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CANADA

## **Standing Committee on International Trade**

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**EVIDENCE**

**Monday, February 23, 2015**

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**Chair**

**Mr. Randy Hoback**



## Standing Committee on International Trade

Monday, February 23, 2015

• (1530)

[English]

**The Vice-Chair (Ms. Chrystia Freeland (Toronto Centre, Lib.)):** Colleagues, can we begin? I think we have a quorum now.

Pursuant to Standing Order 108(2), the study of the positive effects—and maybe not only positive effects—of the global markets action plan.

I'm delighted that we have such excellent witnesses speaking to us today. We're going to start with Andy Gibbons who is the director of government relations for WestJet.

Thanks for being here, Mr. Gibbons. We'll give you ten minutes to begin and then we'll ask you many brilliant and inspired questions.

**Mr. Andy Gibbons (Director, Government Relations, WestJet Airlines Ltd.):** Great. I'll try to give you brilliant and inspired answers, if I can.

Thank you very much, Madam Chair. I appreciate the opportunity and the invitation to speak with you today.

At WestJet we welcome the interests of this committee, any committee, and parliamentarians, of course, in the future of commercial aviation in Canada, an incredible driver of jobs and economic growth. These hearings on the government's global markets action plan and the success of these strategies is timely, given some of the exciting developments at WestJet and the ways in which we are bringing these agreements to life.

The international side of our business is less known than our domestic accomplishments, so I apologize in advance if you feel inundated by statistics.

Bilateral air agreements are helping to create jobs, expand the critical travel and tourism sector, and connect the world to Canada and Canadians to the world. Bringing these agreements to life is the work of strong, entrepreneurial, domestic carriers, and I'll be outlining how we are doing that and the multiple ways in which Canadians are benefiting.

This Friday we'll be celebrating our birthday. At 19 years of age, WestJet and all WestJetters are very proud of our accomplishments and our growth on the ground and in the air: from five destinations and three aircraft in 1996, to 19.7 million guests on our aircraft in 2014. There's a lot to be proud of.

Unfortunately, like on most birthdays, we have to take a bit of a look backwards, but this is a good story. In 2006, we began our international service to Nassau, Bahamas, and since then we've

grown significantly. In 2015, we'll have over eight million seats on flights outside Canada: 5.5 million to and from the United States, which you've heard is our largest market for international travel, and 2.5 million to and from other international points. That equals 36,000 flights to and from the United States, about 100 a day in 2015, and 16,000 to and from international points. To put this in perspective, in 2005, 98% of our overall capacity was used on domestic service. In 2015, 30% of our capacity will be deployed on non-domestic routes. The international proportion of our business is expanding and will continue to expand.

These are some quick highlights over the last year on the issue of international travel and WestJet.

In 2014 we saw the very successful launch of our first transatlantic service to Dublin, Ireland, in part made possible as a result of the Canada-EU agreement. This was, and is, one of the most successful services in the history of WestJet. It's over 98% sold, linking St. John's directly to Europe.

Building on that success, we announced that we would begin service between Halifax and Glasgow, U.K. this May, and the resumption of our seasonal service to Dublin. We're proud of our partnership with the Halifax airport, and you'll be hearing from Jerry Staples after me.

Over the course of 2014, we continued to grow our airline partnerships, which is the cornerstone of our approach to international connectivity at the moment, adding 13 interline relationships and two new coach air partnerships with China Airlines and Qantas, to bring us to 35 agreements in total, and I'll come back to this.

In July 2014, we announced our intention to begin flying our own wide-body aircraft for the first time. We selected the Boeing 767-300 for that role and expect to deploy them on routes between Alberta and Hawaii late this year, and in 2016, we look forward to using these aircraft to expand our network into additional overseas markets.

Our growth and investments aren't just a good corporate story for WestJet; they're an excellent economic story for the country. Here are a few examples of how our growth is driving other critical sectors.

We're the only commercial carrier in Canada to do all its heavy maintenance in Canada. You've heard how important these jobs are to Kelowna and Kelowna Flightcraft, the largest private employer in the region. We're proud of that partnership and the jobs we're bringing to that region and also to Windsor, Ontario.

We have a conditional purchase of 45 Bombardier Q400 aircraft manufactured in Toronto. We currently have a firm order of 30 and options for an additional 15. These are some of the highest skilled manufacturing jobs in Ontario, and we're proud of that partnership.

But as important as where those aircraft are made is where they're going to be flying, and that is the story of WestJet Encore. WestJet Encore is designed to service small and medium-sized communities in Canada that either had no service or were being served by one carrier for many decades. The results of WestJet Encore to date have been incredible, to say the least, and I'll get into that, but it's relevant to this committee and your study because of something we call "beyond the gateway access".

A lot of these communities have only had a single carrier to chose from in connecting internationally.

● (1535)

Here is the story of WestJet Encore. WestJet always had a fleet of 737 narrow-body jets, but this brings us into a different type of aircraft. All of those communities we could not serve profitably with jets we can now serve with Bombardier turboprops. A good example is Fredericton, New Brunswick. We launched service in April with twice-a-day service to Toronto. We're very excited about that. Fredericton was the largest urban area of the country that we had yet to serve, so we're very proud that this is coming up in April. That's just one example.

The demand and lobbying from communities has been overwhelming because communities understand that international access, and lower fares, and competition are key to their economic growth. What this basically means is that international visitors want affordable access to more than the CN Tower and Canada Place. They want to go to Nanaimo, or Brandon, or Fredericton, or Gander. Increased choice and competition in the regional market is going to extend the benefits of bilateral agreements beyond the important hub airports, and we are already beginning to see that.

To break it down a little bit further—back to the statistics I told you about—there are 32 cities in Canada that only have international connectivity with Air Canada Star Alliance, there are 12 cities in Canada that have connectivity offered by multiple carriers, and there are 17 cities in Canada that have international connectivity offered by Air Canada and WestJet combined.

The key point here is that 25% of the total in Canada, were it not for WestJet, if not for us and our alliance partners, would be international monopoly markets for Air Canada. As we expand, other cities will move from the Air Canada Star Alliance monopoly category into the competitive category, and those include Fredericton, Penticton, Gander, and Sydney in 2014 and 2015 alone.

I think you get the point I'm trying to make here, which is that the biggest key to realizing the potential that any agreement creates are strong, profitable, and entrepreneurial airlines. From a bilateral perspective, code-share services are an integral part of our tool kit for growing and sustaining new markets. In any open sky type of agreement, code-share rights are generally unrestricted and provide carriers on both sides ready access to the third and fourth freedom markets by placing their code on any carriers operating between the two countries.

Code-share, as you've heard, is an important economic contributor and is far less risky and more cost effective than launching own-aircraft services, and thus is an easy way to develop a presence in both contracting party countries.

The blue sky policy and the push for open skies agreements in much of the Caribbean has been instrumental in WestJet's success in this region, and we are eternally grateful for those efforts for both own-aircraft and code-share expansion of rights. With the addition of our first wide-body aircraft, we seek to repeat the same successful formula, and bring in lower fares and more choices for air travellers for countries within the continental EU, as well as access to markets in South America and Asia.

The markets that are of great interest to the chief negotiator for further expansion are also on our priority list, and again, our thanks for these efforts to grow access to these important markets.

The Canadian government has been very supportive of our efforts to expand internationally, and continues to accept input in terms of establishing priorities and addressing "doing business" issues within existing agreements.

While there is some capacity not being used, good points have been made about how these agreements are forward looking, and they are negotiated every year, which implies that room for growth must be built in. Furthermore, material access issues like slot constraints sometimes means the unused capacity may not be due to a lack of desire by a carrier, but rather the physical limitation on the ability to exercise those rights.

Overall, Mr. Christie and his team, and Mr. Rioux and his team should be congratulated for their work, and they are supported by WestJetters.

We are encouraged by some of the discussion by this committee over the last few weeks around the policy environment that encourages strong carriers. To this end, the appointment of David Emerson to chair the Canada Transportation Act Review Panel is both well-received and timely for our sector. Our own submission to the panel has recommended that Canada's aviation cost structure both be recognized and be made the number one priority. Tackling this issue, as indicated by the Council of Chief Executives and others, is the single most important recommendation this committee can make with respect to ensuring that bilateral air agreements are providing the strongest economic benefit possible to Canadians.

● (1540)

As you've heard today and over the last few weeks, commercial aviation in Canada is not a stagnant sector. The competition is fierce, as it should be. We welcome the panel's report later in 2015.

I would be happy to take questions from the committee.

Thank you very much.

**The Vice-Chair (Ms. Chrystia Freeland):** Thank you very much, Mr. Gibbons. You were exactly on time. You and your team did an excellent job.

**Mr. Andy Gibbons:** You mean it was on the button?

**The Vice-Chair (Ms. Chrystia Freeland):** You were three seconds over. That's pretty impressive.

We have one more witness. We are now going to hear from Mr. Mike Darch of the Consider Canada City Alliance. He's joining us by video conference from Miami, which I'm sure is much warmer than here.

Thank you very much for joining us, Mr. Darch.

**Mr. Mike Darch (President, Consider Canada City Alliance):** Thank you for taking the time to listen today and for making the arrangements to allow me to appear by video conference. I left Ottawa yesterday, and the weather was a little different there.

