H.C. Shenton d. January 25, 1993

NON-CONFIDENTIAL VERSION

COMPETITION TRIBUNAL **TRIBUNAL DE LA CONCURRENCE**

CT - 88/1

IN THE MATTER OF an application by the Director of Investigation and Research under subsection 64(1) of the *Competition Act*, R.S.C. 1970, c. C-23, as amended;

AND IN THE MATTER OF a Limited Partnership formed to combine the operations of the Reservec and Pegasus computer reservation systems;

AND IN THE MATTER OF The Gemini Group Automated Distribution Systems Inc.;

AND IN THE MATTER OF an application by the Director of Investigation and Research under section 106 of the *Competition Act*, R.S.C. 1985, c. C-34, as amended, to vary the Consent Order of the Tribunal dated July 7, 1989

COMPETITION TRIBUNAL
TRIBUNAL DE LA CONCURRENCE
FILED / DÉPOSÉ
JAN 28 1993 [illegible]
REGISTRAR - REGISTRAIRE
OTTAWA, ONT. #239(b)

B E T W E E N:

THE DIRECTOR OF INVESTIGATION AND RESEARCH

Applicant

- and -

AIR CANADA
PWA CORPORATION
CANADIAN AIRLINES INTERNATIONAL LTD.
THE GEMINI GROUP LIMITED PARTNERSHIP
THE GEMINI GROUP AUTOMATED DISTRIBUTION SYSTEMS INC.
COVIA CANADA CORP.
COVIA CANADA PARTNERSHIP CORP.

Respondents

- and -

CONSUMERS' ASSOCIATION OF CANADA
AMERICAN AIRLINES, INC.
ATTORNEY GENERAL OF MANITOBA
ALLIANCE OF CANADIAN TRAVEL ASSOCIATIONS
IBM CANADA LTD.
VIA RAIL CANADA INC.
UNISYS CANADA INC.
COUNCIL OF CANADIAN AIRLINES EMPLOYEES

Intervenors

AFFIDAVIT OF HAROLD E. SHENTON

I, HAROLD E. SHENTON, of the City of Washington, in the District of Columbia, MAKE OATH AND SAY AS FOLLOWS:

1. I am a Vice President of AVMARK, Inc. AVMARK, Inc. has been retained by counsel for Air Canada to provide its opinion on certain issues arising in connection with the Application by the Director of Investigation and Research against Air Canada et al (CT-88/1).

2. I have prepared the document entitled "Testimony of Harold E. Shenton" attached as Appendix A hereto. The opinions expressed therein are true to the best of my knowledge, information and belief.

3. My qualifications to give this expert testimony are described in Appendix B hereto.

4. I make this Affidavit pursuant to Rule 42(1) of the Competition Tribunal Rules and for no improper purpose.

SWORN BEFORE ME at the City of
Arlington County in the
State of Virginia
this 25th day of January, 1993.

Harold E. Shenton
Harold E. Shenton

Mary L. Miller
Notary Public
My commission expires June 30, 1993

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TESTIMONY OF HAROLD E. SHENTON

TESTIMONY OF HAROLD E. SHENTON

I. BACKGROUND AND QUALIFICATIONS

1. My name is Harold E. Shenton, I am a Vice President of AVMARK, Inc, an aviation management consulting company headquartered in Arlington, Virginia. I am a graduate (First Class Honours, Bachelor's and Master's degrees) of the London School of Economics, University of London, England where I specialized in international economics.

2. I joined AVMARK in 1987 following my retirement from TWA. I was employed by TWA for 18 years, with responsibilities at various times for international market planning, marketing research, traffic and revenue forecasting and frequent flyer program administration. Prior to TWA, I spent two years with Pan American Airlines, and another two with the Stanford Research Institute, being concerned in each case with airline market planning, analysis and forecasting. During the period 1959 to 1965, I was employed at CP Air, where I was in charge of market research and forecasting. I have had no direct contact with CP Air since 1965, although I continue to follow closely developments in the Canadian aviation industry.

3. The combination of academic training and practical airline experience has enabled me to consult successfully with many airline and government clients. I recently completed a major study of airline competitiveness for the European

Economic Community and examined recent trends towards globalization of the airline industry and its impact on the prospects of small airlines. I have prepared testimony in a number of cases before the United States Civil Aeronautics Board and testified personally in the Application by Laker Airlines for trans-Atlantic service. In 1990, I prepared exhibits and testimony in the US – Japan Gateways proceeding (Docket 46700) on behalf of the Greater Orlando Aviation Authority.

4. I do not own stock in any US or Canadian airline or CRS, nor do I have any financial stake in the outcome of this proceeding.

5. A detailed Curriculum Vitae is attached as Appendix B to my Affidavit.

II. OVERVIEW OF TESTIMONY AND CONCLUSIONS

6. I have been retained by counsel to Air Canada to analyze various issues relating to competition in airline markets in connection with the Notice of Application ("Application") filed by the Director of Investigation and Research ("Director") in this proceeding. In particular, I have been asked to consider whether, as a result of Canadian Airlines International Ltd's ("CAIL") discontinuance of operations through business failure, merger with Air Canada or otherwise, one or more air carriers can be expected to establish themselves, maintain their existence and offer meaningful

competition to Air Canada in substantial segments of the Canadian domestic airline passenger market.

7. To assist in this testimony, I have been provided with and reviewed a number of documents including the Application; the Responses of Air Canada, PWA Corporation and CAIL, the Gemini Group, and Covia; the Director's Reply and the testimony of Messrs. Tretheway and Dorman. I have also reviewed documents relevant to the 1987 proceeding in this matter, including the 7 July 1989 Consent Order made by the Competition Tribunal. In addition, I have reviewed reports by Statistics Canada relating to Canadian airline markets and the National Transportation Agency's *Annual Review* for the years 1988, 1989, 1990 and 1991.

8. Based upon my knowledge of airline markets, in Canada and elsewhere, and my experience in the analysis of aviation economics, I am of the view that in a deregulated environment there are opportunities for new air carriers to establish themselves, provide competitive service in substantial segments of the market in question and operate profitably.

9. Successful entrants will typically enter and occupy niche segments of a market, providing effective and sustained competition to large airlines. Barriers to enter these markets are not insurmountable.

10. It has been asserted that the existing aviation environment favours large airlines, particularly those with global alliances. It has also been said that airlines need large mass to enable them to compete in the world marketplace. These assertions and claims are true only to the extent that large airlines are in competition with one another. Smaller airlines are able to operate profitably within the confines of their defined niche, a niche which for one reason or another large airlines are unable or reluctant to enter. High density destination-and-origin ("O&D") city pair markets are particularly well served by small carriers since these markets are of sufficient size to support O&D traffic without reliance on feed from connecting traffic.

11. Opportunities for entry and expansion have been and are currently being exploited in a number of jurisdictions. Since deregulation in the US, a number of niche carriers have entered various markets and operate profitably at a time when the US "mega" carriers, against whom the niche carriers compete, are incurring losses. In Australia and South Africa, where airline markets have recently been deregulated, new carriers have entered markets previously served by only one or two carriers.

12. Opportunities for entry and expansion also exist today in the Canadian airline passenger market. I am of the view that, in the event CAIL exits the Canadian airline market, Air Canada will face effective and sustained competition from other carriers. My contention is based upon consideration of a number of factors, including:

(a) there is no conclusive evidence that large carriers operate more economically than small carriers. In fact, smaller carriers typically have lower cost structures than large carriers.

(b) small carriers can easily acquire access to information and other systems they require to offer competitive service, but which they cannot on their own afford to develop.

(c) in Canada, most passenger traffic moves point-to-point between significant centres rather than through hub-and-spoke systems as in the US. This market structure favours entry by new carriers.

(d) in Canada, there are no significant barriers to access to airport services and facilities.

(e) small carriers can and do overcome perceived marketing disadvantages

(f) recent experience in Canadian markets indicates that existing charter carriers are ready, willing and able to enter and provide effective competition

13. In the event of financial failure of CAIL, I do not think that a new entrant would necessarily provide the level of service currently provided by CAIL (but, even this might be possible were such a competitor relieved of the debt burden currently borne by CAIL). Rather, I envision that one or more competitors would enter selected domestic and international Canadian markets, in competition with Air Canada and foreign flag carriers. Where appropriate, these competitors will likely align themselves with existing or new Canadian feeder carriers, and possibly foreign carriers.

III. FACTORS WHICH FAVOUR VIABLE ENTRY

14. Factors which favour entry by and continued viable existence of niche carriers are discussed below.

A. Absence of economies of scale

15. I have devoted much of my professional attention to the issue of economies of scale in the airline industry. It is not true, as sometimes asserted, that an airline operates more economically as it grows larger.

16. There have been many studies of the relationship between airline efficiency and airline size. No conclusive evidence has been produced to support the conclusion that large airlines operate more economically than small airlines. It has

only been found that per unit operating costs decrease as the average stage length increases. The relationship between per unit operating costs and average stage length is depicted in Exhibit 1. That relationship reflects the basic economics of aircraft operation, but is unrelated to airline size. In fact, as shown in Exhibit 2, the reverse is true – small airlines tend to have lower operating costs than large carriers. Exhibit 2 depicts that in 1991, the average operating cost per seat mile of small US airlines such as Southwest Airlines ("Southwest"), Tower Air Lines ("Tower Air") and American Trans Air Lines ("American Trans Air") was significantly lower than that of large airlines.

17. I do not maintain that there are no economies of scale under any circumstances. There is a minimum level of service which an airline must offer to cover its overhead costs. But, that minimum level depends upon route structures, traffic density, length of haul, financial obligations, and many other factors. Some airlines are profitable with eight or nine aircraft; others lose money with 200[1].

18. Small carriers typically explore every possible opportunity to keep down their costs in order to compete most effectively. They are successful in maintaining lower operating costs per seat mile for several reasons:

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[1] For example, Tower Air operates only nine aircraft and is consistently profitable (discussed below). In recent years, US "mega" carriers have been unprofitable.

(a) small carriers often operate their aircraft with a higher seating density (unless they compete by offering an upscale service product such as all first class)[2].

(b) small airlines have lower per unit labour costs[3].

(c) a small airline is likely to have lower indirect operating costs (ie. marketing, promotion and sales, passenger service)[4] and operate under closer supervision of top management.

(d) top management and other employees of a small airline typically have stronger financial incentives to attain profitability[5].

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2 According to reports filed with the U.S. Department of Transport for the year ended December 31, 1991, Southwest utilized its Boeing 737-300 aircraft an average of 8.9 block hours daily, compared with figures ranging from 6.3 to 7.5 block hours for larger carriers. During the same period, seating density was 122.1 seats per aircraft for Southwest, and ranged from 100 to 110 seats per aircraft for other significant U.S. air carriers, with the exception of low-fare airline America West which had 121.9 seats per aircraft.

3 Discussed at paragraph 20, below.

4 Discussed at paragraph 20, below.

5 Southwest, for example, has a voluntary stock purchase plan and profit sharing plan for its employees.

(e) a small airline can purchase many of the services it needs from a larger airline. Large airlines tend to offer such services for sale below their own fully allocated cost since these sales provide incremental revenues[6].

19. In order to rigorously analyze cost differences between large and small airlines, I compared the cost structures of the four largest US carriers (American, United, Delta and Northwest) against their smaller US counterparts (Tower Air, America Trans Air, and Southwest) using the US Department of Transportation's functional cost classifications.

20. Exhibit 3 illustrates expenses per available seat mile ("ASM") and distribution of expenses for the two carrier groupings. The following summarizes the cost differences between the two carrier groupings:

(a) the smaller carriers operate at a significant cost advantage in comparison to the larger carriers. The average costs per ASM of the large carriers exceeded that of the lower cost carriers by 46.63% for the year ending June 30, 1992. The cost advantage for lower cost carriers exists in 7 of the 8 cost classifications defined by the US Department of Transportation.

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6 For example, a small airline which infrequently serves a major airport may have the option of purchasing ground handling services from a number of airlines already serving the airport. Each of these other airlines will be eager for the business, since any revenue earned is offset against that station's operating costs.

(b) the average unit cost of flying operations for large US carriers exceeded the smaller carriers by 24.78%; that of aircraft traffic and servicing by 57.87%.

(c) passenger service expenses also differ considerably between the two carrier groups. Large carriers typically offer more services to their passengers, resulting in increased costs. Large carriers' average service related costs exceeded that of small carriers by 99.81% for the year ending June 30, 1992.

(d) the greatest cost difference between the two groups of carriers is represented by promotion and sales. During the year ended June 30, 1992, large carriers spent 154.82% more per ASM than smaller carriers for marketing and promotion.

(e) based on the US Department of Transportation objective cost classifications, labour expenses for large US carriers average 35.6% of total expenses compared to 33.4 % for small carriers. Converted to costs per ASM, labour expenses of large US carriers are 58.09% greater than those of small carriers.

21. In summary, the smaller US carriers have developed cost structures which are significantly lower than their larger counterparts. In only 1 of the 8 of the US Department of Transportation's functional cost classifications do the larger carriers have a unit cost advantages. More importantly, in the most significant cost areas (flight operations, promotion and sales, aircraft and traffic servicing) smaller carriers have significant cost advantage over the mega-carriers.

22. I note that not all small US carriers have cost advantages when compared to larger airlines. For example, Midwest Express and Alaska Airlines have higher average costs. But, Midwest Express and Alaska Airlines offer premium service, unlike most other US airlines of comparable size.

B. Access to advanced technology systems

23. Airlines can purchase access to the systems which they require to operate their business, but which they cannot afford to develop for themselves. Technological advances in the airline industry during the 1970's and 1980's initially gave large carriers advantages over smaller carriers. Large carriers developed information systems, accounting systems, and maintenance and training procedures which tended to improve their economics of operation.

24. These advances also gave non-airline technologically oriented companies an incentive to develop similar systems and offer them for sale to airline clients. As a result, there today are a number of non-airline owned companies which compete with major airlines in offering advanced technology services to smaller airlines. For example, AMR Inc., American Airlines' parent company, offers a yield management system through American Airlines Decision Technologies, another of its subsidiaries. Its competitors include a number of specialized independent companies, such as Aeronomics of Atlanta, Georgia and Behavheuristics of College Park, Maryland, each of whom offer high technology service products to airlines in the US and Canada. These services would be available to any entrant in the Canadian airline market. In fact, Behavheuristics designed Nationair's yield management system.

