

JACOBS Consultancy

Alberta Open Skies Forum

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ABBREVIATIONS

AC Air Canada

ASA Air Services Agreement

ASEAN Association of South-East Asian Nations

BA British Airways

CRS Computer Reservation System

DFAIT Department of Foreign Affairs and International Trade

DOT United States Department of Transportation

EC European Commission

EU European Union

FAA Federal Aviation Authority

FTK Freight tonne-kilometre

GATS General Agreement on Trade in Services

GATT General Agreement on Tariffs and Trade

GDP Gross Domestic Product

IATA International Air Transport Association

ICAO International Civil Aviation Organization

JAL Japan Airlines

KAL Korean Airlines

KLM KLM Royal Dutch Airlines

MFN Most favoured nation

MOU Memorandum of Understanding

MTOW Maximum take-off weight

NA Not applicable

OECD Organization for Economic Co-operation and Development

RPK Revenue passenger-kilometre

SAM Single Aviation Market

TKP tonne-kilometre performed

UK United Kingdom

US United States

WS WestJet

WTO World Trade Organization





GLOSSARY

Ad Referendum When an agreement has been negotiated but not yet signed and/or ratified (may be administratively applied by the aeronautical authorities of both countries upon agreement by officials).

Air Services Agreement (ASA) or Bilateral Agreements An agreement with formal treaty status between governments regulating the conduct of trade in international air services. It consists of a series of articles (or provisions).

Air Services Arrangements A set of arrangements that regulate the operation of international air services between two countries. These arrangements usually comprise an Air Services Agreement, any Memoranda of Understanding and any exchanges of letters and/or notes.

Alliance An agreement between airlines to cooperate in the provision or operation of some of their services on a route, or on a regional or global basis.

Available Seat Kilometres The total number of seats offered multiplied by the distance flown, used as a measure of air transport passenger capacity.

Beyond Rights The right of a carrier from one country to fly to another country then beyond to a third country (a form of fifth freedom rights).

Cabotage Provision of commercial domestic air services within a country. Cabotage rights are classified as either consecutive cabotage — the right of foreign-owned airline(s) to fly a domestic flight stage within the host country as a continuation of an international service (also know as eighth freedom) — or

standalone cabotage — the unrestricted right of foreign-owned airline(s) to provide domestic air services in the host country (also known as ninth freedom).

Charter Services See non-scheduled services.

City Pair An air route between two cities.

City Designation The designation of air services to particular cities, or a choice of cities specified under an ASA.

Code Sharing The assignment of one airline's designator code (for example, 'WS' for WestJet) to a flight operated by another airline.

Computer Reservation System A computerised system which provides information to subscribers (usually travel agents) on airline schedules, fares and seat availability. It is used to make reservations and issue tickets for passengers.

Double Disapproval Arrangements in bilateral air service agreements whereby proposed fares can be disallowed only if rejected by both contracting countries.

Entered Into Force/Definitively In Force/ In Force When an agreement has been signed and ratified and, thus, entered into force (these terms are used interchangeably).

Flag Carrier A country's national airline. Countries with only a government-owned airline often identify the airline as the national or flag carrier.

Freedoms of the Air Types of international aviation rights established under ASAs (see Box 3.1 for details on types of freedoms).

Freight-Tonne Kilometres A metric tonne of freight or mail carried one kilometer hub and spoke network A network of routes operating through a central hub point. Airlines may channel and increase traffic through hub points, thereby creating economies of traffic density.

Interlining Carriage of passengers and/or freight by one airline on behalf of another airline, based on a formal arrangement (an interline agreement) between the airlines which involves the coordination of baggage checks, carriage or air cargo, for example, and the honouring of tickets between airlines. The identity of each carrier is maintained.

Load Factor The number of passengers carried as a percentage of the number of seats available.

Memorandum of Understanding An agreement between two parties. With regard to ASA's, it is a less formal type of agreement that may be as binding as a formal agreement and may cover scheduled and/or non-scheduled international air services.

Multilateral Agreement A trade agreement that encompasses a large number of countries.

Multiple Designation A country's policy of permitting more than one airline to operate scheduled international air services between it and other destinations.

Non-scheduled Airline or Charter Airline Any air transport enterprise only offering air transport services to the public that are not performed according to a regular timetable.

Non-scheduled Services Flights performed for remuneration on an irregular basis. Usually referred to as charter services and can apply to either passengers or freight.

'Open Skies' Agreement An agreement to remove restrictions on the ability of airlines to operate services between two countries.

Origin–Destination Traffic A measure of airline (passenger) traffic between the commencement point of an air passenger's journey and the end point of the journey, as distinguished from uplift–discharge traffic.

Provisional Agreement When an agreement has been negotiated and both Parties agree by diplomatic note to provisionally apply the agreement until such time as it is ratified.

Revenue Passenger Kilometres The number of paying passengers on an aircraft multiplied by the number of kilometres flown, used as a measure of air passenger travel services.

Route At its simplest level, an air service between two points (usually cities).

Scheduled Airline Any air transport enterprise offering or operating a regular air service according to a published timetable (although many also operate non-scheduled services).

Scheduled Services Flights listed in a published timetable (or that are so regular and frequent as to constitute a recognizably systematic series) and performed for remuneration.

Single Aviation Market Two or more countries that have a formal agreement that treats the countries as if they were one.

Single Disapproval When the government from either Party to an agreement can take unilateral action to disapprove a tariff.

Substantial Ownership All or majority ownership of an airline by citizens in the country of registration. There is no internationally agreed standard, so each country can determine what it accepts as substantial ownership.

Tariff Passenger airfare and/or cargo rate.





Tonne Kilometres Available A measure of tonnes available for the carriage of freight, mail and passengers, multiplied by the distance flown. A measure of tonnage capacity, it can be for a single flight, an airline or industry wide. Cost per tonne kilometers available is often used as a measure of airline efficiency.

Yield Airline revenue per unit of traffic. Passenger yield is airline revenue per passenger kilometer.

Yield Management Manipulation of prices to attempt to obtain the most revenue from each flight. Yield management systems are based on estimating the number of full fare tickets that would be sold on a particular flight, then offering the remaining tickets at varying discounts to induce demand from more price-sensitive passengers.





Opening Alberta's skies to more air service is a key economic growth enabler that would increase tourism and trade opportunities benefiting communities, the tourism industry, business, airports and ultimately the consumer through more choice of flights and lower fares. To achieve an "Open Skies" future requires the commitment of the federal government to further liberalizing its international air service agreements with many of the countries identified as particularly significant to Alberta.

Open Skies Air Service Agreements facilitate access by eliminating barriers with respect to the number of airlines providing service, fares, destinations and frequency of service. Liberalizing air service agreements will do more to increase receipts from hotels and other tourist and business activities than any other single action or initiative. A more liberalized international air policy will give Alberta's products greater access to international markets, reduce the cost of doing business in and with Alberta, and improve the international business environment in general.

The time is right to aggressively pursue more Open Skies Air Service Agreements to facilitate Albertans' access to international markets, to promote investment and to make it easier for foreign tourists and businesses to access the Province. To this end, the Government of Alberta is asking the federal government to be more aggressive in pursuing its 'Blue Sky' International Air Policy and specifically to pursue more liberalized international passenger air bilateral agreements with respect to Alberta.

ATPR and AT, recognizing the value that air transportation plays in supporting the provincial economy, specifically regarding trade, tourism investment, made the decision to hold the first Alberta Open Skies Forum on May 14, 2009 in Edmonton. The Agenda is at Appendix C. The purpose of the Forum was to provide a venue for Alberta stakeholders to provide perspectives and discuss opportunities that could stem from more Open Skies Agreements with markets deemed potential priorities for Alberta. ATPR



retained Jacobs Consultancy to prepare a discussion paper to provide the basis for discussion at the Forum, and to facilitate the workshop component of the Forum.

There were 35 organizations represented at the Forum that included relevant provincial and federal departments, airport authorities, airlines, Travel Alberta and a various other organizations representing tourism, trade and business interests.

The Forum commenced with opening remarks from the Minister of Transportation, the Honourable Luc Ouellette and the Minister of Tourism, Parks and Recreation, the Honourable Cindy Ady. During the Forum, participants heard perspectives from Canada's Chief Air Negotiator, Travel Alberta, the Calgary and Edmonton Airport Authorities, and several airlines. In the afternoon, delegates were provided with information from the discussion paper and the opportunity to validate Open Skies opportunities identified in the discussion paper.

This report serves as a roll-up of the discussions that took place at the Forum and the information that was presented in discussion paper.

