

YUY YMT YVP YGP YYY YZV
YYZ BOS YHZ LGA YOW ATL YVR
CDG MEX ZRH LHR PRG AMS

Québec Air Transportation Policy

Québec ready for takeoff



Contents

Message from the Minister of Transport	I
Message from the Minister for Transport and Maritime Policy	II
Introduction	1

Chapter 1

1. Air Transportation in Québec: A Key Industry in a Complex Environment	3
1.1 The international environment	4
1.2 Canada's legislative and constitutional framework	5
1.3 Economic deregulation	6
1.4 Industry restructuring	6
1.5 The federal government's withdrawal	8
1.6 The scope of opportunities for Québec	9

Chapter 2

2. Stakes and Challenges in Québec	11
2.1 International air service in support of Québec's economy	12
2.1.1 International and North American connections	12
2.1.2 Québec's position in Canada's passenger and goods air transportation market	14
2.2 Regional air service at competitive rates	16
2.2.1 Air service without real competition	17
2.2.2 Regional markets characterized by weak demand	19
2.2.3 Air services increasingly out of sync with regional needs	20
2.2.4 An outdated regulatory framework	22
2.3 Air carrier competitiveness	23
2.3.1 A fragile, changing industry	23
2.3.2 Difficult access for new carriers	24
2.4 Airport system viability	25
2.4.1 A decade of change	25
2.4.2 Québec's airport sector	27
2.4.3 Québec's international airports	29
2.5 International recognition of Québec's expertise	30
2.5.1 Training and research & development	30
2.5.2 International organizations	31
2.5.3 Related industries	32

Contents (cont'd)

Chapter 3

3.	Québec Air Transportation Policy Orientations	33
----	---	----

Chapter 4

4.	Strategy for Action	37
4.1	Improving air service in Québec	38
4.1.1	Providing passenger air service for the regions	38
4.1.2	Promoting North American and international connections	40
4.2	Ensuring a competitive, viable air transportation system	41
4.2.1	Increasing carrier competitiveness	41
4.2.2	Ensuring airport viability	42
4.3	Showcasing Québec's expertise and assets in the air transportation sector	43
4.3.1	Supporting training and research & development	43
4.3.2	Maximizing the presence of international organizations	44

Chapter 5

5.	Implementation	45
5.1	One-stop government services	47
5.2	A forum for air transportation consensus building	47
5.3	Increased financial support for air transport development	48
5.4	Consolidating training and research & development and maximizing the presence of international organizations	49
Conclusion		50

Legal deposit
Bibliothèque nationale du Québec 2003
ISBN 2-550-40683-4

We wish to thank
Aéroports de Montréal
Bombardier Aerospace
Pascan Aviation Inc.
for the free use
of their photographs.

Québec Air Transportation Policy

Québec ready for takeoff

Message from the Minister of Transport

Air transportation is a key concern for Québec. The industry is currently in a downswing marked by mergers, acquisitions, and strategic alliances. For users, this has meant a noticeable decline in the quality of service.

These difficulties have been aggravated by the federal government's gradual withdrawal from airport management, operation, and even ownership in recent years, as well as by industry restructuring. The tragic events of September 11, 2001, followed, leading to significant financial losses for airlines and even putting a number of national carriers out of business.

In response, the Government of Québec and representatives of air carriers, airport authorities, communities, and air transportation users came together to examine how to get the industry off the ground once again. The Québec Air Transportation Policy grew out of this exercise. It puts forward concrete measures to resolve current problems and address the unacceptable prospect of a nation famous for its aeronautics expertise being unable to offer its people appropriate air service.

We believe this policy has a bright future. The Government of Québec has even made it a symbol of its commitment to support a transportation mode essential to the development of its national capital Québec City, its largest city Montréal, and all of Québec's regions.

In closing, I would like to extend my heartfelt thanks to the partners and stakeholders involved in creating this key to our collective future. I also salute the conviction and determination of my colleague Jacques Baril, who again contributed his ability to tackle major challenges with relish. It is now up to us to join together in tapping the extraordinary potential of the Québec Air Transportation Policy.



Serge Ménard

Message

from the Minister for Transport and Maritime Policy

It is with pride and deep gratitude toward the many people who helped the Québec Air Transportation Policy take flight that I present this document. It is sure to play a strategic role in Québec's economic and social development.

Before landing in your hands, this document—the result of long and careful reflection—made a number of productive “stops” along the way. From consultations to discussions, it was enhanced each time by the thinking, philosophy, and vision for the future of our partners from the four corners of Québec, who share the government's belief in the importance of consolidating Québec's strengths in air transportation.

This policy reminds us of the strategic role of air transportation in the economic growth of all of Québec's regions at a time of market and trade globalization.

At the same time, it recognizes the inalienable right of residents of remote and isolated regions to air services that enable them to travel for medical, family, leisure, and other reasons. It clearly affirms that air transportation is to remote regions what public transit is to large cities—a virtually essential service!

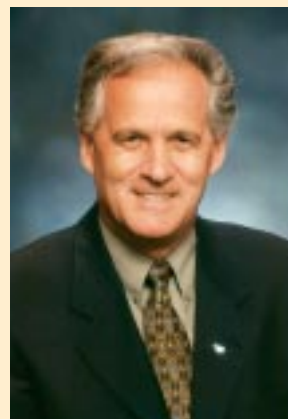
With the Québec Air Transportation Policy, the Government of Québec has also signaled its new, more proactive form of involvement. In recent years, it has been forced to promote and defend Québec's interests in the face of federal withdrawal from the field.

But armed with the consensus that the Québec Air Transportation Policy represents, the Government of Québec can now work with partners in Québec's air transportation and related communities to lay a solid foundation for action.

The government has focused its efforts on such challenges as developing efficient air services in Québec, ensuring a viable and competitive air transportation system, and showcasing Québec's expertise and advantages in the realm of air transportation. Other urgent issues, such as developing and reinforcing Montréal and Québec City's roles as transborder and international connector hubs, as well as Québec's position in international civil aviation, are also at the heart of the policy's action plan.

Over two hundred years after the Montgolfier brothers' invention and nearly a century after the Wright brothers' achievement, Québec is showing in its own way that teamwork is behind some of the greatest advances in the air transportation industry.

The cooperation of all air transportation industry stakeholders and partners, as well as of the communities concerned, has led to a national policy sure to become a formidable development tool for all of Québec's regions. I thank all parties for their cooperation and invite them now to work hand in hand with the government so that, together, we can achieve the objectives we have set. Only then will Québec's air transportation industry truly take flight.



Jacques Baril
Jacques Baril

Air transportation: An industry in flux

Of all the sectors of activity that have changed the most over the past hundred years, aviation is one of the most notable. December 17, 2003, will be the 100th anniversary of the first flight by brothers Orville and Wilbur Wright. For a century, aviation has been one of the areas that has most influenced the world's development. The rapid development of civil aviation has not only created a lucrative industry, it has also given a real boost to economic trade.



Today, air transportation is an essential component of economic development. Yet despite its strategic position, the air transportation industry remains highly sensitive to external factors. International events, the economic situation, the legislative and regulatory framework, and political actions all influence the vitality of air transportation, both here and abroad. The air transportation industry exists in a complex environment, and the significant changes of recent years have affected the entire industry.

Québec's size and dispersed population outside the main urban centers have made air travel essential to many regions. For some remote communities, they are the only mode of transportation available year round. Like other transportation modes, planes are not only a means of transportation, they are also an essential tool for regional development.

The challenges ahead and the stakes at issue in the air transportation industry are great for Québec. Serving Québec's regions at competitive rates, ensuring the development of international connections, promoting air carrier competitiveness, consolidating the airport system, and garnering international recognition of Québec's expertise are among the objectives of the Government of Québec. The challenge is all the greater, given that the federal government holds all decision-making powers. Along with its right to legislate and regulate, it also has the freedom to withdraw financially from activities under its jurisdiction.

The Québec Air Transportation Policy defines the Government of Québec's role in the air transportation industry and guides its action as regards both services and infrastructures. To reach its objectives, the government will focus its actions on three main policy directions: improving air service in Québec, ensuring a competitive and viable air transportation system, and showcasing Québec's expertise and advantages in the air transportation sector. The approaches put forward in this policy were developed in cooperation with a multitude of stakeholders interested in the development of air transportation in all of Québec's regions. The Québec Air Transportation Policy bears out the Government of Québec's commitment to work whole-heartedly toward Québec's development.

1



**Air Transportation in Québec:
A Key Industry in a Complex Environment**

industry



Air Transportation in Québec: A Key Industry

In 1968, the six airlines Robert Charlebois sang about in his song “Lindbergh” were flourishing businesses. Thirty-four years later, all are gone. Air transportation has changed so much in recent years that it is now unrecognizable. The international environment, deregulation, industry restructuring, the legislative framework, and federal government withdrawal are the main factors that have influenced air transportation. Together, they have had a direct impact on the viability and competitiveness of businesses in this sector.

“...parti sur Québecair,
Trans World, Northern,
Eastern, Western,
pis Pan-American!
Mais ché pu où chu rendu...”

Excerpt from the song “Lindbergh”
released in 1968 by Robert Charlebois.

1.1 The international environment

It is difficult to separate developments in Québec’s air transportation industry from the international context of agreements influencing this mode of transportation. Since the Chicago Convention was adopted in 1944, the signatory states have agreed on certain principles and arrangements to allow civil aviation to develop in complete security, in a uniform manner from one country to the next. Yet each party to the Convention retains complete, exclusive sovereignty over its own air space. The International Civil Aviation Organization (ICAO) headquartered in Montréal was established to continue the work begun under the Chicago Convention. Today, over 180 countries have signed this convention.

This international framework is supplemented by bilateral air transportation accords between sovereign states. A number of countries are bound by bilateral agreements regulating their market access. In North America, the Canada-U.S. Open Skies Agreement provides access to the markets of both countries. Internationally, discussions are underway within the World Trade Organization (WTO) on liberalizing certain activities related to air transportation. No agreement has yet been reached on this issue.



This international context affects civil aviation as a whole. The availability of transborder and international connections and the presence of major carriers in domestic, transborder, and international markets have a definite impact on the vitality of air transportation businesses in Québec and elsewhere.

in a Complex Environment

1.2 Canada's legislative and constitutional framework

In Canada, all air transportation and civil aviation activities are under the federal government's exclusive jurisdiction. This exclusivity has led the Canadian government to become involved in most areas of air transportation, from infrastructure and services to economic and technical regulation, security, and safety. Unlike other modes of transportation, intraprovincial transportation is also subject to federal government control.

In 1967, the National Transportation Act gave Canada's Minister of Transport broad power to regulate the air transportation industry. Protecting user interests was a key part of this policy. At the time, the federal government upheld the principle of cross subsidies to cover the cost of service in remote and isolated regions.

In the legal and regulatory arena, the federal government—through Transport Canada and certain government agencies—enacts and ensures the enforcement of legislation and regulations on air transportation. The Canadian Transportation Agency is one such organization. It administers the Canada Transportation Act adopted in 1996. A quasi-judicial tribunal for the economic regulation of transportation activities under federal jurisdiction, the Canadian Transportation Agency takes part in negotiations on bilateral agreements and ensures their implementation. It also fields consumer complaints and addresses other general issues related to the air transportation industry.

The federal government's exclusive jurisdiction.

Air navigation is another important responsibility of the federal government. Since 1996, Transport Canada has relied on NAV CANADA, a private corporation established under the Civil Air Navigation Services Commercialization

Act, to operate air navigation services. Yet Transport Canada retains the power to oversee the new corporation's operations.

