter and others were closed for the pandemic and have hundreds of millions of dollars of debt.

We have to look at those programs. They saved the companies. It worked. They saved jobs. However, these debts are accumulating and the interest on them is accumulating. How do we go forward and protect competition at the same time?

In the hub airports, where those two will connect, how do we make sure there's adequate and fair access to the infrastructure, especially since they're going to be undergoing a lot of construction over the next years?

Hon. Joyce Murray: If there's a way for the government to facilitate those kinds of arrangements, perhaps you could put a few ideas on paper.

I wanted to get to my last question—

The Chair: Unfortunately, Ms. Murray, there's no time left. I'm being very strict today.

Hon. Joyce Murray: It was on greenhouse gas emissions.

[*Translation*]

The Chair: Mr. Barsalou-Duval, you have the floor for two and a half minutes.

Mr. Xavier Barsalou-Duval: Thank you, Mr. Chair.

Thanks to the witnesses for being here.

Mr. Rheault, at the last meeting, which you no doubt watched, one of the things we discussed was regional air transportation, in which Air Canada plays a certain role. Today, as at the last meeting, virtually everyone has discussed user taxes and fees, which restrict consumer use of those services by increasing prices.

As I previously pointed out, if we subsidized air travel for people travelling south to enjoy the sun, that might be less acceptable to ordinary people than partially subsidizing air travel in certain remote regions where it's essential.

I'd like to know what Air Canada thinks about that. It might even help you play a larger role in regional air travel.

• (1300)

Mr. David Rheault: Thank you, Mr. Barsalou-Duval.

First of all, you're correct: We are present in the regions of Quebec. Air Canada is there in Sept-Îles, at Saguenay-Bagotville airport, in Rouyn-Noranda and the Magdalen Islands, in particular.

The Quebec government is also active in this area and has introduced a program to assist users by providing access to discounted fares and allowing them to choose their carrier. Carriers fix the ticket price at \$500. These are initiatives that can be introduced to try to reduce prices, but this lets individuals choose the carrier they want to travel with.

Mr. Xavier Barsalou-Duval: Mr. Gibbons seems to want to add something.

Mr. Andrew Gibbons: Yes, thank you.

[*English*]

I think, first and foremost, I would submit that we have to stop going in the other direction on fees before we start talking about subsidies. This is partially what happened in Europe. Europe created this massive industry around EU261, whereby billions and billions of dollars went into that program. The result was that regional travel became so expensive and unprofitable that the state had to begin subsidizing regional routes.

I don't think we want to follow that route in Canada—

[*Translation*]

Mr. Xavier Barsalou-Duval: I'm going to have to stop you there because the chair will be interrupting me soon.

Regarding the issue of taxes and fees that you raised, you say that a portion of those revenues isn't reinvested. Apart from airport rents, what are these taxes and fees that aren't being reinvested?

You may submit your answer in writing if you don't have enough time.

[English]

Mr. Andrew Gibbons: Airport rents is the most obvious one. It has been talked about for decades, even at this committee, and you were part of the group that made recommendations to make sure that rent goes back into the industry. The excise tax on jet fuel is a tax that is not reinvested into the industry. That is something in the United States that is—

The Chair: Thank you very much, Mr. Gibbons.

Mr. Bachrach, the floor is yours for two and a half minutes, please.

Mr. Taylor Bachrach: Thank you, Mr. Chair. I would like to switch gears for a brief moment to address an issue that emerged recently with Air Canada.

Mr. Rheault, I know you will be familiar with this.

There was a challenge faced by Grand Chief Woodhouse on her flight with Air Canada, in which, I believe, her regalia was taken away from her, or the carrying container was removed from her possession.

Could you talk a little about how Air Canada will be addressing that situation, what policy changes will be forthcoming and how your company has responded?

[Translation]

Mr. David Rheault: Thank you for your question, Mr. Bachrach.

Yes, I'm aware of that incident, which occurred last week. The case containing Chief Woodhouse Nepinak's traditional headdress was put in checked baggage. We apologized for that situation. Our president spoke to the chief, and we committed to reviewing the training we give our employees concerning the transportation of sacred objects such as the chief's headdress.