25. It is expected that markets for advanced technology systems for airlines will be a focus of growth in the future. The proposed AMR-CAIL transaction is in part designed to sell the technical services of a large airline to a smaller one. In fact, AMR Inc. actively competes for business for its technologically advanced services. Donald Carty, American's and AMR's Executive Vice President for Finance and Planning recently stated:

> ... If this company (AMR) is ever to achieve acceptable levels of profitability, much of that (must) come from

focusing more and more of our efforts on our non-airline businesses.[7]

26. Transactions for the purchases of specialized technical services are taking place daily in the aviation industry without any equity infusion by the service supplier. Very often these services can be offered cheaply to a small airline because of existing systems capacity. Consequently, and by way of example, there is no reason why a small airline has to pay more for its revenue accounting function than it costs a large airline. This is true in both the US and Canada.

27. I should make clear that the situation is somewhat different with CRS systems, where small airlines have to utilize the services of the few large systems that are available (ie. SABRE, Apollo). However, in the Canadian context the Competition Tribunal's Consent Order of 7 July, 1989 ensures that all airlines operating in Canada have non-discriminatory access to CRS facilities.

C. No dependence on hub-and-spoke operation

28. It has been asserted that small airlines cannot compete successfully in a hub-and-spoke environment. This is generally true.

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[7] "AMR's non-fliers fly higher - information arm outpaces airline", Globe and Mail, January 4, 1993.

29. A hub–and–spoke system enables an airline to provide nonstop service on routes which otherwise do not have sufficient traffic density to support that level of service. Hub–and–spoke systems are viable in the US because of the large country–wide market size, combined with market dispersion and the large number of individual markets that cannot sustain nonstop service[8]. It is not surprising that some US hubs are threatened because they cannot attract sufficient traffic flow to fill the capacity available.

30. In the US, most small airlines operate point–to–point route systems, tapping local markets, and by definition do not operate hub–and–spoke networks. (There are exceptions – Key Airlines in Florida uses Savannah as a hub between major cities in the Northeast US and leisure destinations in the Caribbean).

31. In Canada, lack of hubbing is not a problem for airlines, big or small. The bulk of Canadian traffic moves point–to–point between major cities, and hubbing is minimal. In sharp contrast with the US data quoted above, the top 25 Canadian city pair markets accounted for 56.5% of all scheduled domestic passenger traffic in January–June 1991.[9]

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8 According to 1991 O&D statistics published by the US Department of Transportation, the top 25 domestic US city pair markets account for only 14.2% of total domestic passenger traffic.

9 National Transportation Agency, *Annual Review 1991*.

32. The only major connecting airport in Canada is Toronto, yet even in Toronto Air Canada does not operate a "hub" as that concept is understood in the US – that is an airport where a large number of flights arrive directionally in several banks of arrivals, and then proceed onward to their destinations. This is illustrated in Exhibits 4 and 5. Exhibit 4 shows an typical weekday US airport hub pattern, as exemplified by Delta's secondary hub in Cincinnati, with very marked waves of approximately 30 arrivals within 30 minutes being followed by similar waves of departures. This pattern does not appear in Exhibit 5 which shows an average weekday schedule of Air Canada at Toronto, where the maximum number of arrivals within a 30 minute period is 10 and flight banks are not clearly defined. There is, of course, connecting traffic in Toronto, but it does not contribute to traffic flow in the principal markets to the same extent as with US hubs and spokes. Consequently, there is no reason why any airline in Canada could not enter one or more Toronto or other major city pair markets and compete effectively primarily for local O&D traffic. In fact, in October, 1992, Nationair commenced service between Toronto and Montreal, Canada's busiest city-pair market and recently announced its intention to enter the Toronto–Ottawa and Toronto–Halifax markets[10].

33. Unlike at airports such as New York's La Guardia and Washington's National, access to landing slots at Canadian airports is not controlled. Of course, if

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[10] News clippings relating to Nationair's expansion plans are included in Exhibit 14.

CAIL discontinued operations, there would be significant over-capacity at and even freer access to all Canadian airport facilities.

D. Small carriers can establish niche markets

34. Niches carved out by small airlines in recent years indicate the ingenuity exercised by airline management in a hub-and-spoke environment that can favour larger airlines. The niches are almost always geographically restricted: Niche carriers usually offer low-fare service or high-quality premium service, and occasionally a combination of low fares with high quality. While some niche carriers have failed since deregulation, so have some major carriers. Large carriers do not have the monopoly of bad management. Yet as will be shown by the niche carrier examples discussed below, some niche carriers have been consistently profitable at a time when their major competitors were losing money.

E. Small carriers can overcome marketing disadvantages

35. US carriers have shown that perceived marketing disadvantages such as a lack of a significant route network can be overcome through the following:

(a) Becoming dominant within a small market niche

36. Small carriers which are the dominant carrier in their defined niche can be very successful, notwithstanding other perceived marketing disadvantages. For example, Southwest started by being dominant in the Dallas Love Field markets; Midwest Express dominates the Milwaukee market; Tower Air's scheduled services are focussed on US–Israel markets. In each case, the small carrier has a public and trade presence which matches that of the large airlines which fail to exploit the market.

(b) Entering into code–sharing or marketing agreements with larger airlines

37. Code–sharing and other marketing arrangements give passengers travelling on small carriers easier access to more markets. A recent example is the agreement between the two niche carriers, Virgin Atlantic and Midwest Express, which code–share on the Milwaukee–Boston segment of a Milwaukee–London route. In Europe, small airline British Midland, partly owned by SAS, code–shares with United Airlines in selected markets.

(c) Participation in frequent flyer programs of other airlines

38. As frequent flyer programs continue to expand, there has been an increase in cross-participation. Exhibit 6 shows the extent of participation between airlines in Europe and North America. The motivation for joint participation is varied: some partnerships exist to support close marketing ties; others to provide one airline with more destinations that they can offer as awards; still others to offer additional incentives for passengers to use a specific airline. There are also instances where one airline purchases the right to participate in the program of another. Here again, competition brings down the cost of such participation.

39. Both Air Canada and CAIL have arrangements with other carriers whereby the carriers cross-participate in the other carrier's frequent flyer programs. For example, Air Canada Aeroplan points may be redeemed for flights on United Airlines. Example of unusual frequent-flyer partnerships include:

(a) When Northwest discontinued most of its flights out of Milwaukee, it set up a special plan with Midwest Express, a small airline dominating the Milwaukee market. Under the plan, members of Midwest Express' frequent flyer program may redeem awards for travel on Northwest. The measure was designed to permit passengers who had previously flown

Northwest out of Milwaukee to continue to accumulate mileage in markets where Midwest Express was now the dominant carrier.

(b) Both British Airways and Lufthansa offer some of their transatlantic passengers a free ticket on American Airlines for domestic US travel, even though neither airline has a frequent flyer program agreement with American Airlines, and American Airlines' trans-Atlantic flights compete with both airlines. This is a most extreme example of cross-over of awards between competitive airlines,

40. Airlines are prepared to negotiate frequent-flyer agreements with each other to exchange benefits for suitable compensation. A small airline can, if it so wishes, undertake such arrangements to give it more appeal in the markets it serves.

(d) Making special arrangements with travel agents and corporations

41. Small airlines may need to adopt special marketing strategies to carve out for themselves a share of the market in the cities they serve. As indicated above, in cities where a small airline is strong, it can attract the loyalty of frequent flyers and travel agents by offering the most frequent service and competitive fares. They can also associate with tour operators who have access to large segments of the pleasure

market. Alternatively, they can market themselves directly to the travelling public by advertising their cost or service advantages over their large competitors.

42. In markets where large carriers are dominant, they need to promote their services selectively, by targeting travel agents who are less dependent on major airlines for their commissions, and who would be responsive to the overrides offered by the smaller airlines.

(e) Responding more rapidly to changes in the marketing environment

43. One of the advantages of a small airline is hands–on management by a management team that is alert to changes in the environment and constantly searching for new opportunities. Small airlines have the flexibility to react quickly to market changes. They can, for example, easily enter new markets that are monopolized or which are sufficiently uncompetitive that prices are artificially high.

44. Small airlines that in recent years exited markets typically lacked market awareness, or were unable to quickly respond to changes in their environment. For example, many airlines that attempted to subsist on the offer of all first–class service failed, in part because the market segment responsive to such service is not large enough to support the prime requirement of the business flier, frequent service. On the other hand, an airline like Midwest Express has been successful because it offers

more comfort in its entire aircraft to all passengers, while at the same time offering service frequency that exceeds that of its competitors.

45. Southwest, which in fact is no longer considered a "small" airline, in recent years has been on a steady but gradual expansion course and has shown a willingness to take advantage of market opportunities. Taking advantage of turmoil in the California market following the acquisition of PSA by USAir, Southwest entered the California corridor. It gradually offered service in secondary markets, avoiding Los Angeles - San Francisco, but followed its strategy of high frequency and low fares. Southwest has been very successful in its penetration of the market, and in generating a sustainable competitive advantage due to favourable consumer response to its low fares.

46. Nationair's recent low-fare entry into selected Canadian domestic markets is indicative of its desire to stimulate new traffic and take advantage of opportunities in those markets.

(f) Establishing a stronger image than that of large airlines

47. Small airlines, concentrating on a relatively small number of markets, can generate strong local loyalty, and follow it up with service or price offers which large airlines cannot match. For example,

(a) American Airlines has complained that it cannot compete effectively with Southwest. Robert Crandall, American's President and CEO has stated:

> We are studying whether we can complete with lower cost carriers by offering a simple service ... Since our costs would be higher than Southwest's no matter what service we offer because our wages, benefits, and work rules are very different we haven't decided that a simplified service approach is a good plan.[11]

(b) Northwest implicitly admitted its inability to compete in the Milwaukee market by withdrawing from several markets where they could not afford to match the frequency and service quality of Midwest Express.

(c) British Airways, despite battling Virgin Atlantic in all possible ways for several years, is forced to accept that airline as a viable competitor in all the markets it services. Virgin Atlantic offers low fares and high service quality.

48. Many industries are dominated by large corporations, yet small ones are able to survive. They tend to be more adaptable, more flexible, usually driven by a

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[11] American Airlines' "Special Message" addressed to employees, November 18, 1992.

small management team. Their costs tend to be lower, or service better than that offered by large corporations. The airline industry is no exception.

IV. EXAMPLES OF SUCCESSFUL US NICHE CARRIERS

49. I will now briefly discuss four US niche carriers, each of which have followed different paths while maintaining profitably within their niche. Their recent financial and traffic history is included in Exhibit 7. Route maps are included at the Exhibit noted beside each carrier's name below:

(a) American Trans Air (Exhibit 8)

50. American Trans Air is classified as a US national airline. It commenced operations as a charter airline in 1973 and now operates a fleet of 25 aircraft – 7 Boeing 727–100's; 6 Boeing 757–200's; and 12 Lockheed L–1011's.

51. American Trans Air has developed into a diversified airline operation with a mixture of charter and scheduled flights. It tends to concentrate on medium and long–haul flights to leisure destinations such as Florida and Hawaii. It has taken advantage of its location in Indianapolis to offer low cost scheduled services to other US cities and also offers flights out of San Francisco and Los Angeles.

52. American Trans Air earned a net profit in all but one of the last five years, earning US$22.8 since 1987, including a record US$9 million in 1991[12].

(b) Midwest Express (Exhibit 9)

53. Midwest Express was originally founded by Kimberly–Clark Corporation to fly employees between Milwaukee and other destinations. It began offering scheduled services in 1984, serving primarily the Milwaukee market. It now has a fleet of 14 aircraft – 12 DC–9's and 2 MD–88's. Midwest Express operates a high–quality air service, with lower seating density than its competition. (112 versus 140+ seats in its MD–80's and 60 versus 72+ seats in its DC–9's).

54. Northwest, Midwest Express' major competitor, recently reduced its presence significantly in the Milwaukee market, implicit recognition by Northwest that it could not profitably match Midwest Express' frequency and level of service. As late as the fourth quarter of 1991, Northwest had approximately 50% of the on–board traffic between Milwaukee and major competitive East Coast US cities[13]. However, its load factors were in the low 40's[14], while Midwest Express recorded load factors in the

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12 See Exhibit 7.

13 US Department of Transportation statistical data.

14 US Department of Transportation statistical data.

high 60's[15], more than offsetting the differences in seating density between the two airlines. At the same time, Midwest Express' yields per passenger were about 15% greater than Northwest's.[16]

55. Midwest Express is successful because it offers service well suited to the requirements of the local market both in terms of scheduling and of service quality. It also receives some connecting traffic from Skyway Airlines, an unrelated commuter airline that feeds it traffic in Milwaukee. Midwest Express has been consistently profitable over the last five years, netting US$17.4 million since 1987[17].

(c) Southwest Airlines (Exhibit 10)

56. Southwest is now classified as a major US airline and is considered to be the classic niche carrier.

57. Southwest started operations in 1967 as a Texas intra-state carrier which at that time exempted it from CAB regulation. It had a monopoly at Dallas Love Field following completion of the new Dallas-Fort Worth Airport when other airlines relocated to the new airport. Southwest has retained that monopoly, although new

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15 US Department of Transportation statistical data.

16 US Department of Transportation statistical data.

17 See Exhibit 7.

airlines are free to start-up competitive service subject to some limits imposed by legislation on flights originating at Love Field.

58. Southwest has expanded and prospered by following a policy of offering frequent, low cost service with a dedicated and enthusiastic employee force. It operates basically one type of equipment (138 Boeing 737's) in high density seating, serves no meals, but offers friendly service. Southwest does not participate in a CRS, but has established dedicated telephone lines for its key corporate and travel agency clients. It offers no interline services and runs an independent frequent flyer program. Southwest has shrewdly and successfully entered new markets judged ripe for entry with high frequency service and low fares.

59. Southwest has been consistently profitable, earning nearly US$300 million since 1987. It was the only major US airline to report a profit in first nine months of 1992[18].

(d) Tower Air (Exhibit 11)

60. Tower Air is also classified as a US national airline. It was formed in 1982 and now operates a fleet of 9 aircraft - 7 passenger Boeing 747's and 2 cargo

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18 See Exhibit 7.