I'll give you a quick background of who the Consider Canada City Alliance is. We are a collaborative organization of 11 of the economic development organizations from municipalities across Canada. Our members are Halifax, Quebec, Montreal, Ottawa, Toronto, the Waterloo region, London, Winnipeg, Saskatoon, Calgary, and Vancouver. We account for approximately 52% of Canada's population, approximately 54.5% of its GDP, and in the last five years approximately 68% of Canada's GDP growth.

Our primary focus is to collaborate, to attract foreign investment to Canada and to our member cities, to share best practices among ourselves to improve our productivity and effectiveness, and to work with partners to improve the attractiveness of Canada as a location for foreign direct investment. As an organization we started informally in 2007. In 2012, a little less than three years ago, we incorporated as a not-for-profit organization.

For the functioning of our organization and our members, the global markets action plan is of critical importance. First, it clearly indicates Canada's geographic priorities for foreign direct investment and trade as well as the priorities among industrial sectors. Canada is and always has been a trading nation. It highlights the importance of foreign direct investment and trade to the Canadian economy.

Of great importance is that it clearly indicates to the international market the commitment of the federal government to the furthering of foreign trade and investment. It helps our individual members to develop their strategies and ensure that they are in concert with federal objectives, and it provides a clear indication of where and how federal resources will be deployed.

I know you're interested in what has been achieved. First, I think of most importance for our members is that it has allowed them to focus on specific industrial sectors and specific geographic areas. Municipal organizations such as our members are rather at the bottom of the totem pole. Resources are very scarce, and they have to focus their efforts.

We believe there is an increasingly effective one-two punch whereby the federal government presents the value of the policies and the business environment that has been created in Canada, and then our members follow up with the specific opportunities for investors and indications of how those investors can be integrated into our individual cities.

Over the past two years there has been a tremendous increase in the working relationship between our organization and its members

and Foreign Affairs, Invest in Canada, and the Trade Commissioner Service. We're increasingly integrating our action, including activities, communications, and messaging. As I mentioned, we're making better and better use of the scarce resources of our members. As of this summer we had a trade commissioner attached to our organization, who now works with us and our 11 members directly linking the Trade Commissioner Service to our members. At our semi-annual meeting held in Ottawa in February, it was made clear that one thing that has occurred is the increasing professionalism and sophistication of all parties in the pursuit of foreign investment and trade.

● (1545)

To look at some specific examples, we strongly support Canada's increasing efforts to increase trade and investment agreements around the world.

In March 2014 we were in Japan and Taiwan getting ready for the Trans-Pacific Partnership. In the fall, we were in Europe for the second time in advance of CETA coming into law. We have taken the stance that it's best to be well prepared for when these agreements are finally approved rather than sit back and wait for their approval, and then try to go out and take advantage of them.

In March we will have our fourth mission to China, and it follows on the 2012 complementary study done with China as well as a recent visit by the Prime Minister to China.

We also do smaller missions. For example, this mission I am on is in support of an investment conference. It's going to be held in advance of the Pan American Games. We are visiting Miami for that seminar, and business meetings are tomorrow, and then we are going on to Sao Paulo and Goryeo.

In California later this week we'll be at the Game Developers Conference with seven of our cities, in conjunction with the federal government, again looking at further trade and investment in the gaming area.

Some of our members participated in the recent trade mission to South Korea following up on the agreement of that trade and investment agreement, and two of our members were at the APEC summit in Beijing. Although we were part of the Canadian delegation, both our members were invited by their Chinese partner, one being Guangzhou and the other being Beijing.

We've integrated our messaging to ensure the federal government messaging is embodied into our messaging and to improve the messaging, at the federal level, of the advantages of our individual member cities. We are now in the process of integrating the event calendars across the world with our own members to ensure we take maximum advantage of a scheduled activity.

Here are two recent examples of the advantage of the activity. At our semi-annual meeting in Ottawa, we had presentations by Immigration on changes to immigration laws as well as to foreign temporary worker programs. This was as a result of having seen a similar presentation that was given by web to the Trade Commissioner Service. Last week our members were part of the webinar on the value proposition for clinical trials in Canada that was given to the Trade Commissioner Service.

We now have increasing access to all of the tools available to the Trade Commissioner Service by using the trade commissioner who has been embedded with us.

I think in summary the global markets action plan has presented a clear indication of Canada's direction with respect to trade and investment and better enabled our members to take advantage of that.

I will briefly comment on the importance of the air transport agreements, and in that I will support many of the comments made by Mr. Gibbons. First of all, as I mentioned before, Canada is a trading nation. It relies on foreign investment, and we operate in a global environment. Furthermore, most of the investment that's coming into our cities is in the innovation sectors, and hence the high value-added sector. It's therefore key that we are able to move people and goods around the world fairly easily and fairly cost competitively. It is key to us that access is available around the world so we fully support the increase of air transport agreements by Canada, and I would say every one of our members works very closely with the airport authority in their particular region.

• (1550)

With that, I will end my comments and wait for questions.

Thank you.

**The Vice-Chair (Ms. Chrystia Freeland):** Thank you very much, Mr. Darch, for a really interesting presentation, exactly on time.

On a personal note, thank you for not lording it over us too much with the excellent weather I'm sure you're going to enjoy later this afternoon.

We'll now go to questions, gentlemen. Your first questions will come from Ms. Laurin Liu, please.

**Ms. Laurin Liu (Rivière-des-Mille-Îles, NDP):** Thank you, Ms. Chairperson.

I want to start by asking a question about the Canadian Air Transport Security Authority Act, and more specifically about the airports that are recognized under the act. We know that currently the act hasn't been updated for about a decade or so, and a few dozen airports in Canada have actually asked to be accredited under the act. Among other airports, there is the airport of Sherbrooke.

Mr. Gibbons, you also mentioned the importance of the fact that airports really bring economic benefit to a region, and the importance of airports to regional development. Would you have an opinion on whether or not this list of accredited airports should be expanded?

**Mr. Andy Gibbons:** These airports and these communities understand how critical it is to have a WestJet Encore service to serve their communities. The extent to which our expansion and our growth should mirror which airports and which facilities get those services or not is a difficult public policy one, just by virtue of the nature of aviation and our commercial decisions.

I think the overall point is that, yes, those types of services, such as CATSA and others, we need. We need the government to keep up with our growth and our investment and to make sure that those

services are there, and that are paid for; we have a user-pay principle in our sector.

Aside from that, I can't really go much further into specific airports. Of course it shouldn't be a barrier to growth. We have to grow regional access in this country, in cities like Sherbrooke and others. It's something that we definitely have to look at. To whatever degree we can partner with and assist Transport Canada in working out which communities should have it, we're happy to assist with that.

• (1555)

**Ms. Laurin Liu:** Mr. Darch, would you like to comment on that as well?

**Mr. Mike Darch:** Certainly from the point of view of ease of access, it's critical. WestJet wasn't around when I started flying, but I'm a million mile flyer on Air Canada. I've done a lot of travel over the years. Travel now is certainly no fun. From the point of view of ease of access, ease of going through security, and so on....

I think basically we're law-abiding people. I think frequent traveller programs and programs for pre-cleared travellers are critical. I strongly support the growth throughout Canada of those types of services to make travel easier for the frequent traveller and the secure traveller.

**Ms. Laurin Liu:** Mr. Darch, I think you might also have an opinion on something that other witnesses have talked about in committee—namely, mass public transit linkages to airports. Is it something that you're concerned about, and would you have any recommendations to give to committee on this topic?

**Mr. Mike Darch:** Well, I'm currently in Miami, and I won't discuss the weather, but I will discuss the traffic. Trying to get from the airport to downtown Miami is absolutely terrible. There is essentially no mass transit here in Miami. Depending on the time of day, it is very difficult. My understanding is that we adjusted our schedule going into Sao Paulo based solely on the problem of getting from the airport to downtown.

Again, I strongly support, as I think it would be a definite advantage for Canada, having mass transit links between our airport facilities and the principal commercial and residential areas in our cities.

**Ms. Laurin Liu:** Mr. Gibbons, would you have any comments on that same subject?

**Mr. Andy Gibbons:** We try to stay away from those types of questions, to be honest. Our slice of the equation is that our guests are charged airport improvement fees. We have some of the best airports in the world in terms of infrastructure, which is self-funded and user-pay. We're kind of proud of that work.

I don't think we want to enter into a debate on Union Pearson Express and how much it should cost and those other issues. I think we'll leave those to others.

**Ms. Laurin Liu:** I'd like to leave my last two minutes to my colleague, Mr. Toone.

**Mr. Philip Toone (Gaspésie—Îles-de-la-Madeleine, NDP):** Thank you.

First of, congratulations, Mr. Darch, on being a million mile elite member of Air Canada. All my sentiments go to you for having to submit yourself to a million miles with Air Canada. I know that sometimes it can be quite a challenge.

I want to wish WestJet a happy birthday, I think that's great. When I lived out in western Canada I had a lot of opportunities to use WestJet and I think the model is one that is very viable and one that should be repeated in the rest of this country.