So we will be increasing awareness, as I said, but we'll also establish a procedure for the transportation of these kinds of objects. People will be able to contact us in advance so we can make the necessary arrangements to ensure those objects are transported without incident.

[English]

Mr. Taylor Bachrach: I appreciate that those steps are being taken.

Can you provide the committee with a sense of when that review and that training will be completed? Would you be willing to report back to the committee and inform its members of what changes your company is going to make as a result?

[Translation]

Mr. David Rheault: We're already reviewing our procedures, as I explained, so we can put a system in place for people to inform us

in advance of religious or sacred objects that will be travelling with them.

I can of course follow up with the committee regarding next steps.

• (1305)

[English]

Mr. Taylor Bachrach: Thank you.

The Chair: Thank you very much, Mr. Bachrach.

Next, we have Mr. Strahl.

Mr. Strahl, the floor is yours for five minutes, please.

Mr. Mark Strahl: Thank you very much, Mr. Chair.

Mr. Gibbons, I want to continue our conversation. We have seen Nav Canada fees, since the pandemic, go up 29%. You mentioned that CATSA fees in the last budget were raised 29%. We have seen that the airport rents paid to the government have increased by 42.5% in the last decade.

As the government keeps layering on fees, which they impose on customers who are trying to fly, driving up the costs for Canadian travellers, it appears to me that the government really has no interest in increasing air travel across the country. Through increasing taxes and fees, it may in fact want to decrease air travel in the country.

Do you have any opinion on that? Have you seen any indication from the government that its goal is actually to increase air travel in this country, or does it want to decrease it?

Mr. Andrew Gibbons: I'm going to drive right by that one. I think that's a question for the minister when he's here.

What I can tell you is that in communities—

Mr. Mark Strahl: He won't come. He has indicated that he won't come.

Mr. Andrew Gibbons: In communities across the country, the response to what we're doing is very positive, Mr. Strahl.

This is what the experts have said. Canada has a high tax and regulatory burden, and reorienting and modernizing those policies is going to help competition.

The motion before the committee is in light of Lynx Air's failure. Lynx cited the reasons, in their opinion, for their failure. I think this was a very well capitalized airline. They had ownership from one of the most savvy airline owner-operators in the world, and they failed.

There are challenges. You went through CATSA, Nav Canada, rents and AIFs, and I think the common denominator with all of them is that there is a lot of debt to dig out of from the pandemic. That debt, whether it's airlines or whether it's those organizations, is all being felt by the traveller. We're in an affordability crisis.

Again, back to the APPR, every community, every small airline, every small region and everyone across the country has said that this is not the time to increase the cost of travel. We can protect Canadian travellers, but we also should not be increasing costs at this time.

Mr. Mark Strahl: Thank you, Mr. Gibbons.

I'm sorry to interrupt you. The Minister of Transport was invited, and we have no indication that he has accepted that invitation to talk about this with us.

I want to discuss, as well, something you talked about in your remarks about intermodal equity in terms of how the government supports different modes of transport in the country. We just had a lengthy study on high-frequency rail in Canada.

Do you believe that we need to address issues of lack of competition or the competitive environment in the aerospace sector in air travel in this country before we look at massively investing in a mode of transport that won't be available? I know you're focused on the west. I can tell you that none of my constituents would ever use HFR. They'd have to fly 3,000 kilometres on one of your jets to get onto the start of that.

Do you believe we need to look at the competitiveness and investments in the air sector before we can have a fulsome look at things like high-speed rail or bus service, as has been mentioned before? Do you believe the government has done that work to look at how we can improve connectivity via the airspace before investing \$10 billion, \$20 billion or \$30 billion in a new HFR?

Mr. Andrew Gibbons: Well, I wouldn't comment on the before or after of the sequencing. I would just observe that there is a high.... This comes from our conversations with provinces and premiers. If you look at Newfoundland and Labrador, just as an example, the citizens of Newfoundland and Labrador pay for all of their infrastructure and all of their security, and they overpay for those services while we have outdated transportation policies that subsidize rail.

I'm not saying that rail shouldn't be subsidized or should be subsidized. I'm just observing that if the issue is how the regions of this country can all be connected properly and affordably, that is an issue that should be looked at, naturally and logically, because your citizens in Chilliwack do not benefit from that. It is air that is needed for your community and for remote regions of British Columbia.