The Transportation Safety Board of Canada (TSB), a federal government body, has the power to investigate and make recommendations regarding accidents and mechanical incidents related to aviation.

1.3 Economic deregulation

Deregulation of air transportation, launched by the United States in the late 1970s, has led the industry to redefine itself from the ground up. The Airline Deregulation Act adopted by the U.S. Congress in 1978 kicked off a series of changes with significant repercussions on both service and industry structure. Inspired by the United States, Great Britain, New Zealand, and Australia followed suit.

Deregulation of air transportation industry to redefine itself from the ground up.

Canada was no exception. In May 1984, the federal government made public its Freedom to Move policy. As a first step toward broader deregulation, its purpose was to limit the obstacles to market entry and relax regulations on setting airfares. Three years later, another step was taken at the federal level with the adoption of the National Transport Act barring any economic regulation hindering a carrier's market entry or departure, or placing limits on passenger or cargo service pricing. It also called for the establishment of a financial assistance program for services considered essential to communities but deemed unprofitable. The federal government's objective was to improve service, lower fares, and promote competition in the markets while setting aside the notion of public interest.

More recently, the rules were further relaxed with the Canada Transportation Act in 1996. It left all markets without exception to fend for themselves and has led to massive restructuring of air transportation activities from coast to coast. At the same time, the federal government discontinued the financial assistance program it began in 1988 for remote northern communities.



In Québec, these changes in federal legislation have had a considerable impact on regional carriers, as well as air transportation users in all regions. The quality of service has declined noticeably in all areas, and the use of French in the services provided in Québec continues to decrease.

1.4 Industry restructuring

Economic deregulation has directly impacted the overall structure of the industry internationally. The consequences of deregulation include acquisitions and mergers that have led carriers to organize into strategic alliances, as well as the reorganization of the network of air connections radiating from hub airports. By grouping a portion of their activities within alliances, airlines can cover the entire planet more cost effectively. Today, the skies are served primarily by four major alliances that include the leading international airlines (Table 1).

Table 1: Major Alliances and their Main Partners

Star Alliance	Oneworld	Sky Team	Wings
United	American Airlines	Air France	Northwest
Lufthansa	British Airways	Delta	KLM
Air Canada	Qantas	Aeromexico	Continental
Thai	Cathay Pacific	Korean Air	Transavia Airlines
Scandinavia Airlines (SAS)	LanChile	Alitalia	Kenya Airways
Varig	Iberia	Czech Airlines (CSA)	
Air New Zealand	Finnair		
All Nippon Airways (ANA)	Aer Lingus		
Singapore Airlines			
Mexicana			
British Midland (BMI)			
Lauda Air			
Tyrolean			
Austrian Airlines			

Source: Ministère des Transports du Québec 2002

This international upheaval has not left regional transportation untouched. In Canada, regional subsidiaries of Air Canada and Canadian International provided countrywide service during the whole time of the federal government-supported duopoly. Subsidiaries and commercial partners were expected to coordinate their own flights with those of the two main carriers. But the years-long fare war waged by these two carriers on the domestic market eventually destroyed their financial viability. Because the two leading companies were less competitive than other international carriers, the federal government abandoned its policy of protecting the duopoly, despite numerous attempts to support Canadian International that were as costly as they were futile. This set off a series of events marking a long process of industry restructuring.

In August 1999, the federal government adopted a special decree authorizing the two international carriers to consider any proposal for their reorganization and restructuring. Air Canada proceeded to acquire Canadian International in exchange for certain commitments on its part. The passing of Bill C-26 on July 5, 2000, provided a framework for restructuring the industry. It also gave the federal government the means to force Air Canada and its subsidiaries to honor their commitments.

The federal government abandoned its policy of protecting the duopoly.

This new bill amended a number of existing bills, including the Canada Transportation Act, the Competition Act, the Competition Tribunal Act, and the Air Canada Public Participation Act. The key measures in the new bill concerned the following:

- Canadian control and ownership of airlines
- Competition—Air Canada undertook to allow genuine domestic competition by letting other carriers join the Aeroplan program and negotiate interline fares, subject to certain conditions
- Setting of airfares in a monopoly situation
- Maintaining services to small communities for a three-year period and providing more advance notice before discontinuing service
- Maintaining the jobs of employees of both parties to the merger

Although it had no control over this restructuring of the air transportation industry, Québec encouraged the federal government to abide by certain principles, including the following:

- Maintaining jobs in Québec, to the extent that several thousand direct and indirect jobs were at stake
- Respecting the use of French in communications with personnel and passengers
- Implementing measures to foster healthy competition in regional air services

Despite the Government of Québec's warnings and the measures contained in Bill C-26, the restructuring of the air transportation industry caused considerable upheaval at all levels of the industry, particularly for regional services.

1.5 The federal government's withdrawal

While fighting the deficit in the 1990s, the federal government reexamined its commitment to the air transportation industry. A series of measures were adopted to redefine Transport Canada's role in a number of respects.

The National Airports Policy (NAP) is a prime example of the new philosophy aimed at making federal operations profitable. While creating a network of the most profitable airports in Canada, the federal government transferred to the provinces its so-called "non-strategic" airports, most of which are not capable of self-financing. The main points of this policy adopted in 1994 can be summarized as follows:

- The federal government retains ownership of the 26 main Canadian airports in its National Airport System (NAS). Through long term leases, it assigns management thereof to local private companies set up for that express purpose. In 2000, rent and other National Airport System fees collected throughout Canada amounted to \$250 million.

The transfer of civil air navigation services to NAV CANADA in 1996 is another example of federal withdrawal.

- Transport Canada continues to support its remote airports while reassessing its long term involvement. These infrastructures serve isolated communities not connected to the road system.
- The other airports—categorized as “regional and local” or “small”—must be transferred (ownership, management, and operation). Those with regular air service may receive financing under the Airport Capital Assistance Program (ACAP) for security-related projects. Small airports, i.e., those without scheduled service, are ineligible for this program.
- The federal financial assistance program for local airports, through which a number of investments have been made in municipal airports, is abolished. Henceforth, no financial assistance program will be offered to airports without regular flights.

The transfer of civil air navigation services to NAV CANADA in 1996 is another example of federal withdrawal. NAV CANADA is a private, non-profit company established under the Civil Air Navigation Services Commercialization Act. By transferring its full ownership and control of civil air navigation system and facilities to NAV CANADA in exchange for approximately \$1.5 billion, the federal government gave a private corporation a share of its responsibility for public safety. NAV CANADA’s mission is to provide, maintain, and improve air navigation service and coordinate air traffic. Transport Canada retains the power to oversee the new corporation’s operations to ensure that security standards are met.



Transport Canada’s mission in the air transportation sector is now essentially focused on security and safety. In recent years, various federal government measures have led to a complete rethinking of Transport Canada’s mission and marked its withdrawal from air transportation. Although it has relinquished its responsibilities, the federal government has held on to exclusive legislative and regulatory jurisdiction over all activities related to air transportation.

1.6 The scope of opportunities for Québec

The Government of Québec has had to become involved in air transportation matters on a number of occasions, even though this area is under exclusive federal jurisdiction. Apart from promoting and defending Québec’s interests in the face of legislative changes and federal policy initiatives on air transportation, the Ministère des Transports du Québec has found it necessary to step in for the federal government in various areas. The Government of Québec has had to take up infrastructure management and operation, in addition to funding air transportation services, particularly for small communities and remote, isolated regions. A number of municipalities have also had to take responsibility for their airports. The challenge is all the greater given that these responsibilities were handed over without a corresponding transfer of powers or funds to Québec.

The Government of Québec has had to become involved in air transportation matters on a number of occasions.

In response to the federal government's National Airports Policy and its transfer of regional airports, the Government of Québec adopted the Québec Airport Infrastructure Policy in 1995. This policy defines the Government of Québec's role, notably as the owner of 27 airports, most located in very remote or isolated regions, and regulates the transfer of federal airport infrastructures to the municipalities.

More generally, the mission of the Ministère des Transports du Québec is to ensure the movement of people and goods through the development, coordination, and operation of integrated, reliable, and safe transportation infrastructures and systems. The department develops policies on transportation networks and systems, implements them, and oversees their application while bearing in mind the impact of its actions on land use planning and the environment.

The Government of Québec also has the power to adopt fiscal and business assistance policies to ensure the economic and social development of Québec and its regions. In addition, the government maintains and manages certain specialized air services through the Secrétariat du Conseil du trésor's government air service. This includes supporting ground surveillance operations on behalf of the Sûreté du Québec, fighting forest fires on behalf of the Société de protection des forêts contre le feu (SOPFEU), providing aeromedical evacuation, and moving patients from remote regions to large general hospitals in Québec City and Montréal on behalf of the Ministère de la Santé et des Services sociaux, as well as providing certain air services for government members and civil servants.

Apart from the Government of Québec's commitment in matters of air transportation, carriers and airport authorities can also count on the support of organizations and associations representing the air transportation industry and related services, as well as the tourism industry, regional development officials, and more, including the following:

- The Association québécoise des transporteurs aériens (AQTA), promoting the air transportation industry and defending the interests of regular and charter flight operators to the federal government
- The Association des gens de l'air du Québec (AGAQ), representing the interests of workers in this industry; its best-known struggles have been defending the use of French in the skies and the fair representation of francophone employees at national carrier Air Canada and its subsidiaries
- The Canadian Airports Council (CAC), bringing together the managers of the 26 airports in the National Airport System, including Aéroports de Montréal and Aéroport de Québec
- The Conseil des aéroports du Québec (CAQ), bringing together the managers and operators of Québec's airports
- The International Freight Forwarders Association (IFFA) in the area of air freight

2



Stakes and Challenges in Québec

stakes



Stakes and Challenges in Québec

stakes

Air transportation is a complex industry sensitive to economic fluctuations.

Air transportation is a complex industry sensitive to economic fluctuations. In order to choose the best actions for supporting air transportation development, it is important to clearly identify the stakes at issue and the challenges of this mode of transportation. A number of aspects must be considered—international and regional air service, carrier competitiveness, system viability, and the international recognition of Québec's expertise are all of key importance.

2.1 International air service in support of Québec's economy

Gradual market liberalization has been profitable for the air transportation industry at the international level. International Air Transport Association (IATA) data gathered between 1990 and 2000 shows that passenger traffic increased an average 6.1% and 2.3% for all international and domestic connections. In an economy as open to external markets as Québec's, international, transborder, and domestic connections are vital to supporting socioeconomic development. In this respect, Montréal and Québec City's position at the North American and international levels is of great concern to the Government of Québec.

2.1.1 International and North American connections

Since its merger with Canadian International, Air Canada has been Canada's leading air carrier for international, transborder, and domestic flights. A member of the large Star Alliance family, Air Canada—together with its partners and their carrier affiliates—provides regular air service to over 860 destinations worldwide. And Air Canada's corporate headquarters and world class maintenance facilities are located in Montréal.