Boeing 747's. Tower Air commenced operations as a charter airline and an adjunct to a large tour operation. It began offering scheduled service in 1983.

61. Tower Air has gradually expanded its scheduled flights in those domestic and international markets which it believes to be under-served. One of these markets is US-Israel, which is being offered minimal nonstop service by other US flag carriers. Tower Air also flies to a some European destinations and to Florida from New York, and between Florida and Europe. It is constantly on the lookout for new opportunities which fit into the type of service it offers - low fare service in leisure markets. It has recently been averaging 10 scheduled departures weekly[19], and continues to operate charters.

62. Tower Air has been consistently profitable, with net profits of nearly US$7 million in 1991, and a total net profit of US$25.6 million from 1987 through to the third quarter 1992.[20]

V. SUCCESSFUL NICHE CARRIERS BASED OUTSIDE NORTH AMERICA

63. Selected niche carriers based outside of North America are briefly discussed below:

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[19] *Official Airline Guide,* January 1993.

[20] See Exhibit 7.

(a) Virgin Atlantic (Exhibit 12)

64. Virgin Atlantic in a niche carrier which has some relevance to the Canadian scene, since some of the routes it serves are similar to CAIL's transpacific routes.

65. Virgin Atlantic started operations in 1984 and operates only long-haul intercontinental service with its fleet of 8 Boeing 747 aircraft. The airline has been expanding slowly in the face of intense opposition from British Airways and difficulty of getting slots at Heathrow. It now operates flights out of London Heathrow and Gatwick to Boston, New York/Newark, Miami, Orlando, Los Angeles and Tokyo, but is for the time being unable to offer service to Johannesburg due to the lack of suitable slots at Heathrow.

66. Virgin Atlantic has had a significant impact in the markets it serves with its blend of low fares and high quality service. It has been marginally profitable[21], with considerable resources being devoted to the expansion of operations.

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[21] Virgin Atlantic Airlines' Annual Report for the 15 months ended October 31, 1991.

(b) In Australia

67. An interesting example of successful expansion of a small carrier after deregulation is presented in Australia. There, the airline market was deregulated about two years ago. That market is slightly larger than Canada's and even more concentrated in the top cities.[22]

68. Initially following deregulation, massive fare reductions were followed by the collapse of a major start-up competitor, Compass Airlines. Subsequently, Compass was revived under new ownership and now offers service competitive to the major Australian airlines (Australian Airlines, Ansett and Eastwest Airlines) in 7 of the top 15 city-pair markets[23].

(c) In South Africa

69. South African Airways lost its domestic route monopoly in 1992. Immediately following deregulation, Flitestar entered the market and is now offering competitive service with South African Airways on eight domestic routes. Flitestar

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22 The top five city-pair markets accounted for 49.5% of all domestic passengers in 1991-92 (as reported in Australia's Department of Transport and Communications *Annual Report* for 1991-92).

23 *Official Airline Guide*, January 1993.

recently inaugurated service between Johannesburg and the United Arab Emirates and has applied for traffic rights to other international destinations.[24]

VI. THE CANADIAN AIRLINE PASSENGER MARKET

70. Experience in the US market is relevant and applicable in the context of the Canadian airline passenger market. The US and Canadian airline passenger markets share many similarities. Where the markets differ, the Canadian market typically is more open.

71. The Canadian market is well suited structurally for sustained entry by niche or small airlines for a number of reasons including:

(a) most passenger traffic moves point-to-point between significant centres rather than through hub-and-spoke systems

(b) there are no significant barriers to access to airport services and facilities.

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24 "African Airlines", November/December 1992 *Official Airline Guide*, January 1993.

72. To evaluate potential competition from niche carriers in Canada, one needs to pay special attention to Canadian charter carriers. Charter carriers currently provide effective competition in key markets. According to the National Transportation Agency:

> During the peak summer travel months of 1991, the charter carriers (Air Transat, Canada 3000, First Air and Nationair) whose services are marketed by several tour operators provided head-to-head competitive service in domestic city pairs that account for over 24 percent of the domestic passenger market, and offered the only direct service in six others. Furthermore six of these city pairs are now receiving year-round charter service, with Toronto-Vancouver being served daily[25]

Thus concludes the NTA:

> It is clear that the domestic charter programs represent an important source of competition for the scheduled carriers in several domestic markets. Due to the magnitude of their presence and the nature of their operations, their role in the market place is one that is more than simply providing low cost air travel and this role cannot be overlooked when assessing the level and depth of competition prevailing in the Canadian air transport industry[26]

73. For the purposes of this testimony, I have been asked to assume that, in anticipation of possible changes in the structure of the Canadian aviation industry, a number of charter carriers are planning to expand their services in the Canadian

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[25] National Transportation Agency *Annual Review 1991*, page 44.

[26] National Transportation Agency *Annual Review 1991*, page 44-45.

domestic passenger market. An example is found in a draft of possible route networks prepared by Canada 3000 in 1991, shown at Exhibit 13 and, I understand, included in Air Canada's productions at Tab 311.

74. In addition, Nationair already serves the Toronto–Montreal market, and plans to further expand into the Toronto–Ottawa and Toronto–Halifax markets as reported in the press clippings included at Exhibit 14. Shown at Exhibit 15 is a route map depicting the routes on which Nationair will offer scheduled service.

75. It is likely that not all these carriers will implement such plans; nor is it certain that all the carriers will be able to sustain profitable operations. It is clear, however, that they are the type of carrier which in the US market have been able to enter and expand service in airline passenger markets, for the following reasons:

(a) the carriers have lower cost structures than Air Canada or CAIL

(b) the carriers can easily acquire access to information and other systems they require to offer competitive service, but which they cannot on their own afford to develop

(c) the carriers can and do easily overcome perceived marketing disadvantages

(d) the carriers can and do provide a minimum level of service to ensure profitability

(e) like small carriers in the US, the Canadian charter carriers operate their aircraft with a higher seating density than Air Canada or CAIL

76. Other carriers such as Air Transat and Emerald Air are the type of carriers which could well enter the scheduled passenger market.[27]

VII. CONCLUSIONS

77. It is extremely unlikely that CAIL's exit from the Canadian airline passenger market would lead to an Air Canada monopoly.

78. Opportunities for entry and expansion into the Canadian market exist and are already being exploited. Recent experience in Canadian markets indicates that existing charter carriers are ready, willing and able to enter and provide effective competition. There is no reason why new airlines could not be established profitably in selected markets in competition with Air Canada.

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[27] See also the news clippings included at Exhibit 16.

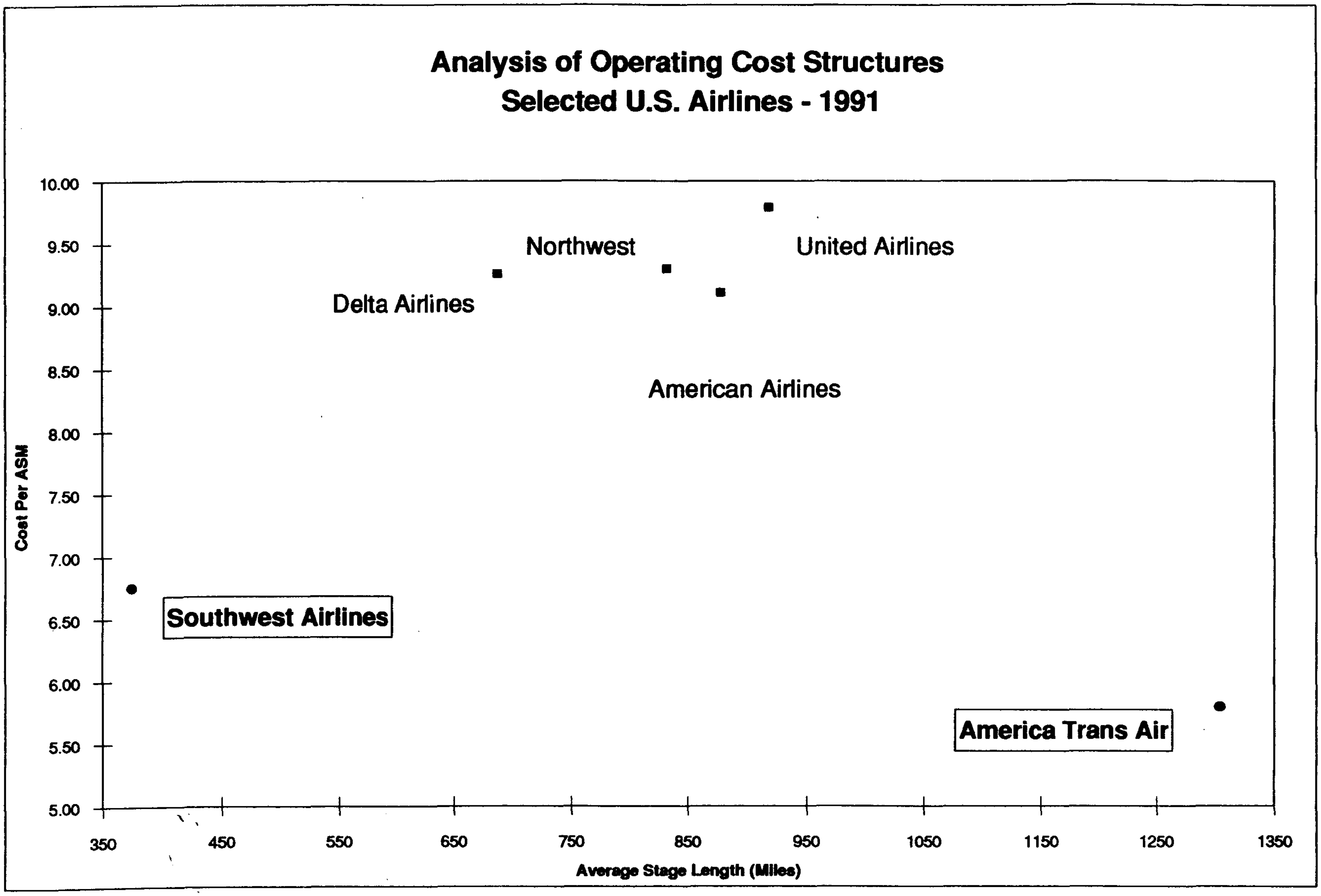
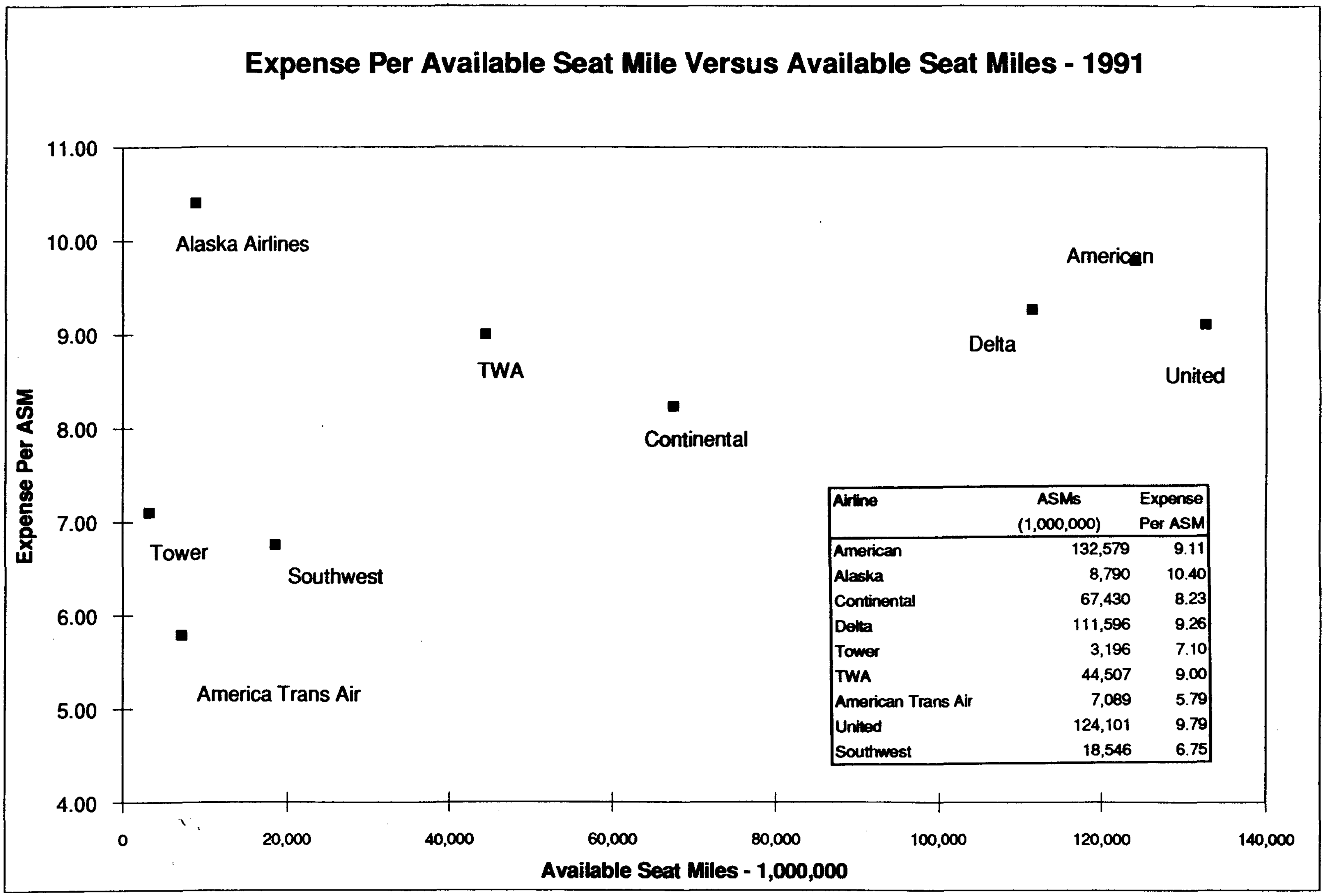


Exhibit 1

Source: U.S. DoT - System Averages

Exhibit 2



Airline	ASMs (1,000,000)	Expense Per ASM
American	132,579	9.11
Alaska	8,790	10.40
Continental	67,430	8.23
Delta	111,596	9.26
Tower	3,196	7.10
TWA	44,507	9.00
American Trans Air	7,089	5.79
United	124,101	9.79
Southwest	18,546	6.75