I think that's an issue, and we've put it in our submission and in our recommendations to say, as part of the review of fees, that there should be comparisons made with how other modes of transport are treated. It's a basic fairness question.

• (1310)

The Chair: Thank you very much, Mr. Gibbons, and thank you, Mr. Strahl.

Next, I'll turn it over to Mr. Badawey. Mr. Badawey, the floor is yours for five minutes, please.

Mr. Vance Badawey: Thank you, Mr. Chair.

This has been a very enlightening conversation. I'm not going to start speaking about the politics of what we're trying to discuss today or, of course, some of the answers that some of the people around us are trying to get out of you to further that agenda. I am going to concentrate my questions on the business at hand, and that is to deal with the state of airline competition here in Canada and ultimately the ability that we have as partners to make it better for the consumer, whether it be through cost or through connectivity.

I'm really going to concentrate on this session with you, Mr. Liebman, with respect to Air Transat, and the following session with Mr. Jones from Flair, specifically on the "how" to the "what". I just basically underline and bold what the "what" is. Now it's the "how".

I'm going to give you the floor, because you will not actually be answering to me but to this young lady over here with testimony that is going to be contained within the final report to be presented to this committee, which will go to the department for a response and then, hopefully, from there to a strategy to actually get it done.

With that, I have a very simple question: How did you do it? Specifically, how do we learn from you with respect to encouraging further competition? How did you stay afloat? What investments did you make on the operating and capital sides? How can we learn from you to ensure that from that level or foundation we can move forward with a strategy we can embark upon?

Mr. Howard Liebman: I want to reiterate that Air Transat and the 5,000 employees of Air Transat are here to work with Parliament and with government to protect and enhance competition in Canada.

For 37 years, Air Transat has been taking Canadians on their, mostly, leisure trips, on their international trips, and sometimes on their trips back home. We've also been bringing hundreds of thousands of visitors to this country, primarily from Europe, every year as well. We've grown from one plane to, today, almost 40, with 5,000 employees.

We have kept in our lane. We've focused on the business. It's a testament to the professionalism of my colleagues. We had a very major challenge, a very major upset in the pandemic. When the borders are closed, there are just no operations; there are just no revenues. Obviously, that was the biggest challenge we've had in our 37-year history.

Thankfully, and thanks to the government's emergency support, we're still here. We intend to keep doing what we've been doing for the past 37 years in a bigger and better way, and in a new way with new partners, reaching out to the likes of Porter and others. We have a code-sharing agreement with WestJet as well. We're here to work with anyone and everyone, with a view to delivering reliable air service and competing in the marketplace.

Mr. Vance Badawey: On that, this may not be a question you can answer now, but I'd be very interested in knowing this if you can send it to me. What is your debt to operating ratio right now?

Mr. Howard Liebman: I'll get that for you, but remember, we never had a penny of debt up until—

Mr. Vance Badawey: That's why I'm asking.

Mr. Howard Liebman: We had \$700 million in cash, in fact. The \$700 million is gone, and we have \$800 million that we owe to the Crown. It's enormous. It's a ratio that is too large, and it's one that we need to get under control to do what we need to do in this market.

Mr. Vance Badawey: That's impeding on your operating budget, because you're probably financing a lot of that debt through operating.

Mr. Howard Liebman: That's absolutely the case, and I want to stress that it's not through any fault of our own, because we never had any before the pandemic. It is what it is, and we have to deal with it.

Mr. Vance Badawey: With that, it's always easy to say that government can simply give you a cheque, but with some of the investments that you're making through your operating, especially as it goes to capital, one-time expenditures, the impact on your operations can be alleviated if in fact the government starts participating in some of the other expenditures you're accruing year over year.

Mr. Howard Liebman: There were other models. We're very grateful for the support we got. It was purely debt. There was an investment made, half a billion dollars, in the equity of Air Canada. There are other models in Europe. There were massive investments and forgiveness.

There are options on the table to make sure that, whether it's Transat or Porter or whichever carrier needs the support, we make it through that pandemic hole, and then we grow and enhance competition in the country.

• (1315)

Mr. Vance Badawey: Thank you. I'd like to sit here and speak with you for another half hour.

Mr. Howard Liebman: It would be a pleasure.