I have a question, though, regarding the expansion that you've experienced in the smaller markets. There are a lot of difficulties when it comes to security in the smaller markets and you did mention the question of user-pay, that we have a user-pay model in Canada. It's fairly unusual that there would be a user-pay model to pay for security. Have you had any clients from WestJet speak to this point? Is there any pushback on that front? Is that something this government should be addressing?

**Mr. Andy Gibbons:** It's not particularly clear what you're asking.

**Mr. Philip Toone:** I'm asking about the additional fees that clients have to pay when they wish to use your services. The tickets include an awful lot of fees, including a supplementary fee for higher gas prices, which is questionable in the current market but what have you. I want to specifically look at the user fees that are included for security services, which is unusual. Canada's very unusual—

**Mr. Andy Gibbons:** Yes. It is.

**Mr. Philip Toone:** —in that sense and I wonder what your opinion is of that?

• (1600)

**Mr. Andy Gibbons:** We would echo the sentiment—

**The Vice-Chair (Ms. Chrystia Freeland):** Okay. Mr. Gibbons, you have about 30 seconds to answer

**Mr. Andy Gibbons:** Our views are consistent with the other stakeholders you've heard on the air travellers security charge. We'd like full transparency on the fees collected and we'd like to have it specifically applied to screening services. Then there's the service element in terms of the CATSA. It's no longer just a convenience issue for Canadians, it's an economic issue. When you're making a choice as a consumer whether to fly out of Bellingham or YVR, a 30-minute CATSA lineup can make a difference in your decision tree. We're working to repatriate those guests, so everyone sort of has to get on the same page about this and make it a priority. It is an economic issue, not necessarily a service issue anymore.

**The Vice-Chair (Ms. Chrystia Freeland):** Okay.

Thank you very much.

Now we will hear from Mr. Mike Allen, please.

**Mr. Mike Allen (Tobique—Mactaquac, CPC):** Thank you very much, Chair.

I appreciate you gentlemen for being here.

Mr. Gibbons, I'm going to start with you. Happy birthday and welcome to Fredericton. I'm sure that we're going to be very excited that we're giving Frederictonians an opportunity to become million milers with WestJet as well.

**Mr. Andy Gibbons:** Absolutely.

**Mr. Mike Allen:** You talked a little about all your heavy maintenance being done in Canada and you also talked about your expansion and you're going to the wide-body planes. My assumption is that maintenance is going to be done in Canada as well at Kelowna and Windsor. As your expansion has grown and you've had more access to these markets through ATAs and others, how has your heavy maintenance grown and how has your employment in your heavy maintenance area grown over the past number of years?

**Mr. Andy Gibbons:** Windsor is a new area for heavy maintenance for us and that was a community that wanted to see those jobs relocated, so we do heavy maintenance in those two locations. We don't have the specific employment numbers because they're at Kelowna Flightcraft and Premier Aviations, so I can't say, but when you look at our fleet of 737s we're over a 114 now. That's a significant amount of investment and at Kelowna Flightcraft, it's not just heavy maintenance, it's also where we're installing our new in-flight entertainment, our new slim-line seats, so all the retrofitting of some of our aircraft is also conducted there. It's a very integral partnership.

That doesn't answer your question specifically, but I'm happy to look into it and give you the economic—

**Mr. Mike Allen:** If you would, it would be helpful.

**Mr. Andy Gibbons:** Yes. I could get you the numbers.

**Mr. Mike Allen:** But suffice to say that we've seen as a result of this heavy maintenance a lot of good jobs, because of the expansion of WestJet as well.

**Mr. Andy Gibbons:** Yes.

**Mr. Mike Allen:** Can you comment a little bit about freight? We've heard in our previous meetings with some of our airlines about the freight and using some of the belly of the plane now for carrying high-value freight, maybe not much from tonnage but very high value. How has that kind of business grown for WestJet and do you see that as an area where you would expand in the future?

**Mr. Andy Gibbons:** We certainly do. In fact today we were just named by a logistics institute as the top cargo services. It's an emerging part of our business. I'm not the SME on our cargo statistics except to say that with wide bodies and those longer haul routes we expect that to emerge, but it hasn't historically been number one in our business priorities. Again, that's another item I'm going to have to get you some more information on.

**Mr. Mike Allen:** You talked a little bit about capacity and one of the challenges you saw was perhaps some landing slots that sometimes becomes a little bit of a challenge.

Are there specific markets where you see those landing slots becoming a challenge? Are there areas where the government might help you to grow in some of these areas?

**Mr. Andy Gibbons:** I think the government definitely can help grow in some of those areas. I don't want to list the areas, obviously. What we've said publicly is that with our 767s—and this is a trial run, we've ordered four 767s and in 2015 they'll be servicing Hawaii from Alberta. Then, for 2016, we'll be announcing the international destinations for them.

I'm stating that to point out that with respect to the issue of unused capacity, there are various reasons why that's unused. The government has been a great partner in terms of access to Cuba, previously, and in terms of Mexico, which I noted in my remarks.

It used to be that you had to be designated by Transport Canada in order to land somewhere. As we were growing as an airline, these agreements allowed us to simply make the investments and go in. That's been tremendous. That's where it creates a level playing field.

There are, however, specific examples of slot constraints at airports internationally.

• (1605)

**Mr. Mike Allen:** I understand.

**Mr. Andy Gibbons:** You've heard the discussion on them, but I'm flagging it as one of the ingredients that go into unused capacity versus a barrier to growth.

**Mr. Mike Allen:** Before I move to Mr. Darch, my last question is for clarification.

You talked a little bit about your Bombardier Q400s, WestJet Encore, which is going to be the service in Fredericton, obviously. You talked about being beyond gateway access. I'm assuming that, from a consumer perspective, it will be good news for Fredericton, as an example, because we're giving people a choice.

When you talk about that beyond gateway access, are you talking about the additional international flights of people from Fredericton who will be able to have another alternative for international flights? Is that what that beyond gateway access means?

**Mr. Andy Gibbons:** That's exactly what it means.

Your constituents are going to have a new option. They can buy a code-share ticket in Fredericton, go to Toronto, and fly British Airways or Air France, or fly any of our code-share partners. We've seen more of that in western Canada. Fredericton was our first new Encore destination in Atlantic Canada, so we're going to see more of that. What we have seen in B.C. is beyond gateway access.

In some of these markets, it cost the same amount to fly from Prince George to Vancouver as it did to fly from Vancouver to Tokyo. We're trying to change that. We're working to change that and we're starting to see those results.

**Mr. Mike Allen:** Thank you, Mr. Gibbons.

Mr. Darch, can you talk a little bit about the integrated messaging that Consider Canada City Alliance has been able to do with international trade in terms of integration and managing websites, and social media? What are some of the things that trade and other departments have done to coordinate that communication with your group? What have been the very good things that have been done and are there things we could do in the future to make it even better?

**Mr. Mike Darch:** If I go back even a couple of years, essentially competition for foreign investment was viewed as one city competing against the other city. When we had our first meetings, the discussion was, "Now wait a second, the competition to Calgary isn't to Ottawa; it's Houston and the Middle East, etc."

When we look at getting a Canada message out—let's just say that we're birds in the nest and we have 11 chirping birds wanting to get that worm—it's much better if we're going on a coordinated message.

You'll see on our website now that we have 11 two-page descriptions of each city. If you look at their comparative advantage, you'll see that we've taken the Invest in Canada primary points about the value of Canada, such as talent, secure financial system, etc., and we've woven it into each of those 11.

For example, Toronto will give a financial stability message. Ottawa will give a message on talent. We're trying to make sure that the Canadian message is the same at the federal level as it is at our individual municipal levels.

On the Invest in Canada website, there is a—

**The Vice-Chair (Ms. Chrystia Freeland):** Mr. Darch, I'm so sorry. Can you just wrap up your sentence because we've gone over the time.

**Mr. Mike Darch:** There is a part there on description of individual cities in Canada. Those are now done by the cities themselves and the cities are responsible for making sure that the information is current. Those are some examples.

**Mr. Mike Allen:** Thank you very much, Madam Chair.

**The Vice-Chair (Ms. Chrystia Freeland):** Thank you very much.

I would like to ask the indulgence of my colleagues on the committee. It is normally the Liberals' turn to ask questions for five minutes. If anyone would like to pose as a Liberal, we could do that. But it might cause fewer problems to have me do it.

**Hon. Ron Cannan (Kelowna—Lake Country, CPC):** Do you have money in a brown envelope?

**Some hon. members:** Oh, oh!

**Hon. Ron Cannan:** I could pose as a Liberal.

**The Vice-Chair (Ms. Chrystia Freeland):** I was teasing.

We'll time me strictly, and I'd like to start with a question for both Mr. Gibbons and Mr. Darch. We've heard in other testimony to the committee some concerns about CATSA, and some real concerns about how while there may be a bottleneck now, it could become more acute in the summer, and about how there are some funding issues.

I see you nodding, Mr. Gibbons. What are your thoughts about that?



•(1610)

**Mr. Andy Gibbons:** They are exactly the same as what you've heard from the other stakeholders. We had an opportunity to review the transcripts, and I think the issues are the same. I think there's general consensus around CATSA. The finer point I would put on it is with regard to the economic angle, which I've already stated. We have over five million Canadians who are travelling from border airports, and we'd like to repatriate those guests. CATSA lineups are one of the issues that contribute to that. They're not the sole reason, but in terms of aviation, all of these reasons add up to consumer choices, and that's one of them that we'd like to address.