Source: U.S. Department of Transportation

Exhibit 3

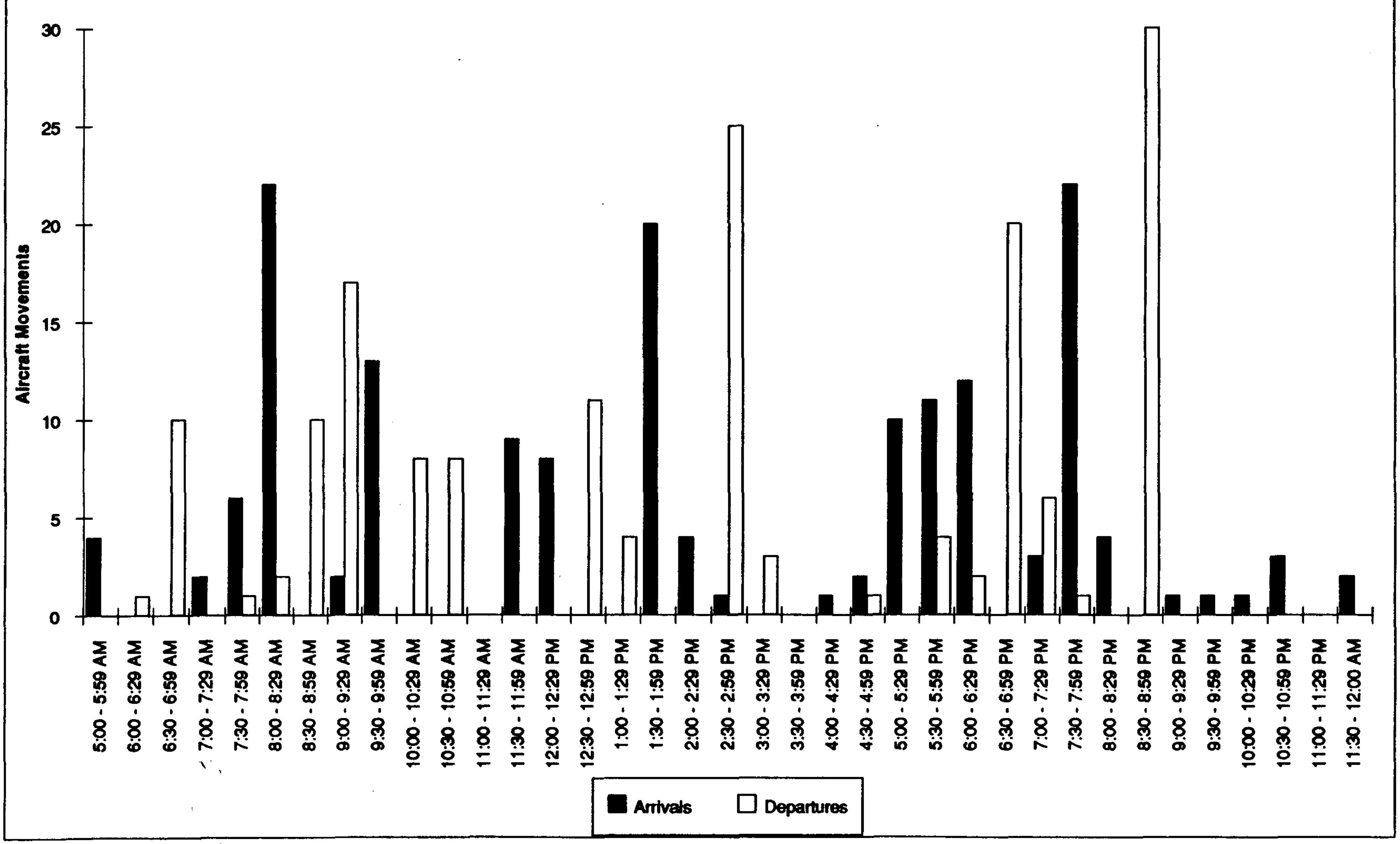
Analysis Of Operating Expenses For U.S. Carriers
Year Ending 2Q 1992

Expenses	Total Low Cost / 1	Total Large / 2	Percent Difference Large over Low Cost
Flying Operations	$628,185,997	$12,815,909,000	
Maintenance	$241,191,431	$4,758,393,000	
Depreciation	$138,821,473	$2,496,440,000	
Passenger Service	$150,689,268	$4,922,562,000	
Aircraft & Traffic Servicing	$297,269,479	$7,672,911,000	
Promotion & Sales	$240,341,886	$10,013,004,000	
General & Administrative	$161,786,986	$1,856,939,000	
Transport Related	$27,024,722	$661,111,000	
Total Operating Expenses	$1,862,203,074	$45,197,269,000	
Total Salaries & Benefits	$622,101,888	$16,079,266,000	
RPM's (1,000)	19,772,280	304,106,463	
ASM's - (1,000)	29,558,071	483,254,496	
Expenses Per ASM (U.S. Cents)			
Flying Operations	2.13	2.65	24.78%
Maintenance	0.82	0.98	20.67%
Depreciation	0.47	0.52	9.99%
Passenger Service	0.51	1.02	99.81%
Aircraft & Traffic Servicing	1.01	1.59	57.87%
Promotion & Sales	0.81	2.07	154.82%
General & Administrative	0.55	0.38	-29.80%
Transport Related	0.09	0.14	49.63%
Total	6.38	9.35	46.63%
Salaries & Benefits Per ASM	2.10	3.33	58.09%
Distribution of Expenses			
Flying Operations	33.73%	28.36%	-15.94%
Maintenance	12.95%	10.53%	-18.71%
Depreciation	7.45%	5.52%	-25.91%
Passenger Service	8.09%	10.89%	34.59%
Aircraft & Traffic Servicing	15.96%	16.98%	6.35%
Promotion & Sales	12.91%	22.15%	71.65%
General & Administrative	8.69%	4.11%	-52.71%
Transport Related	1.45%	1.46%	0.79%

1. America Trans Air, Tower Air, & Southwest Airlines
2. American, United, Delta, & Northwest

Source: U.S. DoT, Form 41

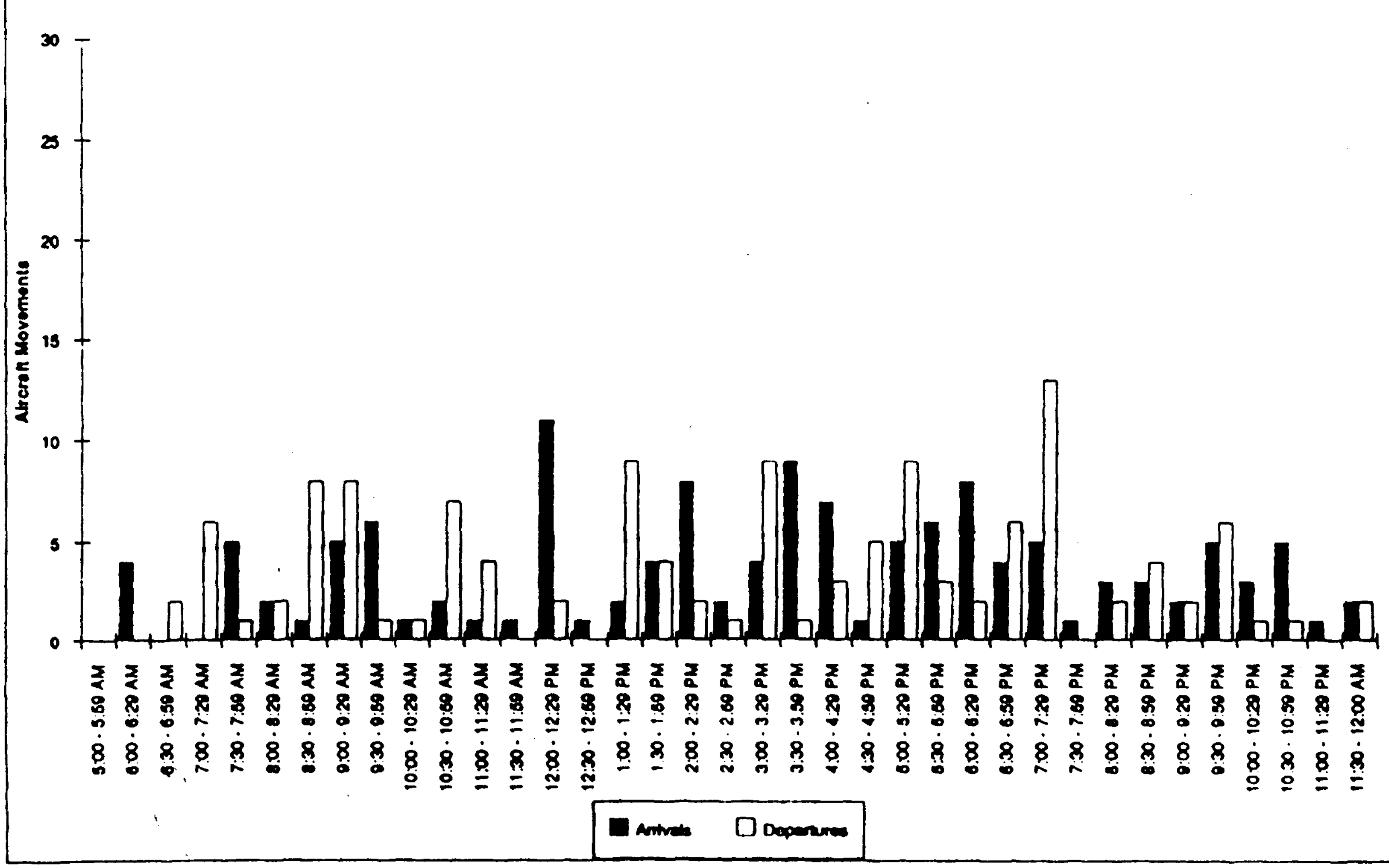
Analysis of Delta Air Lines Jet Operations at Cincinnati - 7/15/92



Source: Official Airlines Guide

Exhibit 4

Analysis of Air Canada Jet Operations at Toronto - 7/15/92



Source: Official Airlines Guide

Exhibit 5

Exhibit 6

Frequent Flyer Partnerships

	AC	AS	CO	CP	DL	HP	NW	UA	US	YX
AF				X		X		X	X	
AY	X									
AZ			X					X		
BA		X		X					X	
BM								X		
EI			X						X	
IB			X					X		
KL			X		X		X	X	X	
LH				X	X			X	X	
LO	X									
OK	X									
OS	X		X							
SK		X	X					X		X
SN	X							X	X	
SR	X				X			X	X	
VS										X

TAP AND OLYMPIC - NO PROGRAMS

AMERICAN, TWA, ALOHA, &
SOUTHWEST - NO EUROPEAN PARTNERS

AF = AIR FRANCE
AY = FINNAIR
AZ = ALITALIA
BA = BRITISH AIRWAYS
BM = BRITISH MIDLAND
EI = AER LINGUS
IB = IBERIA
KL = KLM
LH = LUFTHANSA
LO = LOT POLISH
OK = CZECHOSLOVAK
OS = AUSTRIAN
SK = SAS
SN = SABENA
SR = SWISSAIR
VS = VIRGIN ATLANTIC
AC = AIR CANADA
AS = ALASKA
CO = CONTINENTAL
CP = CANADIAN
DL = DELTA
HP = AMERICA WEST
NW = NORTHWEST
UA = UNITED
US = USAIR
YX = MIDWEST EXPRESS