Emerging from the Open Skies Forum was a consensus of the priority air service markets for Albertans, and a list of issues that need to be resolved. The priority markets identified for the short and the medium term were:

→ Short-term Prospective (1~3 Years)

- South Korea
- United Arab Emirates
- China
- Hong Kong
- Mexico

→ Medium-term Prospective (3~7 years)

- Japan
- India

- Brazil
- Australia
- Cuba

Stakeholders were asked for their views on two specific issues as part of the Workshop:

I. <u>Is Air Access to International Markets an Important Issue for</u> <u>Provincial Tourism and Trade?</u>

Stakeholders responded overwhelmingly in the affirmative. It is seen not only vital to the success of the tourism industry but also vital to facilitate trade between Alberta and its principle markets.

Currently only 50% of inbound international tourists destined for Alberta arrive by air which is indicative that seat capacity/supply is inadequate to meet the demands of foreign tourists traveling to the province. As a result, inbound visitors are using other gateways outside of Alberta, which in turn results in a dilution of tourism spend in province. Moreover, with less-than-adequate air service supply to Alberta there is a significant lost opportunity as tourists are choosing other international destinations.

Stakeholders asked the Government of Alberta to develop an ongoing, proactive process that would allow airports, tourism, business and other stakeholders to collaborate and provide the winning conditions to improve and sustain air access links to the province.

II. <u>What Changes to the Current International Air Policy Negotiation Process Would Most Benefit Alberta and Its Stakeholders?</u>

There were three key changes that were suggested by stakeholders with respect to the international air service agreement negotiation process.

First, it was felt there was a need to improve communication during each stage of the negotiation process and to have a structured plan to support the priority air service agreements for Alberta. Specific actions suggested included:



- Hold a similar Open Skies Forum on an annual basis to update the list of priority air service markets and corresponding air service agreements.
- 2. Undertake a proactive federal lobbying effort, led by the Province of Alberta, to the federal ministers that generate the negotiation mandates for air service agreements.
- Concurrently, business cases should be prepared, with input from all stakeholders, to provide critical input into Transport Canada and to assist with lobbying selected federal political representatives.
- 4. Obtain observer/advisor status at the international air service agreement negotiations by one party (most likely an airport) who would represent the collective interests of all provincial stakeholders.
- 5. Obtain greater transparency concerning the contents of specific agreement details.

Second, there was overall support for the Federal 'Blue Sky' Policy, although a more targeted approach was required with a focus on strategic commercial markets that are underserved which are important to Alberta from both a tourism/travel and business/trade perspective.

Third it was suggested that Transport Canada seek a broader regional perspective when formulating their negotiating strategy with balanced input from the airports, shippers, provincial government, and the communities rather than the continuing perceived focus on air carriers.

In summary, the Government of Canada needs to continue to remove limitations and restrictions and allow international airlines to serve regions of the country that can support additional international air service. Tourism is a key industry in Alberta and one that is fundamentally reliant on a competitive, effective and responsive air transportation system. The goal of the Alberta Government is to grow provincial tourism and trade, and the achievement of this is dependent on Transport Canada providing the environment for both foreign and Canadian carriers to provide enhanced services, market driven capacity, competitive pricing and service options through true Open Skies agreements.





Opening Alberta's skies to more air service is a key economic growth enabler that would increase tourism and trade opportunities benefiting communities, the tourism industry, business, airports and ultimately the consumer through more choice of flights and lower fares.

Conversely, protectionist international air policies severely constrain not only the development of tourism but also trade and investment, including those businesses related to value added agriculture products and just-in-time manufacturing. In fact protectionism can impact potential customers generated by the travel and tourism logistics chain from hotels, resorts, car rentals, restaurants, entertainment, and attractions.

Further liberalizing air service agreements will do more to increase receipts from hotels and other tourist and business activities than any other single action or initiative. A more liberalized international air policy will give Alberta's products greater access to international markets, reduce the cost of doing business in and with Alberta, and improve the international business environment in general. It will also help attract more tourists which in turn will create more jobs and stimulate more exports.

Open Skies Air Service Agreements facilitate access by eliminating barriers with respect to the number of airlines providing service, fares, destinations and frequency of service. The time is right to aggressively pursue more Open Skies Air Service Agreements to facilitate Albertans' access to international markets, to promote investment and to make it easier for foreign tourists and businesses to access the Province.

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opportunities that could stem from more Open Skies Agreements with markets deemed potential priorities for Alberta. ATPR retained Jacobs Consultancy to prepare a discussion paper to provide the basis for discussion at the Forum, and to facilitate the workshop component of the Forum.

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This report serves as a roll-up of the discussions that took place at the Forum and the information that was presented in discussion paper. In it, Jacobs Consultancy provides an overview of Alberta's target markets to help focus the key international air service priorities and the associated international air service agreements for Alberta. The initial set of markets were identified through an extensive analysis of passenger demand, trade and investment data for Alberta and a review of market analyses by Travel Alberta and Alberta International Marketing. Stakeholder participation from a range of sectors was then used to validate and prioritize the identified markets that should be considered for greater air service. Input from stakeholders was facilitated through a Jacobs Consultancy led workshop during the Open Skies Forum.

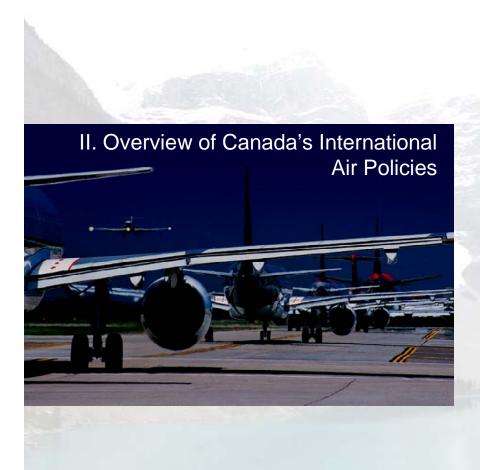
The Open Skies Forum had four primary objectives, which were to:

- (1) Raise the profile of air access as a provincial priority;
- (2) Identify priority target markets and associated provincial priorities for future Air Service Agreements:
- (3) Provide a review of Canadian international air policy and the impact to date on Alberta; and
- (4) Obtain feedback from the key provincial stakeholders to establish an "Alberta Perspective".

This Report, representing as it does the background materials produced for the Forum and the outcome of the Forum Workshop, addresses these objectives in the following way:

- **Section 2** provides an overview of Canada's international air policies including: their purpose, the types of agreements, what they typically specify, and Canada's Blue Sky Policy as it specifically relates to Alberta.
- Section 3 reviews best practices in other jurisdictions that have benefited from the introduction of liberalized open skies policies, including lessons learned that may apply to Alberta.
- contains a detailed supply-demand analysis undertaken by Jacobs Consultancy of Alberta's passenger markets, including an analysis of historical and current international passenger services, review of current market demand and potential supportable new air services. It includes an estimate of leakage through other Gateways, traffic that could be recaptured to bolster traffic through Alberta's primary international airports.

Section 5 provides an analysis of passenger and cargo service with respect to the top countries that are key trade and investment partners with Alberta. Section 6 then develops a high level business case analysis of potential new air services and associated air service agreements, including a competitive analysis of Alberta as an international passenger gateway. information includes the identification of priority international routes and candidate carriers that could potentially serve those routes. Section 7 highlights the questions that stakeholders were asked to come prepared to address in the Forum Workshop and the feedback received to those questions.



Introduction

The 1919 Paris Agreement at the conclusion of the First World War contained the first international recognition of "sovereign airspace". But it was not until 1944, as the Second World War was coming to a close, that the Western Allies met to lay out a framework for international air service rights and obligations for the civil aviation sector it was anticipated would grow significantly in the years ahead.

The resulting *Convention on Civil Aviation* (more colloquially known as the 1944 Chicago Convention) represented a compromise between the US push for more liberalization and a more restrictive vision offered by the UK, in large part reflecting the relative health of their economies and civil aviation infrastructure at that phase of the War. The Convention defined a standardized set of air rights. These became the fundamental building blocks of international air service agreements between sovereign states and became known as the *Freedoms of the Air*, a set of (now) nine commercial aviation rights granting a country's national airlines the privilege to enter and land in another country's airspace. The Freedoms are defined in Appendix A.

From that beginning a series of bilateral and quite restrictive Air Service Agreements were developed over the course of the next five decades. Given the 21st Century's reality of global markets and economies, many believe it is time to re-evaluate and re-think many of these "Freedoms", including restrictions on "cabotage", the right for a foreign owned airline to pick up and set down passengers or cargo within another state.