I've already talked about the overall principles with CATSA, and the strict allocation. We're not convinced that it's strictly a funding issue, or that there's not enough money going to CATSA. We don't take sides in that discussion per se, but it's an issue that needs to be addressed. We've seen an increase in delays, and we've seen an increase in wait times for our guests, and we share the concerns regarding the upcoming season.

**The Vice-Chair (Ms. Chrystia Freeland):** What is the issue?

**Mr. Andy Gibbons:** What is the issue with CATSA?

**The Vice-Chair (Ms. Chrystia Freeland):** You said it's not this and it's not that. What's your concern and what could we as a committee try to do about it?

**Mr. Andy Gibbons:** I think we'd like to see published service standards. I think we'd like to see resources being directly allocated to screening, and some transparency around that. I think there are some other excellent recommendations from the airports. I understand they've tabled their CTA submission with you.

I think this is one of the issues in aviation that everyone agrees on, and I think it needs to be tackled. I didn't mention CATSA specifically in my remarks, because I think you've heard about it from every other stakeholder over the last two weeks. We would simply echo those recommendations and echo the concern.

**The Vice-Chair (Ms. Chrystia Freeland):** What makes you worry especially about this summer?

**Mr. Andy Gibbons:** It's simply that the airport authorities and CATSA themselves are stating that the lineups are going to be longer and that there will be efficiency issues. When the people who deliver the services are stating that those services are going to take longer to provide, an airline is right to be concerned. We also have the experience of last summer, when there was an increase in delays caused by screening.

**The Vice-Chair (Ms. Chrystia Freeland):** Thank you.

Mr. Darch, do you want to add anything to that?

**Mr. Mike Darch:** I won't comment specifically on CATSA or budget problems at CATSA. I will simply absolutely agree with Mr. Gibbons' comments that when it comes to a businessman facing long lineups, he may do it once. If you're really lucky, he'll do it twice. But he will never do it a third time. So certainly we are concerned about the time it takes to pass through our airports.

**The Vice-Chair (Ms. Chrystia Freeland):** Thank you.

Mr. Gibbons, you emphasized in your testimony that WestJet does its heavy maintenance in Canada. Can you talk a little bit about why

you've made that decision, and whether economically it is making sense for you? Are there any government policies that could encourage other airlines to be doing the same?

**Mr. Andy Gibbons:** I won't touch the question about encouraging other airlines. Suffice it to say we've had 38 straight quarters of profit. It's one of the best-run airlines in the world, so our maintenance decisions make good business sense, and we expect to continue them.

The partnerships have been strong since day one. Being able to assist in building a business like Kelowna Flightcraft, which is absolutely world class, is a source of pride in our company. We brought maintenance services to Windsor, a region of the country that was experiencing job losses and high unemployment, so that's another region we're proud to support with our work. Then, of course, we have the Bombardier purchases.

The short answer is that we wouldn't do it if it didn't make good business sense, and it makes good business sense for us.

**The Vice-Chair (Ms. Chrystia Freeland):** I'm going to cut myself off there just short of five minutes. I think Mr. Cannan has some questions.

**Hon. Ron Cannan:** Thank you, Madam Chair.

That's a great segue. As the member of Parliament for Kelowna—Lake Country, I'm also very proud of Kelowna Flightcraft, the largest private employer in my riding. Mr. Rogers and Mr. Lapointe are two gentlemen who had a pickup truck and started working on some aircraft for Capozzi's and his Calona wine industry. It has taken off, and it's a great Canadian success story.

I appreciate the great partnership that WestJet provides in continuing the service, and not only for the Okanagan. YLW now is the tenth-busiest airport in Canada. We call YLW "Your Link to the World". Those are their call letters as well. It's an economic generator not only for the Kelowna—Lake Country of the Okanagan, but for the whole southern interior, which has a catchment area of about 350,000 to 400,000. I appreciate the partnership.

Before I go to Mr. Gibbons, I wanted to start with our friend Mr. Darch down in Miami. I appreciate your sacrifice in going down there and doing what you have to do for the team. It's great. I'm interested in hearing a little more about the alliance, because obviously a rising tide lifts all boats. I understand that.

Does the Canadian team go down there in a pretty united position? It's a competitive market for airports as well. When you're representing Canada and representing airports, how do you differentiate? Do you have a plan of attack going in and a strategy going forward in presenting to these groups?

•(1615)

**Mr. Mike Darch:** First of all, we're not representing airports. We're representing the economic development agencies for the region.

As for the primary thing we're trying to do, I think it's a very competitive world out there both for international trade and for foreign investment. We're against heavy competition. Competing against each other is not going to do very much for any of us. Trying to put across a common message for Canada is going to do an awful lot for us. It has taken a number of years for people to leave what we'll call their "local competitiveness" alone and to start understanding that we're not competing against our fellow members. We're competing against the Miamis of the world and the San José of the world, so we're going to be successful if we get a common message out there.

Also, when we look at sectors, we see that our cities actually don't compete against each other in an awful lot of cases. For example, Saskatoon is known for their plant and animal genomic research, and they're by far that centre for Canada. It's not necessarily that we're competing against each other when it comes down to an actual individual investment; what's critical is that we get across the idea that people will consider Canada and will come here and see how great we are. We believe that we have a great product to sell, but the trick is getting them here and not having competition between each of us, where nobody wins.

**Hon. Ron Cannan:** That sounds fantastic. Leaving your parochialism at the border is very important, as you said, and the airports are part of the economic generators and part of the economic development, so I appreciate your initiative.

Mr. Gibbons, I'd like to follow up on a question that I asked Air Canada when they were here. It originated with the committee's initial presentation by the chief air negotiator at our standing committee as we were dealing with the interconnectivity strategy and the global markets action plan. What he said was that in a large number of cases, air carriers were not using the rights provided by the air traffic agreements.

My question to you would be, to what extent do you feel that WestJet and Canadian airlines are not using the air rights provided by the ATAs implemented by Canada? Are Canadian air carriers facing regulatory barriers that are preventing them from accessing the countries with which Canada has air transport agreements?

**Mr. Andy Gibbons:** We don't have any barriers to specific countries to report to this committee. I believe that's similar to the answer Derek gave you when he was here.

The first part of your question was about not using the rights. I'm not sure that there's much more to say than what was in my opening remarks, which is that there's a variety of factors for that. We don't have a specific country to report to, Mr. Cannan, to say, "We would, in this country, if you fix x...". That's not the case with us. We're happy with the agreements that are in place. We're using them to the best of our ability. There's no regulatory barrier the government has in place today in a specific country that we need to see lifted. It's a very positive report card.

•(1620)

**Hon. Ron Cannan:** I have one minute and thirty seconds left.

Of course, on the issue of Canadian product, while you're down there, Mr. Darch, you can remind them of how good Canadian wine is, and that we'd like to export that and have it on our airlines as well.

But the other issue is cabotage, the issue of foreign carriers coming in. We've talked about that, and our policy doesn't provide for that. Can you elaborate on the pros and cons of that policy?

**Mr. Andy Gibbons:** Our position on both cabotage and right of establishment is that until you fix the cost-competitiveness gap in Canada, you won't realize the benefits of those policies, even if you are an advocate for them. It truly is the most important thing to be fixed. We have ultra low-cost carriers servicing Canadians from border airports. The only reason they're doing that is because of the cost differential. Unless you fix the cost-structure issue and gap in Canada, we don't believe those policies would accrue the benefits that the proponents of them believe they would.

There's also the principle of reciprocity. If proponents of those policies would like foreign carriers to be able to do certain things in Canada, we should be provided the opportunity to do those things in the other country. So the principle of reciprocity is very critical and very important in aviation, as well as, as I've said, cost competitiveness, which is the focus of our submission to the Emerson report.

In Mr. Emerson's discussion paper, he did flag cost competitiveness as an issue, so that's something we're willing to follow up on with the committee. I know others have been tabling their submissions, but we're happy to provide a supplementary opinion on that.

That would be the the 30-second answer on cabotage.

**Hon. Ron Cannan:** The big challenge too is that Canada is the second-largest country in the world, so geographically it provides a lot of challenges in keeping the cost competitiveness and connectivity.

**The Vice-Chair (Ms. Chrystia Freeland):** We're going to have to leave it there, Mr. Cannan. I'm sorry.

Thank you very much, Mr. Gibbons.

We have 10 minutes left to go, so I'm going to suggest that we give Monsieur Morin *trois minutes*.

[*Translation*]

Mr. Morin, you have the floor.

**Mr. Marc-André Morin (Laurentides—Labelle, NDP):** Thank you, Madam Chair.

Mr. Gibbons, from what I understood during your presentation, your company's development and growth were largely based on providing services in smaller airports. Would it cause problems if smaller airports did not have good connectivity? Would that be the main problem with regard to air transportation's functionality in Canada?

Here is an anecdote on that subject. You and Mr. Darch may follow up with your own comments if you wish.

About 10 years ago, some friends were visiting me from Italy. They went to Quebec City and Niagara Falls. They still had some time and wanted to see the Rockies. We began to search online for flights, but in the end, we realized it would be less expensive for them to go back to Italy and fly from Rome to Calgary or Vancouver than to take a flight from Montreal.