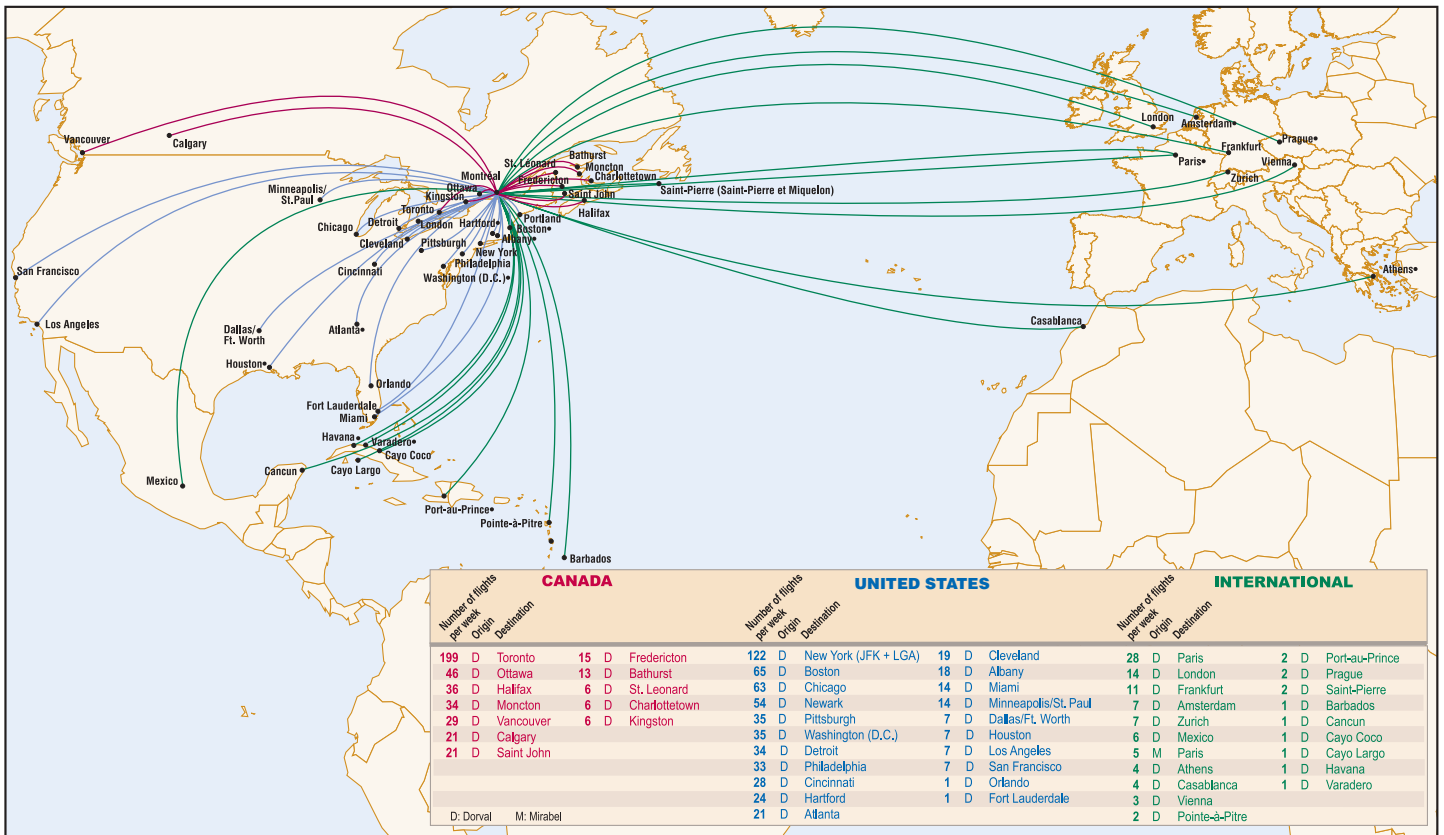
In cooperation with its Star Alliance partners, Air Canada offered international connections from Canada to 88 foreign cities in 2001. Of the 37 connections operated directly by Air Canada, six depart from Montréal, with the rest departing mainly from Toronto and Vancouver. In fall 2002, Air Canada had direct daily service from Dorval to Paris, London, and Frankfurt.

Air Canada offers 96 connections to the United States and operates direct flights to half. Of all its transborder connections, 13 depart from Dorval. A number of American and European carriers also serve Montréal under current bilateral agreements. All international and North American connections departing from Montréal are shown in Figure 1.

At Jean-Lesage International Airport, only a few flights to Europe are available, mainly to Paris. In winter, Air Transat operates charter flights to the South, including to Cuba and the Dominican Republic. As for North American connections, there is regular service between Québec City and Toronto, Boston, and New York City.

Additional North American and international connections would further support Québec's socioeconomic development. A number of tourism organizations, economic partners, and event coordinators have been demanding such connections for years. For example, developing the Port of Québec cruise market in the short term will require better air service to Québec City. Sustained efforts by all stakeholders are necessary to convince air carriers of this market's potential.

Figure 1: Direct International and North American Connections Departing from Montréal (Regular Flights)



Source: Aéroports de Montréal, Passenger Service—Destinations Served, November 2002

Service de la géomatique, Service de l'économie et du plan directeur en transport November 2002

2.1.2 Québec's position in Canada's passenger and goods air transportation market

The grouping of carriers into large air transportation alliances and the concentration of their activities at hub airports have centralized a significant share of connecting traffic at airports such as Toronto, Chicago, and New York City. This has limited the development of new international connections for Montréal and Québec City. To better understand the effects of this traffic concentration, one must take a closer look at changes in passenger and air cargo transportation at Québec's international airports.

Passenger traffic in Montréal

Despite annual growth in its traffic of over 2.5%, Montréal's relative share in Canada's passenger transportation in terms of departures and arrivals has continued to decline since 1975. Montréal's relative share fell from 16.6% in 1975 to 11.1% in 2000. For the same period, Toronto's market share grew from 25.9% to 32.1% (Figure 2). The significant increase in traffic to Toronto can be explained first by this city's economic and demographic weight within Ontario. The liberalization of air transportation activities was also an advantage for Toronto. Since the mid-1980s, foreign carriers are no longer required to serve Montréal. The advent of more sophisticated aircraft able to make longer flights has also helped the Toronto airport become an important hub.

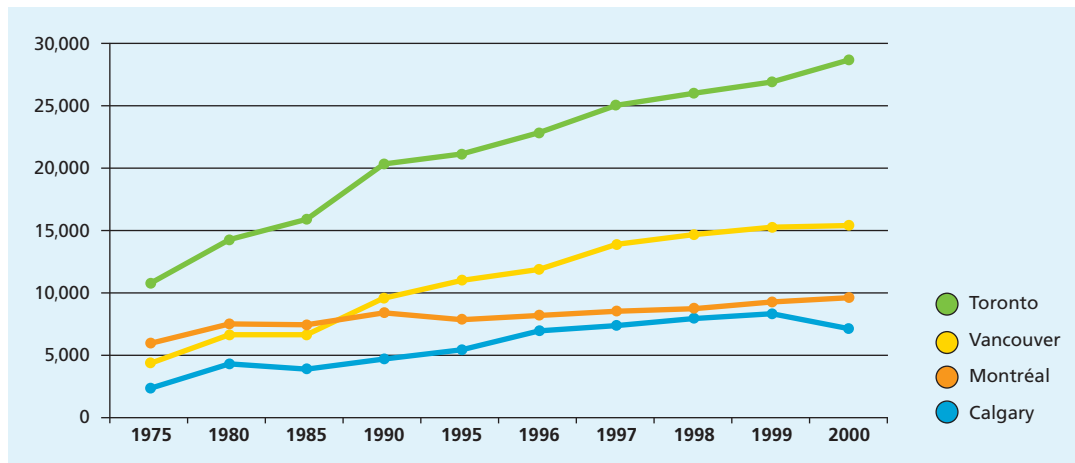
Consequently, some air carriers have abandoned Montréal. Germany's Lufthansa left Montréal in 1995, while other airlines have discontinued certain connections, including Alitalia's Montréal-Rome service in 2000. Still, the presence of major carriers such as Air Canada, Air France, KLM, British Airways, and Swiss Air has played a vital role in supporting Montréal as an international gateway to major European capitals.



In terms of transborder traffic, the Canada-U.S. Open Skies Agreement led to a 43% increase in air traffic between 1995 and 2000. During this period, traffic in Montréal increased only 19.4%. A 2000 comparison of the number of regular flights between the United States and the various Canadian provinces clearly shows the predominance of Ontario (50%) and British Columbia (21%) in this market, while Québec's share is limited to 15% (Figure 3). Air Canada's choice of Toronto as a hub partly explains Ontario's dominance of the air transportation market. In fact, Air Canada has added direct flights from Toronto to over twenty American destinations. In Montréal, many charter flights have been converted into regular connections. Direct flights to Washington, D.C. were added gradually starting in 1995, so that by 2002, Air Canada was operating six daily direct flights, including two to Dulles International Airport and the rest to Washington National Airport.

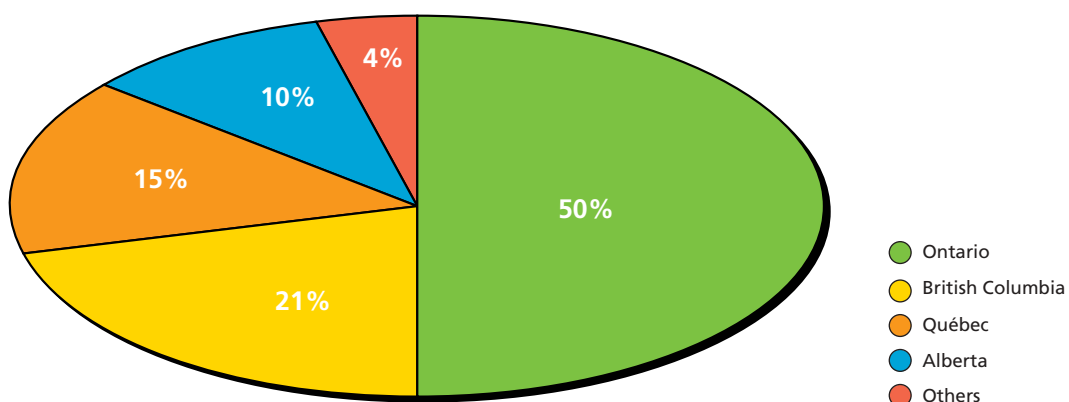
At the domestic level, passenger traffic to or from Montréal has remained stable. Between 1975 and 2000, the total number of passenger departures and arrivals was approximately four million per year. For the same period, Toronto recorded a 90% increase, from 6.1 to 11.6 million passengers, while growth for all Canadian airports combined was 142%.

Figure 2: Main Airports in Canada: Departures and Arrivals (Thousands of Passengers)



Source: Statistics Canada, various years

Figure 3: Share of Canada-United States Traffic, 2000



Source: Statistics Canada, 2000, Statistics on Airport Activity, Table 1.5, page 5

Passenger traffic in Québec City

At the transborder and international levels, the market share of Québec City's Jean-Lesage International Airport is declining relative to that for all of Canada. In absolute terms, passenger traffic increased 11% at the domestic level between 1995 and 2000. During the same period, Québec City recorded a 13.4% decline in transborder traffic and a 28% decline in international traffic. Both cases can be explained by the drop in the number of charter flights from Québec City.

Air cargo transportation

Despite Montréal's advantages in air cargo transportation, its relative share in the Canadian market is in sharp decline. Between 1975 and 1997, its Canadian market share fell from 30% to 14.3%, before rising to 16.4% in 1998. During the same period, Toronto's share increased from 34.6% to 42.5%. The dividing up of air cargo transportation between Dorval and Mirabel partially explains the decline observed in Montréal. And the lack of regular all-cargo flights, combined with the redirection of some traffic toward other airports, including Toronto and New York City, due to a lack of direct connections to certain destinations is also hurting Montréal.

To promote the development of Mirabel Airport, in spring 2000 the Government of Québec established the Montréal Foreign Trade Zone at Mirabel, as well as a corporation to administer it.