Purpose and Practice of Air Service Agreements

The purpose of Air Service Agreements (ASA's) is to define precisely what (bilaterally) a sovereign state is prepared to share with another state in terms of access to its territory by the other



state's commercial airline fleets, often specifying ports of entry, permitted airlines, price regulation and numbers of seats.

Importantly they are agreements between states, and being bilateral they require both party states to want to deal. International air services continue to be largely governed by bilateral ASA based on the Freedoms of the Air.

Throughout the 1990's Canada pursued a gradualist approach to these Agreements, still restricting access to specified points in a country, although often with unrestricted capacity and increasingly liberal pricing provisions. During this period there were moves to allow greater reliance on market forces and some states moved to loosen foreign ownership limits for air carriers to allow a freer flow of capital and increase competition.

There were also emerging pressures to be more inclusive in terms of recognizing the wider economic needs of communities, tourism, airports and businesses. Removing unnecessary economic regulation of airline activities was seen as one way to facilitate greater efficiency, flexibility and innovation, particularly as it relates to tourism.

More recently some forward looking states have moved to multilateral and/or Open Skies style agreements.

Open Skies

Elsewhere significant changes were taking place in some states' approach to their airline industry, spurred on in part by the development of Charter Carriers (such as Laker's SkyTrain and WardAir) in the 1980's and domestic deregulation in the United States (from 1978). In particular it was the 1992 Agreement Open Skies Agreement between the governments of the US and the Netherlands which heralded a new approach to international air access. For the first time an ASA gave both countries unrestricted landing rights on each others' soil. Until then, Bi-

lateral Agreements had typically granted landing rights for a fixed number of flights per week to a fixed destination. Changes typically took years of negotiation.

This new approach was dubbed "Open Skies". Since then the United States has signed over 90 such agreements.

Generally, an "Open Skies" type agreement includes the following technical elements for scheduled passenger and all-cargo services (refer to Appendix A for a description of the Freedoms referred to below):

- Open bilateral markets/access (third and fourth freedom rights);
- → No limit on the number of airlines permitted to operate;
- → No limits on the permitted frequency of service or aircraft type;
- Market-based tariff/pricing regime for bilateral and thirdcountry services;
- Open and flexible regime for the operation of code-sharing services;
- Unrestricted services to and from third-countries (fifth and sixth freedom rights); and
- Rights for stand-alone all-cargo operations (seventh freedom rights).

Multilateral Agreements

In 2001 the United States went a step beyond, signing the Multilateral Agreement on the Liberalization of International Air Transportation (MALIAT) with Brunei, Chile, New Zealand and Singapore.

The U.S. and European Commission negotiated an Open Skies/Multilateral Agreement which came into force in March 2008. However, a number of contentious issues remain, including:



- → Cabotage the right for a foreign airline to carry traffic within a state's boundaries;
- The U.S. rules on foreign ownership, which are partly designed to protect US carriers but also to satisfy the US military which maintains the Civil Air Fleet Reserve by drawing on commercial fleets for airlift during national emergencies. The airlines, as a quid pro quo benefit through a priority over the carriage of military and government personnel, and also have access to military funds for aircraft modifications and maintenance:
- → The provisions of the Fly America Act; and
- → Harmonizing the framework of antitrust policy (to protect against predatory behaviour).

Overview of Canada's Blue Sky Policy

In November 2006 Canada adopted a new approach to international air access which was dubbed *Blue Sky* by Transport Canada. Its objectives and underlying principles are:

Policy Objectives:

- Provide a framework that encourages competition and the development of new and expanded international air services to benefit travellers, shippers, and the tourism and business sectors;
- Provide opportunities for Canadian airlines to grow and compete successfully in a more liberalized global environment;
- Enable airports to market themselves in a manner that is unhindered by bilateral constraints to the greatest extent possible;
- Support and facilitate Canada's international trade objectives; and
- Support a safe, secure, efficient, economically healthy and viable Canadian air transportation industry.

→ Principles

- Recognize that air transportation is a direct contributor to a dynamic economy and is a leading trade and tourism facilitator;
- Market forces should determine the price, quality, frequency and range of air services options;
- Canadian carriers should have the opportunity to compete in international markets on a reasonably level playing field; and
- Air liberalization initiatives will continue to be guided by safety and security considerations.

Transport Canada goes on to outline the criteria it will consider in determining Canada's negotiating priorities. These include:

- Canadian airline and airport priorities and interests;
- Likelihood and extent of new Canadian and foreign carrier services, giving preference where early start up of air services is planned;
- Size and maturity of the air transportation markets and potential for future growth;
- → Foreign government requests;
- Canada's international trade objectives;
- Safety and security issues;
- → Foreign relations; and
- → Bilateral irritants and disputes.

The Blue Sky policy emphasizes that as a primary objective, Canada will seek to negotiate reciprocal "Open Skies" type agreements, similar to the one negotiated with the United States, where it is deemed to be in Canada's overall interest.





Canada's Air Service Agreements

There are currently over 80 Air Service Agreements and MOU's in effect with countries from Algeria to Vietnam¹. These are listed in Appendix B. Transport Canada International Air Policy has stated recently that 45 of Canada's bilateral air markets covered by Bilateral or Open Skies Air Service Agreements represent 90% of Canada's international air markets and 86% of Canadian travellers.

The negotiation process outlined by TC normally starts with annual consultations with airlines and airports by the three federal departments involved: Transport Canada (TC) (Lead); Department of Foreign Affairs and International Trade (DFAIT) (Treaty Negotiator) and the Canadian Transportation Agency (CTA) (Administrator) to set the coming year's agenda. Having developed a wish list, TC then looks at the size and maturity of a bilateral air transportation market as well as potential for future growth and the willingness of states to enter into negotiations in determining which to pursue.

Heretofore the airlines' agenda has been first and foremost in the mandate delivered to the Canadian negotiators, although as part of the Blue Sky initiative the federal government has undertaken to consult more broadly prior to undertaking major air liberalization initiatives. In the current economic climate, and noting the issues facing Air Canada some wonder if the Federal Government is living up to that commitment.

One of the remaining and most perfidious elements of the current process is the level of secrecy that surrounds not just the negotiation but also the outcome. This is particularly galling to communities and airports alike, the former because they are not

always sure which markets they can market to, the latter because they can't easily identify potential markets or indeed develop facilities to maximize their potential to attract service under an Agreement. This does not serve Alberta well.

Following the negotiation of the Canada-U.S. Open Skies Agreement in November 2005 (which entered into force in March 2007) and the launch of the Blue Sky policy in November 2006, the Government of Canada has negotiated a total of 17 ASAs, all of which are consistent with the Blue Sky international air policy objectives. With the notable exception of the agreements with the US, EU, Japan and Mexico, none of the others fell into the top 10 by trade and/or visitor market size.

The 17 Agreements include six Open Skies-type Agreements with Ireland, Iceland, New Zealand, Barbados, the Dominican Republic and Costa Rica; five expanded Bilateral Agreements with Mexico, Japan, Jordan, Singapore and the Philippines; and; five new Bilateral Agreements with Kuwait, Serbia, Croatia, Panama and Turkey. The Blue Sky policy has also resulted in a Comprehensive Air Transport Agreement between Canada and the European Union covering all 27 Member States, which effectively equates to 27 liberalized bilateral air agreements.

Overall, Canada has bilateral air relations with 87 foreign countries and territories, encompassing all bilateral agreements as well as arrangements (MOUs, etc.) that Canada has negotiated/concluded to date including the 27 EU Member States covered by the Canada-EU Agreement.

Exhibit II-1 presents an overview of the air service agreements that have been negotiated or entered into force since the 'Blue Skies' International Air Policy was introduced. It is noteworthy that Canada has entered into seven Open Skies type agreements of which only two provide significant sources of tourism for Alberta. From Alberta's perspective, there needs to be more of a strategic focus that takes into account key tourism and trade linkages that are important to the Province.

In preparing for the workshop it was found that the relevant TC, DFAIT and CTA websites contained different lists of air service agreements, both in number and in detail. It was agreed that there were "87" Agreements as at the date of the Forum.