Do you have any comments about that?

[English]

**Mr. Andy Gibbons:** There are a few areas in your question. First, I think you were talking about the importance of connecting smaller airports to larger airports, and by extension, smaller communities to larger communities. That's exactly the reason and purpose behind WestJet Encore.

When we announced the creation of that regional airline, which is a brand new airline in Canada, to be serviced by Canadian-made aircraft, the response in communities was tremendous. Dozens of communities lobbied us seeking service, outlining the virtues of their community and how important it is that they're connected. Places like Brandon, with the university there, be it for academic exchanges or their sports teams, now have commercial air service in that community, and it means everything.

In terms of the connectivity in Canada, that question is 147 or 148 years old. Our answer to that is creating the new regional airline.

The second part of your question was about fares and the difference between Montreal-Rome and Montreal-Calgary. I think fares fluctuate. On the regional side, we're certainly seeing a downward trend on fares. In any market that we've entered with Encore, we've seen downward pressure on fares, and an increase in passenger traffic, more than what we've put into the market. That's the difference with WestJet. We stimulate the market. It's not that we go in somewhere and we grab what we can from the other guy; we grow and stimulate the market.

On fares, I think that's a discussion to have. We're a big country. Flying to Calgary from Montreal is like flying from Montreal to Rome. There are a lot of factors that go into the construction of fares, and I'm happy to discuss those at any time with you.

• (1625)

**The Vice-Chair (Ms. Chrystia Freeland):** Okay, we're going to have to leave it there.

*Merci, monsieur Morin.*

Thank you very much, Mr. Gibbons and Mr. Darch.

Mr. Darch, I hope the video conferencing experience was great. I know you would have preferred to be here with us.

Thank you both very much for that excellent testimony.

We'll now suspend for a few minutes before our next exciting session.

The meeting is suspended.

- \_\_\_\_\_ (Pause) \_\_\_\_\_
- 
- (1630)

**The Vice-Chair (Ms. Chrystia Freeland):** It's 4:30, so we'll resume our committee meeting.

We are going to have the pleasure of hearing from Mr. James Cherry of Aéroports de Montréal, and then Mr. Jerry Staples of the Halifax International Airport Authority.

Mr. Cherry, the floor is yours. You have ten minutes.

**Mr. James Cherry (President and Chief Executive Officer, Aéroports de Montréal):** Thank you very much, Madam Chair.

Members of the committee, on behalf of Aéroports de Montréal I want to thank you for the opportunity to discuss Canada's international trade plan and air transport agreements.

Appropriate bilateral air transport agreements are of considerable importance, and not just to airlines and airports but to all Canadians. This is because they help to create economic opportunities and ensure our competitiveness in an increasingly globalized environment. By facilitating air access to new markets, both for products and for people, they have a direct impact on trade, commerce, tourism, and jobs.

Because they provide opportunities for Canadian airlines and airports to grow and compete internationally, I think it's fair to say that our industry generally favours the government's efforts to seek further liberalization in this area under its blue sky policy.

You have already heard from several industry representatives in this regard, so my comments will focus on Aéroports de Montréal's specific views and concerns.

ADM is the local airport authority responsible for the management, operation, and development of Montréal-Pierre Elliot Trudeau and Montréal-Mirabel international airports under the terms of a long-term lease signed with Transport Canada in 1992. A very important aspect of our mission is to contribute to the economic growth of our local communities. As such, we have undertaken to develop our two airport complexes to their full potential based on their respective strengths and our three main business focuses: passenger traffic, cargo, and industrial development.

Airports such as Montreal-Trudeau and Mirabel provide essential infrastructure to support regional, social, and economic growth. That is why it's so important to have appropriate conditions in place, such as bilateral air arrangements, to allow them to thrive and fulfill their important role in air transportation.

The opening up of air access between Canada and many regions of the world that has occurred over the past decade has clearly benefited our airports, but there are still several issues that are impeding our growth.

Traffic at Montreal-Trudeau, which totalled more than 14.8 million passengers in 2014, has been growing almost continuously since 2004, averaging 4.6% per year, placing us third or fourth among Canadian airports. Over the past decade we have been able to increase the number of international destinations served by direct flights to 75 from 30. Today we rank second among Canadian airports in terms of international traffic and number of international destinations.

We recognize that Montreal-Trudeau will not likely be a major global air transportation hub in the near future due to the relative size of our market and local economy. In addition, the proximity of well-established major hubs in Toronto and New York is a further impediment. Nevertheless, our aim is to be an active, secondary hub between North America and Europe, and especially French-speaking countries. We're also targeting specific destinations in other areas where there is sufficient or growing demand.

Accordingly, we have a dedicated team fully committed to developing our network to the greatest extent by attracting new carriers and launching new connections. We've made considerable headway, with some 30 different carriers flying to over 130 destinations around the globe. But there is still the perception among certain groups that Montreal is underserved. However, a recent study commissioned by ADM on our air service compared with other North American cities of similar size shows that Montreal ranks fairly well.

Our airlines have recently added or expanded service to a number of destinations, facilitated in some cases by new bilateral air agreements. Last year we welcomed two new carriers that are part of the Star Alliance: Turkish Airlines to Istanbul and Copa Airlines to Panama City. We also welcomed a small independent carrier, Syphax, to service Tunis in North Africa. These three new carriers are able to come to Montreal thanks to the liberalization of air transport agreements for these countries. We'd like to thank the Government of Canada for making it possible. With their large networks, they will significantly improve Montreal's connections to several regions of the world, including Eastern Europe, North Africa, the Middle East, Central Asia, and Latin America.

For a number of years we have been working hard to establish a direct connection to Beijing in order to access the vast Chinese market. A major development occurred last November when Air Canada and Air China signed a memorandum of understanding aimed at increasing air service between our two countries. As a result, and thanks to the existing air transport agreement, we now expect the inaugural flight to take place sometime between June and September of this year.

• (1635)

In some cases, relatively low passenger traffic for some destinations is an impediment. We hope that the advent of the Boeing 787 Dreamliner, with its smaller capacity, very long range, and economical operating cost, will increase the viability of serving some distant destinations.

Continued air transportation liberalization will assist us in our growth efforts. Non-major hubs, such as Montreal-Trudeau, have more to gain, since when rights are limited, carriers tend to favour major hubs, such as Toronto Pearson. However, we believe that

liberalization should not be pursued at any cost. It is in Canada's interest to ensure that there is adequate reciprocity offered by the other country and that the rules are applied fairly and equitably. Generally speaking, we feel bilateral air arrangements should be approached much like free trade negotiations, where the broader economic interests of both countries are taken into account, and where such factors as mutual benefits and a willingness to reciprocate are emphasized.

This has not always been the case, as demonstrated by the rise of certain Gulf carriers in recent years and the emergence of major Middle Eastern hubs, to the detriment of airports elsewhere in the world. Some Gulf carriers, such as Emirates, have been criticized for taking advantage of unfair government subsidies and overly generous air agreements offered by some countries to significantly expand their market position. This has facilitated the establishment of major international air hubs in the region, which are taking away business from hubs in Europe and North America, with little to offer in return. We're particularly concerned about this because it could serve to significantly erode European destinations that are critical to the services we offer in Montreal.

This situation is resulting in an uneven playing field and provides a cautionary tale for granting unlimited air service access under open skies policies, at least in certain cases. That being said, we enjoy an excellent relationship with Qatar Airways, currently serving Doha three times a week. It offers high-quality service and a first-class network.

Again, I believe an open skies approach is appropriate when it's part of a broader free trade arrangement. It is then part of a wider arrangement that offers true benefits for both countries, encompassing commerce, trade, and labour, to name a few, and not simply air market access. However, we don't always need an open skies agreement. Allow me to suggest that it would be advisable in some cases to proceed in steps, initially with three flights a week, then four, and eventually seven flights, which offer the desirable threshold in terms of service profitability. It may not always be clear whether providing certain carriers with unlimited access to Canada will provide reciprocal benefits.

In other cases, there is justification for freer air trade agreements, and these would certainly benefit secondary hubs, such as Montreal-Trudeau. An example could be with Turkey, which is a destination of considerable interest for Canadians, not just for tourism but also for business. We are currently limited to three flights a week to Istanbul, and there is certainly room for added frequency between Montreal and Turkey.

The same is true for Panama. Last year, Copa began serving the Montreal-Panama market with four flights a week, after several years of negotiations over air rights. Panama is a growing and highly desirable destination in itself, but the Montreal-Panama route also dramatically improves our connectivity throughout Latin America, given Copa's highly developed network in this region.

Further liberalization could also be desirable for certain destinations or countries that are not currently served by Air Canada or other Canadian carriers, such as Algeria, or where a Canadian carrier has shown an interest in expanding its service. In addition, one could argue that destinations such as Japan, Singapore, and Russia, while quite distant, may be needlessly limited in terms of air rights.

As the government considers further air agreement liberalization, we urge it to take these factors into consideration and ensure a level playing field. Fairness, equity, mutual benefits, and reciprocity should be stressed in every case, so that Canada and Canadians can truly emerge as winners.

