Pre-Budget Submission to the House of Commons Standing Committee on Finance

Prepared by the Air Canada Pilots Association

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Executive Summary

The Committee has asked for suggestions on how to achieve a sustained economic recovery in Canada. Our submission focuses on how to create and sustain quality jobs.

We are keenly interested in sustaining the quality jobs provided by our profession. Based on the evidence presented in this submission, the two recommendations put forward by the Air Canada Pilots' Association (ACPA) are that the Government of Canada should adopt measures to:

1. Reform federal regulations governing defined-benefit pension plans; and

2. Address labour market abuses that jeopardize the development of valuable skills for members of our profession in Canada.

Budget Expectations

These recommendations could be achieved at no additional cost to the Government of Canada.

About the Air Canada Pilots Association

Air Canada Pilots Association is the largest professional pilot group in Canada, representing the more than 3,000 pilots who operate Air Canada's mainline fleet.

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The Air Canada Pilots Association**s** thanks the House of Commons Standing Committee on Finance for its invitation to offer our suggestions for the 2012 Federal Budget. We would appreciate the opportunity to discuss our submission with the Committee at one of its upcoming meetings.

The Committee has asked for suggestions on how to achieve a sustained economic recovery in Canada. Our submission will focus on how to create and sustain quality jobs.

We are keenly interested in sustaining the quality jobs provided by our profession. Air Canada pilots have the kind of jobs we would like all Canadians to enjoy. We have acquired a unique skill, through education, training and experience. We continue to maintain and upgrade that skill throughout our careers, undergoing annual training and testing for many hours, much of it on our own time and at our expense.

In return, we are compensated for our unique skills. We have the opportunity to progress in our careers, flying increasingly larger and more complex aircraft over longer distances, while growing our financial compensation levels at the same time. It is quite possible in our profession to earn a six-figure salary and retire comfortably on a pension that provides financial security, having travelled abroad extensively while building a home, raising a family, contributing to the community and providing spin-off benefits of all that activity to our national economy.

In short, it is still possible in our profession to have the kind of good jobs that we should want all Canadians to enjoy. We think measures that support that kind of employment would strengthen Canada and improve quality of life for our citizens.

Yet, we see some troubling issues arising which, if not addressed, could threaten the sustainability of quality jobs in Canada. Our submission focuses on the need for measures to address these issues.

In particular, we will focus on two issues:

1. The need to reform the regulations governing defined-benefit pension plans; and

2. The need to address labour market abuses that could jeopardize our valuable skills

We wish to emphasize that none of the measures we propose would require additional expenditure by the federal government or additional taxation measures. Our suggestions are simply common sense actions that can and should be taken in the national interest.

1. Pension Reform

Earlier this year the federal government was prepared to introduce legislation to end the dispute between Air Canada and the employees represented by the Canadian Auto Workers union (CAW).

The government's hasty intervention in free collective bargaining is troubling, but that is not the focus of our submission.

We are concerned that little attention has been paid to the much larger issue that gave rise to the dispute in the first place: pension solvency deficits and what to do about them. In our view, there has been very little substantive discussion of this policy issue, which is the federal government's responsibility.

We have only heard corporate voices saying that defined benefit pension plans are unaffordable and a threat to competitiveness.

Instead of simply accepting this corporate line, we believe the government should examine more closely the causes of these pension deficits and the many possible solutions available.

It's important to note that the corporate calls to cut or end defined benefit plans are being made in the context of unprecedented economic circumstances. Long-term interest rates are at their lowest since immediately after the Great Depression. Coupled with market meltdown of 2008/2009, this has depressed the value of pension trust assets, creating large deficits and demands for increased contributions under current funding regulations.

The situation was certainly exacerbated by the perfect storm of stresses that hit the Canadian aviation industry in the last decade, including the largest terrorist attack in history, the most significant health pandemic in this country since polio and the largest market collapse since the Great Depression. The resulting downturn in corporate revenues affected the aviation sector most drastically.

We would like to underline that none of these factors had anything to do with paying out "unaffordable" levels of benefits.

Consider, as well, that the same corporations who are now declaring pensions "unaffordable" were quick to take funding holidays when the economic conditions boosted their pension assets into surplus positions. In the case of Air Canada, its controlling shareholders also made a conscious decision to strip the airline of about $4 billion in assets in the corporate restructuring of 2003/2004.

This bit of history should be well known in government circles, as it resulted in federal government intervention twice in Air Canada's pension plan, most recently in 2009 by agreeing to a special funding protocol that put the airline on a fixed schedule of payments to its pension plans. This provided breathing room for the struggling airline to put its financial house in order. But as we are now seeing, it didn't address the root of the problem.

Government bears responsibility for pension regulations that currently place maximum stress on pension plan sponsors precisely when they are least able to cope with increased demands for cash. The current regulatory regime uses a low discount rate and five year amortization schedule, which combine to pump up the required contributions from plan sponsors who are already struggling with reduced cash flows resulting from other economic forces.