Source: Inside Flyer, December 1992

Analysis of Selected Smaller U.S. Carriers - 1987 - 1992

	1987	1988	1989	1990	1991	1992*	TOTAL
Tower Air							
ASM's - Sch. + NonSch. Serv. (000's)	2,183,195,000	2,133,710,000	2,109,902,000	2,397,733,000	3,195,802,000	2,561,381,000	14,581,723,000
Rev- Total Operating Revenue	137,992,937	132,831,381	141,438,001	172,263,787	245,809,775	180,269,870	1,010,605,751
Exp- Total Operating Expenses	129,008,335	121,998,772	131,202,630	160,526,112	226,824,938	166,346,933	935,907,720
Operating Profit	**8,984,602**	**10,832,609**	**10,235,371**	**11,737,675**	**18,984,837**	**13,922,937**	**74,698,031**
Net Profit	**2,608,507**	**3,440,657**	**3,405,852**	**5,614,201**	**6,963,745**	**3,552,595**	**25,585,557**
Revenue Per ASM	6.32	6.23	6.70	7.18	7.69	7.04	6.93
Expense Per ASM	5.91	5.72	6.22	6.69	7.10	7.10	5.28
Rev. Arcft. Miles- Sch+NSch Serv.	4,646,878	4,525,818	4,525,294	4,301,734	7,550,025	5,631,911	31,181,660
Departures Performed - Sch+NSch Serv.	649	970	990	1,708	2,361	2,019	8,697
Average Stage Length	7,160	4,666	4,571	2,519	3,198	2,789	3,585
America Trans Air							
ASM's - Sch. + NonSch. Serv. (000's)	4,738,230,000	4,852,470,000	5,293,886,000	6,754,809,000	7,088,914,000	5,598,850,000	34,327,159,000
Rev- Total Operating Revenue	254,337,341	253,941,101	278,698,097	368,022,789	421,854,554	325,926,629	1,902,780,511
Exp- Total Operating Expenses	244,606,198	233,026,534	261,004,534	359,420,196	410,552,589	320,073,259	1,828,683,310
Operating Profit	**9,731,143**	**20,914,567**	**17,693,563**	**8,602,593**	**11,301,965**	**5,853,370**	**74,097,201**
Net Profit	**3,206,879**	**6,959,170**	**4,412,537**	**-2,011,585**	**9,051,607**	**1,249,422**	**22,868,030**
Revenue Per ASM	5.37	5.23	5.26	5.45	5.95	5.82	5.54
Expense Per ASM	5.16	4.80	4.93	5.32	5.79	5.72	5.33
Rev. Arcft. Miles- Sch+NSch Serv.	18,599,689	18,166,005	19,908,689	24,014,546	24,874,978	21,007,370	126,571,277
Departures Performed - Sch+NSch Serv.	12,368	9,654	9,716	17,220	19,083	15,724	83,765
Average Stage Length	1,504	1,882	2,049	1,395	1,304	1,336	1,511
Southwest							
ASM's - Sch. + NonSch. Serv. (000's)	11,487,684,000	13,426,120,000	14,884,021,000	16,489,152,000	18,545,946,000	15,889,028,000	90,721,951,000
Rev- Total Operating Revenue	698,675,051	860,446,611	1,015,124,354	1,186,831,234	1,313,676,850	1,238,051,055	6,312,805,155
Exp- Total Operating Expenses	657,397,127	774,367,173	917,549,416	1,105,215,047	1,251,633,551	1,108,209,990	5,814,372,304
Operating Profit	**41,277,924**	**86,079,438**	**97,574,938**	**81,616,187**	**62,043,299**	**129,841,065**	**498,432,851**
Net Profit	**19,691,931**	**57,400,227**	**71,391,399**	**47,082,866**	**26,919,066**	**76,388,649**	**298,874,138**
Revenue Per ASM	6.08	6.41	6.82	7.20	7.08	7.79	6.96
Expense Per ASM	5.72	5.77	6.16	6.70	6.75	6.97	6.41
Rev. Arcft. Miles- Sch+NSch Serv.	90,748,935	104,896,111	114,884,436	127,386,833	143,767,919	123,081,618	704,765,852
Departures Performed - Sch+NSch Serv.	246,320	275,125	304,765	338,561	382,910	325,458	1,873,139
Average Stage Length	368	381	377	376	375	378	376
Midwest Express							
ASM's - Sch. + NonSch. Serv. (000's)	287,382,000	408,358,000	675,877,000	1,036,314,000	1,196,945,000	900,890,000	4,505,766,000
Rev- Total Operating Revenue	44,189,447	61,367,830	91,872,348	125,824,731	125,262,110	98,966,035	547,482,501
Exp- Total Operating Expenses	38,914,187	55,622,378	84,398,272	120,749,639	124,694,263	94,879,926	519,258,665
Operating Profit	**5,275,260**	**5,745,452**	**7,474,076**	**5,075,092**	**567,847**	**4,086,109**	**28,223,836**
Net Profit	**3,222,823**	**3,762,152**	**4,819,224**	**2,959,958**	**102,832**	**2,526,088**	**17,393,077**
Revenue Per ASM	15.38	15.03	13.59	12.14	10.47	10.99	12.15
Expense Per ASM	13.54	13.62	12.49	11.65	10.42	10.53	11.52
Rev. Arcft. Miles- Sch+NSch Serv.	4,789,666	6,781,163	10,130,243	13,586,744	15,202,716	11,543,538	62,034,070
Departures Performed - Sch+NSch Serv.	8,424	12,211	17,695	21,524	22,640	16,579	99,073
Average Stage Length	569	555	572	631	671	696	626

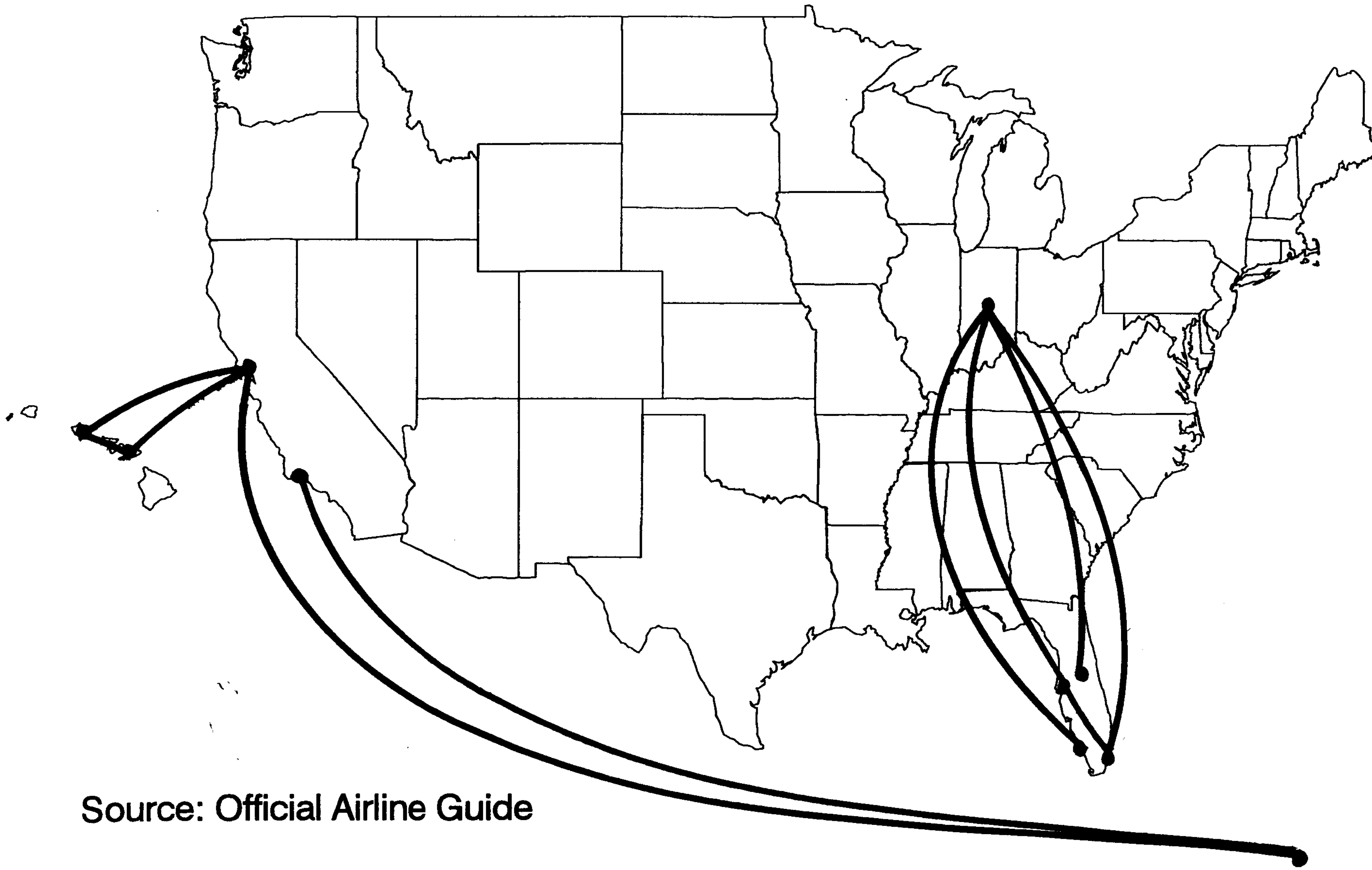
*** 1992 Figures For First 3 Quarters, Tower Air Figures Estimated**

Source: U.S. Department of Transportation

Exhibit 7

Exhibit 8

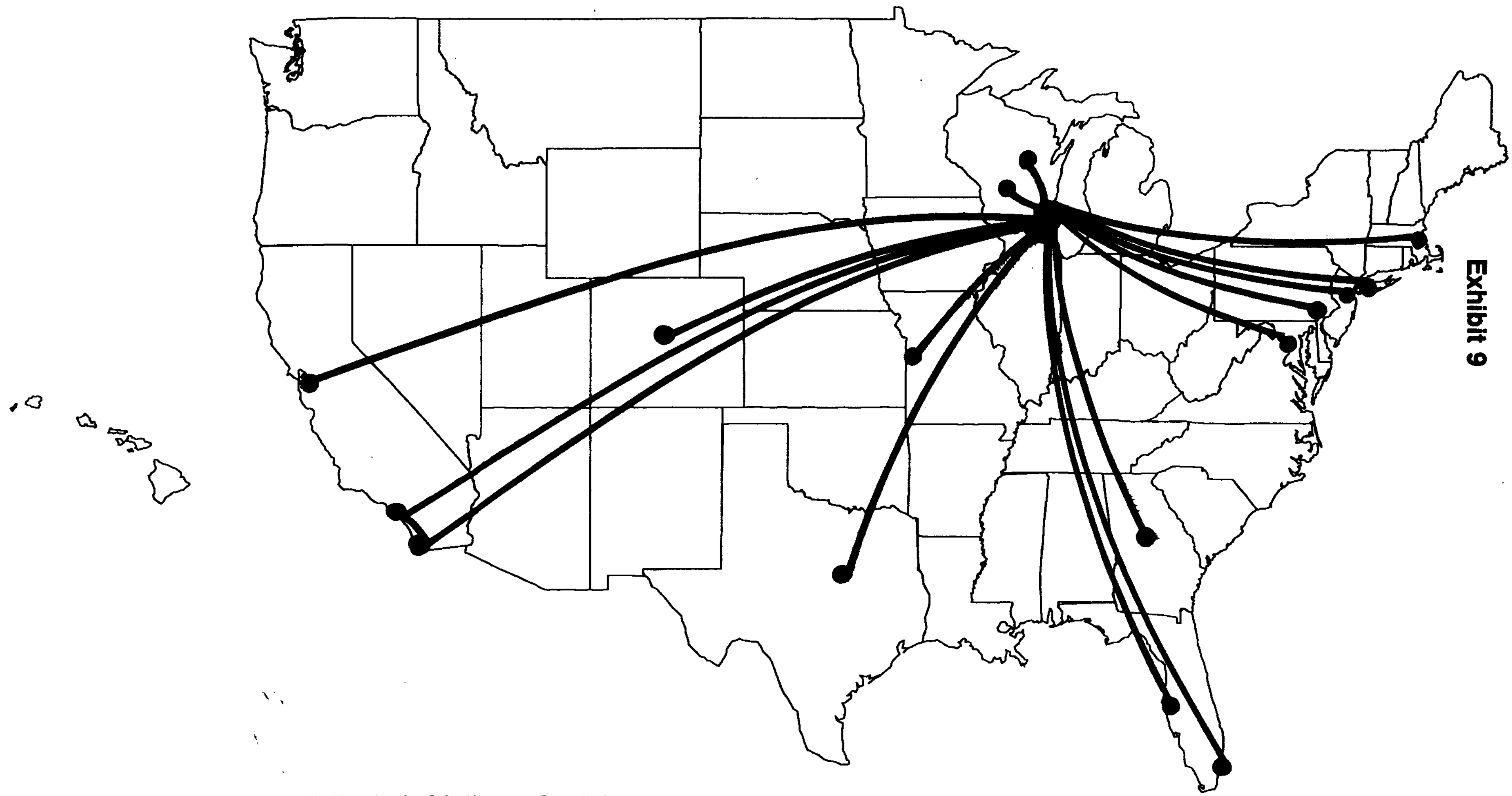
America Trans Air - Scheduled Routes 10/92 - 12/92



Source: Official Airline Guide

Exhibit 9

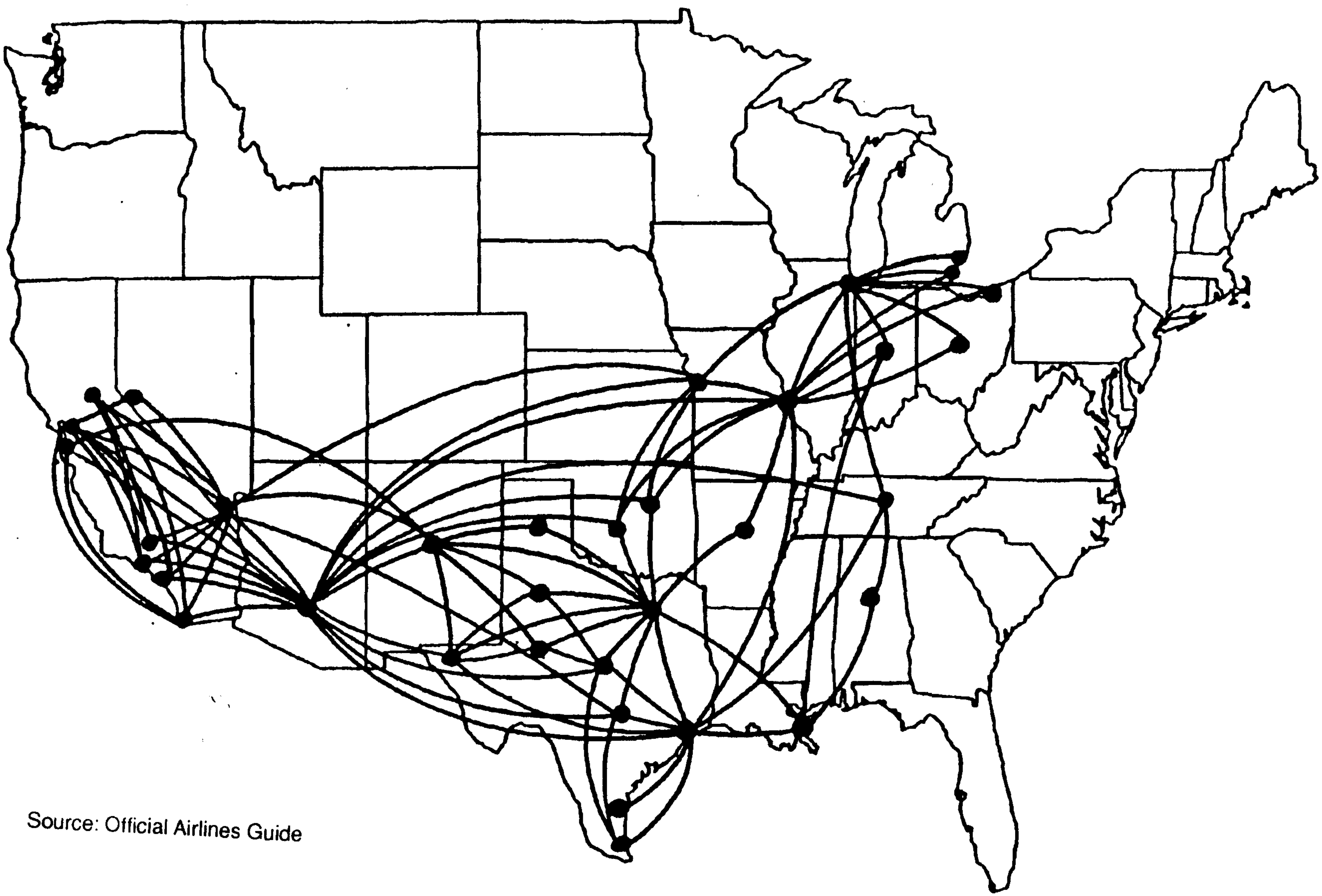
Midwest Express - Scheduled Routes
10/92 - 12/92