Exhibit II-1. Air Service Agreements in the Blue Sky Era

Country	Air Trips Visitor			Total Enplaned	_	Exports from Alberta (\$M)		s to (\$M)	Total Trade (Export+Import)	
	No. and R	ank	No. and	Rank	Passengers	Value an	d Rank	Value and	Rank	\$M
		100	Idnetified	as Open	Skies Type of	Agreement	S	-25		
USA*	756,000	(1)	924,000	(1)	1,680,000	\$95,947	(1)	\$15,193	(1)	\$111,139.5
Ireland	12,100	(15)	14,100	(17)	26,200	\$14.5	(65)	\$46.5	(23)	\$61.0
New Zealand	10,200	(18)	13,900	(19)	24,100	\$89.2	(35)	\$16.7	(39)	\$105.9
Costa Rica	800	(50)	8,400	(32)	9,200	\$12.4	(68)	\$11.4	(44)	\$23.9
Barbados	< 500	(62)	<500	(>100)	<1,000	\$1.2	(>100)	\$0.3	(89)	\$1.5
Iceland	200	(68)	2,400	(56)	2,600	\$2.8	(>100)	\$0.3	(90)	\$3.1
Dominican Republic	<500	(>75)	25,400	(9)	25,500	\$8.4	(83)	\$1.2	(65)	\$9.6
SHIP AND AND ADDRESS OF THE PARTY OF THE PAR		ldr	etified as C	compreh	ensive Air Trar	sport Agree	ement	400		
European Union (EU)**	420,500	(2)	351,900	(2)	772,400	\$1,345.9	(4)	\$2,142.6	(2)	\$3,488.5
			Idneti	fied as A	l ir Bilateral Agr	reements	-			
Japan	68,900	(3)	14,600	(16)	83,500	\$2.042.0	(3)	\$301.5	(6)	\$2,343.5
Mexico	13,400	(14)	255,100	(2)	268,500	\$1,124.1	(4)	\$850.1	(3)	\$1,974.2
Philippines	11,000	(16)	15,700	(15)	26,700	\$71.0	(41)	\$11.1	(45)	\$82.1
Singapore	8,700	(20)	24,300	(10)	33,000	\$228.5	(14)	\$43.1	(24)	\$271.6
Turkey	2,000	(36)	9,900	(27)	11,900	\$43.8	(50)	\$16.6	(40)	\$60.4
Kuwait***	1,000	(48)	<500	(>100)	<1,500	\$72.5	(40)	\$2.2	(59)	\$74.8
Panama	<500	(>75)	2,100	(59)	<2,601	\$1.7	(>100)	\$0.1	(>100)	
Jordan	<500	(>75)	<500	(>100)	<1,000	\$1.6	(>100)	\$0.1	(>100)	\$1.7
Serbia***	<500	(>75)	<500	(>100)	<1,000	\$0.5	(>100)	\$0.6	(76)	\$1.1
Croatia***	<500	(>75)	2,900	(51)	<3,400	\$0.8	(>100)	\$1.1	(66)	\$1.9

Note: Highlighted Countries are ranked in Top Ten in both "Air Trips by Visitors" (to Alberta) and "Trade (Imports/Exports)" (with Alberta).

The lack of open skies agreements continues to hinder tourism access both from the perspective of having a relatively limited number of 3rd and 4th Freedom opportunities, and from the perspective of having very few 5th Freedom service opportunities.

As 5th Freedom opportunities can make marginal start-up routes more attractive, their absence negatively impacts secondary Canadian tourism destinations, and limits major Canadian centres to foreign markets large enough to support service on their own.

^{*} US Open Skies Agreement was negotiated well before the Blue Sky Policy but Entered Into Force afterwards.

^{**} The ranks are based on all countries in EU being treated as individual countries and all the rankings are based on this arrangement. The overall rank shown for the EU is the rank assuming all EU countries were combined but this is not used in determining any other country's ranking.

^{***} Negotiations started under the former Federal Government Policy (before Blue Sky) although completed after the new policy platform was announced.



Canada-EU Comprehensive Air Transport Agreement

The Canada-EU Comprehensive Air Transport Agreement represents a significant step forward for the Canadian Government. It expanded the number of bilateral agreements from 19 to encompass all 27 European Community Countries and it also contained provisions to eventually completely remove restrictions on foreign ownership of airlines between the states and at that time allow complete open access to the other market, including Cargo 7th Freedom flights.

The federal government has stated that it expects to sign this Agreement shortly. In the interim, while the details are not publicly available in Canada, they are available in Europe. From those postings it seems that the first two phase are representative of an Open Skies type of arrangement. But Phases III and IV go much further.

The Agreement is variously described as having four potential phases, as outlined below:²

→ Phase I takes effect when the Agreement is signed, expected to be in the first half of 2009. Airlines will have unlimited freedom to operate direct services between any point in the European Union and any point in Canada. There will be no restrictions on the number of airlines flying between the EU and Canada or on the number of services operated by any airline. Cargo airlines will have the right to fly onward to third countries.

- Phase II anticipates that Canada will amend its legislation to enable European investors to own up to 49% of a Canadian carrier's voting equity, an increase from the current 25%. At that time, further traffic rights will be granted, including the right for cargo carriers to operate services to third countries from the other party without connection to their point of origin.
- → In Phase III, both sides will allow investors to establish and control new airlines in each other's markets. At that point, passenger airlines will be able to fly onward to third countries.
- In Phase IV, EU and Canadian carriers will be granted full rights to operate between, within and beyond both markets, including between points in the territory of the other party (known as cabotage). These rights will be granted once both sides complete the necessary steps to allow the full ownership and control of their carriers by the other's nationals.

² Canadian International Aviation: Policy and Challenges, February 2009.





Introduction

In his recent paper, Professor David Gillan³ cites the findings of a World Trade Organization paper that looks at the impact of liberalizing air transport services on passenger traffic in 184 countries, including Canada.⁴ Overall it found a strong correlation between the removal of various restrictions often found in traditional bilateral agreements and increases in passenger traffic. The success of the original (and so-called) Open Skies Accord between Canada and the US provide clear support for this conclusion.

There are a number of specific examples of other countries that have liberalized their air service approach to benefit the wider national economic interests beyond aviation. As well as those in the United States previously discussed, other examples include:

- → Australia and New Zealand; and
- → Europe.

Australia-New Zealand

Australia and New Zealand created a "Single Aviation Market" (SAM) in 1996. It was founded within a context of closer economic relations and agreement on trade liberalization between the two states. Under the Bilateral Agreement airlines of either country – with ownership and control open to all Australian or New Zealand nationals – were authorized to operate domestic services in either country without limit on number of carriers, capacity or frequencies of service.

Ibic Ibic

Piermartini and Rousuva, WTO Working Paper ERSD 2008-06.

A single aviation market refers to a regime whereby the provision of domestic and international air services for a number of states is governed by a common legislative framework and common economic rights for all nationals of member states.



The ASA was further liberalized in **2002** under the **Open Skies Agreement** which removed **a**ll restrictions on flights to/from and beyond the territory of the other party; and Rights of Establishment⁶ were clarified and extended to all designated airlines.

The impact of liberalization has been significant in terms of both traffic growth and restructuring of air transport services. Capacity and traffic have increased due to the addition of many new city pairs by new entrants, lower fares, the integration of Tasman routes with other international routes and the entry of additional foreign carriers operating with fifth freedom rights.

It is estimated that liberalization led to a more than 50% increase in traffic of over 1.5 million passengers per year by 2005.

However, it was not without costs. The failure of Ansett (in March 2002) was an early casualty. There have been a number of new carriers, including: Freedom Air (NZ), Virgin Blue (Aus) and Jetstar Airways (Aus). And it has resulted in a significant restructuring of the legacy carriers, including Qantas.

While it is allowed, no consecutive cabotage (8th Freedom) routes are being operated by any airline, likely because in a highly competitive environment multi-stop routes are uncompetitive against non-stop, point-to-point flights on the basis of both costs and the preference of passengers for non-stop services. Qantas Airlines established stand-alone cabotage services based in New Zealand under the name of Jetconnect (QNZ) which accounts for over 10% (by seats) of all domestic scheduled aircraft departures in New Zealand. On the other hand there are no Australian domestic services offered by airlines based in New Zealand, likely because of the highly competitive Australian domestic market.

European Common Aviation Area

During the 1990's Europe effectively liberalized its air carrier provisions allowing an airline owned and controlled by any European Union citizen to set up in any other state in Europe and to carry traffic – including cabotage (domestic) traffic within that state – from that state to any other in the EU.

Main features of the new regime included:

- Provisions for a Community air carrier licence including community ownership and control and technical requirements;
- → Freedom of access to markets including rights to all domestic markets;
- > Removal of national control over tariffs; and
- Exemptions from competition rules for joint planning and scheduling, joint operations on some routes, consultations on prices and slot allocations.

The rights of cabotage and Right of Establishment were extended to Iceland and Norway in 1994 as part of a wider economic initiative.

Liberalization led to significant growth in capacity and passenger traffic on a number of levels:

- Traffic in Europe increased 38% between 1994 and 1998 and over 40% between 1998 and 2002, mostly due to the stimulation provided by liberalization;
- → "Flag carriers" mostly took advantage of the removal of controls on capacity and fares on existing routes to stimulate traffic and increase load factors;

Rights of Establishment allow foreign capital and nationals to own and operate a domestic airline in another state.