For residents of some towns in remote or isolated regions, air transportation is as valuable as public transit is in urban centers.

The mission of this organization is to encourage businesses to set up in the Mirabel Airport region and maximize the airport's industrial potential.

There is potential for air cargo development in Québec. A certain number of thriving industries could use air transportation to deliver their goods. Products manufactured by businesses in the new economy—the pharmaceutical, aeronautics, and computer industries—are prime examples.

2.2 Regional air service at competitive rates

The development of regional air transportation has always been a concern of the Government of Québec. For a number of communities across the vast province of Québec, it is sometimes an essential means of transportation. For residents of some towns in remote or isolated regions, air transportation is as valuable as public transit is in urban centers. In this regard, it is important to note that considerable funding is devoted annually to public transit. The Government of Québec invests in actual facilities and even, in certain cases, the operation of services that would not otherwise be viable. In urban areas with public transit authorities, passenger vehicle owners must pay an annual tax to fund urban public transit. Also, the cross-subsidization of intercity bus transportation is a common practice. In exchange for a protected market on lucrative routes, carriers must sometimes serve unprofitable routes.

In light of this, the Government of Québec has recognized air transportation as a mode of public transit. In adapting its actions to this area, it can take inspiration from its involvement in public transit. Within the limits of its jurisdiction, the Québec government must continue working to ensure essential air transportation services for its regions, despite the many obstacles to achieving its objectives, such as the lack of real competition, weak demand, and an inadequate regulatory framework.

2.2.1 Air service without real competition

All of Québec's regions are connected to large urban centers by regular air transportation services. Service throughout Québec is based largely on the Air Canada Jazz network. This carrier's role is to ensure a presence in the largest regional centers while serving Air Canada's national and international networks. The Air Canada Jazz network is supplemented by that of third and fourth tier local carriers (Figure 4).

Local carriers often provide service to multiple airports over short distances within specific geographic areas. Although financially and commercially independent from one another, some have business agreements with Air Canada Jazz that may include access to North American and international networks.

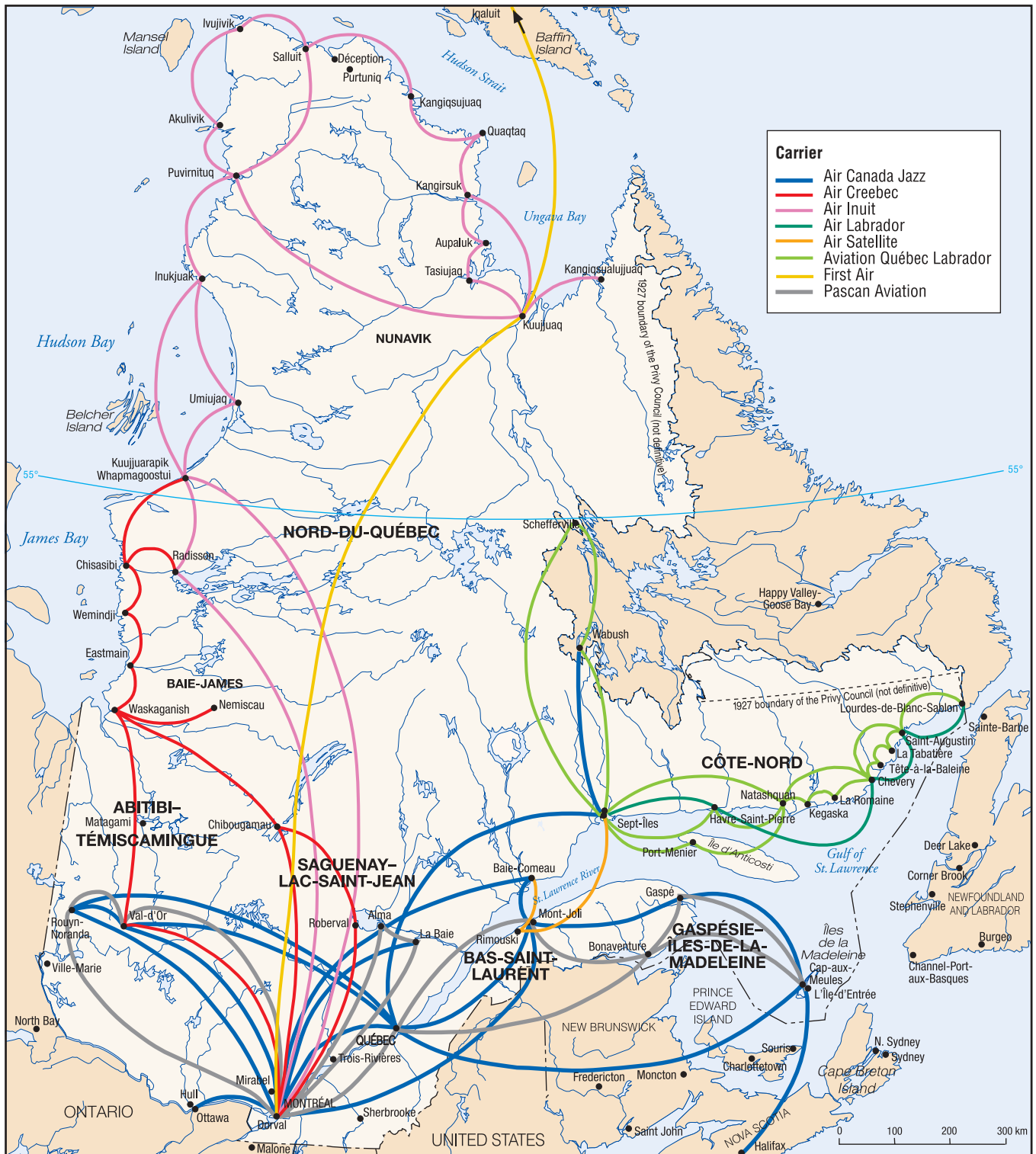
Among the local carriers, airlines owned by native interests play a key role in isolated regions of Québec. Air Creebec, Air Inuit, First Air, and Aviation Québec Labrador share the James Bay, Nunavik, and Côte-Nord regions. In addition to their primary mission of providing air service to native communities, some airlines contribute to the social development of these communities by offering, for example, a 50% fare discount at certain times or supporting away-from-home training for young people. They also contribute some 500 jobs.

The local network is supplemented by Air Satellite, Air Labrador, and Pascan Aviation. The first two carriers operate on limited secondary markets without service to large urban centers. Since its creation in 2000, Pascan Aviation has continued to expand its services in most of Québec's regions.

In this vast network, each carrier offers its services in a particular area, without real competition. Air Canada Jazz occupies Québec's southern region, where the highest volume of regional air transportation is concentrated. Sparsely populated northern regions are unable to support the presence of multiple carriers.



Figure 4: Québec's Regional Air Transportation System



Source : Transports Québec, Service du transport aérien

Service de la géomatique
November 2002

2.2.2 Regional markets characterized by weak demand

In any given year, slightly over 500,000 passengers travel by plane in Québec. They travel mainly from the regions to the large urban centers for business reasons. On average, these Québec travelers spend half as much per year on air transportation as passengers in the rest of Canada. In 1996, each Québec household devoted \$120.75 per year to air transportation, compared to \$216.17 for each household in the rest of Canada.

Quebecers seldom travel by plane. In the past twenty years, a significant decrease in passenger air transportation has been noted. While in 1980 over 700,000 passengers passed through Québec's main regional airports, by 1999 this number had declined by 50% to slightly over 350,000. Figures 5 and 6 clearly illustrate this trend.

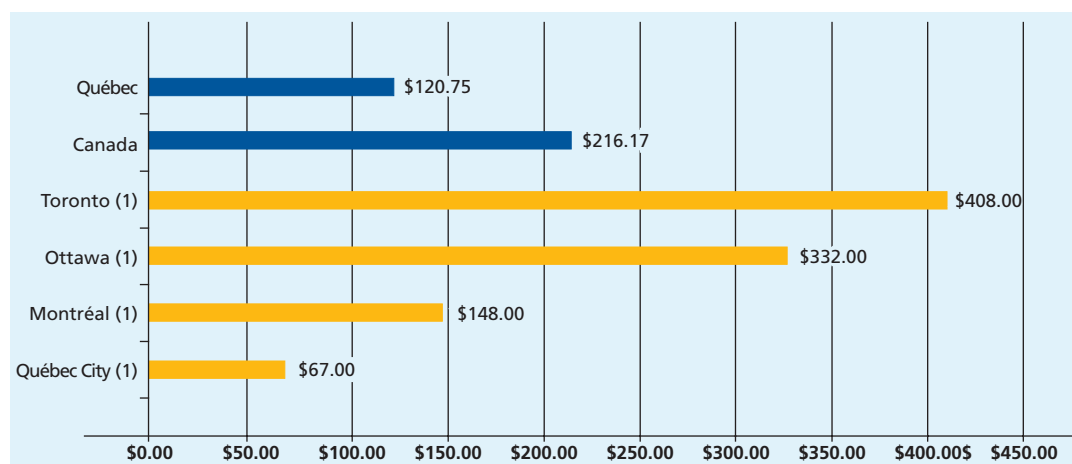
James Bay explains much of this decline. Major hydroelectric engineering projects were carried out there from 1973 to 1985 and 1987 to 1993. During the peak of activity over the former period, nearly 17,000 workers traveled regularly between Québec's various regions and James Bay.

Other factors explain this decrease in the number of passengers on domestic flights:

- The high cost of air transport
- The existence of less expensive means of transportation (automobiles, intercity trains and buses, etc.)
- The emergence of new information technology (teleconferencing, videoconferencing, Internet)
- Migration from Québec's regions to the large urban centers of Montréal and Québec City
- Demographic changes, particularly an aging population
- A relatively weak economy in some regions
- A low average household income in some regions

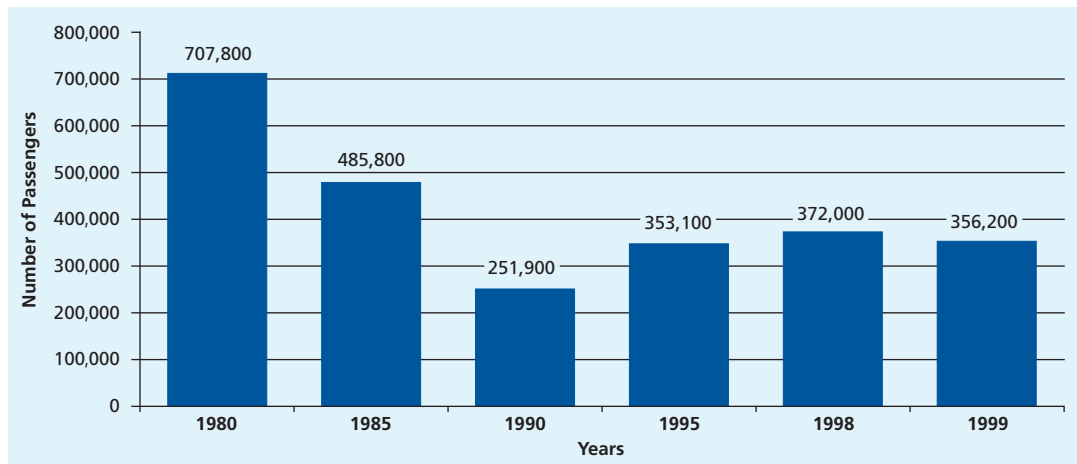
In order for private air carriers to offer new service in Québec's regions, they must be able to count on profitable markets.