Source: Official Airline Guide

Exhibit 10

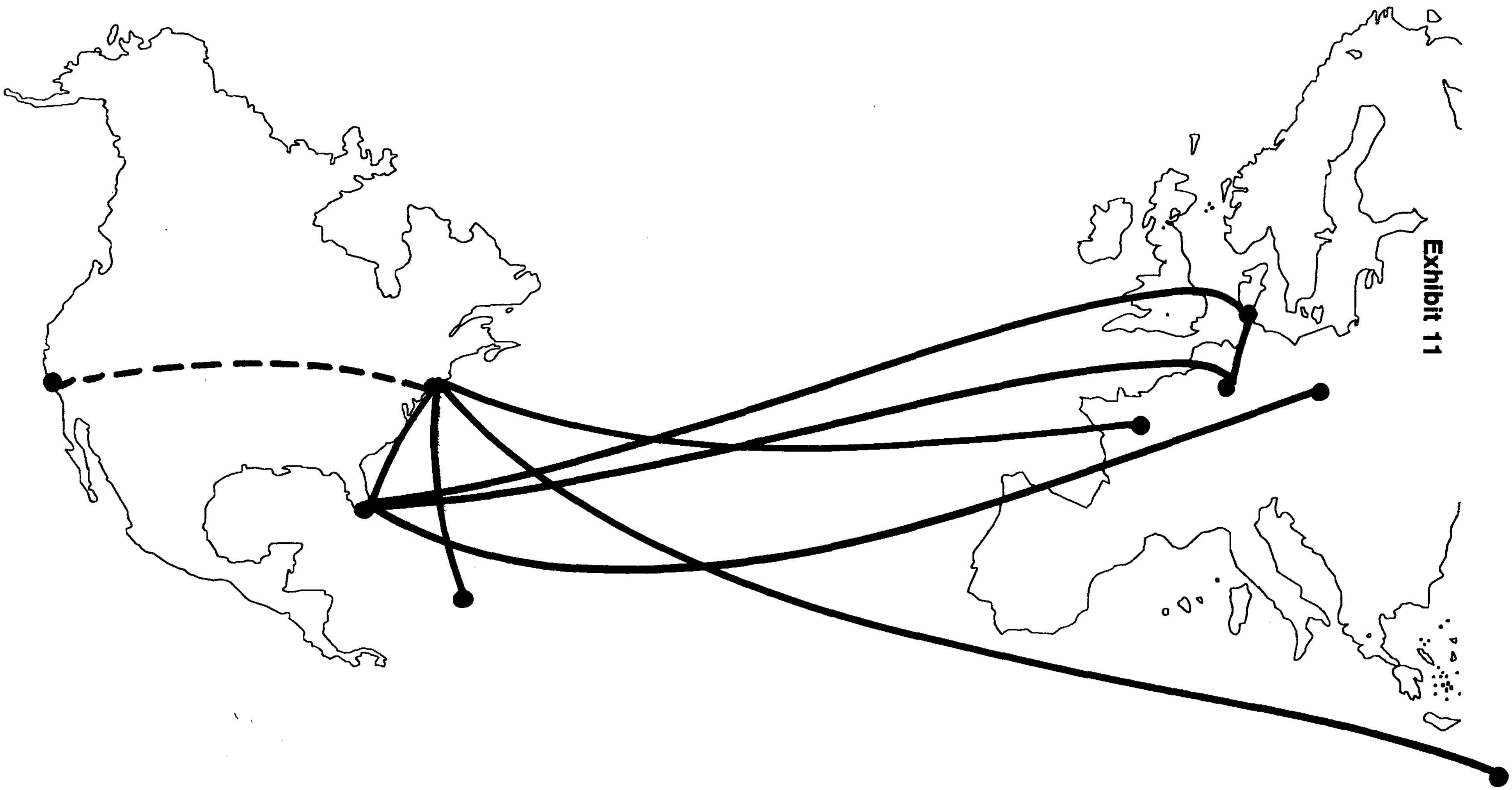
Southwest Airlines - Scheduled Routes 10/92 - 12/92



Source: Official Airlines Guide

Exhibit 11

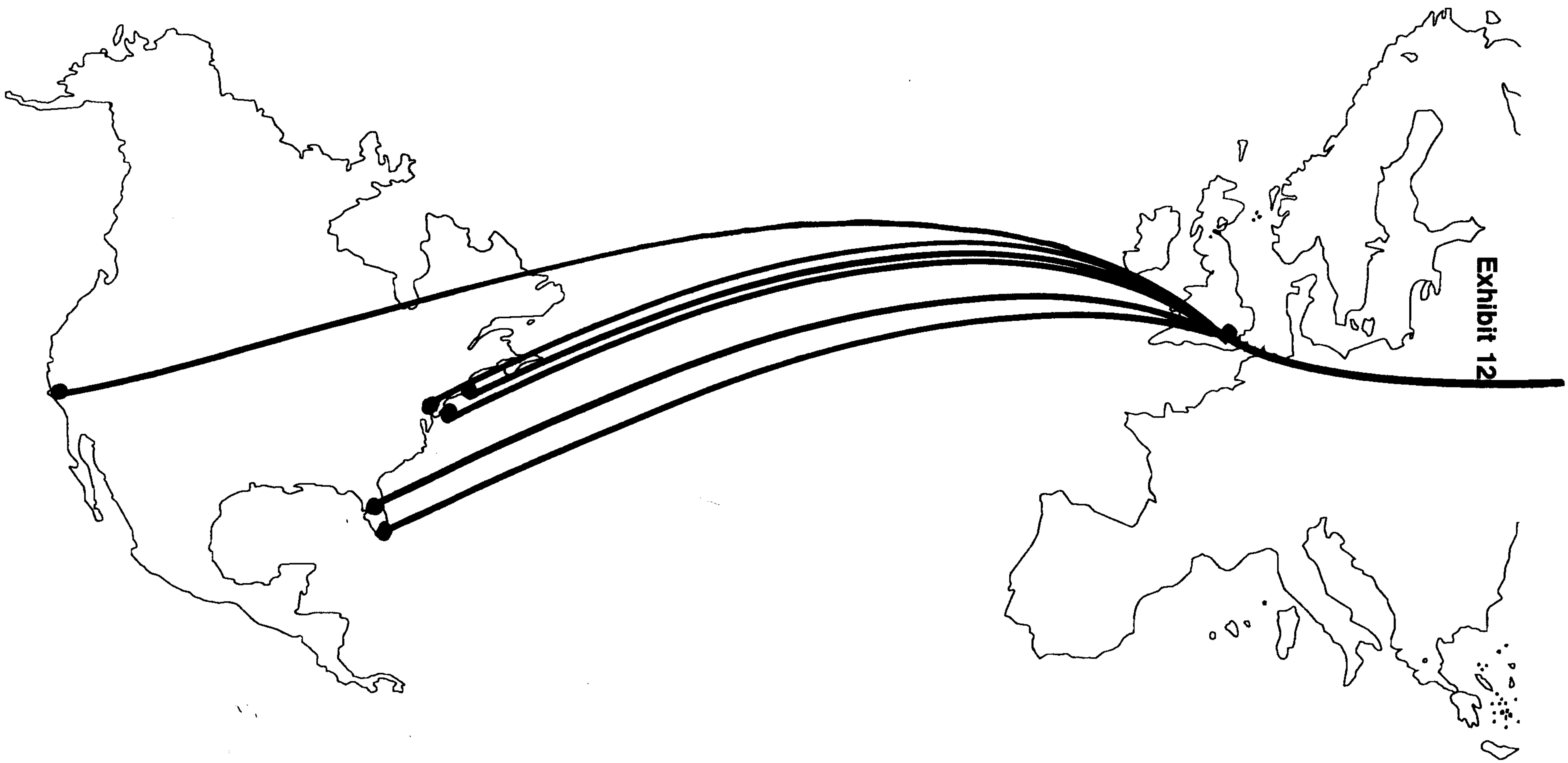
Tower Air - Scheduled Routes 10/92 - 12/92



Source: Official Airline Guide

Exhibit 12

Virgin Atlantic - Scheduled Routes 10/92 - 12/92



Source: Official Airline Guide

Exhibit 13

This exhibit has been removed because of its confidentiality.

Exhibit 14

Globe + Mail
September 22, 1992

(1)

Nationair will fly Toronto-Montreal for $88

Hopes to capitalize on Air Canada-Canadian merger

BY ANN GIBBON
Quebec Bureau

MONTREAL — Charter carrier Nationair is hoping to capitalize on the proposed merger between Air Canada and Canadian Airlines International Ltd. by offering scheduled flights between Toronto's Pearson International Airport and Montreal's Dorval Airport for $88 one way — drinks included.

The trial service, aimed at business travellers, is to begin Oct. 5 and last until Dec. 18, when it will be evaluated.

Nationair president Robert Obadia said the initiative will "test the sincerity" of Air Canada's claim that competition in Canada would be maintained if a merger took place. He indicated what would happen if the giant carrier matched the $88 fare.

"If they match us, it would bring an end to our experiment on Dec. 18, and their message [would be] they do not want to see competition. And if this is the message, the competition tribunal should not allow the merger."

Air Canada spokesman Denis Couture refused to comment on Mr. Obadia's warning.

Nationair, a Montreal-based carrier that flies 12 planes to 65 destinations, expects the proposed merger between Canada's airline giants to result in reduced service and increased fares. "This is where Nationair comes in," Mr. Obadia said at a news conference yesterday.

Robert Obadia, Nationair's president, says his airline's experiment in scheduled flights will be a test of competition in the airline market that will end if Air Canada matches its fares.

He said that unlike the major carriers, it can manage service at this price because since it began in 1984 its specialty has been low-priced fares, including Montreal-Paris and Toronto-London round-trip flights for as low as $399. It is also already hooked into the Gemini computerized reservation system used by the other major carriers.

"Therefore we can easily provide quality service between Montreal and Toronto for $88."

Mr. Obadia used the occasion yesterday to try to bolster the image of his airline and redress its reputation as a second-rate carrier whose flights are routinely late.

There were also questions about its safety when in July, 1991, one of its DC-8-61 aircraft crashed in Saudi Arabia, killing all 261 on board, including 12 Canadian crew members.

Since last Nov. 19, Nationair has been plagued by a labour dispute with its flight attendants over wages and working conditions.

Please see NATIONAIR — B12

NATIONAIR

Is Canada's third largest airline, flying to 65 destinations.

Destinations: North America, Caribbean, South America and Europe

Parent: Nolisair International Inc.

Head office: Mirabel, Quebec

Employees: 1,300

Passengers, '91: 1.3 million

Fleet: 4 B-747s
1 B-757
1 DC8-62

Revenue is estimated to be about $270-million in 1991-92. The company lost about $2-million in each of the past two years.

②

GLOBE + MAIL
SEPTEMBER 22, 1992

Nationair flying for $88

• From Page B1

The company locked out 500 of them then, fearing a strike before the busy holiday season, and replaced them with non-unionized workers. The flight attendants have been without a contract since December, 1990.

Nationair intends to offer a total of 14 flights a day during the week (seven each way), two flights on Saturdays and four on Sundays, all on 228-seat Boeing 757 twin-jet aircraft. Mr. Obadia said the planes will have to be two-thirds full for the company to break even.

Air Canada and Canadian currently charge $213 plus tax for a regular one-way fare between Toronto and Montreal, the country's most lucrative air corridor. Their best rate, if a traveller reserves two weeks in advance and stays over a Saturday, is $155 return.

In targeting business clientele, Nationair is not placing any restrictions on the fares; for instance, there is no penalty for changing dates or cancelling flights. But there are no frequent-flier points either.

The fares are so low they even look good against bus and train transport. Bus company Voyageur Inc.'s one-way ticket between the two cities is $55.58 while Via Rail Canada Inc.'s fare is $72.

Mr. Obadia said the $88 price, plus tax, was devised in January, long before the country's two major carriers announced their merger earlier this month. However, "the merger creates an even more favourable background" for his company's plan as consumers fear the merger could mean higher fares, he said.

Air Canada and Canadian said yesterday that they are analyzing the impact of that fare on their operations and would have a response shortly.

Nationair, a private company, has lost $2-million in each of the past two years, Mr. Obadia said.

There is speculation that other carriers may respond in some way to the Air Canada-Canadian merger.

Montreal-based charter airline, Air Transat, could be a candidate, although one company executive said it is premature to act right now. "The mission of our company is not to get involved in regularly scheduled service," said the company's vice-president of marketing, Philippe Sureau. "But we won't look down on opportunities. If a merger did take place, yes, we'd analyze the situation and probably make a decision."

And Martin McLarnon, a Belfast native now living in Montreal, is also trying to provide consumers with some choice on the Montreal-Toronto run by starting an airline offering flights for $125 one way; $249 return. He has $1.5-million in family money that he plans to invest in the company. His airline, which he would call Emerald Airlines, would provide four return flights a day on a 48-seat turboprop.

Although the Montreal-Toronto route is lucrative, it is also the toughest. Other airlines have tried and failed at it, including City Express and Intair, which was later gobbled up by Canadian Airlines. City Express, which flew turboprop planes, closed its doors in spring, 1991, after seeking bankruptcy protection.

Nationair out to beat the odds

But locked-out flight attendants say the $88 bargain fare between Toronto and Montreal is being offered on the backs of workers

BUSINESS TRAVEL

DOUGLAS McARTHUR

THE air corridor between Toronto and Montreal is littered with the skeletons of cut-rate airlines.

Intair, City Express and Wardair all slashed fares on Canada's busiest air route over the years in hopes of luring business travellers away from the big boys. All three disappeared or were swallowed up in the process. Now Montreal-based Nationair is out to beat the odds.

Since Monday, it has been offering seven round-trip flights each weekday at a rate of only $88 one-way. That is a startling contrast to the $213 one-way or $389 rou.d-trip that Air Canada, Canadian Airlines and their commuter partners demand from every passenger except those willing and able to stay away over a Saturday night. Taxes are extra on all fares.