- → Significant consequences for legacy carriers included:
 - Failure of Sabena and Swissair;
 - Development of alliances; and
 - Merger of KLM and Air France.

Also as a result of liberalization was the entry of new model carriers such as Ryanair and Easyjet after 1997. LCC's grew market share of capacity within the EU single market from under 3% in the mid-1990's to 20% in 2003, reflecting both growth by the new entrants and overall reductions in capacity by the legacy carriers.

From that baseline of intra-Europe cooperation, the next major step was the negotiation of the EU-US Open Skies Agreement. To understand the potential economic benefits of such an agreement the European Union undertook a study of the likely effects should an agreement be reached.⁷ They concluded that a number of benefits would accrue, including over the first 5 years of the Agreement:

- → Economic benefits of between 6.4 and 12 Billion Euros;
- Job creation on both sides of the Atlantic amounting to 72,000 jobs;
- An increase of 100,000 to 170,000 tonnes of freight and another 5,000 to 9,000 jobs;
- A reduction in costs and fares through enhanced competition that would result in a 3.8 Billion Euro increase in the consumer surplus in any year.

Not So Open Areas - Yet!

Not all areas are as open as those described above. While traffic in the Asia-Pacific market has grown dramatically in the past decade, the region remains relatively regulated at present, although the phased introduction of the Association of South East Asian Nations (ASEAN) Open Skies Agreement covering ten countries in Southeast Asia from 2008 has prompted some major Asian markets, including Japan, China and India, markets that are likely to be significant in both tourism and trade terms with Alberta, to consider similar initiatives.



Booze, Allen, Hamilton, "The Economic Impacts of an Open Aviation Area between the EU and the US, January 2007.



Introduction

Before developing the business case for additional direct air service to/from Alberta and pressing the Federal Government to deliver the necessary Treaties (ASA) to permit that economic activity, it is important to understand current supply and demand, and the stimulative effects that could flow from new routes to international destinations.

International Passenger Services

Air Services Between Alberta and the United States

The Open Skies ASA between Canada and the US allows any Canadian or US carrier to provide service between any Alberta airport and any US airport. This air service environment is highly competitive. The current services are summarized below:

- → Calgary and Edmonton are the only Alberta airports with scheduled service to the US:
 - · Calgary: 16 markets; and
 - Edmonton: 9 markets.
- Service to the US is provided by:
 - Two scheduled Canadian carriers: WestJet & Air Canada, plus charter flights by Sunwing and Skyservice; and
 - Six major US airlines: American, Alaska (Horizon),
 Continental, Delta-Northwest, United and US Airways.

Services to the US are extensive:

- → Service to the eight largest hub airports in Western US (excluding Hawaii);
- Service to the four largest hub airports in Central US allowing good connections to central and eastern US cities: Chicago, Dallas, Minneapolis, Houston;
- The largest Central US hub without service is Detroit, but the majority of the routes from this hub are served by Delta (previously Northwest Airlines) from its Minneapolis hub; and





→ Service to one major eastern US hub: New York/Newark by Continental. Other US carriers serve the Alberta-Eastern US markets from their central-western US hubs.

Air Services Between Alberta and Other International Destinations

This analysis focuses on the markets with the greatest potential gain for Alberta's economy, i.e. with an emphasis on inbound visitors and import/export trade. For this reason, charter flights to the Caribbean and Mexico are not examined as these cater almost exclusively to Albertans travelling abroad.

Current international services are presented in Exhibit IV-1 and summarized in Exhibit IV-2.

Alberta has service to eight European cities, including three with year-round scheduled service, and one city in Mexico. There is currently no service to Asia, Australia/Pacific, the Middle East, South America or Africa.

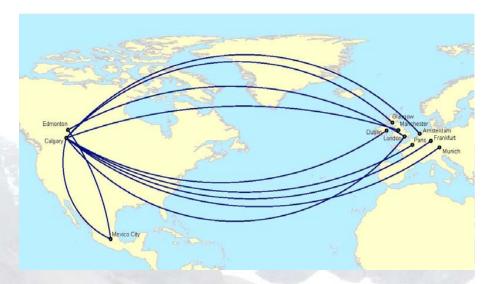


Exhibit IV-1. Map of International Routes from Alberta, Excluding the US and Charters to the Caribbean

Exhibit IV-2. Summary of International Routes from Alberta, Excluding the US and Charters to Mexico and the Caribbean*, in 2009

Origin	Destination	Airline	Annual Flights	Annual Dep. Seats
Calgary	London, England UK	Air Canada, British Airways, Charter	951	237,811
	Frankfurt, Germany	Air Canada, Lufthansa	704	162,863
	Amsterdam, Netherlands	KLM	192	50,285
	Mexico City, Mexico	Mexicana	207	25,047
	Manchester England UK	Charter	84	26,524
	Glasgow, Scotland UK	Charter	42	12,558
	Paris, France	Charter	18	6,156
	Dublin, Ireland	Charter	17	4,148
	Munich, Germany	Charter	13	4,446
Edmonton	London, England UK	Air Canada, Charter	343	74,357
	Mexico City, Mexico	Mexicana	157	14,130

Source: OAG, April 2009

^{*}Including those operated by WestJet and Air Canada



Changes in International Air Services

International air services have changed significantly over the past nine years at Alberta airports. The departing annual seat capacity from Alberta airports to Europe, Asia and Mexico excluding sunvacation destinations is presented in Exhibit IV-3. Highlights include:

- → Service to Europe declined significantly in 2002 after the 9/11 terrorist attacks and the slowdown of the economy;
- → Service to the UK increased significantly in 2007;
- → There has been a steady increase in seats to Germany since 2002;
- → Service to Netherlands was low from 2002-2008, but increased by a factor of 5 in 2009; and
- The only service to Asia was summer service to Seoul, 3 times a week by Korean Air in 2007.

The demise of two charter airlines significantly impacted international services:

- Canada 3000 ceased services in 2001, resulting in lost service to: Berlin, Dusseldorf, Glasgow, London-Gatwick, Manchester; and
- → Zoom served Glasgow, London-Gatwick, Manchester, Paris from 2005/6 to 2008 when it ceased operations.

Major new services to Alberta since 2000 were:

- → KLM YYC to Amsterdam commencing in May 2009;
- → Lufthansa YYC to Frankfurt commencing in 2008;
- Mexicana YYC and YEG to Mexico City in 2008;
- + Air Canada YEG to London-Heathrow in 2006; and
- + British Airways YYC to London-Heathrow in 2006.

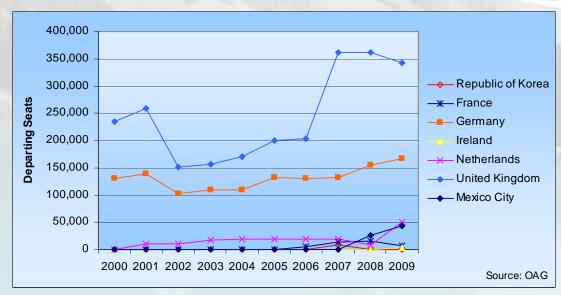


Exhibit IV-3. Departing Seat Capacity from Alberta Airports to Europe, Asia and Mexico City, 2000-2009



New charter services to Alberta commencing since 2000 were:

- → Flyglobespan YYC to Dublin in 2009, YYC to Manchester in 2005, YYC to London-Gatwick in 2007 & YYC to Glasgow in 2007; and
- Air Transat YYC to Munich in 2005 & YEG to London-Gatwick in 2007.

However, there have been several charter services which have discontinued service:

- Charter services to Frankfurt by Condor (YYC) & Air Transat (YEG) in 2008 with introduction of Lufthansa service at YYC; and
- LTU Airways YYC to Dusseldorf operated one summer in 2005.

Comparison of Services to Asia/Pacific & Europe

Air services available to Asia/Pacific, Europe, Australia and to the Middle East from Alberta were compared to services available from other Canadian cities and from cities in Northwestern US to understand comparatively how well Alberta is served and what are markets and airlines for new Alberta services. Services from the two Alberta airports with international service, Calgary & Edmonton, were compared with services from the following airports:

Vancouver	San Francisco
Montreal	Portland
Hamilton	Salt Lake City
Toronto	Seattle
Ottawa	Las Vegas
	Denver
	Minneapolis

With significant changes in the airline schedules this year, the average number of flights per week in 2009, as reported in the Official Airline Guide (OAG), was used to compare levels of service. The OAG includes flights by all scheduled carriers and flights by major charter carriers.