Mr. Vance Badawey: The chair won't let me.

The Chair: Thank you, Mr. Badawey. Blame me.

I want to thank the witnesses who appeared before us in the first round. It is truly great to have all three of you appearing here in person. We thank you very much for that.

Colleagues, I ask that you remain seated as we suspend for two minutes and let the team welcome our next round of witnesses.

This meeting stands suspended.

• (1315)

(Pause)

• (1320)

The Chair: I call this meeting back to order.

Colleagues, appearing before us for the second half, we have, from Abbotsford International Airport, Mr. Parm Sidhu, general manager, by video conference.

We have, from Flair Airlines, Mr. Stephen Jones, president and chief executive officer.

From the National Airlines Council of Canada, we have Mr. Jeff Morrison, president and chief executive officer.

Welcome to you all.

As discussed, I will be asking for unanimous consent to forgo our traditional opening remarks and have those submitted electronically and included as testimony, so that we can go straight to a line of questioning.

Do I have unanimous consent?

Some hon. members: Agreed.

The Chair: Seeing no objections, it is so adopted.

With that, I will be turning the floor over to you, Mr. Williams. You have six minutes, sir.

Mr. Ryan Williams: Thank you, Mr. Chair, and thank you to our witnesses.

Mr. Jones, I'm happy to have you here from Flair Airlines. You are a competitor. We need more of you in Canada. I'm happy to talk to you today about competition in Canada.

Mr. Jones, I'm going to start right out. Being a new airline competing in Canada, have you seen any uncompetitive behaviour? If so, what behaviour are you seeing that's stopping you from being a better airline and competing in more routes?

Mr. Stephen Jones (President and Chief Executive Officer, Flair Airlines Ltd.): Yes, absolutely, we've seen anti-competitive behaviour in the market. I think it's pretty clear to us that the presence of Flair in the market is threatening to the major carriers, to what we call "big air": the two big duopoly carriers, WestJet and Air Canada.

I think that if you look back at the history you can see the formation of Swoop. Swoop was not created to promote competition. Swoop was a weapon designed to quell competition. We've seen it deployed against us around the market. I have some great examples. For Edmonton to Comox, we entered that market. Swoop immediately followed us a month later, at the same time and on the same days of the week. When we pulled out, they pulled out.

There's some real active deployment, I guess, of capacity against us, so yes, it's a tough market.

Mr. Ryan Williams: This is what can stomp out an airline. When it comes to these complaints, we had another airline, Lynx Air, that is gone, and we've had others in the past. We had a witness yesterday talk about six panels of airlines that have gone bankrupt in Canada. What is the government doing to help you when you're finding and seeing uncompetitive behaviour like you just mentioned?

Mr. Stephen Jones: There has been no assistance on those as it turns to predatory behaviour. I think the fact that Flair exists is a product of government policy. I think the 2018 policy that loosened up foreign ownership was one of the things that allowed capital to flow into Flair, and we have a great relationship with the government, but in terms of specific anti-competitive behaviour, there's nothing that I've seen.

Mr. Ryan Williams: Does the government know about this? Have you made complaints to the government, but they're not doing anything?

Mr. Stephen Jones: Flair—and this was prior to my time—did make a specific complaint around Swoop and Abbotsford, but it came to nothing.

Mr. Ryan Williams: I mentioned in our last panel examples of where you're in a market and decreasing prices are what happens. Normally, when we have competition, we have increased service and decreased prices.

For Toronto to Vancouver, which is a route you were in, on a date that we looked at, compared with Toronto to Ottawa, the presence of your airline seems to bring prices down to about \$385 on average for those airlines. When you're not in a market, such as Toronto to Ottawa, which is nine times less than the distance from Toronto to Vancouver, it seems to be a price of \$585 for those airlines. It seems like you're decreasing those prices. How do we get you into Toronto and Ottawa—that route?

• (1325)

Mr. Stephen Jones: You raise a great point. This is what we call the “Flair effect”. When Flair enters a market, it brings prices down for all the participants in the market. The Flair effect, on average, has resulted in a 34% reduction in fares in the markets that we operate in relative to what it was prior, and that's for all Canadians.