I was one of 73 passengers who filled approximately one-third of the 205 available seats on the 7 a.m. inaugural of Nationair's "Prestige" service out of Toronto on Monday morning. We were right on schedule both when we started taxiing in Toronto and when we landed in Montreal. In between, we were served our choice of a cold breakfast or a hot one consisting of omelet, sausage, ham, potato, roll, juice, fruit cocktail and coffee. We ate with silverware off china that once belonged to defunct charter carrier Odyssey International. We were given newspapers on takeoff, hot towelettes before the meal and champagne, with or without orange juice, before landing.

We were also welcomed by pickets. Nationair flight attendants, locked out by the airline since November, 1991, circled the Dorval Airport baggage carousel chanting, "Boycott Nationair." Their signs accused the airline of exploitation and charged that the $88 bargain was being offered on the backs of the workers.

My fellow passengers looked the part of typical short-hop business travellers. The overwhelming majority were male, most wore ties and jackets and many carried their briefcases aboard.

The man beside me confided that he chose Nationair partly to save money, partly to protest the monopoly that Air Canada will have on the domestic market should its merger with Canadian go ahead as planned. Most times when he has business in Montreal, he drives along the 401, he said. But this time he couldn't see spending 10 hours behind the steering wheel when he could fly for so little.

Already some companies have ordered their business travellers to request the $88 fare, according to information Nationair is receiving from travel agents, who account for 75 per cent of its ticket sales. But even the airline does not know which corporations are on its side, says Nationair spokeswoman Valerie Biguet. Agents keep that kind of information to themselves to prevent airlines from approaching their corporate clients directly.

Orders from the boss to fly only with Nationair are likely to upset business travellers eager to earn Aeroplan or Canadian Plus mileage points from their favourite national carrier. There is no frequent-flier program at Nationair.

In any case, the $88 bargain may not be around indefinitely. Nationair has committed itself only until Dec. 18. Any decision to extend service beyond that date will depend on how business goes in the test period and on whether Air Canada and Canadian match the fare, says Biguet.

Fall is a perfect time for Nationair to test the waters. The two Boeing 757-225s being used on the route are in hot demand by charter tour operators during the summer and winter seasons. At the moment, there is little else for the planes to do.

Nationair did slightly better out of Montreal than Toronto on Monday. Its 7 a.m. westbound flight took off with 118 passengers filling more than half the seats. Advance bookings indicate that early flights will operate at 40 per cent capacity overall, said Biguet.

Meanwhile, Air Canada and Canadian are sticking to their regular fares, although both say they are monitoring Nationair's results carefully.

"We haven't matched it (the $88 fare) yet," says Air Canada spokesman Denis Couture. "It is not impossible that we will. Our evaluation indicates our product is different and superior to theirs. We have 26 flights daily. We have connections at both ends. We have Aeroplan. We have business-class service and Maple Leaf lounges and our reservations network.

"It is more a shuttle service that they offer. We are going to monitor it very closely and determine our competitive response."

To a certain extent, Nationair has placed its two large competitors in a no-win situation. If they refuse to match the $88 fare, they could project themselves as being greedy and unresponsive to the demands of a marketplace suffering through a recession.

But if they jump into a dark-and-dirty price war, they could send a message that they are callous Goliaths willing to use whatever force it takes to knock off challenging Davids and to protect their monopoly. That image could badly hurt their case with the government authorities who must approve their merger.

The Globe and Mail, Friday, January 15, 1993

Nationair, CAI slashing fares

Montreal-Toronto round trip for $126

Canadian Press

MONTREAL — Nationair is again dramatically undercutting the competition by offering a round-trip fare of $126 between Montreal and Toronto.

The airline said in a statement yesterday that it is trying to spur business travel between the two cities.

The $126 rate carries a couple of restrictions. Reservations must be made at least 48 hours ahead and travel must be completed by Feb. 28, when the offer ends.

Canadian Airlines International Ltd. said it will match the move, but Air Canada has not yet decided.

Montreal-based Nationair began flying the Montreal-Toronto route in October with an $88 one-way fare that requires no advance booking and has no other restrictions. The airline, which has 14 flights daily on weekdays between the two cities, plans to offer the $88 fare indefinitely.

In December, Canadian Airlines and then Air Canada matched Nationair by making round-trip fares of $176 available on a limited-seating basis until the end of January.

Spokesman Daniel Yves Durand said Nationair's passenger loads have since declined by about 10 per cent, leaving its flights less than half full on average.

But the airline expects to recover the lost business with the new discount fare, Mr. Durand said. He also said Nationair can make a profit on the route, although it needs to be about 65-per-cent full, on average, to break even.

The regular full-economy fare for a round-trip Montreal-Toronto ticket on Air Canada or Canadian Airlines is $426. Both carriers also offer discounts on tickets purchased in advance.

Nationair to unveil two new flights

Competition heating up

BY ANN GIBBON
and GEOFFREY ROWAN
The Globe and Mail

Nationair, which recently shed its charter-airline identity with a few extremely low-cost scheduled flights, will announce an expansion of its fledgling national network today in Halifax, airline industry sources said.

The Montreal-based airline is expected to announce a new service between Toronto and Halifax and Toronto and Ottawa — among the most potentially lucrative routes in the country — dramatically heating up its competition with Air Canada and Canadian Airlines International.

The move is being made at a critical time for Canadian Airlines, which is trying desperately to keep its head above water and has managed to do so only with the help of loan guarantees from the federal government and the governments of British Columbia and Alberta.

It also is being made as federal Transport Minister Jean Corbeil is renewing his threats to impose new government controls on the airline industry if it cannot solve its oversupply problem.

Too many airplane seats usually mean bargains for travellers as the airlines compete with low fares to fill their planes, but also mean huge losses for the airlines and instability in the industry.

One industry source said Nationair is taking advantage of the current uncertainty in the industry, either positioning itself for what it believes is the inevitable demise of Canadian Airlines, or trying to promote Canadian's death.

Please see NATIONAIR — A2

Nationair to announce two new scheduled flights

• From Page A1

Denis Couture, an Air Canada spokesman, said the significant amount of capacity Nationair's flights will add to the marketplace "will create additional competitive pressures."

Gerry Goodridge of Canadian Airlines said his company was unaware of any expansion plans by Nationair.

Nationair did not return telephone calls yesterday.

An industry source said Nationair will announce two return flights a day between Toronto and Halifax for $176 one way, and three return flights a day between Toronto and Ottawa for $88 one way or $126 return.

The source said 205-seat 757 aircraft will be used for the flights.

Since September, Nationair has been offering scheduled daily flights between Toronto and Montreal for $88 each way, and last week it slashed that fare to $126 return. The flight is aimed primarily at the business traveller, Nationair said when the price was unveiled.

Those fares are about a third of what Air Canada and Canadian charge for their full-fare economy tickets, and rival the prices that bus companies charge.

Canadian quickly matched Nationair's Toronto-Montreal fares and Air Canada came close, offering a $149 ticket.

Air Canada offers what it calls a leisure fare between Toronto and Halifax, which includes certain restrictions, for $279 return. Canadian Airlines offers a similar fare. Canadian's best Toronto-Ottawa fare, which includes some restrictions, is $179 return.

Air Canada's Mr. Couture said Nationair could become a legitimate contender over time, but one thing the two established national carriers have going for them is their frequent-flier programs.

There are plenty of questions about Nationair's venture, such as how many aircraft it will add to its fleet, how it will finance its expansion and whether it can make money with such fares. Nationair has said in the past that its specialty is low-cost, no-frills flights, and that it can make a go of scheduled flights because of this expertise.

Money has definitely been on Nationair's mind lately. Although its locked-out flight attendants accepted a report by a mediator handling a 14-month-old labour conflict at the airline last week, the company rejected it. The report called for wage increases averaging 34 per cent over three years. Nationair said it simply could not afford that.

"Nationair's not making any money flying Montreal to Toronto," an industry analyst said. "They're assuming that Canadian's going to be gone, but it isn't over until it's over."

Canadian's parent company, PWA Corp., is trying to close a deal that would see AMR Corp. invest $246-million in Canadian, but the Calgary-based airline needs to survive for at least the next six months to close that deal.

With a report from Andrew Meeson in Montreal.

Globe & Mail, January 19, 1993

Charter firm Nationair plans nationwide scheduled flights

MONTREAL (CP) – Charter airline Nationair is going to set up a national network of scheduled flights, a company spokesperson said yesterday.

Daniel Yves Durand said Nationair will announce today in Halifax plans for a national domestic network.

Already the third-largest airline in Canada, Montreal-based Nationair has charter service to 65 European and sun-belt destinations with 14 aircraft, including one domestic route between Montreal and Vancouver.

In October, it began its first regular scheduled service, between Toronto and Montreal. It consists of 14 daily flights between the two cities with low fares aimed at business travellers.

Nationair is locked in a bitter labor dispute and has been operating with replacement workers since locking out its flight attendants 14 months ago.

Last week, the airline announced a new low round-trip fare of $126 on the Montreal-Toronto route, a fare that was matched by Canadian Airlines International. Nationair lost passengers on the route after Air Canada and Canadian matched its $88 one-way fare last month.

The fierce competition in the airline industry promises to heat up with Nationair's announcement today that it plans more scheduled flights.

TORONTO STAR
JAN. 19/93

Globe and Mail

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Canadian Airlines revives flights

Ottawa warns of reregulation as Nationair plans to add to seat glut

BY GEOFFREY ROWAN
Transportation Reporter

One week after **Canadian Airlines International Ltd.** cut its seating capacity by 15 per cent, the carrier said it will reinstate most of those flights, eliciting a warning from Ottawa that it may yet reregulate the industry.

Meanwhile, despite a glut of airline seats across the country, former charter carrier **Nationair** of Montreal said yesterday that it will create a national network of scheduled flights to compete with Canadian and **Air Canada**, also based in Montreal.

"[Transport Minister Jean Corbeil] deplores the fact that the carriers could not be more responsible in their actions," said Patrice Miron, a spokesman for the minister, who was responding to Canadian's change of heart.

The minister had warned in November, when Ottawa pulled Canadian from the brink of bankruptcy with a $50-million loan guarantee, that he was unhappy with the overcapacity and if the airlines didn't address it themselves, he would consider "recalibrating" the industry.

"We've been working on the definition of what we meant by recalibration, what form any legislative fine-tuning could take," Mr. Miron said. "At the end of the day, if we found this to be the only solution, the government may intervene. He's not saying he's going to do it tomorrow morning, but we are working on it."

Canadian Airlines officials acknowledged that they are flying more airplanes than the market can support but they said the carrier would lose even more money if it failed to match the number of flights Air Canada offers.

"The flights were suspended [on Jan. 11] in response to the minister's challenge to address the fundamental challenge of overcapacity," said Drew Fitch, vice-president of scheduling and planning for Canadian, a subsidiary of **PWA Corp.** of Calgary.

"For competitive reasons, we cannot maintain reduced capacity in the double digits when Air Canada responds with a 3-per-cent reduction," Mr. Fitch said. "Canadian was prepared to take this action but our major competitor must also act responsibly."

Canadian announced in December that on Jan. 11 it would trim 15 per cent of its domestic capacity, but it warned that it could not make such a move unilaterally.

Air Canada announced last week that by its calculations Canadian had cut only 8 per cent of its domestic capacity and the Montreal-based carrier said it would reduce domestic capacity by 3 per cent.

Please see FLIGHTS — B2

MAJOR CANADIAN AIRLINE CAPACITY

First three quarters	1992	1991	Change '92/'91
Scheduled domestic passengers	10.2-million	10.1-million	+ 0.9%
Scheduled domestic passenger-km	14.2-billion	13.7-billion	+ 3.9%
Total scheduled available seat-km	50.3-billion	48.0-billion	+ 4.8%
Total scheduled load factor	66.5%	64.3%	...

Source: Statistics Canada

Flights reinstated

• From Page B1

Canadian's response was to reinstate 14 of the 32 flights effective March 1, which by its count means it has still reduced capacity by 6.7 per cent. By Air Canada's reckoning, however, the two are still about even.

"We would lose more than that 15 per cent in revenue if Air Canada didn't follow in a like manner," Mr. Fitch said.

More than half of Canadian's revenue is generated from non-discretionary passengers, usually business people who must travel and choose their flights based on schedule rather than price.

"If Air Canada doesn't go [at a certain time] then they'll fly us and vice versa," Mr. Fitch said. "By reducing our frequencies in some markets we will lose the business travellers looking to travel when they want to, which means we will lose more revenue than the capacity we've taken out if our competitor doesn't follow suit."

But Air Canada officials said they are only concerned with what is good business for Air Canada.

"As far as we are concerned this is tantamount to admitting that they were asking for collusion," said Air Canada spokesman Denis Couture. "Saying that Air Canada should offer the same cuts they were proposing is exactly what the spirit of the competition laws wants to prevent."

Mr. Couture said Air Canada made its decision on capacity reduction based on business factors that best benefit Air Canada shareholders.

"They should be making business decisions to the benefit of their shareholders," he said.

In fact, shareholders of both companies would be hard-pressed to define any benefits they have as a result of their investment.

Most airline industry analysts believe that Canadian and Air Canada are flying at least 20 per cent too many seats and that neither carrier stands a chance of being profitable until capacity is cut.

Combined, the two companies will probably report that they lost more than $500-million in 1992 when the final numbers are tallied. PWA has lingered near the brink of bankruptcy for months, saved only by loan guarantees.

"PWA has been trying to cut its capacity in small increments for a couple of years," said Gordon Currie, an independent analyst with Calgary-based Megarian Research. "Air Canada, if anything, has added capacity . . . that has contributed to the decline of yields in both carriers, which is something that neither can afford because of their debt problems."

Some industry observers and insiders believe Air Canada, which has much deeper pockets than Canadian, is intentionally trying to drive its competitor out of business.

Indeed, in November, PWA filed a $1-billion lawsuit against Air Canada charging the former Crown corporation with predatory practices.

Air Canada denies the charge and Mr. Currie said he doesn't believe in the so-called conspiracy theory but he does believe the government's threat to step in may be real.

"At some point both companies have got to get back to break-even or into the black and that's not going to happen while they've got too many seats in the air."