Conversely, overfunding limits in the current pension regulations prevent companies from salting resources away to meet these rainy day needs. These limits ensure that pension plan assets rise and fall in a "sine wave" banding from slightly above requirements to drastically below 100 per cent funded.

These funding regulations are targeted at funding solvency deficits, which are notional to begin with. Solvency deficits are determined by taking a "snapshot" of pension plan assets and liabilities, then determining how much funding would be required to purchase annuities to pay out benefits to plan members, should the pension plan be terminated. In making this calculation, certain assumptions are made. One of these is the discount rate, which assumes a rate of return on the investment of plan assets. Under current regulations, we assume a rate of return of less than five per cent. But in this historically low level of returns, is it not fair to ask if this assumption is a bit too conservative, given the pressure it is applying to cash-strapped fund sponsors?

Even if they were forced to wind up, large pension trusts would be unable to purchase the huge number of annuities that the discount rate is designed to emulate. They would, in fact, remain invested in a basket of different types of securities – just as they are today. The long-term rate of return on this basket of instruments is closer to double what our solvency test assumes. Why then are we planning for the impossible?

It is high time that the government re-examined and overhauled its pension funding regulations in a meaningful way. Some combination of discount rate adjustments, extension of amortization schedules, along with a significant increase to overfunding limits, should be seriously examined.

Today's pension funding crisis demonstrates that the changes to solvency funding rules resulting from the government's review process of 2008/2009 have proven inadequate. The fact is that our pension funding rules will continue to place undue stress upon plan sponsors at exactly the worst moments.

Defined benefit pensions are an important part of retirement planning for many Canadians. They can and should continue to be so for many years to come. We shouldn't be throwing away key components of Canada's retirement system based upon the unprecedented events of the last decade and the inevitable swings in market performance. Instead, we should be fixing the federal funding regulations so pension plans can withstand such shocks when they happen again in the future.

2. Labour market abuses

The requirement to fly a commercial aircraft in Canada is a Canadian Airline Transport Pilot Licence (ATPL). There are currently hundreds of Canadians holding this licence who are either unemployed, under employed or being forced to look overseas for employment.

The most timely and prominent examples of this are the former pilots of Skyservice Airlines. Skyservice, a Canadian charter carrier, was first downsized and ultimately placed in receivership in the spring of 2010 putting over 200 Canadian pilots out of work. There are still well over 100 ex-Skyservice pilots unemployed, representing a waste of their skills and a drag on the economy.

Yet while a large pool of suitably qualified pilots are ready, willing and able to work in Canada, an increasing number of Canadian charter carriers such as Sunwing, CanJet and Jazz are being allowed by the federal government to hire foreign pilots, mostly from Eastern Europe, under the auspices of the Temporary Foreign Workers program.

For example, Thomas Cook UK staffed Jazz's charter operation last winter. It advertised its requirement for 42 B757 captains and first officers to operate flights from Canada for Jazz. Yet qualified Canadian B757 pilots from the former Skyservice remain unemployed.

Aircraft type ratings are being used to screen out eligible Canadian workers. Employers like Sunwing and CanJet cite the non-availability of “qualified” 737 pilots, when this is easily remedied through a short type-rating course.

Training costs are cited as an excuse to not hire Canadian pilots. This gives these companies an unfair advantage over those companies who do hire and train Canadians.

In the past, foreign pilots were allowed to cover Canadian peak periods with reciprocal arrangements put in place for Canadian pilots to work in the European Union and elsewhere. Until a program of full and measurable reciprocity is re-established with the European Union allowing Canadian pilots to seek work there, no foreign pilot should be employed at a Canadian operator until exhausting the supply of qualified Canadian pilots.

Meanwhile, Canadian pilots are being forced to leave the country in order to find work in the Middle East and the Asia/Pacific region. This “de-capitalizes” the Canadian industry of years of experience and expertise, representing a loss of millions of dollars worth of investment in their training. The influx of foreign pilots causes a “synthetic” stagnation in the Canadian industry’s labour market, both preventing career progression for Canadian pilots and preventing the creation of entry-level positions for young pilots seeking to enter the industry for the first time. This, in turn, has led to the declining enrolment in flight school programs across the country we are witnessing today. Furthermore, the government of Canada continues to pay out thousands of dollars in EI to unemployed Canadian pilots like the ex-Skyservice pilots.

The government should change the policies at Human Resources and Skills Development Canada to ensure that qualified Canadian pilots are not being lost or stymied as a result of the dubious practices of some Canadian operators undertaken simply to avoid the training and social costs of employing Canadians.

Conclusion

In support of the federal government's goal to create and sustain quality jobs in Canada, the Air Canada Pilots Association recommends the following measures:

1. Reform of the regulations governing defined benefit pension plans under federal jurisdiction with specific attention to a more reasonable discount rate and extension of amortization periods; and

2. Changes to the policies at Human Resources and Skills Development Canada to address labour market abuses and the loss of valuable jobs in our profession.

Should you require any further information regarding my submission, please do not hesitate to contact me.

Sincerely,

Captain Paul Strachan
President
Air Canada Pilots Association