Whether people like Flair or not, people should be thankful that Flair is in there and competing, because we bring that benefit. We've estimated that to be in excess of \$700 million since Flair really started to accelerate in 2021: \$700 million of money that's gone into the pockets of Canadians at a time when affordability is one of the big questions on everyone's lips. Prices are going up across the board. Flair is doing the opposite. We're pulling prices down, and that money that stays in the customer's pocket flows through the economy generally, so it's good for everyone.

The specific example you raise, Toronto and Ottawa, is a market that's actually dominated by the big guys, and we don't believe that we could compete effectively there.

Mr. Ryan Williams: What specific barriers do you see to entering and competing in that market?

Mr. Stephen Jones: It's a relatively short market. It has expensive airport costs at either end, and the ability to amortize those airport costs per mile means that every mile you operate in is relatively expensive. Lower airport costs at either end would certainly make a difference.

Mr. Ryan Williams: In terms of the taxes we talked about, we've heard a lot of testimony that taxes seem to be higher across the airports across Canada. Do you find that a barrier as well? Are taxes from this government a barrier to entry?

Mr. Stephen Jones: Undoubtedly. I mean, Canada is a very expensive place to do business.

I've worked in airlines around the world. I was 16 years at Air New Zealand. I was chair of the Star Alliance management board during that time. I was three years as the managing director and deputy secretary CEO of Wizz Air in Europe, one of the world's best ULCCs. You see the decision-making that's made by airlines,

and the cost of doing business really impacts our network decisions.

Mr. Ryan Williams: Air Canada testified. They said there's more competition in Canada than in those other jurisdictions, so maybe you can comment about Australia, New Zealand and parts of Europe. Does Canada have enough competition?

Mr. Stephen Jones: I did hear the comments, and I was wondering how much time it spent in Europe, because Europe is a very competitive market, and ultra-low-cost carriers operate there quite successfully.

I think, absent Flair, Canadian airfares would be much higher. Absent Flair, I think the competition in this country would revert back to what it was like previously, when you had to pay \$800 to fly for an hour and a half. You know, it just shouldn't be that way.

When we came, I think one of our biggest competitors was actually the couch. People had given up on the concept of affordable travel. They just stayed at home. We've gotten people off the couch and we've gotten them flying around the country more often, to more places.

The Chair: Thank you very much, Mr. Jones, and thank you, Mr. Williams.

Next we have Mr. Iacono.

[*Translation*]

Mr. Iacono, go ahead for six minutes.

[*English*]

Mr. Angelo Iacono: Thank you, Mr. Chair.

Mr. Jones, I have a question for you. My colleague said that when competition exists we have decreased services and low prices. Is that correct?

Mr. Stephen Jones: Yes.

Mr. Angelo Iacono: Also, WestJet representatives stated earlier that no American company wants to fly out of Canada because of the disadvantages that exist, and also high taxes, but I want to also put up a point that taxes were much higher when the Conservatives were in power prior to 2015 than what they are today.

Now, continuing on that point, if we don't have any American company wanting to fly in Canada...and you're a Canadian company. Is that correct?

Mr. Stephen Jones: That's right.

Mr. Angelo Iacono: You're a Canadian company. What does that give you guys? All the Canadian companies that are flying out of Canada, what does it give you guys as the pie? Do you have a bigger part of the pie?

According to WestJet, he's highlighting the disadvantages because no American company wants to be here, yet, if an American company were in Canada, flying out of Canada, what would happen to all the Canadian companies flying out of Canada? Would you be still laughing and giggling and being happy that you're making good money, or would you be concerned that you have a bigger competitor in the arena?

Mr. Stephen Jones: I'm fundamentally a free marketeer. I believe that competition is good. I think that if we saw an open market, we would see better outcomes for consumers generally. Obviously the airline industry is one that's full of regulations that go back to the beginning of civil aviation in time, you know? The cabotage, the flying within a country by foreign carriers, is generally limited, but competition is good for customers.

• (1330)

Mr. Angelo Iacono: Sir, you're in a company and you're in business to make money, right?

Mr. Stephen Jones: Yes.

Mr. Angelo Iacono: Okay. When you make a profit, do you share your profit with the Canadian government?

Mr. Stephen Jones: Through taxation, we would. We haven't gotten to that point yet.