While we're addressing the impediments to building traffic to and through our airports, we would be remiss in not discussing the constraints in traffic growth imposed by the treatment of visas. We are long overdue for a substantial revision of our policies and processes regarding the issuance of visas.

- (1640)

In conclusion, I'd like to call on the government once again to review and lighten Canada's aviation tax regime, which is among the highest of any nation in the developed world, and it is negatively affecting our global competitiveness.

The rent paid by airports to the federal government since our system was transferred to a not-for-profit administrator such as ADM exceeds the book value of the assets at the time of transfer yet rent continues to be imposed on airports at over \$300 million a year. We believe we are being unfairly used as a cash cow.

At the same time, our customers face security charges, fuel excise taxes, sales taxes, border service cost recovery fees, and airport improvement fees that place us at a distinct disadvantage, especially to subsidized U.S. border airports. This is reflected by the huge number of Canadians travelling to U.S. border airports to catch a flight.

We need a level playing field in this regard for our airports to thrive and deliver our full share of economic benefits to Canadians.

Thank you for giving me this opportunity, and I look forward to addressing your questions.

**The Vice-Chair (Ms. Chrystia Freeland):** Thank you very much for that testimony, Mr. Cherry.

Now we will hear from Mr. Jerry Staples of the Halifax International Airport Authority.

**Mr. Jerry Staples (Vice-President, Air Service, Marketing and Development, Halifax International Airport Authority):** Thank you, Madame Chair, and members of the committee, for this opportunity.

Joyce Carter, president and CEO of Halifax International Airport Authority, sends her regrets and asked that I appear on her behalf.

The Halifax Stanfield International Airport is the largest passenger and cargo airport in Atlantic Canada, and the most eastern airport in Canada with a continental link to North America. We punch well above our weight by processing over 3.6 million passengers in a 1.2 million finite catchment area.

Air policy liberalization is fundamental to future growth and the success of the global markets action plan. As a member of the Canadian Airports Council, we support their recent comprehensive submission regarding the CTA review process. An overall theme throughout the CAC submission that HIAA, which is Halifax International Airport Authority, is especially focused on is the ability for the policy and process changes to occur in an aligned, timely, and proactive manner.

Airports are major economic generators for their regions. Based on a 2013 economic impact study, the Halifax Stanfield International Airport contributed \$1.29 billion to the Nova Scotia economy and provided 13,000 plus full-time equivalent jobs, with wages and salaries in excess of \$544 million. Policy and process decisions that limit or adversely affect growth in travel, trade, and tourism will impact not only individual airports but also the regional economies, and ultimately the national economy.

The CAC submission presents a clear vision for Canadian airports in 2040. HIAA believes that there are elements of this vision that can be realized sooner rather than later.

Global connectivity can be enhanced by expanding the current CAN+, transit without visa, China transit, and transfer departure facility programs. Oftentimes, these programs are mired in lengthy pilot projects at larger Canadian airports, which results in other airports lagging behind. More proactive countries have enhanced their overall air access thus capturing the lucrative tourist and business air travellers and providing more opportunities for trade and economic development to benefit their regions and citizens.

In addition, further liberalization of air service policy will enhance Canada's global position as an economic leader with expanded business and tourism market opportunities and increased consumer choice.

The Canadian government needs to keep moving ahead with the blue sky policy and the Canada-EU Comprehensive Air Transport Agreement. Doing so will help ensure that foreign carriers have the ability to add direct service or transit through Canadian airports, which will provide more seats to and from all regions of Canada, and additional cargo capacity, thus providing consumers with choice while also benefiting multiple sectors of the Canadian economy, including tourism, business to business, and trade and export opportunities. This, in turn, helps sustain the viability of medium and small Canadian airports as it opens new service and/or transit opportunities, while also solidifying their position as strong links from regional communities to larger Canadian hub airports.

Halifax and Atlantic Canada are benefiting from free trade and blue sky-type air transport agreements. A case in point is that Korean Airlines now flies a weekly dedicated freighter through Halifax providing upwards of 100 tonnes of lift for live lobster to South Korea, and beyond to China. It is important to note that the demand for Atlantic Canadian lobster in China has resulted in a 420% increase over the last five years.

The comprehensive economic and trade agreement, CETA, also positions Cargojet, the only all-Canadian dedicated cargo operator, alongside Air Canada and WestJet, as they expand their wide-body passenger operations to grow Canadian exports of high value and perishable goods to European consumers, and beyond to other markets.

Respecting time, I will close by pointing out that multiple sectors benefit by growing non-stop passenger and cargo air access to communities in all regions of this great country; sectors like tourism, trade, agriculture, fisheries, and immigration.

Canadian carriers have demonstrated and proven that they can compete, and have benefited by doing so internationally. The Canadian public and business will also benefit from increased consumer choice by having access to new markets and lower price points. In closing, HIAA is a dedicated partner working closely with airlines, government, tourism associations, business associations, and the community at the regional and national levels to enhance air gateway activity in Canada and to broaden our global markets.

• (1645)

Madame Chair and members of the committee, thank you again for this opportunity.

**The Vice-Chair (Ms. Chrystia Freeland):** Thank you very much, Mr. Staples.

We will now move to questions. We are going to start with Ms. Liu, who has seven minutes.

**Ms. Laurin Liu:** I would like to direct my first questions to Mr. Cherry. You recommend to committee that we recommend the government lighten the aviation tax regime.

Could you comment on how it stacks up to other tax regimes that exist elsewhere, and whether or not it's among the highest, or where it's situated?

**Mr. James Cherry:** It is definitely the highest in the developed world. We find ourselves in the situation where the last time I looked, while Canadian airport infrastructure and air networks are ranked among the best and safest in the world and the most developed, our tax regime is seen as 139th out of 142 developed countries. So it's considered to be quite regressive.

It stems a little bit from a model that was adopted as far back as 1992, where the Government of Canada took the position that the air traffic sector is pay-as-you-go. In other words it's a user-pay system, and the users will pay. The government, in fact, derives positive cash flow from the system in the form of several charges, with the biggest that affects the airports being airport rents, which amount to about \$300 million annually.

Just to cite Montreal as an example, about 20% of our gross revenue goes in one form or another—it comes right off the top—to

the Government of Canada in the form of rent, and to the City of Montreal in the form of very high property taxes for virtually no value in exchange.

So it's a direct tax to the users of the airport, and it's quite regressive.

**Ms. Laurin Liu:** You also mentioned something interesting when you said that liberalization should not be pursued at any cost. It's something we've heard from other witnesses, like Ailish Campbell who came to testify before committee last week. You mentioned that we need to seek out partners that offer reciprocity. That's something that Ms. Campbell also mentioned in her testimony.

In which cases would ATAs not be in the interest of Canada? Could you go into more detail about that?

**Mr. James Cherry:** From what I've seen in other locations, I think a good example of free trade agreements that have worked particularly well is the arrangement we have with China. It provides equal access for Canadian transport companies—Air Canada and others—to access China, and for Chinese airlines to access Canada. That's a very good example of something that's very desirable.

I think my colleague, Mr. Staples, referred to the European arrangements. That's another good example, especially now with the expanding free trade arrangements with Europe. I think there's going to be great opportunities for all airports in our country. I think Halifax could be a big beneficiary, and Montreal, and others, because it makes other cities in our country more accessible.

Where I think it becomes more dangerous is where there is no real true reciprocal benefit to be derived. For example, if we get unlimited landing rights in a country that has no important origin destination traffic, it really doesn't have high value to us as a country.

Quite frankly, my concern is if we build too big a network overflying the European hubs, it will have a very significant detrimental effect on the lift we have to those European cities.

Montreal is very well-connected to Europe, but if all that traffic that is connecting into Europe and over Europe gets moved to a Middle East carrier, then that will significantly affect our access to the European market, undoing a lot of the effects that we're working on in the European free trade arrangement. That's where I get concerned.

I think we have to be very careful. I'm all for liberal markets, but there have to be reciprocal benefits to our country when we enter it.

• (1650)

**Ms. Laurin Liu:** You also mentioned in your testimony your concern about airports that are supported by governments, and there's the example of the airport in Dubai.

How would you recommend the federal government act in this kind of a situation? How would we support our own airports faced with this kind of competition?

**Mr. James Cherry:** What I was suggesting was that these things have to be taken in a much broader context.

If we want to liberalize the air rights between ourselves and a country, it should be taken in a much broader context of an economic review in general, much as we've done with the European free trade arrangement. The free trade arrangement is very broad, one element of which deals with the air sector. That's a very sensible way to do it because it allows us to look at the give-and-take across a much broader area of sectors. Looking at air rights in exclusion, just by themselves, my general feeling is that it doesn't give you that opportunity. There are certain markets where there will never be reciprocity so we're going to have to find some compensation in some other manner.

**Ms. Laurin Liu:** Would you recommend that ATAs contain clauses that would limit too much government intervention or too much government funding?

**Mr. James Cherry:** Well, I think that's generally what we end up doing in most free trade arrangements. I know that those are central elements of the NAFTA arrangement. I know that there are central elements of that in the European free trade arrangements, so, yes, I think that would probably be a sensible approach.