Note that where flights only occur for part of the year, such as summer flights to Europe, the average flights per week over the year will be much less than the number per week during the summer season. The number during the summer season is typically 2 to 2.5 times the average value over the year.

Canada to Asia

The average numbers of flights per week in 2009 to Asian markets from Canadian airports are given in Exhibit IV-4.

Exhibit IV-4. Average Numbers of Flights per Week in 2009 to Asian Markets from Canadian Airports

International Market	Calgary	Edmonton	Vancouver	Toronto	Hamilton	Ottawa	Montreal	Canada
Beijing, China		1.5	10	5		4	4-1-	15
Hong Kong, China			21	14				35
Islamabad, Pakistan				0.9	7.34		1111	1
Karachi, Pakistan				1.0				1
Lahore, Pakistan				1.0				1
Manila, Philippines			7					7
Osaka, Japan								0
Seoul, Rep. of Korea			13	4				17
Shanghai, China			8	5				13
Taipei, Chinese			10					10
Tokyo, Japan			14	5				19
Asia Total			83	36				119

Source: OAG, April 2009.

Note: Also, there are 13 flights to India via Europe from Toronto. Low average numbers per week due to seasonal service.

Observations:

- → No services from Alberta to Asia/Pacific;
- Hong Kong, Tokyo & Seoul are the major markets;
- Vancouver is the major gateway with 70% of flights; and
- → Few flights to west Asia, all to Pakistan from Toronto.

Northwestern US to Asia

The average numbers of flights per week in 2009 to Asian markets from airports in the North Western US are given in Exhibit IV-5.



Exhibit IV-5. Average Numbers of Flights per Week in 2009 to Asian Markets from Airports in the North Western US

International Market	Denver	Las	Minneapolis	Salt Lake	Portland	Seattle	San	Calgary	Edmonton	N-W US
		Vegas		City			Francisco			
Beijing, China					7.15	3	13			17
Hong Kong, China							28			28
Islamabad, Pakistan	333		FC 100 A		5/2/					0
Karachi, Pakistan										0
Lahore, Pakistan	Sec. 22		_ @							0
Manila, Philippines										0
Osaka, Japan							7			7
Seoul, Rep. of Korea		1				9	24			34
Shanghai, China			- 2		1100		7			7
Taipei, Chinese						4	19			23
Tokyo, Japan			7	3	7	14	35		F ()	66
Asia Total		1	7	3	7	30	133			181

Source: OAG, April 2009

Observations:

- → Tokyo is by far the major market, followed by Seoul & Hong Kong;
- → San Francisco is the major gateway with 74% of flights;
- Most major US cities in the North-west have service to at least one Asian market;
- Denver is the exception; and
- Connecting traffic greater for these services than from Alberta.

Airlines Serving Asia

The average numbers of flights per week in 2009 by airlines to Asia from North Western US and Canadian airports are given in Exhibit IV-6.

Sixteen airlines serve the Asian routes from the Northwestern US and Canada:

- → 11 airlines serve Canada-Asian routes: only one is Canadian: Air Canada, with 41% of flights;
- → 12 airlines serve the North-west US-Asian routes: two are American, United and Northwest Airlines, with 49% of the flights.

Considering the carriers now serving Asian routes, potential carriers for service to Alberta include:

- → Cathay Pacific Airways:
 - Operates 14/week (2/day) between Vancouver & Hong Kong;
 - Has no alliance partner in Canada to serve connecting passengers at YVR; and
 - Could potentially operate daily to Alberta with fewer flights (e.g., 10/week) to Vancouver.
- → Korean Air: spreads service around serves two Northwestern US airports and Vancouver & Toronto all with 4-6 flights/week;
- → Chinese/Taiwan Airlines:
 - Air China, China Airlines & China Eastern serve Vancouver 4-7/week; and
 - One of the airlines could potentially serve Alberta & stimulate demand although they are likely serve Toronto first.

Exhibit IV-6. Average Numbers of Flights per Week in 2009 by Airlines to Asia from North Western US and Canadian Airports

Airline	Other N-W	Seattle	San	Calgary /	Vancouver	Toronto	Total	Total	Total
	US		Francisco	Edmonton			N-W US	Canada	
Air Canada					27	22	0	49	49
Cathay Pacific Airways			14		14	7	14	21	35
Korean Air		5	6		5	4	10	9	19
Japan Airlines			7		7		7	7	14
Air China			6		7		6	7	13
China Airlines			7		7		7	7	14
Philippine Airlines					7		0	7	7
China Eastern Airlines					4		0	4	4
EVA Airways		4	12		4		16	4	19
Pakistan Intl Airline						3	0	3	3
Singapore Airlines			14		1		14	1	15
United Airlines		7	49				56	0	56
Northwest Airlines	18	7	7				32	0	32
Asiana Airlines		4	4				8	0	8
All Nippon Airways			7				7	0	7
Hainan Airlines		3					3	0	3
Jet Airways India		The	0				0	0	0
Asia Total	18	30	133	0	83	36	181	119	300

Note: Other N-W US includes Denver, Las Vegas, Minneapolis, Salt Lake City and Portland Source: OAG, April 2009





Canada and Northwestern US to Australia/Pacific

Flights from Canadian and Northwestern US airports to the Australia/Pacific region in 2009 are summarized below:

- Yancouver is the only Canadian city with service to the Australia/Pacific Region; and
- → San Francisco is the only US city in the North-west US with service to the Region.

Canada to Europe

The average numbers of flights per week in 2009 to European markets from Western and Central Canadian airports, excluding markets with fewer than four flights per week from Canada, are given in Exhibit IV-7.

Exhibit IV-7. Average Numbers of Flights per Week in 2009 to Top European Markets^ from Western and Central Canadian airports

International Market	Calgary	Edmonton	Vancouver	Toronto	Hamilton	Ottawa	Montreal
London (Heathrow), UK	16	6	17	48		7	14
Frankfurt, Germany	14		8	22		5	7
Am sterdam, Netherlands	4		6	13			7
London (Gatwick), UK	2	0.3	2	6	0.3	0.4	0.5
Manchester, England UK	2		1.0	4			
Glasgow, Scotland UK	0.8		0.3	3	0.3		
Dusseldorf, Germany			1.0	2			
Paris (De Gaulle), France	0.3		0.3	16			38
Rome, Italy			0.4	12			4
Barcelona, Spain			0.4	0.3			1.0
Dublin, Ireland	0.3			3	0.3		0.4
Munich, Germany	0.3		0.1	6			4
Zurich, Switzerland				6			7
Brussels, Belgium				7			2
Vienna, Austria				5			0.5
Athens, Greece				0.5			4
Warsaw, Poland				5			
Madrid, Spain				4			0.5

Source: OAG, April 2009

Observations:

- → Scheduled service is very concentrated at the major hub airports:
 - Toronto has 47% of the Canadian flights to Europe;
 - Montreal has 27% (almost half to France); and
 - Calgary and Vancouver 10%.
- → Daily service is available for only two markets from Alberta:
 - London Heathrow: 2/day from Calgary, and 1/day from Edmonton; and
 - Frankfurt: 2/day from Calgary.
 - Will change in May 2009 with 5/week service to Amsterdam from Calgary (3.7/wk avg. over year).
- Approximately half the markets from Alberta are served by summer charter service;
- → Daily service (6+/week) is available to 7 markets from Toronto: 5 markets served from Montreal, 3 from Vancouver and 2 from Calgary;
- → Calgary has two more flights per week to Europe than Vancouver;
- → Services from Vancouver but not Calgary include:
 - Dusseldorf (Intl), Germany: 2/week in summer;
 - Rome (Fiumicino), Italy: 1/week in summer; and
 - Barcelona, Spain: 1/week in summer.
- → Services from Calgary but not Vancouver, only one -Dublin Ireland;
- Markets with significant service from Canada but none from Alberta:
 - Rome, Italy: Avg. 17/week Toronto & Montreal, (plus Vancouver weekly summer charter); and
 - Zurich, Switzerland: Avg. 13/week Toronto & Montréal.
- Markets with charter service to Tourist Region (Niagara via Hamilton), but not to Alberta: Belfast, N. Ireland, UK: 1/week in summer.



[^] Markets with total of five or more flights per week from Canada

^{*} Includes 13 flights to India via Europe from Toronto

Thus, there are a number of markets with service from Vancouver and Eastern Canada which could potentially be served from Alberta.

Northwestern US to Europe

The average numbers of flights per week in 2009 to European markets from the Northwestern US and Alberta airports are given in Exhibit IV-8.