Figure 5: Air Transportation Spending per Capita and per Household in Canada, 1996



Note (1) Spending per household
Source: Ministère des Transports du Québec, Service de la statistique

Figure 6: Air Traffic at Québec's Main Regional Airports, 1980-1999 (passenger arrivals and departures)



Source: Statistics Canada, *Air Passenger Origin and Destination, Domestic Report*, catalog no. 51-204-X1B

2.2.3 Air services increasingly out of sync with regional needs

In Québec, the effects of air transportation industry restructuring have yet to be fully felt. In the past two years, the regional air transportation scene has changed radically following the loss of a number of carriers, including InterCanadien, Air Montréal, Régionnair, and Air Alma. The resulting vacuum has left Air Canada Jazz in a position to exercise a de facto monopoly in regional service. In this respect, a major concern of the Government of Québec in terms of air transportation industry restructuring is the quality of regional service.

Since 2000, the marked decrease in the frequency of connections and the number of seats has affected the quality of service by limiting the range of choices. Travelers must now plan their trips around the schedules available. Passengers are sometimes forced to leave early, the night before a meeting, due to inconvenient departure and arrival times. Some users prefer other modes of transportation, including private or charter flights, or even driving. These changing habits are creating a vicious circle that is weakening both supply and demand.

High fares for regional air transportation are another factor that deters users. Research conducted in recent years shows that price hikes were greater in regional markets than in national markets. Between 1986 and 1997, fares for regional connections jumped nearly 50%, compared to 27% for national flights. As a point of reference, the consumer price index rose 28.2% during the same period (Table 2).

Price hikes were greater in regional markets than in national markets.

**Table 2: Domestic Air Transportation in Québec
Price Index, 1986-1997**

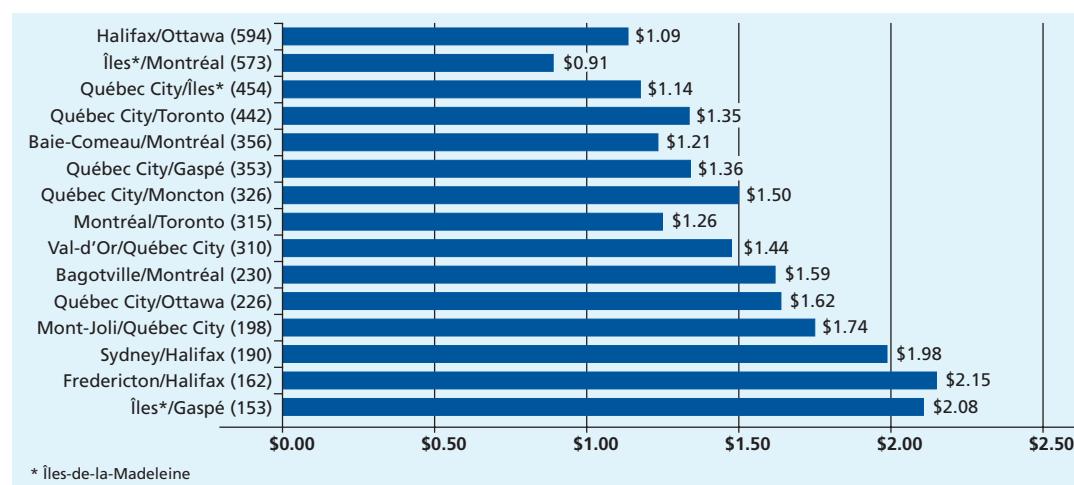
Year	Consumer price index	National carriers	Regional carriers	All carriers
1986	100.0	100.0	100.0	100.0
1990	116.8	125.1	123.6	125.2
1995	126.1	140.8	144.7	141.4
1997	128.2	127.0	149.1	132.4

Source: Avia Marketing Consultants, Inc. (2001), "Les prix du transport aérien" in *Évaluation des effets de la restructuration de l'industrie du transport aérien sur le transport aérien régional: État de la situation*, Montréal, p. 45

Regionally, as the total number of available seats has declined, promotional and discount seats have been cut back considerably. Because of this decrease in capacity, travelers can no longer take advantage of the most inexpensive seats unless they reserve far in advance. Average fares thus tend to be higher, even though regular fares have not changed considerably in recent years.

Québec is not alone in suffering the consequences of industry concentration and the high cost of regional air transportation. For the same distances covered, the same type of aircraft, the same number of flights, and comparable markets, current airfares in Québec are equivalent to those charged elsewhere in Canada (Figure 7).

**Figure 7: Comparison of Canadian Regional Markets
(Amount per Statute Mile)**



Source: Ministère des Transports du Québec, *Le transport aérien régional*, Document de présentation au ministre des Transports, March 16, 2001

Competition drives down prices in all economic sectors, including air transportation. But this does not occur in a monopoly, as the data in the preceding graphs indicates.

2.2.4 An outdated regulatory framework

In a monopoly, governments have a duty to protect public interest within the limits of their powers. In Québec, for example, the Régie de l'énergie is an economic regulatory body that ensures a balance between the fulfillment of energy requirements, the protection of consumers, and protection of the public interest in the context of the Hydro-Québec monopoly. In Canada, the Canadian Radio-Television and Telecommunications Commission (CRTC) applies regulations intended to ensure affordable basic service for residents in remote regions. However, no regulatory body governs regional air transportation in this way, even though it is an industry in which public interest should take precedence over profitability.

The alleged benefits of air transportation deregulation have not yet materialized in Québec. Instead of stimulating competition in the regions, restructuring has led to the discontinuation of unprofitable routes and the establishment of a monopoly. Lower frequency, less service, and fewer discount seats, combined with fare increases, are only some of the everyday effects of industry deregulation.

With the current regulatory framework, regional air transportation cannot meet the needs of users in the regions, especially since market forces do not work in the absence of competition. Neither the Canadian Transportation Agency nor the Competition Bureau seems able to properly manage a monopoly. The existing model must therefore be redefined in order to provide decent regional service.

The Government of Québec approached the federal government a number of times on Bill C-26 to express its concern over the future of regional air transportation. Despite these efforts,

The alleged benefits of air transportation deregulation have not yet materialized.

Québec's regions are now left with poor service at exorbitant prices. Meanwhile, the Canadian government has been more preoccupied with maintaining competition in large markets than on ensuring the survival of regional transportation. The Government of Québec can no longer ignore a situation that in essence is not a current focus of the federal government.

From a socioeconomic standpoint, access to decent air transportation services has become a development tool for the regions, similar to access to public transit in cities. The community and financial benefits of public transit are difficult to compare to those of air transportation, given the different costs and status of these two modes of transportation. Still, in accordance with its commitment to regional development, as set out in Québec's National Policy on Rurality in late 2001, the Government of Québec must equip the regions to tap their economic potential. In this regard, air transportation should play a key role.

2.3 Air carrier competitiveness

The air transportation industry is complex. The many stakeholders, numerous regulations, high costs carriers face, and decreasing demand hardly encourage growth. For Québec's air transportation industry to develop and be competitive, carriers must be able to operate in favorable, fair conditions, and market entry impediments must be manageable.

2.3.1 A fragile, changing industry

Over the years, the air transportation industry has had to face significant changes that are currently affecting its development. Industry restructuring, the organization of carriers into major alliances, the federal government's withdrawal, and situations affecting the economy as a whole are all factors influencing air transportation. Events such as September 11, 2001, have also had a definite impact on air transportation, although the long term effects are not yet easy to gauge. All these factors combined make it more and more difficult for carriers to develop and grow.

For over ten years, from 1988 to 1999, Canada's air network was based on two national carriers, Air Canada and Canadian International, which belonged to different alliances. Their merger changed the structure of air transportation. Companies like InterCanadien, Régionnair, and Air Alma folded when they lost their business partner for North American and international connections, as well as access to a computerized reservation system.

The federal government's withdrawal from airport ownership and operation has resulted in new fees and charges for air carriers, additional costs which are automatically passed along to passengers. For example, on the price of a \$299 discount ticket, the customer pays \$93.43 in miscellaneous fees, or 31.3% extra, excluding taxes. On a \$674 regular fare ticket, these same fees would also total \$93.43, or only 13.9% of the ticket price (Table 3).

**Table 3: Fees on a Rouyn-Noranda to Montréal Ticket
with Departure on May 13 and Return on May 20, 2002**

	Regular fare (\$)	Discount fare (\$)
Basic price	674.00	299.00
NAV CANADA	20.00	20.00
Surcharges: Fuel — insurance	36.00	36.00
Security tax	22.43	22.43
GST	52.67	26.42
PST	60.26	30.17
FAA	15.00	15.00
Total price	880.36	449.02

Source: Air Canada Website, November 2002

Reforms based on the user/payer principle favor the largest carriers, which have the advantage of economies of scale, thanks to their larger aircraft and greater distances covered. Smaller companies, such as regional carriers, pay a relatively greater share in system costs.

The challenges of the current economic situation also affect air carriers. The devaluation of the Canadian dollar has made the price of replacement parts higher, since they are generally purchased in American dollars. The events of September 11, 2001, have caused insurance costs to skyrocket. Renewing aircraft insurance policies could force a number of carriers out of business and make it more difficult for new companies to get off the ground. For this reason, the Government of Québec recently helped establish a private mutual insurance company to assist Québec's airlines.

To operate regular flights, carriers need a critical mass of passengers at each point of service in order to absorb their high costs. Yet demand for air transportation is often variable and peaks according to season, day of the week, and time of day. Furthermore, this critical mass is often difficult to achieve, since regular flights must compete with private and charter flights.

2.3.2 Difficult access for new carriers

Entering the air transportation market remains difficult for entrepreneurs. The many regulatory and other requirements imposed on carriers, as well as access to a computerized reservation system and a frequent flyer plan, are among the many challenges new carriers must face. Added to these obligations is financing—the primary stumbling block. The significant initial investment required makes it difficult to access various sources of financing. Indeed, the sector's instability and shaky results by carriers in recent years have deterred the financial community.

Air transportation entrepreneurs have often turned to the Government of Québec for help obtaining loan guarantees on their initial investments and weathering financial difficulties. In so doing, they come up against an enormous hurdle: Service businesses such as transportation companies are not eligible for government financial assistance programs.

One of the government's concerns is the need to compensate for deficiencies in regional air transportation. The Government of Québec's concern is even more urgent, given that Air Canada's commitments to Canada's Minister of Transport under Bill C-26 end in December 2002. Thenceforth, Air Canada will no longer be required to serve communities to which services were provided at the time of the merger. The least profitable regional routes may therefore be in jeopardy in the short term.

Service businesses such as transportation companies are not eligible for government financial assistance programs.

2.4 Airport system viability

Like the aviation and air transportation industries as a whole, Québec's airports and transportation support services have undergone significant change in recent years. Major Transport Canada reforms, as well as federal government policies and priorities, have added to the difficulties and failures experienced by a number of air carriers.

Airport authorities must be able to offer safe, viable service. To do this, airport managers must have the means to fund their daily activities and provide for eventual improvements. The majority of Québec's airports fall short in this respect.

The Government of Québec believes that airport infrastructures are essential to the development of Québec's regions and efficient air transportation throughout Québec.

**Airport infrastructures
are essential
to the development
of Québec's regions.**

2.4.1 A decade of change

Since the mid-90s, the airport sector has undergone fundamental changes that now threaten the viability of the system in Québec. A number of factors have led to this situation, notably the transfer of federal airports, the tightening of federal airport security and safety regulations, and the difficulties of regional air carriers. In 1995, the Government of Québec presented its position in Québec's Airport Infrastructure Policy.