**Ms. Laurin Liu:** Mr. Staples, thank you for your testimony as well.

We've heard from other witnesses such as Stephan Poirier of the International Airport of Calgary who told us that long lines for duties or security posed a significant barrier. Do you see that as being a problem as well? Do you see those long waiting times preventing airport administrations from taking advantage of ATAs?

**Mr. Jerry Staples:** At the risk of sounding like I'm doing a commercial, Halifax Stanfield has been a leader in customer service for a number of years, so security, specifically with CATSA lineups or a lineup at a parking garage trying to exit, is fundamental to our concerns. Whether they're in our care or control, we become involved. We don't have significant lineup problems because of our size at this point in time.

We have sympathy for our counterparts at larger airports in Canada that are experiencing those problems, but I think there's responsibility too for the airports to promote programs such as NEXUS, which will allow business travellers to expedite the process at CATSA lineups and to work closely with their CATSA partners to implement new technologies and programs to address those customer service issues.

**Ms. Laurin Liu:** Would Mr. Cherry have anything to add to that?

**Mr. James Cherry:** Well, I don't have the benefit of Mr. Staples' experience. We do have issues on both customs and the CATSA side.

I think there's a lot that could be done, and we've been having many conversations lately with the Ministry of Transport and with CATSA, and there are in fact some activities going on right now to try to come up with new baselines, new ways of dealing with it.

I think we've lagged behind in technology in some respects, particularly on the pre-board screening side. I think there are lots of gains to be achieved. I think your premise is absolutely right. It is an irritant today for the passenger, and immigration lines can be irritants for the passengers as well. Without ever giving up the secure side of the business, I think we have to find a way to expedite it and I believe technology is the answer. I'm confident that the people at

Transport Canada and the people at CATSA are looking into that as we speak.

**The Vice-Chair (Ms. Chrystia Freeland):** Okay.

I'm sorry, Mr. Cherry, and Ms. Liu, you were almost a minute over, so we'll have to leave it there, but thank you very much.

Now we're going to hear from Mr. Gill.

**Mr. Parm Gill (Brampton—Springdale, CPC):** Thank you, Madam Chair.

I also want to take the opportunity to thank our witnesses for appearing before the committee today and helping us with this important study.

I'm wondering if you can share with the committee how your respective airports have grown, say, over the past 10 years. Can you share that with us?

•(1655)

**Mr. James Cherry:** Sure. In the last 10 years we've gone from about 8 million passengers to about 14.8 million passengers, so that's pretty considerable growth. Most of that has been on the international side. Our domestic sector is probably pretty static. The U.S. as a proportion of our traffic has actually dropped a little bit.

Our traffic has increased substantially. We've increased the number of destinations served substantially as well. We've gone from about 75 total destinations to 130, and I think that's been a big reason for the growth. We've actually improved the menu and become much more aggressive in pursuing new destinations. We've increased the offer out of Montreal and increased the offer internationally into Montreal. I think those are the two biggest factors we've used to develop our traffic.

We've grown faster than most of the other airports in the country except Calgary. Calgary has outpaced our growth, but I think it's largely because of the inherent strength of their economy.

We spend a lot of time developing our markets. We have a group of people who meet with airlines around the world and try to develop new destinations. They meet with airports in other parts of the world that we know are desirable destinations for Montreal folks and that might be desirable for people from there to come to Montreal. We've been very proactive in that regard. We don't wait for airlines to develop for themselves; we're actually quite proactive.

**Mr. Parm Gill:** Mr. Staples.

**Mr. Jerry Staples:** Thank you.

Halifax averages 1.5% to 2% nominal growth. In 2006 U.S. pre-clearance opened at Halifax, the only airport in Atlantic Canada to have that. At that time, the business case projected 323,000 passengers within the first five years of operation and within the first 12 months we exceeded 343,000 passengers. It's been a great success story.

Like Montreal, we also have a dedicated team, which I lead at Halifax. It's looking at markets. We do analysis using modelling software and data that the airlines themselves use. Mr. Gibbons mentioned the flight that WestJet is adding to Glasgow starting this summer, so we're making progress. Air Canada does a daily Heathrow service out of Halifax. The future's good.

In my remarks, I pointed out that we have a catchment area of 1.2 million and we're doing 3.6 million passengers. There's no real sign of growth in that catchment area, so we're going to have to do things differently and get more non-stop flights hubbing through Halifax—not only to access Atlantic Canada, but moving throughout the domestic network into the U.S. and the Caribbean.

**Mr. Parm Gill:** What capacity would you say your airports are currently running at? Is there an area for growth?

**Mr. Jerry Staples:** Again, we're doing 3.6 million passengers, and for the physical building itself we're probably good to five million. But if we take advantage of some of the programs that have been mentioned, we will have to make some modifications to the building for traffic flow.

**Mr. James Cherry:** The ultimate limit of an airport is not the buildings, because you can add buildings, add capacity. Technology has allowed us to flow more and more people through small buildings. The ultimate limit to an airport is the airfield. Just to illustrate that, at the same time that Montreal's gone from eight million passengers to nearly 15 million, the number of aircraft movements hasn't changed. It's still around 220,000 aircraft movements, takeoffs and landings, a year. That's largely because aircraft are slightly bigger than they used to be, and also the airlines are getting much more efficient, their load factors are much higher. But as a consequence of that, we are rarely touching 50% of our capacity at peak. That tells me that at Montreal airport, with those three runways we have at Trudeau right now, we have lots of room to grow. That's the ultimate limit of an airfield. So we have lots of capacity. I know that the folks at Halifax do, Vancouver, Calgary has just added another major runway. I don't think we're missing capacity at our major airports.

**Mr. Parm Gill:** How do the fees at your respective airports compare to some of the fees at other airports in the country?

**Mr. James Cherry:** We compare ourselves regularly to the other large airports in the country, and we're about middle of the pack. We're substantially cheaper than Toronto, a little higher than Calgary and Vancouver. It depends on the type of aircraft as well. It tends to vary. Fees are a function of two things. One is the size of the aircraft. Landing fees are usually a function of the gross takeoff weight, and the terminal fees are a function of the nature of the traffic. For example, it's more expensive to process an international passenger than it is a domestic passenger because of customs and other requirements.

The Canadian landing fees and terminal fees would be generally more expensive than comparable fees in other jurisdictions, for example competing airports in the United States.

• (1700)

**Mr. Jerry Staples:** Halifax is just below average in fees.

**Mr. Parm Gill:** Eight years after the adoption of the blue sky policy, has this policy met or exceeded your expectations or the expectations of the authority?

**Mr. James Cherry:** I think it's a great step in the right direction. I would like to see some more development more quickly in some markets. I mentioned two or three in my remarks. I think there are a few countries where there could be considerable additional origin-destination traffic, not just pass-through traffic, that would be very attractive in Montreal's case. I mentioned both Turkey and Panama. I know we have looked at other cities, in South America, for example, and other jurisdictions that we think could be opened in the next little while. I think if there's anything we see as a very positive development, we'd like to see it accelerated a little, but in general it's positive.

**Mr. Jerry Staples:** I think we have 44 or 45 agreements in Canada now. We certainly haven't been as aggressive as some other countries, the U.S. in particular, and the blue sky is a hybrid of what the rest of the world calls open skies.

Where Halifax is positioned geographically, we have aircraft overflying, getting into the jet stream and going to Europe on a regular basis off the eastern seaboard, and they have capacity. Backhauling two or two and a half hours west just to overfly Atlantic Canada, going to Europe, is a huge irritant in our market. More liberalization that would allow us to take advantage of some of those flights from a passenger, and also importantly from a cargo, perspective would be important to us.

**The Vice-Chair (Ms. Chrystia Freeland):** I'm sorry, Mr. Staples, we have to leave it there. We've almost hit eight minutes.

Thank you very much, Mr. Gill.

May I again ask the indulgence of my fellow members of the committee to ask a couple of questions on behalf of the Liberal Party?

**Some hon. members:** Agreed.

**The Vice-Chair (Ms. Chrystia Freeland):** I want to start with you in particular, Mr. Cherry.

You used some strong language in your statement—it's okay, you're surrounded by MPs; we like strong language—talking about airports and the airport industry being a cash cow because of the tax regime.

I would love to get you to expand on that, and also to give us a sense of how it would need to change for you to feel that Canadian airports are competitive, particularly with U.S. airports, which are an option for so many Canadian travellers.

**Mr. James Cherry:** In order to illustrate that point, allow me to tell you what "Montreal International Airport U.S.A.," as they call themselves in Plattsburgh, New York, has as a cost base. They have received a strategic air command base for nothing, so they have a 12,000-foot runway and a tarmac to hold B-52s, for nothing. The State of New York built them a terminal. They don't pay any rent. They don't pay any interest because they don't have to; their capital was given to them. They don't pay any property taxes.



If we—Montreal airport or Halifax airport or other airports in Canada—could operate our businesses on 20% of the costs we are paying, we'd probably be able to reduce our fees to passengers and airlines quite considerably.

There is a big difference between the two regimes. It's a basic philosophical difference.

In Canada, the Canadian government has decided that passenger aviation is user-pay and it's not something that should be charged to the taxpayers.