Exhibit IV-8. Average Numbers of Flights per Week in 2009 to European Markets from North Western US and Alberta Airports

International Market	Denver	Las	Minneapolis	Salt Lake	Portland	Seattle	San	Calgary	Edmonton
		Vegas		City			Francisco		
London(Heathrow), UK	11		7			11	35	16	6
Frankfurt, Germany	7	2			5	6	18	14	15/1
Amsterdam, Netherlands			18		6	7	7	4	
London(Gatwick), UK		7						2	0.3
Manchester, England UK		1						2	
Paris (De Gaulle), France			4	5		6	7	0.3	
Dublin, Ireland							4	0.3	
Munich, Germany		77.0					7	0.3	
Reykjavik, Iceland			2			2			
Copenhagen, Denmark						3			
Europe Total	18	10	31	5	11	34	77	39	7

Source: OAG, April 2009

- → The seven North-west US airports have service to only 10 European markets
 - Calgary has service to 9 markets
 - Only Copenhagen & Reykjavik (Iceland) have service to North-west US, but not to Alberta
- → San Francisco has 77 flights/week to Europe, 41% of total, and daily service to 5 markets
- → Seattle has 34 flights/week and daily (6+/week) service to four markets which is slightly less than Calgary (39/week)
- → All of Seattle's markets are served from Calgary but the Calgary-Paris service is only 1/week in summer
- The top 3 markets served from North-west US are London, Frankfurt, Amsterdam, the same as from Alberta

Thus, in comparison with the Northwestern US, Alberta has good air service to Europe.

Airlines Serving Europe - Scheduled Service

The average numbers of flights per week in 2009 by non-US airlines to Europe from North Western US and Canadian airports are given in Exhibit IV-9. US airlines are excluded to simplify the analysis as they would not be able to serve an Alberta-Europe route.

Air Canada is the dominant carrier serving Canadian-European routes, providing 45% of the scheduled flights. In Alberta, Air Canada is even more dominant with 58% of the flights. Looking at the foreign airlines:

- → Three of the top 4 serve Alberta: British Airways, Lufthansa and KLM, only Air France does not;
- Service by other airlines is much less (less than daily), mostly from Toronto; and
- → Only Icelandair and SAS serve secondary hubs.

Exhibit IV-9. Average Numbers of Flights per Week in 2009 by Non-US Airlines to Europe from North Western US and Canadian airports

Airline	Other N-W	Seattle	San	Calgary /	Vancouver	Toronto	Total	Total	Total
	US		Francisco	Edmonton			N-W US	Canada	
Air Canada				22	7	69	0	139	139
British Airways	8	11	14	7	10	14	32	38	70
Lufthansa	12	6	14	7	7	9	32	27	59
Air France		6	7			7	12	29	41
KLM			7	3	6	11	7	27	34
Virgin Atlantic Airways	7		7				14	0	14
SWISS							0	7	7
Icelandair	2	2				3	4	3	7
New Alitalia						6	0	6	6
Air India						6	0	6	6
Austrian Airlines						5	0	5	5
SATA International						5	0	5	5
LOT Polish Airlines						5	0	5	5
Aer Lingus			4				4	0	4
Olympic Airways							0	3	3
SAS Airlines		3					3	0	3
Aerosvit Airlines						2	0	2	2

Source: OAG, April 2009

Note: Excludes US airlines (United and Northwest) and Jet Airways service to India via Brussels 7/week.





Airlines Serving Europe - Summer Charter Service

The average numbers of charter flights per week in the 2009 summer schedule to Europe from Northwestern US and Canadian airports are given in Exhibit IV-10.

Observations:

→ Air Transat offers by far the most charter services to Europe: most flights are from Toronto & Montreal, only 10 of the 99 flights are from the West;

Exhibit IV-10. Average Numbers of Charter Flights per Week in the 2009 Summer Schedule to Europe from Northwestern US and Canadian Airports

Airline	Las Vegas	Salt Lake	San	Calgary /	Vancouver	Toronto	Hamilton	Ottawa	Montreal	Total
		City	Francisco	Edmonton						
Air Transat				3	4	30		1	61	99
Thomas Cook				7	7	20			1	34
Condor Flugdienst	6	15		0	3	0				24
flyglobespan				4			4			8
Corsair Intl				0					5	5
LTU International Airways				0	3					3
Skyservice				0		1				0.7

Source: OAG, April 2009

- Thomas Cook has the most flights to Canada of the European charter airlines:
 - Flights to Western Canada operated on behalf of Air Transat;
 - · All their flights are to the UK; and
 - Only seven of their 34 flights are from Alberta.
- Condor serves Vancouver and several Northwestern US airports:
 - All flights are to Frankfurt, Germany; and
 - Potential additional carrier to bring German tourists to Alberta;
- → LTU International has weekly summer flight from Vancouver:
 - Flies to Dusseldorf, Germany and is another potential carrier for Alberta; and

Served Calgary - Düsseldorf route for one summer in 2005.

Canada and Northwestern US to Middle East

The average numbers of flights per week in 2009 to the Middle East from Northwesternern US and Canadian airports are presented in Exhibit IV-12.

Exhibit IV-11

International Market	San	Calgary	Edmonton	Toronto	Montreal	N-W US	Total
	Francisco						Canada
Abu Dhabi, U.A. Emirates	T. A. Charles			3		0	3
Amman, Jordan					2	0	2
Dubai, U.A. Emirates	6	Swig St		3		6	3
Tel Aviv, Israel				7		0	7
Middle East Total	6		77.29	13	2	6	15

Note: In aviation Egypt is included in the "Africa" zone and so not included here.

Observations

- → There is no service to the Middle-East from western Canada, most is from Toronto (13/week), plus 2/week from Montréal;
- Only Toronto-Tel Aviv is daily service;

Exhibit IV-12. Average Numbers of Flights per Week in 2009 to the Middle East from Northwestern US and Canadian Airports

Airline	San	Calgary	Edmonton	Vancouver	Toronto	Ottawa	Montreal
	Francisco						
Air Canada					4		
El Al Israel Airlines				1000	3		
Emirates Airlines	6				3		
Etihad Airways					3		
Royal Jordanian							2
Middle East Total	6	0	0	0	13	0	2

Source: OAG, April 2009

Emirates Airlines wishes to operate Dubai -Toronto daily rather than 3/week, but is restricted by the current air bilateral agreement;



- → San Francisco is only city in the Northwestern US with service to the Middle East (Dubai 6/week);
- → Carriers serving Middle East routes are:
 - Air Canada from Toronto;
 - Emirates from Toronto, San Francisco;
 - Etihad Airways from Toronto;
 - Royal Jordanian from Montréal; and
 - El Al Israel Airlines from Toronto.

Current Alberta Market Demand Supports New International Air Service

Turning to the demand side, information on international travel to and from Alberta was obtained from the International Travel Survey conducted by Statistics Canada.

Alberta-US Air Services

The demand for travel between Alberta and US was determined using the numbers of passengers to each US airport, both for O/D travel and for those using US airports as a gateway to international travel. These demand levels were compared with the seat capacity of air services to those markets and are summarized in Exhibit IV-13. The passenger demand is based on the latest Statistics Canada data for travel between the US and Canada which is for 2006. Values for 2008 have been estimated using 2006 values for Edmonton and Calgary and growth rates in passengers at those airports between 2006 and 2008.

Exhibit IV-13. Comparison of Air Service Seat Capacity and Travel Demand to Top US Markets

	Scheduled	O/D	US Gateway for			
	Departing	Passengers	Intern'l Trips	Total Alberta	O/D + Int'l C	Connecting
	Seats (2009)	(2006)	O/D Pax (2006)	2006	Est.* 2	2008
US City	Total Alberta	Total Alberta	Total Alberta	Annual	Annu al	Enpl./day
Los Angeles(Intl) CA USA	226,762	270,180	53,550	323,730	372,331	510
Houston (G.Bush Intl) TX USA	225,157	175,610	59,810	235,420	270,763	371
Las Vegas(Intl) NV USA	272,795	200,950	1,670	202,620	233,039	319
Phoenix(Intl) AZ USA	235,808	148,640	28,420	177,060	203,642	279
San Francisco(Intl) CA USA	202,055	150,770	24,030	174,800	201,043	275
New York (JFK+EWR)	63,856	136,590	6,130	142,720	164, 146	225
Seattle/Tacoma(Intl) WA USA	183,258	80,630	26,790	107,420	123,547	169
Hawaii		91,620	3,160	94,780	109,009	149
Chicago(O'Hare) ILUSA	179,252	78,770	14,410	93,180	107, 169	147
Denver(Intl) CO USA	267,984	80,380	10,310	90,690	104,305	143
Dallas/Ft. Worth(Intl) TX US	102,200	64,750	21,800	86,550	99,544	136
Minneapolis/St. Paul(Intl) MN	188,732	39,780	30,850	70,630	81,234	111
Orlando(Intl) FL USA	14,884	68,690	0	68,690	79,002	108
San Diego(Intl) CA USA	29,293	54,570	0	54,570	62,763	86
Washin gton /Baltimore		51,070	1,820	52,890	60,830	83
Atlanta		39,650	2,940	42,590	48,984	67
Salt Lake City UT USA	69,750	31,410	2,720	34,130	39,254	54
Portland OR USA	10,000	29,250	1,730	30,980	35,631	49
Palm Springs CA USA	61,307	11,050	0	11,050	12,709	17