The transfer of federal airports to Québec

When Transport Canada adopted its National Airports Policy (NAP) in 1994, it owned 29 airport facilities in Québec, including 18 regional and local airports slated for transfer, most in the red. This number was later reduced to 17 when Natashquan was removed from the list. In some cases, the annual operating deficits exceeded \$1 million. The Sept-Îles airport topped the charts with a \$1.9 million deficit.

So far, the federal government has transferred ten of these airports, nine to municipalities—Trois-Rivières, Rouyn-Noranda, Sherbrooke, Alma, Gaspé, Forestville, Charlevoix, Rimouski, and the civil portion of the Bagotville airport. The tenth, Val-d'Or Airport, was transferred to a private non-profit organization. The federal government still owns 19 airports, seven of which it wishes to transfer. The transfer of some of these facilities is currently under negotiation.

A number of municipalities requested the Government of Québec's permission to purchase the facilities within their limits from Transport Canada. Their motivation was obviously not financial but rather based on the fear of losing facilities essential to their people and their community development.

These municipalities thus needed to identify the financial stakes as clearly as possible and negotiate decent compensation with a view to minimizing risk. Given the high stakes, in 1995 the Government of Québec set out guidelines within its own airport infrastructure policy.

The Government of Québec's position regarding airport infrastructures

The Government of Québec's Airport Infrastructure Policy sets out the role the government intends to play in this area. It offers a framework for the Ministère des Transports in its approach to these infrastructures, to facilities slated for transfer by the federal government, and to requests from municipalities for financial assistance for their airport infrastructures. The major points of this policy can be summarized as follows:

- The government will maintain its commitments regarding its own infrastructures, located primarily in communities that are isolated or far from metropolitan regions. Although not commercially viable in the short term, these airports are considered essential to Québec. The Ministère des Transports must also apply a fee structure comparable to that of other airports in order to harmonize its management with current commercial practices in the industry.
- The Government of Québec refuses to acquire federal airports without first obtaining legislative, regulatory, and fiscal control over airport activities.
- The Government of Québec authorizes interested municipalities to take over these airports under certain conditions aimed at ensuring infrastructure viability for the municipalities and the airports themselves, particularly those in the primary airport network identified in the policy. At the same time, special attention is given to the environmental condition of sites. While regulating these municipalities based on certain requirements, including business plan development and public consultation, the government can provide technical support in the analysis and appraisal of their situation.
- The Government of Québec rejects the transfer of responsibility for infrastructures in isolated or remote regions, due to their vital role in these communities and their weak profitability outlook. With regard to Natashquan, the government upholds its decision despite the construction of the highway, due to the community's remoteness and small size.
- The Government of Québec expressly refuses to assume the responsibilities relinquished by the federal government with regard to financial support for infrastructures.

The Government of Québec expressly refuses to assume the responsibilities relinquished by the federal government.

Since this policy was tabled, the Government of Québec has upheld its commitments regarding its own infrastructures. Yet it has charged no additional fees for the supply of services at airports. It is out of the question to force air carriers serving regions where service is essential—such as Nunavik and other isolated regions—to assume new financial responsibilities.

Tightened federal regulation of airport safety and security

Despite the federal government's withdrawal from infrastructure ownership, management, and operation, it retains the right to legislate and regulate. In fact, the mission of Transport Canada is now largely focused on safety and security. Now that it need no longer bear the financial burden, Transport Canada has set out regulatory proposals on Emergency Response Services (ERS), contingency plans, wildlife management, and winter maintenance. These new regulations entail significant additional expenses for all airport owners.

The ERS regulation put forward in 1999 was aimed at reestablishing the services that Transport Canada had itself withdrawn in 1995 in order to ease airport finances before their transfer. In its original version, the regulatory proposal would have led to 30% to 40% increases in overall airport operating expenses. While subsequent versions were less extreme than the first, the proposal was enough to alert airport owners, including municipalities, to their financial vulnerability. Undoubtedly, regulatory matters will remain significant, immeasurable, and arbitrary financial risk factors in the future.



All airport authorities share Transport Canada's concern with maintaining and improving safety. However, regulatory proposals must be justified with regard to financial risk, that is, they must allow a significant improvement in safety while being affordable to airport operators.

Transport Canada is also continuing the regulatory framework reform begun in 1992 to address infrastructure transfer and stakeholder diversification. Several parts of the Canadian Aviation Regulations (CARs) have been revised; Part III on aerodromes and airports is currently under review.

The difficulties of regional air transportation

Difficulties in the air transportation industry have had a major impact on the financial situation of airports, particularly regional airports, although this varies depending on location. The failure of certain carriers has led to direct losses for airports. The closure of InterCanadien alone led to a 15% to 40% loss in revenue, depending on location, at a time when airport managers were at best just able to balance their budgets. Although the situation has improved for some, the decrease in air transportation supply has led to an overall drop in airport activity.

Generally speaking, the instability and fragility of many carriers has adversely affected the planning and development of commercial activities at airports and could harm the business outlook.

2.4.2 Québec's airport sector

Québec's airport sector is vast and spans the province, echoing its geography and population patterns. It includes 91 aerodromes and public airports of varying size and significance. The Government of Québec's 1995 airport policy includes a ranking of infrastructures that differentiates Québec's primary network airports from those with a mainly local focus, as shown in Figure 8.

The primary network included 39 airports: those of the Montréal and Québec City urban centers, those of remote regional capitals (seven infrastructures), and those serving isolated or very remote communities (29). Since then, four Basse-Côte-Nord infrastructures have been added. Airports in isolated communities may have a local focus, but due to the absence of road access and their extreme remoteness, they play a key role in Québec's main missions (healthcare, education, justice, and public administration) and are necessary for the provisioning and survival of the people who live there. Although it provides essential service to the province, Québec's airport system is used far below its capacity.

In order to contribute to Inuit economic and social development while adhering to its commitments under the James Bay and Northern Québec Agreement, the Government of Québec agreed in the early 1980s to help draw up plans and estimates for the construction of thirteen airports north of the 55th parallel, in addition to becoming the owner, manager, and operator of these airports. In keeping with the objective of more self-government for Inuit lands, the Government of Québec put the Kativik Regional Government (KRG) in charge of administering, managing, operating, and maintaining its airports and Community Airport Radio Stations (CARS) in 1996.

The remaining infrastructures belong to the local network. There are also several dozen private runways, most small in size, except for those that Hydro-Québec developed for its Northern operations.

Figure 8: Québec Airport System



2.4.3 Québec's international airports

Québec has three international airports: Dorval, Mirabel, and Jean-Lesage International Airport. Although they are federal property, independent airport authorities are in charge of their management and operation.

Montréal's international airports

Montréal's international airports are Québec's largest airport infrastructures and third in Canada for passenger and cargo traffic. Until 1997, Montréal was the world's 98th biggest airport center. It has since declined and is no longer among the top hundred busiest airports.

Since Aéroports de Montréal (ADM) took over the Dorval and Mirabel international airports in 1992, Montréal's airport service has changed considerably due to a number of significant events:

- The filing of an air transportation development plan for the Greater Montréal region and an airport facilities plan for developing the potential of the Dorval and Mirabel airports (1993)
- A change in course in 1997, when ADM decided to consolidate all regular domestic, transborder, and international flights at Dorval and make Mirabel a charter and all-cargo airport
- The Government of Québec's creation of the Montréal Foreign Trade Zone and the Montréal Foreign Trade Zone Development Corporation at Mirabel (1999)
- A draft amendment to make Mirabel Airport an all-cargo airport (2002)

In upcoming years, ADM will face many challenges and must address the repercussions of redirecting all passenger flights from Mirabel to Dorval, where the situation is already problematic. Noise complaints are still numerous, and road congestion is a sizeable challenge.

Québec City's international airport

As with Montréal's international airports, the management and operation of Jean-Lesage International Airport was transferred to Aéroport de Québec Inc. on November 1, 2000. Since then, there has been an ongoing effort to redefine the services provided to better adapt them to market realities. Currently, Jean-Lesage International Airport is used primarily as a hub for air transportation to eastern Québec, Moyenne- and Basse-Côte-Nord, and Saguenay-Lac-Saint-Jean.



2.5 International recognition of Québec's expertise

The presence of educational facilities, international organizations, and aeronautics and aerospace industries is highly important to Québec. In addition to attracting a number of events and industry people from various countries, they generate considerable economic benefits and contribute to job creation. Québec is becoming better known in the field, and Montréal has bolstered its reputation as a leading host to the air transportation industry.

2.5.1 Training and research & development

Rapid developments in aeronautics technology and the need for skilled workers in upcoming years are crucial issues for the air transportation industry. Hence, training and research & development are particularly important.

Until very recently, a shortage of civil aviators was expected because Canada's armed forces, which in many cases served as a recruitment pool for the airlines, had raised the salaries of their pilots in order to encourage them to stay. It is highly likely that the need to increase and diversify training will resurface once the impact of September 11, 2001, has dissipated.

A number of private and public schools offer aircraft pilot training. But only the Centre québécois de formation en aéronautique (CQFA) at the Chicoutimi Cégep (community college) offers a public program leading to a Diploma of Collegial Studies (DCS) in aircraft flight techniques. Located in Saint-Honoré, the CQFA is preparing tele-training programs and exploring foreign markets. The École nationale d'aérotechnique (ÉNA) of Collège Édouard-Montpetit in Saint-Hubert, near

Montréal, offers an aircraft maintenance curriculum leading to a DCS. In addition, John Abbott College in Montréal offers a portion of the aircraft maintenance program, the balance of which is dispensed at ÉNA.

In the fields of management, law, and engineering, in 1987 the Ministère des Transports du Québec funded the creation of the International Aviation Management Training Institute (IAMTI), which in October 1999 became the Aviation Training and Development Institute (ATDI) of the International Air Transport Association (IATA). The department also assisted the ADTI in designing and implementing airline and airport management simulation software for training purposes. The institute trains 27,000 workers annually in the aviation sector worldwide, thus extending Montréal's reach and fostering ties between local concerns and the global industry.

Montréal has bolstered its reputation as a leading host to the air transportation industry.



With regard to university programs, Concordia University offers an MBA in International Civil Aviation Management, and McGill University offers a Master's in Air and Space Law at its Institute of Air and Space Law. Montréal's École polytechnique offers an aeronautical engineering program together with Bombardier, in cooperation with Sherbrooke and Laval universities.

The creation of a university chair would likely reinforce Québec's North American and international position in the area of aviation training, research, and development.

2.5.2 International organizations

Of the 40 some international organizations headquartered in Québec, the three most important to Québec's international profile and in terms of jobs and economic spinoffs pertain to the civil aviation sector.

The Government of Québec works hard to attract international organizations and promote their development. Indeed, in 1988 it adopted the International Organization Recognition Policy, under which it grants special benefits to non-governmental international organizations. These include tax exemptions, benefits for foreign employees, and attractive accommodation options. It has also contributed to the construction of two meeting halls for groups of up to 250 and 1,000 complete with secretarial services and translation in nine languages.

The leading aviation organization in terms of jobs—the International Civil Aviation Organization (ICAO)—is headquartered in Montréal. It establishes international standards and recommends procedures, as well as technical and aviation security regulations, to all member countries. Communication and navigational aid systems, airport and landing area features, and aircraft airworthiness are some of the areas in which the ICAO is involved. It has approximately 750 employees and over 180 member states. On average, it hosts some 4,000 delegates each year from all four corners of the earth for one to three-week visits.