In the United States, particularly in some of the secondary markets but even in some of the large markets, aviation is seen as a major economic enabler, as a developer, and as an absolute tool in the development of their economies. As a result, it is subsidized. It's as simple as that. If you look at the differences between the two regimes, there are very few, if any, airports that I'm aware of that pay any rent to anybody. In fact, with most of them the money goes the other way. The money is coming from governments to those airports. Their capital programs, even for the largest airports in the United States, are highly subsidized. What it comes down to is a difference in philosophy.

We're not asking—I'm certainly not asking—to go back to a philosophy where we're asking the Canadian government to hand out money to us. What I'd like to see is that it becomes more neutral and that we are not paying over and over again, every year, for assets that were given to us—in our case, 22 years ago—that we've more than overpaid. In fact, if anybody has been to Montreal in the last couple of years, we've redeveloped the entire airport at our own cost, with our own money, but we are still paying a high level of rent on an airport that was basically transferred to us 21 years ago. We paid for that asset long ago.

That's the fundamental thing. I'd like to see us at least get to a neutral position where we're not cashflow negative on those points.

• (1705)

**The Vice-Chair (Ms. Chrystia Freeland):** Would that neutral position for you be just not having to pay rent anymore?

**Mr. James Cherry:** If I didn't pay rent anymore, the corollary question people normally ask me is, where would that money go?

It would go to three or four different places, depending on how we wanted to play it, and this is something we would look at. We would be able to directly reduce the airport improvement fees we charge to passengers. That would be one possibility.

The second possibility is that it would translate its way into reduced landing fees to the airlines, or we could use it to reduce the debt that we've all incurred in order to improve our facilities. Indirectly, the passengers and the airlines would benefit from that as well, because it would reduce our capital requirements and the interest we're paying.

The answer is yes, I would like to see that happen.

I would also like to see the City of Montreal stop charging me usurious property taxes. We pay six times the amount of property taxes per passenger the City of Calgary pays. In absolute numbers,

we pay more than Toronto does, even though Toronto has two and a half times the number of passengers we do.

I don't want to sound like a victim, but yes, I think we are a bit of a cash cow, quite frankly.

**The Vice-Chair (Ms. Chrystia Freeland):** I saw you nodding your head, Mr. Staples. Do you have a ten-second point you would like to add?

**Mr. Jerry Staples:** I'd echo the comments. Again, it's just security fees, subsidizing seaports off the backs of air travellers. In the U.S., grants to airports are used to attract airlines' new service. Bangor gets half a million dollars to get United to fly there.

**The Vice-Chair (Ms. Chrystia Freeland):** Thank you very much, gentlemen. We're going to have to leave it there, because I have to be extremely strict with myself.

That was just under five minutes, for the benefit of the rest of the committee.

Now we'll have seven minutes of questions from Ms. Grewal, please.

**Mrs. Nina Grewal (Fleetwood—Port Kells, CPC):** Thank you, Madam Chair.

Thank you, Mr. Cherry and Mr. Staples, for coming to speak before this committee today.

Could you please tell us what the government can do to further help the air transport industry grow?

**Mr. Jerry Staples:** Some of the things that have been mentioned here just in the last comments would help for sure, in getting the costs to where they should be—the rents and security fees and whatnot. Progressing on the air transport agreements and air policy liberalization—or as we call it, open skies or blue skies—in this country is fundamental to giving communities, and not just the airports, because the airports are economic enablers for the communities in the regions, the freedom to grow and attract new business.

**Mrs. Nina Grewal:** Mr. Cherry, would you like to comment?

**Mr. James Cherry:** One thing I'd like to see the Canadian government work on is facilitating and improving or streamlining the visa process.

I mentioned earlier that we've been working for a long time to try to get a direct link to China. Over the years I've met three different Chinese ambassadors to Canada, and in each case I've solicited their support and their help to make that happen. They've all reacted in the same way, by saying: I'd be very pleased to help you, because I think it's a great thing that you're doing, but you have to help us too, because it is increasingly difficult for our people to get easy access to visas to come to your country.

It's much easier for them to go to the United States. They can apply online and get a visa to visit from Australia in 24 hours, but to try to get a visa to come from China and get into Canada is an onerous task. I think we have to modernize the visa processes and find a way to streamline the implementation and the whole issuance of visas, because that seemed to be a major resistance. People all over the world tell me that it's just a pain to transit through this country or come to this country, because we make it difficult for them to do so. I don't know what is at the heart of this, whether it's a security concern or a concern about immigration, but I think it's becoming increasingly embarrassing for us as airports, when we're trying to develop markets in the rest of the world, to be confronted with Canada's being seen to be quite regressive in the way it issues visas.

• (1710)

**Mrs. Nina Grewal:** Could you tell us what some other government policies are that have helped your airports expand?

**Mr. James Cherry:** In our case, I think one of the biggest was the signing of the first blue skies arrangement with the United States in the 1990s. That has had a tremendous impact. Before that point, the only cities in the U.S. that were accessible were cities that had major customs/immigration points in the United States. When they redeployed customs agents, when they put in the pre-clearance arrangements, when they expanded that arrangement in Canada and it went to Halifax—Mr. Staples talked about it a moment ago—it had a huge impact on growth.

There's a good indication that facilitating and finding a way to make it easier for people to travel through places actually has a great benefit, and it expands very quickly. We saw it in Montreal, and the most recent example is Halifax 10 years ago.

**Mr. Jerry Staples:** Halifax wouldn't have the Delta LaGuardia flight without U.S. pre-clearance, because LaGuardia doesn't have Homeland Security and CBP services. It's a domestic-only airport.

**Mr. James Cherry:** There's a very good example of a Canadian government policy that was particularly well timed and well placed, and it has had a tremendous impact. I think the European free trade arrangement will have the same impact.

**Mr. Jerry Staples:** Just on the EU agreements, if you look at the blue sky side of it, there are four phases to it. It needs to be ramped up. Let's get on with it and get it in place and be able to take full advantage of it. It's not something that I think we need to be as cautious as perhaps we're being in bringing it online.

**Mrs. Nina Grewal:** Mr. Staples, Stanfield International Airport exported record amounts of lobster to China last year. How did Canada's ATA with China allow for this glut?

**Mr. Jerry Staples:** For cargo in general, in China and other countries there aren't a lot of restrictions. It's easier than on the passenger side, although you still have to apply and go through the CTA. We're okay in terms of going to China.

The real issue with China for us right now is actually getting the lift. We're trucking goods. At certain points during the year—this is a year-round business with live lobster exports out of Atlantic Canada—over 70% of that lobster is being trucked to Boston, New York, and sometimes as far as Washington, for uplift.

That's business that needs to be repatriated to Canada, to Halifax specifically, creating the jobs and the economic impacts and the tax revenues in this country.

**Mrs. Nina Grewal:** I'll pass on my time to Mr. Gill.

**Mr. Parm Gill:** Thank you, Ms. Grewal.

One of the questions I have is regarding the ATA security and safety concerns. Do you feel these agreements actually address the security issues properly? Are there any areas of opportunity that you would like to bring to the attention of the committee?

**Mr. James Cherry:** I'm not aware of any specific issues in there with respect to security that would give us cause to be concerned. I know we're very diligent about which countries we fly to and which countries we allow service to be extended to.

I had personal experience when we extended the right to Air Algeria to fly to Canada. We were very diligent, and I thought our government did a great job of working through all the issues associated with having a flight to that part of the world; they were quite sensitive.

So no, I'm not aware of any particular aviation security issues that have been an impediment.

Jerry?

**Mr. Jerry Staples:** Nor am I, but the countries that we're targeting don't really pose....

I think it's more the visa perspective from Halifax; we keep looking at the Baltic countries, and I suspect as we pursue that there'll be visa issues.

**Mr. James Cherry:** I wanted to go back to an issue regarding cargo. One of the things people don't realize is that probably 60% to 65% of the cargo that goes in airplanes actually goes in the belly of passenger airplanes. When Mr. Staples refers to lift, it's that if we don't have passenger flights going to those places, there probably isn't lift going there for cargo either.

The key for us, and the real profit in the business, is to get passenger flights. The cargo usually flies free, or virtually free—"freeloads", I should say—in the belly of those airplanes. That's where the real growth is.

• (1715)

**The Vice-Chair (Ms. Chrystia Freeland):** Thank you very much, gentlemen.

We've just gone...almost up to eight minutes. I'd like to ask the committee for their shared view. We agreed last week that at the end of today's meeting we would spend 15 minutes instructing our excellent analysts on the report that they now need to write, or perhaps be instructed by them about it.

We could go ahead and do that now, or we could have a few more questions. What's the view?

**Ms. Laurin Liu:** I would like to eventually discuss our report. We could do it at a further meeting, if we don't have witnesses on Wednesday, but we do have a few recommendations to present to the committee on the report.

**The Vice-Chair (Ms. Chrystia Freeland):** But would we like to do one more round of questioning or go straight to the report?

**Mr. Parm Gill:** I think we're good to go from our side, at least, unless the opposition has more.

**Ms. Laurin Liu:** If we could move straight to the report, that would be fine with us.

**The Vice-Chair (Ms. Chrystia Freeland):** Okay. We wouldn't get to me anyway, so that's okay with me too.

Thank you very much, Mr. Cherry and Mr. Staples, for fascinating testimony. We really appreciate your time.

Our meeting is now suspended, and we will go in camera.

*[Proceedings continue in camera]*

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