Exhibit 15

Nationair - Scheduled Route Network

Source: News reports

Exhibit 16

Globe + Mail
September 7/92

Emerald Airlines hopes plan will fly

Discount carrier seeking approval to provide Toronto-Montreal service

BY ANN GIBBON
Quebec Bureau

MONTREAL — A Montreal man is counting on the messy state of Canada's two major air carriers, and a bit of Irish luck, to help his discount air service get off the ground between Toronto and Montreal.

Martin McLarnon, a 30-year-old Belfast native who moved to Montreal two years ago, says Emerald Airlines would provide four return flights a day, five days a week. Passengers would fly on a 48-seat Hawker Siddeley 748 turboprop that Mr. McLarnon is now negotiating to buy from a Western Canadian oil company.

He has applied to Transport Canada for an operating certificate and hopes to start the airline within 40 days.

Mr. McLarnon, who has a private flying licence, says it's time to break the hold the two major carriers have on the lucrative Montreal-Toronto market. And he believes the time is right, with the major carriers preoccupied with merger talks and ways to get out of their financial turmoil.

His strategy is price.

He will charge $125 one way or $249 return for the service, which will fly between Montreal's Dorval Airport and Pearson International Airport in Toronto. **Air Canada** and **Canadian Airlines International Ltd.** charge about $389 return for a regular fare.

Flight time would be 80 minutes.

He's investing $1.5-million of family money — his parents own a large travel agency in Belfast — to buy the plane, computers, office equipment and other assets needed to get started.

Mr. McLarnon, an entrepreneur who prefers short-sleeved shirts to suits and ties and rumpled manila envelopes to a briefcase, is aware that other airlines such as City Express and Intair tried and failed with a Montreal-Toronto route.

City Express, which flew turboprops between Toronto and Montreal, closed its doors in spring, 1991, while Intair was gobbled up by Canadian Airlines of Calgary.

"But that doesn't mean the demand isn't there," he argues. "It was, but their downfall was that they put too much demand on the aircraft."

He won't do that with his single plane, which will be used a maximum of 12 hours a day, he says. When it's being maintained, it will be replaced by a leased aircraft.

Others aren't so sure about the project.

"People just don't like to fly turboprop," said one airline analyst who declined to be identified. "You never get above the weather; you're bouncing around."

And "macho executives," he added, "like to fly in a jet."

"Boy, it's a tough market," said Gerry Goodridge, spokesman at Canadian Airlines in Calgary.

Mr. Goodridge said Canadian and Montreal-based **Air Canada** would have a lot of advantages over Mr. McLarnon's airline, including their frequent-flier programs — a huge marketing tool — advanced seat selection, and an elaborate network of connecting routes.

Mr. McLarnon is not deterred. He's already hired a pilot, co-pilots and maintenance people and now needs office staff and flight attendants. He wants to hire people who have been out of a job for a long time, rather than raid airlines for employees.

His strategy is to keep things small and avoid stretching "beyond my capabilities or those of the aircraft."

He'll focus on service and, unlike his competitors, he'll offer free drinks.

And his company logo? "It has to be a shamrock."

APPENDIX B

CURRICULUM VITAE OF HAROLD E. SHENTON

Harold E. Shenton

International economist with expertise in the economic evaluation of transportation and tourism projects, and experience in forecasting, market research, and strategic planning.

AVMARK, Inc., Washington, D.C.

Vice President - Studies and Analysis, 1987-

Trans World Airlines, New York, 1968-1987
Director International Passenger Strategy Planning
Director, Revenue Forecasts
Marketing Research Specialist

Pan American World Airways, New York
Director, Market Analysis, 1966-1968

Stanford Research Institute, Pasadena, CA
Senior Aviation Economist, 1965-1966

Canadian Pacific Airlines, Vancouver, Canada
Manager, Market Research and Forecasting, 1959-1965

Boeing Airplane Co., Seattle
Market Analyst, 1957-1959

International Air Transport Association, Montreal
Economics and Statistics Officer, 1950-1957

Selected Experience:

- As a senior AVMARK staff member participated in various aviation and tourism projects, including airport and airline planning and marketing strategy, forecasts of passenger and cargo traffic, future aircraft demand, financial analysis and airline organization.

- Project leader of AVMARK tem selected by the European Commission to evaluate the competitiveness of European airlines within the rapidly changing international air transport environment. Analyzed competitive airline costs, reviewed trends in air transport regulation, airline globalization and privatization. Study included a comparison of US and European hub structures. Marketing strategies employed by airlines to attain market dominance were also evaluated.

- For a foreign client, undertook a major strategic study of trends in the US aviation industry, including potential airline survival and expected domestic and international hub and route structure.

- o Undertook aviation restructuring/privatization studies:

  -For the Government of Uruguay, developed a plan for the restructuring of PLUNA Reviewed the organization, management and economics of operation of PLUNA, taking into account international traffic rights and pricing regime. Reviewed the implications of the possible privatization of the airline, and made recommendations to the Government of Uruguay.

  -For the World Bank reviewed the operations of Air Guinee, and made recommendations for reorganization, including potential alliances with other airlines.

  - For LAP (Air Paraguay), undertook a valuation of routes, based on current conditions and on alternative fare structures, alternative equipment and possible changes in traffic rights available to the airline.

  - For the Government of Bangladesh, undertook a review of operating economics and management of Biman Airlines. The study included a review of existing and potential markets, a 10-year forecast of traffic and revenue, and the development of a long-range fleet plan.

  -For the Brazilian Development Bank, undertook an economic evaluation of Embraer. This included, an evaluation of the competitive strengths and weaknesses of Embraer compared with its competitors, and a forecast of the commercial and military market for Embraer's products.

- o Undertook studies of the market for small jet and turboprop aircraft:

  -For the Government of Canada, developed a forecast of the market for the Canadair Regional Jet. The study included the forecast of total traffic available to commuter aircraft, and the potential share of each of the competitive commuter jet and turboprop aircraft.

  -For the Government of Canada, developed a policy paper on government support to the commuter aircraft manufacturing industry.

  -For a number of clients, developed forecasts of potential market shares for proposed and existing commuter aircraft, based on a total market forecast, and the economic and operating characteristics of specific aircraft types.

- o As consultant to the World Bank, undertook the following air transport sector studies:

  -Review of airline and air transport policy in Zambia.
  The study included an analysis of airline regulation, government domestic and international pricing policy, airport financing and tariff policy, Zambia Airways organization and management, and equipment replacement program.

  -Review of air transport sector in Malawi.
  This included an analysis of airport and air navigation charges policy, a review of international traffic rights and an analysis of the economics of operation of Air Malawi.

-Review of air transport in the Southern Africa region.
As a member of a World Bank team charged with the overall assessment of aviation infrastructure and airlines in the Southern Africa region, undertook review of international air transport policy, airline cooperation, government aviation policy, infrastructure requirements and airline revenue analysis.

-Review of the air transport sector in Argentina.
Analyzed the development of the national airline within the framework of government regulation of airline tariffs and traffic rights. Airline organization and management were also reviewed, and appropriate recommendations made for improvement.

- For Greater Orlando International Airport:

  -Developed presentations promoting Orlando as a desirable destination for foreign carriers;
  -Supervised study of Orlando's domestic market potential and adequacy of service;
  -Developed exhibits and testified in Transpacific Route Case in support of Delta's application for Orlando-Los Angeles-Tokyo service.

- For the Inter-American Development Bank undertook a review of Juan Santamaria airport in San Jose, Costa Rica. As the economist on the two-person team, developed forecast of passenger traffic based on trends in the tourist industry and a forecast of air cargo traffic for the airport, based on trends in specific commodity exports and imports. The forecasts were subsequently related to airport facility requirements.

- As consultant to special U.S. commission, developed a forecast of foreign travel to the United States.

- Was project leader of definitive study for World Airways of the market potential for international charters and tours.

- For Eastern Airlines, undertook study of cargo potential of the Atlanta economic region.

- Past member, Pacific Asia Travel Association Research and Development Council; designed and supervised in-flight survey of Transpacific market.

- Developed TWA's position on U.S. international aviation policy. Prepared briefs on international route cases, and on various proceedings related to US policy on charters.

- Appeared as TWA witness before the U.S. Civil Aeronautics Board in various route proceedings, including the Laker case and the Pan American/TWA route exchange.

- At TWA supervised staff of fifteen, charged with international route planning and development, and passenger and cargo traffic forecasting. Activities included the evaluation of the potential of international services from new U.S. gateways, and studies in support of U.S. bilateral negotiations. Also supervised complete marketing research program, participating in questionnaire design, survey implementation, development of tabulations and presentation of survey results.

- Represented IATA at various ICAO Conferences, including regular sessions of the Air Transport Committee, special conferences on economics of airports and air navigation facilities, European civil aviation, and aviation statistics.

- Developed an operating and equipment plan for a newly organized U.S. regional airline.

- Established and directed CPAir's market research and forecasting department. Represented CPAir in official international negotiations with other airlines relating to traffic rights, routes and schedules. Developed analysis of Canadian domestic air transport regulation and used it as basis for CPAir's new route applications.

- Prepared forecasts of hotel requirements in selected countries for a major international hotel chain.

- Occasional lecturer at McGill University on transportation economics.

Publications:

(Including articles in aviation publications)

<u>David Against Goliaths -- Pacific Southwest Airlines</u>, 1966.

<u>The International Tour and Charter Market</u>, 1966.

<u>Forecast of Foreign Tourism To The U.S.A.</u>, 1973.

<u>The TWA Takeover</u>, 1985.

<u>Frequent Flyer Programmes</u>, 1986.

<u>Pan Am - Root Causes of Crisis</u>, 1986.

<u>Transpacific Market Analysis</u>, 1986.

<u>Allegis - Study of United Airlines</u>, 1987.

<u>Southwest Airlines</u>, 1987.

<u>Frequent Flyer Programmes in The U.S.A.</u>, 1987.

<u>Frequent Flyer Programmes - Market Madness</u>, 1988.

<u>Pan Am Under New Management</u>, 1988.

<u>Competitive Oligopoly - (Co-Authored)</u>, 1988.

<u>Closed Minds on Open Skies</u>, 1992

Lectures and Speeches:

Transportation Economics - McGill University - Montreal

The International Competitive Environment
(IATA Forecast Conference, 1988)

Frequent Flyer Programmes in Europe
(AVMARK Conference, 1989)

Maximizing the Airline Revenue Stream
(Air Finance for Africa Conference, 1991)

Forecasting and the Manufacturers
(IATA Airline Profitability Seminar, 1991)

Dynamics of Airline Competition in Europe
(Transportation Research Forum, 1992)

Education:

M.Sc. (Econ) in International Economics - London School of Economics
B.Sc. (Econ) First Class Honors - London School of Economics

Awards:

Gonner Prize in Economics
Gerstenberg Studentship for Highest Achievement in Economics

Languages:

Speak French and Polish; knowledge of Spanish

Citizenship

United States

The Globe and Mail, Tuesday, November 3, 1992

Transat wins if airlines merge

STOCK SCENE

EDWARD CLIFFORD

INVESTING in the airline business is a perilous undertaking these days. The big players seem to be pursuing self-destructive courses and to hell with shareholders.

What this country really needs are airlines that fly people where they want to go, when they want to go, for prices they are willing to pay, and which provide investors with a decent return.

One company worth watching is **Groupe Transat AT Inc.** of Montreal, which owns charter airline Air Transat and several tour agencies.

There seems to be a consensus among analysts and writers that Transat, along with other small charter airlines, will benefit from the on-again, off-again merger of **Air Canada** and **PWA Corp.** Veteran investors know only too well that when such learned observers agree so unanimously, they must have overlooked something.

The argument goes like this: Whether or not the two major Canadian air carriers get together, they will be forced to cut fringe operations and strip expenses to the bone. They need to rationalize their fleets and their personnel, and get back to the business they are supposed to be in — operating scheduled services between major Canadian cities and to important continental and overseas destinations.

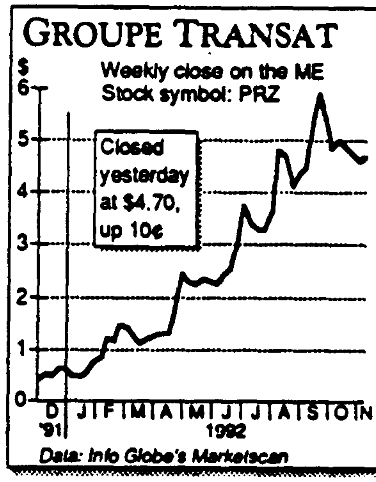
It seems a waste of money to hold expensive, state-of-the-art airplanes in reserve to fly an occasional load of holidayers to Acapulco or Aruba.

Charter carriers, on the other hand, are expert niche marketers. Transat has come to the conclusion that the way to success is to buy second-hand airplanes and build a network of travel agencies. Captive tour operators invent imaginative ways to load up the airplanes and keep them in the air for 12 or 14 hours a day.

It's not an easy job and if you do it too well, the big airlines will try their best to put you out of business. Right now, however, the major Canadian carriers have other fish to fry. Survival is the top item on their agendas, and making a profit is No. 2.

It is hard to spot a flaw in this argument. The warning light should come on, however, if Transat moves in the direction that privately owned competitor **Nationair** has — muscling in on the Toronto-Montreal route dominated by Air Canada and PWA by offering scheduled flights and $88 fares.

So far, Transat is having none of that. Instead, it is making deals with various travel agencies for more charter business. One was a five-year pact with Sunquest Vacations to operate charter flights to popular holiday destinations — potentially a $250-million agreement.



Transat also recently purchased Regent Holidays Ltd. of Toronto, a major tour operator, adding to its already extensive network of travel agencies.

Transat shares currently trade at $4.70 on the Montreal Exchange. It recently reported a nine-month profit of 4 cents a share, compared with a loss of 20 cents a year earlier. Sales were up 16 per cent in the latest quarter — the result, oddly enough, of lousy summer weather in Eastern Canada, which drove a lot of people to warmer climes.

Analyst Eve Dalphond of Marleau Lemire Securities Inc. likes Transat stock, which has traded for as much as $6.25 in the past year, and for as little as 40 cents. A merger between Air Canada and PWA would tend to drive up the price of air fares, she thinks, and calculates that a mere 3-per-cent increase in the price of Transat's travel packages would add an astonishing 89 cents a share to its earnings.