With 450 employees, the International Air Transport Association (IATA) is a private organization created in 1945 that includes all the leading airlines. Approximately 280 companies accounting for nearly 95% of the world's traffic belong to this association that focuses on technical cooperation between air carriers, the streamlining of administrative and business services, interline agreements, and cooperative equipment use. These activities involve various aspects of air transportation, such as safety, security, technological development, and environmental protection. The bulk of IATA headquarters is located in Montréal, with the rest in Geneva. The IATA also owns the Aviation Training and Development Institute (ATDI). And in 1996, it moved a number of services from Geneva to Montréal, notably a financial settlement clearinghouse for carrier members, which in 2001 represented \$33.6 billion U.S.

The Airline Telecommunication and Information Service (SITA) was established in Montréal in 1987. It has 250 employees, and its membership extends to 180 countries. It operates and manages the world's most extensive specialized telecommunication network on behalf of the aeronautics industry. Its arrival brought some 200 new jobs in high tech sectors such as aerospace and telecommunications to Montréal, thereby strengthening the city's hold in these fields.

These three highly prized international organizations have chosen Montréal for their headquarters because of the tax benefits granted by the various levels of government. Yet Montréal has other advantages to attract and keep them: a relatively low cost of living compared to other large cities, quality of life, and quality air transportation facilities, as well as the presence of other international organizations and leading aeronautics industries.

2.5.3 Related industries

A number of activities revolving around the air transportation industry help make Montréal the capital of international civil aviation. In fact, Montréal is the world's fourth leading city in aircraft manufacturing and maintenance.

This sector includes a number of companies, the largest of which are Bombardier Aerospace in regional jet (CRJ) design and manufacturing, Bombardier Defence Services in the military arena, Rolls Royce Canada, General Electric Canada, Pratt & Whitney Canada in engine and turbine manufacturing, Bell Helicopter Textron in helicopter manufacturing, and CAE Electronics in flight simulator design and production. The sector also includes 240 small businesses. Overall, it employs nearly 41,000 people.

In addition are Air Canada's world class maintenance center and Air Transat's maintenance center at Mirabel, as well as the Bombardier Aerospace Training Center, a consortium formed by Bombardier and Air Canada.

They are
an important source
of knowledge
and advanced expertise.

The presence of companies specializing in aviation, aeronautics, and aerospace, as well as international aviation organizations, institutes, and educational facilities, reinforces Montréal's standing as an international civil aviation headquarters and creates a unique synergy. The Government of Québec has everything to gain by attracting them and fostering their

development, since they are an important source of knowledge and advanced expertise, as well as considerable economic benefits.

3



Québec Air Transportation Policy Orientations

orienta



Québec Air Transportation Policy



The challenges of air transportation and the issues discussed previously point to the need for the Government of Québec to take immediate action. First, traffic concentration at hub airports is limiting the development of new North American and international passenger and cargo service. For a market the size of Montréal, the presence of two international airports is singular in the world of international civil aviation. Increasing cargo service at Mirabel Airport is thus a sizeable challenge. In addition, economic deregulation and industry restructuring have led to instability, which has had a harmful effect on regional service. The service provided is increasingly out of sync with user needs, particularly in remote and isolated regions.

The air transportation industry is currently going through difficult times. Carriers face financing problems and are suffering the effects of industry restructuring. Added to this is the federal government's withdrawal from airports and the introduction of new security regulations that has further eroded the current and future viability of airport facilities.



The Government of Québec must become more involved in air transportation in order to support the economic development of all regions. It must play an even greater role as the federal government relinquishes its responsibilities—a sizeable challenge, since the legislative framework remains under exclusive federal jurisdiction.



Despite the difficulties facing the air transportation industry, it is a vibrant industry that generates considerable economic benefit for Québec. With its many educational facilities, numerous international organizations, and thriving aeronautics industry, Québec is well positioned to play a leading role in the field.

The air transportation industry is a vibrant industry that generates considerable economic benefit for Québec.

In order to tackle the challenges of air transportation, the Government of Québec decided to develop an air transportation policy. This policy reflects many of the proposals received in consultation meetings with the industry and stakeholders held by the Ministère des Transports. Through these meetings, a consensus was reached on the following policy directions and priorities:

1 Improving air service in Québec

Air transportation is vital to Québec's socioeconomic and tourism development—from a regional, North American, and international perspective. It links the various regions together and connects Québec to the rest of the world. Globalization and Québec's open economy dictate that all air services must be improved.

2 Ensuring a competitive, viable air transportation system

Airlines and airport infrastructures are the two pillars of the air transportation system. To promote their development, carriers and airport managers must be able to offer safe services that meet user needs. To ensure they can compete and remain viable, favorable and fair measures must be put forward to support these sectors of the air transportation industry.

3 Showcasing Québec's expertise and assets in the air transportation sector

In order for Québec to play a part in the development of air transportation and remain a leader in the aviation industry, the Government of Québec must further support training and research & development. Concurrently, it must reinforce its position, and especially that of Montréal, in civil aviation in order to support and promote the presence of large international organizations that contribute to Québec's worldwide standing.

4



Strategy for Action

strategy



Strategy for Action

strategy

The Québec Air Transportation Policy presented here by the Government of Québec is comprised of the three policy orientations set out in the preceding section: improving air service in Québec, ensuring a competitive and viable air transportation system, and showcasing Québec's expertise and assets in the air transportation sector. Each of these policy orientations involves two strategies for action, for a total of six. Among these strategies are providing quality regional air transportation services and developing North American and international connections, as well as ensuring carrier competitiveness and airport viability. In order to showcase Québec's expertise, the government will further support training and research & development, in addition to maximizing the presence of international organizations. Several approaches have been identified for these six strategies for action. Some are new, having emerged from proposals received during consultation meetings while others, reflecting government involvement in recent years, have been better attuned to current needs.

4.1 Improving air service in Québec

Within the limits of its powers, the Government of Québec will take action in several areas of regional, North American, and international air transportation. In response to the issues raised by industry stakeholders during consultations, the various approaches revolve around market needs and transportation services. They also call for partnerships with local communities, government officials, and other provinces in order to encourage the federal government to shoulder its responsibilities in this sector. In the public interest, Québec demands that the federal government view it as a partner in developing federal policies and seeks the cooperation of other provinces in this respect.

4.1.1 Providing passenger air service for the regions

The Government of Québec recognizes that for certain regions, air transportation holds the same importance as public transit in large urban centers. The general decline in service has sown deep dissatisfaction among the residents of these regions. To remedy this situation, Québec government authorities must take more focused action on a broader range of issues. Like Québec's National Policy on Rurality, the Québec Air Transportation Policy is aimed at promoting the economic growth of the regions and improving Quebecers' quality of life.

The challenge

Regional air transportation in Québec serves a small market spread over a vast geographic area. Despite this constraint, Québec must develop appropriate regional air transportation service.

Our approach

In order to promote the development of quality air service that contributes to the economic and social development of the regions, the government will base its strategy on the following actions:

- Fostering dialog among users, carriers, and regional stakeholders to better identify their needs and support new initiatives
- Promoting the use of air transportation for tourism and social development
- Better targeting the needs of regional customers by funding market studies in cooperation with the regions
- Establishing a formal mechanism for monitoring fares and service quality
- Increasing the involvement of community stakeholders in air transportation development, such as municipalities, Local Development Centers (CLDs), Regional Development Boards (CRDs), and other organizations involved in local and regional development
- Establishing financial and other measures to stimulate demand for improved accessibility to regional air transportation
- Consolidating public, broader public, and private sector needs in order to create a critical mass of customer demand
- Identifying policy orientations regarding services for isolated regions through consultation with the communities
- Working with organizations to reexamine and establish a rate structure for the services provided based on the economic reality of the regions, especially as pertains to airports and air navigation

To these approaches to improving Québec's air service must be added one key action that concerns both regional service and North American and international connections:

- Conducting public awareness campaigns to publicize users' rights with regard to air service

4.1.2 Promoting North American and international connections

Montréal and Québec City have definite advantages in international air transportation. For many years, the Government of Québec has worked to support and promote air transportation operations. Yet the concentration and development of these activities at hub airports have forced travelers to pass through these airports to reach certain North American and international destinations. This situation inhibits the development of international airports by making it difficult to establish new service and jeopardizing certain connections with less market potential. In times of socioeconomic development and trade globalization, Québec must, more than ever, be connected to every part of the world.

The challenge

Greater cooperation is needed to reinforce Montréal's position as a North American and international gateway and Québec City's position in terms of its North American and international connections. Forming partnerships will help support industry efforts to reinforce existing networks and develop new service.

Our approach

The Government of Québec intends to promote the development of the three international airports based on their respective vocations through the following actions:

- Fostering stakeholder cooperation and supporting efforts to reinforce current service and develop new North American and international service for Montréal and Québec City based on their respective development potential
- Ensuring that air transportation development is integrated into Québec government policies on economic development and various modes of transportation
- Establishing a forum for dialog between airport authorities in Montréal and Québec City in order to promote complementarity between the airports
- Fostering a collective approach among the various government stakeholders and industries affected by air transportation development (tourism, chambers of commerce, carriers, convention centers, airports, and associations)
- Joining with the industry to ensure that the Greater Montréal region develops into an international air cargo hub
- Continuing to work with the federal government to harmonize incentives for promoting the growth of the Montréal Foreign Trade Zone at Mirabel
- Working with the community to fully liberalize all-cargo transportation
- Ensuring that actions involving Mirabel International Airport are compatible with its existing vocation so that it may preserve its full development potential as an international airport
- Fostering cooperation between national and international air carriers in order to establish better-connecting flights
- Developing an action plan with our partners aimed at liberalizing international passenger air transportation through reciprocity agreements with other countries

4.2 Ensuring a competitive, viable air transportation system

To ensure that Québec has an efficient air transportation system, carriers and airport managers must be able to conduct their operations in a viable fashion in a competitive market. Given the nature of the markets, as well as Québec's vastness and its dispersed population, accomplishing this objective will require considerable effort by both carriers and airport authorities. The challenge is all the greater given the many recent changes to the air transportation system that have weakened airport management and the industry as a whole. Air transportation is an important link in Québec's economy. In order to support the air transportation system, the Government of Québec plans to provide these stakeholders with the means to improve their competitiveness and ensure their survival.

4.2.1 Increasing carrier competitiveness

Decreased regional market demand, increased financial burdens, limited business partnership opportunities, and the many events in recent years have led investors to be cautious in the air transportation sector. For Québec's air transportation industry to flourish, carriers must have access to the levers and conditions conducive to their development.

The challenge

Given the financial constraints carriers face, it is important to improve their operating conditions in order to enhance their competitiveness, thereby ensuring the best service for the public.

Our approach

In order to promote carrier competitiveness, the Government of Québec plans to investigate implementation of the following measures:

- Adapting government programs, notably the program governing Québec Business Investment Companies (SPEQs), to support carriers seeking to offer scheduled regional air service
- Promoting dialog between carriers and other industry stakeholders
- Creating financial or other incentives to improve carrier competitiveness
- Promoting the use of private carriers for certain services currently provided by public or broader public sectors
- Encouraging innovation by small carriers, notably in terms of e-commerce
- Establishing measures to support carriers facing unfair competition
- Providing assistance to entrepreneurs in approaching various government authorities for the launching of air transportation projects

4.2.2 Ensuring airport viability

Given its great size, Québec needs an appropriate airport system to support its air transportation activities. Since the federal government's withdrawal from international airport management and, gradually, from regional and local airport ownership, the cross subsidization of these infrastructures throughout the airport system has virtually ended. With a declining market, tightened security regulations and their associated costs, airport survival is imperiled.

The challenge

Airport authorities must maintain and develop their services, despite increasing costs.