Mr. Angelo Iacono: We all pay taxes, that's for sure, but you don't share your profits. You don't give your profits over to Canada. You're in business to make money—to offer a service and make money for it. Do you agree with me in saying that is it the fault of the Canadian government that the airline industry is having such difficulty, or is it thanks to the Canadian government that all airline companies are making a profit?

Mr. Stephen Jones: I dispute the last fact—

Voices: Oh, oh!

Mr. Stephen Jones: —because the airline industry, I think in its entire history, if you add it up, has never made much money, but I think this is an expensive place to do business, and what is an incontrovertible fact is that if there were lower costs in the system, more people could afford to fly—

Mr. Angelo Iacono: Mr. Jones, how do you manage to remain in competition with Air Canada, WestJet and Air Transat?

Mr. Stephen Jones: We have a very simple model: It's keeping our costs as low as possible and passing that on to customers in the form of lower fares.

We do that through two things. The first is running an efficient business, and the second is providing choice to customers around what we charge for.

The Chair: Thank you, Mr. Jones.

Mr. Badawey, the remainder of the time is yours.

Mr. Vance Badawey: I have the same question, Mr. Jones, that I asked Mr. Liebman earlier with respect to how you did it, or how you are doing it with respect to keeping your nose above water and becoming more of a competitor here domestically.

Mr. Stephen Jones: I'm not going to pretend it's been an easy journey. It hasn't, but we are still here. We've done it without any

specific support from the government, with the exception of the RATI funding of \$11 million we received, and that went directly to encouraging regional connections. We didn't get the \$270 million that Porter got, the \$370 million that Sunwing got, the \$800 million that Transat got, or the \$5 billion that Air Canada got.

We have been funded privately, and it's very tough, but again, we do it by being very focused on our business model, so we know what we're about. We're about low-cost, low-fare, affordable travel for all Canadians and being true to that model. It's a model that's worked in jurisdictions around the world. We believe there's nothing about Canada that makes it so different that an ultra-low-cost model shouldn't work here.

I hear a lot about how it's different in Canada. I'm here to tell you it's not. Every country is nuanced, but Australia is a big country, like Canada. It has 28 million people. Most of the people live within 100 miles of the coastline. It has half a dozen big cities, and it has 53 aircraft and Jetstar as an ultra-low-cost carrier. Chile is a long, thin country. It has four or five big cities. It has 17 million people, and it has three airlines. Two of them are low-cost carriers.

There's nothing specific about Canada or Canadians to say that they don't deserve affordable travel. They do deserve affordable travel, and Flair's here to deliver it.

Mr. Vance Badawey: Thank you, Mr. Jones. I give you that credit. That integrity you're bringing to the sector is very much appreciated. As well, I'm a big fan of the Flair effect. Well done.

I guess I'm going to pivot over in my last question in a broader sense as it relates to what we're trying to do to ensure and strengthen our supply chain. Although a lot of people think supply chain is all about moving trade, I think supply chain is also about moving people as well, sometimes even with trade.

We are moving forward with HFR. We are looking at other different methods of transportation, marine being a part of that, especially in the west end and the east end of the country, both on the ocean and on the Great Lakes. How do you see the airline sector fitting into that multimodal capacity, to give not only more of a choice but also more connectivity to the traveller, especially in some of the remote areas?

Mr. Stephen Jones: I think air travel is fundamental to that. It's actually with a free market for air travel that we'll see the connectivity come. This is a big country that will require certain measures taken for more remote communities—there's no doubt about that—but for the big connections, air travel is the most logical way. It's fast. The assets are actually relatively cheap relative to a long-term rail build or anything like that.

I think air travel should actually be at the forefront of the policy around connectivity for communities.

Mr. Vance Badawey: Thank you, Mr. Jones. Well done.

The Chair: Thank you.

Next, we'll go to Mr. Bachrach.

Mr. Bachrach, the floor is yours. You have six minutes, sir.

Mr. Taylor Bachrach: Thank you, Mr. Chair, and thank you to both of our witnesses for being here.

I'm interested in this. You were mentioning, Mr. Jones, the Swoop effect, and how in certain markets where you were trying to compete, Swoop would come in, drive down the pricing, essentially chase you out of the market and then leave themselves. When they did that, when they came in with ultralow pricing as a form of anti-competitive behaviour, were they making any money? Or was this a money-losing venture that was part of a larger picture for the company?