Our approach

In order to ensure airport viability, the Government of Québec recommends the following actions:

- Ensuring that regulations with a financial impact on airports are accompanied by assistance programs
- Supporting air tourism development by all concerned in order to boost airport growth, in cooperation with Tourisme Québec and tourism associations
- Supporting the pooling of technical expertise for regional airports
- Continuing to provide free services in all Government of Québec airports, the majority of which are located in the isolated regions of Nunavik and Basse-Côte-Nord
- Promoting, with community support, a new sharing of airport earnings to ensure airport viability
- Examining the feasibility of no longer permitting—at least for a certain period—the transfer of local or regional airports to municipalities or municipal organizations, in order not to weaken the financial health of regional municipalities
- Examining the feasibility of the marketing of services by Government of Québec airports that do not serve very remote or isolated regions
- Recognizing the strategic nature of ground access to Montréal's airports in its general and sectoral policies, as well as in its transportation and traffic management plans

4.3 Showcasing Québec's expertise and assets in the air transportation sector

At the North American and international levels, Québec's status in international civil aviation training, research, and development is constantly on the rise. In order to support the industry, the Government of Québec provides assistance and support to development strategies and has promoted Montréal as an international civil aviation capital. With an industry of such vigor, the Government of Québec wishes to pursue and better focus its action. The further integration of training, research & development, and international organizations is another promising orientation with the power and visibility to benefit all stakeholders in the field.

4.3.1 Supporting training and research & development

With its aviation training facilities and university departments specializing in international civil aviation and aeronautics, Québec has the resources and expertise to meet training, research, and development demand. However, schools and universities must cooperate further in order to offer full aviation and aeronautics training at the North American and international levels. The government will thus promote stakeholder cooperation by supporting the creation of a forum of training facilities and educational institutions.

The challenge

Québec must increase its presence on the international training, research, and development scene. Training facilities and university departments specializing in international civil aviation and aeronautics must contribute to the strengthening of Québec's position in international civil aviation.

Our approach

The Government of Québec and its primary partners will further support teaching institutions so that they may better meet Québec's needs and become international leaders. To this end, the Government of Québec will take the following actions:

- Support our teaching institutions in developing air transportation training, research, and development programs in cooperation with the Ministère de l'Éducation
- Promote Québec's expertise in civil aviation and aeronautics training outside its borders
- Create an international chair in civil aviation studies in cooperation with industry
- Support the development of flight simulator training

4.3.2 Maximizing the presence of international organizations

A number of international air transportation organizations are located in Québec, including the International Air Transport Association (IATA), the International Civil Aviation Organization (ICAO), and the Airline Telecommunication and Information Service (SITA). In addition to the economic benefits they generate, these organizations undoubtedly extend Québec's reach and reinforce Montréal's role as an air transportation gateway and international hub. The Government of Québec's International Organization Recognition Policy plays a vital role in this respect. However, Montréal's status as an international civil aviation capital cannot be taken for granted. The Government of Québec thus intends to make this a priority.

The challenge

To bolster Montréal's status as an international civil aviation capital, steps must be taken to maintain the presence of large international civil aviation organizations and attract additional prestigious organizations.

Our approach

The Government of Québec's hopes to achieve the following with regard to international organizations:

- Promote networking between our training and research centers and the international civil aviation organizations in Québec
- Publicize and support the activities of international organizations headquartered in Québec
- Attract additional international organizations and activities to Québec by showcasing Montréal as an international civil aviation capital

5



Implementation

implemen



Implementation

implem

The Government of Québec has become involved in air transportation over the years, not only in terms of carriers, but also infrastructures and services. It has intensified its commitment since the late 1980s in order to compensate for the federal government's withdrawal from the sector.

The financial support provided by the Government of Québec has had a number of purposes. It has assisted certain carriers experiencing temporary economic difficulties and it has helped finance new or regional service. In addition to subsidizing service in various remote and isolated regions, the Ministère des Transports du Québec established a Freight Rate Reduction Program (RTM) and an Airfare Reduction Program (RTA). Transports Québec funded the construction of thirteen airports to serve the communities of Nunavik. The government also developed an airport infrastructure policy, particularly to regulate the transfer of airports to municipalities interested in acquiring these facilities.

To these actions can be added the government's contribution to representative organizations and its participation in various studies, as well as the creation of the Montréal Foreign Trade Zone at Mirabel and the establishment of tax incentives to promote its growth.

These actions, as well as those put forward in this policy, clearly indicate the Government of Québec's concern for the air transportation industry and its intent to pursue its commitment to the further development of this mode of transportation. But the policy cannot be implemented without active stakeholder participation. The Government of Québec has therefore suggested four means of action:

- A one-stop government service desk at the Ministère des Transports du Québec to handle all air transportation-related requests under one roof, making it easier for stakeholders to approach government and other organizations
- An air transportation forum to allow the Government of Québec to work in cooperation with interested parties. This forum would bring together representatives of the primary stakeholders with the main objective of implementing the approaches contained in Québec's Air Transportation Policy
- Increased financial support for air transportation development in order to better focus government action on the target sectors identified through regional consultation meetings and the Forum on Québec's Air Transportation Policy
- Consolidating training and research & development while maximizing the presence of international organizations. The Government of Québec wants to be more involved in civil aviation. The industry forum will provide various opportunities for reinforcing Québec's position in this area, including the hiring of experts and the creation of a working group

entation

5.1 One-stop government services

The Ministère des Transports du Québec wishes to better serve the air transportation industry. Therefore, it proposes the establishment of a one-stop government services desk to facilitate contact for industry stakeholders requiring government support. If input from other departments, government agencies, or organizations is required, the Ministère des Transports will make the appropriate inquiries and establish connections. The services provided will be conditioned upon the type of requests received. By taking on this role as “facilitator”, the department wishes to demonstrate its determination to simplify the access to services provided by the Government of Québec. It should be noted, however, that the service desk within the Ministère des Transports would not handle air transportation activities under the responsibility of the Secrétariat du Conseil du trésor’s government air service.

5.2 A forum for air transportation consensus building

The consultation meetings with industry and stakeholders held in the fall of 2001 and spring of 2002 by the Ministère des Transports du Québec showed that dialog is an effective way to stimulate growth for this mode of transportation. The Government of Québec has structured its approach based on the consensus that emerged at these meetings. In order to enhance this synergy, an air transportation forum will be created.

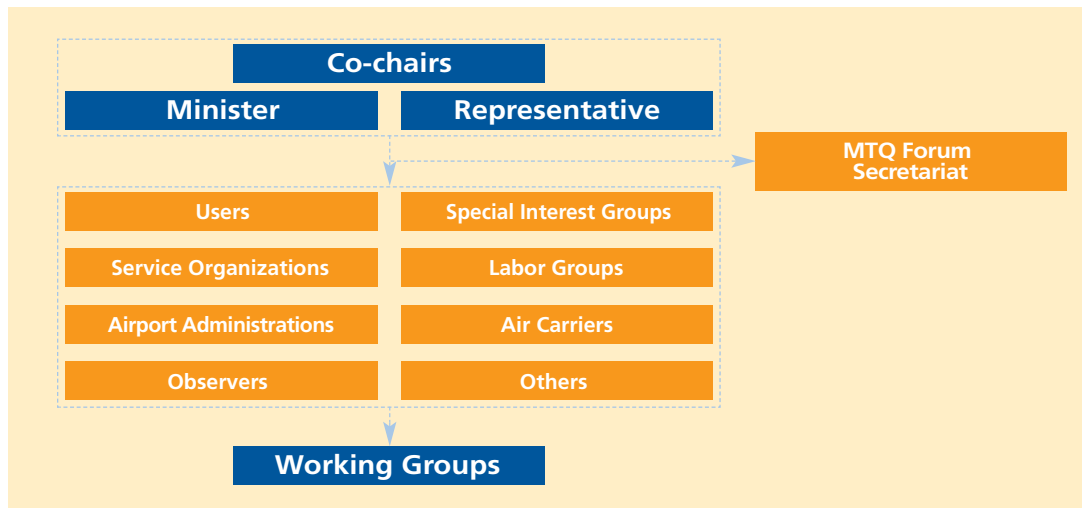
Dialog is an effective way to stimulate growth for this mode of transportation.

At least once a year, the forum will bring together representatives of the main air transportation stakeholders. It will monitor implementation of the policy, tackle obstacles, and promote dialog between industry and government. If it deems necessary, it may create working groups to investigate ways of improving air transportation in Québec. These working groups could examine a number of topics, such as training and research & development, as well as international organizations, North American and international connections, etc.

The forum will be co-chaired by the Minister responsible for Québec’s Air Transportation Policy and by one air transportation industry representative appointed by the minister with industry input. The organizational chart (Figure 9) will be modeled on that of the June 10, 2002, Forum on Québec’s Air Transportation Policy. For example, the representative organizations will include representatives of local municipalities, development organizations (CLDs and CRDs), and supra-municipal authorities (RCMs and urban communities).

Forum observers will include representatives of government bodies directly affected by air transportation. Other representative groups may be added, if necessary. The forum secretariat will be the responsibility of the Ministère des Transports.

Figure 9: Air Transportation Forum



Source: Ministère des Transports du Québec, Service du transport aérien

5.3 Increased financial support for air transport development

The Government of Québec contributes financially to air transportation in a number of ways, notably by funding certain routes and reducing airfares in isolated regions. The government already contributes a total of over \$13 million per year. In addition to this financial assistance, the government wishes to become more involved in order to better meet the needs expressed by stakeholders. To this end, a statutory five-year program will be established.

This program will provide financial backing for studies, promotion of air transportation, new or renewed service, technical support to airports, the reinforcement of North American and international service, and training and research, as well as certain activities of the international organizations located in Québec.

The financial commitments arising from policy implementation will be determined during the budgetary process, in light of the available resources.

5.4 Consolidating training and research & development and maximizing the presence of international organizations

Given the importance of training and research & development, stakeholder comments demonstrated the need for a structuring organization. In order to support and reinforce these sectors, the forum may consider various solutions, such as hiring experts or forming a working group.

Their job will revolve around two main objectives: to better identify civil aviation training and research needs, notably by involving the Ministère de l'Éducation and universities, and to showcase the entire civil aviation sector. In light of the first objective, they will examine the feasibility of creating ties between teaching institutions and international organizations and, as warranted, take action in partnership with industry in order to maximize the ensuing educational benefits. In this regard, the experts or working group might explore the possibility of creating a chair of strategic studies in partnership industry. Together with concerned stakeholders, they will also study ways to leverage the presence of international organizations, with the objective of publicizing Québec's international organizations, attracting new ones, and reaffirming Montréal's position as an international civil aviation capital.



Conclusion

Together, the measures recommended in this policy clearly show the Government of Québec's desire to take action in the field of air transportation. With this policy, the government wishes to revitalize air transportation, which is essential to the development of Québec and its regions.

To support and develop air transportation while ensuring government coordination, an approach based on cooperation between government and industry stakeholders was favored in order to effectively channel all efforts and work toward the industry's growth.

In addition to its annual investment in air transportation, the Government of Québec has chosen to increase its financial support in order to better equip those involved in air transportation for tackling the challenges the industry faces. Training and research & development, as well as the international organizations located in Québec, are all keys to success in this regard, ones that, combined, can only reinforce the position of Québec as an international civil aviation leader and Montréal as an international civil aviation capital.

The government views air transportation as an essential instrument for the economic development of Québec in the global marketplace. For this reason, the government must work with its partners to ensure that all efforts are made and all steps are taken to provide efficient, quality air service to all Quebecers.