• (1335)

Mr. Stephen Jones: We analyzed them closely—we're a very analytical company—and it's hard to imagine that they were making any money on that. No, absolutely not.

Mr. Taylor Bachrach: One of the policy approaches that's been suggested by some experts in this field is that the government should establish a pricing floor both for low-cost carriers and for larger airlines that are seeking to compete with them. That then would provide some breathing room, so that you don't get this sort of race to the bottom followed by the exit of certain airlines and the prices going back up. What do you think of this regulatory approach?

Mr. Stephen Jones: I disagree with it. I don't think it's going to work. I don't think regulating prices in airline markets works anywhere around the world, in fact. In many markets, it doesn't. It will only encourage inefficiency.

I think competition is good. Competition drives efficiency, but predatory behaviour needs to be monitored closely, and there needs to be a faster intervention mechanism for predatory behaviour. By the time we make a complaint, go through the process and submit our evidence, it's too late. You've burnt \$10 million and you have to get out of there. The processes around regulating predatory behaviour, I think, are too slow.

Mr. Taylor Bachrach: In those cases, how would you define predatory behaviour, or how does the law define it?

Mr. Stephen Jones: Well, this is why it takes so long to get a ruling on it. It's a free market, and people can choose to fly where they want to fly, but when the evidence is that it hasn't been served forever in the market, we go and enter into it, someone comes and sits in on the same day of the week and same time of day a month after we start, we end up saying we can't live there, and we get out and then they get out, you can draw your own conclusions.

Mr. Taylor Bachrach: The NDP recently tabled Bill C-352, the lowering prices for Canadians act, which seeks to strengthen the Competition Act to avoid some of these anti-competitive behaviours. It was intended first and foremost for sectors like the grocery sector, where we're seeing some pretty extreme price gouging.

I wonder whether you're familiar with the bill and whether it would have an impact on the kind of thing you're talking about when it comes to predatory anti-competitive behaviour.

Mr. Stephen Jones: I'm sorry, Mr. Bachrach, I'm not familiar with it in detail, but being relatively new to Canada, I do hear a lot of complaints. There's almost an acceptance of the fact that you have these oligopolies that will control prices in different industries in Canada. There's an acceptance by Canadians that it's just the way it is in Canada, that it's the price we pay for living in this beautiful country. I'm here to disagree with that. I think we need more competition. It delivers better prices and more efficient companies. It's better for all Canadians.

Mr. Taylor Bachrach: There are some markets that simply aren't large enough to facilitate competition. You mentioned earlier that in a country like Canada we need certain measures for remote communities. I represent a region that is all rural and remote communities. We do see that behaviour, whereby you have mostly a single carrier in many of the markets, and some exorbitant pricing.

What regulatory approach do you think the government should take, if any, to ensure that rural Canadians have affordable air travel?

Mr. Stephen Jones: One approach might be to offer a revenue subsidy of some sort that is there to be bid on by other airlines. It's a very transparent subsidy that the most efficient airlines will be able to make the most of. That would be one mechanism.

Mr. Taylor Bachrach: Is that similar to the provincial program in Quebec? There's also a program in the United States, I understand, that subsidizes some smaller markets.

Mr. Stephen Jones: Sure. You see it in parts of Europe as well, in Scandinavia and so on.

Mr. Taylor Bachrach: Do you agree with the statement made earlier by our representative from Air Canada, that Canada has a dynamic and competitive airline market?

Mr. Stephen Jones: I would say that Canada's been a cozy duopoly for too long and Canadians have been paying too much for too long. Flair—and Lynx alongside us, until they exited the market—has disrupted that. It would certainly be in the best interest of the duopoly for Flair to fail, but we're not going to. Absent Flair, prices will go straight back up to where they used to be.

• (1340)

Mr. Taylor Bachrach: Thank you.

The Chair: Thank you, Mr. Jones.

Thank you, Mr. Bachrach.

[*Translation*]

Mr. Barsalou-Duval, finally, the floor is yours for six minutes.

Mr. Xavier Barsalou-Duval: Thank you, Mr. Chair.

Thanks to the witnesses for being here.

My questions are for Mr. Jones, the representative of Flair Airlines. My first question is similar to the one I put to the Air Transat representative earlier.

Earlier, some witnesses mentioned that access to airport gates and favourable time slots could be a challenge. However, that helps ensure healthy competition. I'd like to know if Flair Airlines has had any trouble accessing gates at an airport. Without a gate or time slot, you can't plan flights.

Is this a problem for you? What can we do to ensure healthy competition and access to gates and time slots?

[English]

Mr. Stephen Jones: I apologize, Chair and Monsieur Barsalou-Duval, but I did not get a translation.

The Chair: Mr. Jones, we'll look into that. We'll make sure the time is stopped for Mr. Barsalou-Duval.

[Translation]

I'm going to conduct a brief test to ensure the interpretation is working.

Can you hear me, Mr. Jones?

Good.

Mr. Barsalou-Duval, I'll allow you time to ask your question again.

Mr. Xavier Barsalou-Duval: All right.

I wanted to know if access to gates and time slots was a major factor in achieving a minimum level of competitiveness. Is this a problem for Flair Airlines? Has it been the case in the past, or do you think it could be?

How can we ensure that new carriers, or small carriers at least, have adequate access to gates and time slots? We know they can't offer flights without them.

[English]

Mr. Stephen Jones: It's an excellent question. The issue really is in Toronto Pearson airport. In other airports, the availability of slots is much less of a constraint, but it certainly is in Toronto Pearson, where the slots are controlled by the existing players. I think, for example, as Sunwing got folded into WestJet, WestJet got control of another big bundle of slots in there. Part of our submission in the public interest review there was that slots should have been distributed more generally. Access to slots in Pearson is a real issue.

[Translation]

Mr. Xavier Barsalou-Duval: Unless I'm mistaken, you aren't in Montreal yet. Is there a reason why that's the case? Do you think you'll eventually be there?

[English]

Mr. Stephen Jones: We do operate to Montreal. We also looked a lot at Saint-Hubert as a potential port. It's one of the most high-cost airports in the country—there's no doubt about that—but there is a good market. We enjoy operating to Montreal, but it is a very expensive airport.

[Translation]

Mr. Xavier Barsalou-Duval: I have another question for you.

Several witnesses mentioned foreign shareholders. Some of them said that the 25% rule wasn't necessary and that, if it were repealed, people outside the country could invest in Canada and the rule that the majority of shares must be held and controlled by Canadians would still be complied with.

Do you agree with them?

[English]

Mr. Stephen Jones: I do agree with it. I think loosening up access to investment is good for competition, because investment from Canadians tends to have a more risk-averse tone to it. Opening up to a broader investment universe is good. The controls around foreign ownership are dealt with differently in different countries. For New Zealand, for example, it's wide open, but the government owns a special share, which gives it certain powers to protect the interests of the country.

There are different ways in which it can be approached, but I would certainly favour lifting the foreign ownership level from 25% to 49% as a first step.

● (1345)

[Translation]

Mr. Xavier Barsalou-Duval: There's another question that I'd like to address with you.

Many witnesses discussed the excessively high ticket prices and additional taxes and fees. I believe you agree with that, at least from what I understand, but can you give us an example of a service that costs more than it does elsewhere in the world?

Are there currently any places where you see inefficiencies?

[English]

Mr. Stephen Jones: I think the AIFs are the perfect example for this. It's one of the very few products I've ever come across where you have to pay today for a potential future benefit. You wouldn't see that in any consumer good. You wouldn't go and buy a car now and pay extra to General Motors for what development they might do for the future. AIFs are a really good example. There's no control on it. There is no incentive on airports to reduce costs.

Mr. Parm Sidhu's airport is a great example of an airport that's focused on reducing costs. Kitchener-Waterloo is another great example as well. Generally, however, there is no incentive in this system for people to reduce costs. We know, through our everyday pricing and what we see in the market, that every dollar makes a difference. Every dollar of cost means someone else isn't travelling. Some Canadian can't afford to travel and stays at home on the couch. The costs in this system are a barrier to the access to affordable travel.

[Translation]

The Chair: Thank you, Mr. Barsalou-Duval.

[*English*]

With that, the meeting is adjourned.

Thank you, Mr. Jones; thank you, Mr. Morrison, and thank you, Mr. Sidhu, for being with us today and for lending us your testimony.

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