^{*} Assumed growth rate = growth rate of transborder pax at YYC & YEG Source: Seats: OAG, O/D Passengers: Statistic Canada





Examining this table we see that Alberta has air service to 13 of the top 14 O/D markets

- → The exception is Hawaii, but demand insufficient for daily flight given size of aircraft required for the route;
- The next two cities without service, Atlanta and Washington, only have 83 & 67 enplanements per day. For the flights to be viable they would require significant connecting passengers; and
- → The average load factor was only 72% in 2008 this suggests that there is over-capacity on some routes.

With the Open Skies agreement between the US and Canada, airlines are continually trying to expand service into viable markets and have greatly expanded service between Alberta and US in recent years. Some new services are successful, others are not:

- → There are four new services in 2009: WS YYC-San Diego, AC YYC-San Diego, WS YYC-San Francisco, Sunwing YEG-Las Vegas; and
- Two services in 2008 ceased in 2009: AC YYC-Palm Springs, CO YYC-Newark.

There are several gaps in services to the US:

- → Currently there are no US low-cost carriers serving Alberta. However:
 - Few of these carriers serve Canada;
 - This has allowed WestJet to expand rapidly into the US;
 and
 - Southwest-WestJet are looking to code-share.
- Southern Alberta airports (Lethbridge & Medicine Hat), although being close to the US, have no transborder service. The level of demand at these airports is insufficient, even using 19-seat aircraft, and there is little prospect of obtaining service in the near future.

- → Northern Alberta airports (Grande Prairie and Ft. McMurray), have better prospects:
 - The routes would need to be served by jet aircraft given the flight distance, either daily RJ service or weekly narrow-body jet service;
 - The demand is close to that required to support a direct service and with continued growth they may attract transborder service in the near future; and
 - A significant drawback is that these airports have no immigration & customs service – current Federal government policy requires airports without these services to pay the direct costs.

Alberta-International Air Services

Tables of numbers of trips by visitors to Canada and by Canadian residents travelling abroad were extracted for travel by air mode for overnight visits to all countries (other than the US).

The numbers of trips to/from Alberta in 2007 were:

Canadian Residents	1,048,000				
Visitors to Alberta	753,500				
Total	1,801,500				

Note that some of these visitors travel to other provinces in addition to Alberta.

The number of trips to/from Alberta by region, excluding the US, in 2007 is provided in Exhibit IV-14. A summary of this information is as follows:

- → Most trips are to/from Europe 53% of these are visitors from Europe, 47% Canadian residents travelling to Europe;
- Asia is the second travel market 51% of these travellers are visitors;



- Mexico/Central America is third largest travel market almost all are Canadians;
- Australia/Pacific is the fourth largest market, the Caribbean fifth and Africa sixth.; and
- The Middle East and South American travel markets are currently very small.

Exhibit IV-15 summarizes the information on number of trips to/from Alberta by Region, 2007, given in Exhibit IV-16, and gives the average number of trips per day.

Further examination of the Alberta travel data indicates that:

- → There are almost 1,800 trips per day to Europe, equivalent to 5-6 wide-body aircraft per day;
- → There are 1,353 trips to Asia, equivalent to four wide-body aircraft per day;
- → There were 221 trips to the Australia/Pacific region, insufficient for a daily service using a wide-body aircraft;
- → Alberta has a higher proportion of visitors than does Canada as a whole, 42% for Alberta, 36% for Canada; and
- → 14% of visitors to Canada visit Alberta, with percentages being higher from Australia/Pacific, Europe and Asia.

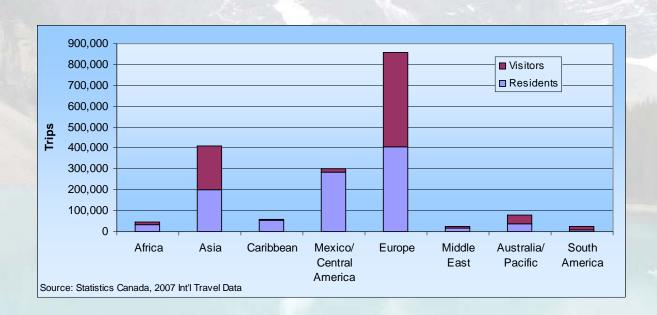


Exhibit IV-14. Trips to/from Alberta by Region, Excluding the US, in 2007



Exhibit IV-15. Number of Trips to/from Alberta by Region, Excluding the US, in 2007 and Percentage that are Visitors

Region	Residents	Visitors	Total	% Visitors	Trips/day
Africa	33,500	11,600	45,100	26%	124
Asia	201,800	208,800	410,600	51%	1,125
Caribbean	54,600	3,300	57,900	6%	159
Mexico/ Central America	285,200	14,200	299,400	5%	820
Europe	407,500	451,500	859,000	53%	2,353
Middle East	17,900	7,500	25,400	30%	70
Australia/ Pacific	38,300	42,400	80,700	53%	221
South America	9,200	14,200	23,400	61%	64
Total	1,048,000	753,500	1,801,500	42%	4,936

Source: Statistics Canada, International Travel Survey

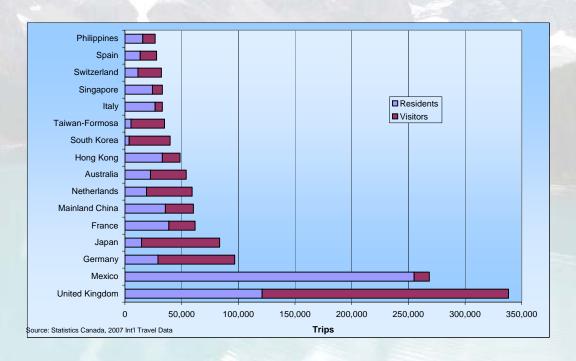


Exhibit IV-16. Trips to/from Alberta by Country, Excluding the US, in 2007

A breakdown of the trips to/from Alberta by country in 2007 is presented in Exhibit IV-16 and numbers of trips and average trips per day are provided in the following the table at Exhibit IV-17.

Observations:

- UK is by far the largest market;
 - 64% are visitors to Alberta; and
 - UK, Germany (and soon the Netherland market) are well served by air transport;
- Japan & South Korea are also large markets for visiting tourists:
 - 68-90% are visitors; and
 - Currently there is no direct air service to these large Asian tourist markets;
- + China (Mainland & Hong Kong) and France are all large markets
 - Most (60-70%) are Canadians travelling abroad; and
 - There is little or no direct air service to these markets from Alberta.

It should be noted that some visitors travel to other provinces in addition to Alberta and therefore not all these travellers could be expected to both arrive and depart from Alberta airports.

The number of people travelling between Alberta and the different overseas markets have changed significantly in recent years and the change has varied greatly by region. Exhibit IV-18 presents the change in the numbers of trips between 2004 and 2007 by Region:

- Trips from Alberta by Canadian residents increased by 19% per year;
- → Trips by visitors to Alberta increased by only 1% per year over the 3 years;
- → Travel by residents increased mostly to Europe and Central North America & Mexico; and

→ Visitor trips to Alberta increased mostly from Europe, but declined significantly from Asia. There were also small declines in visits from the Middle East, Oceania and the Caribbean.

Exhibit IV-17. Trips to/from Alberta by Country, Excluding the US, in 2007 and Percentage that are Visitors

Country	Residents	Visitors	Total	% Visitors	Trips/day	
United Kingdom	121,000	217,300	338,300	64%	927	
Mexico	255,100	13,400	268,500	5%	736	
Germany	29,100	67,700	96,800	70%	265	
Japan	14,600	68,900	83,500	83%	229	
France	38,700	23,100	61,800	37%	169	
Mainland China	35,700	24,700	60,400	41%	165	
Netherlands	19,100	40,100	59,200	68%	162	
Australia	22,500	31,500	54,000	58%	148	
Hong Kong	33,000	15,600	48,600	32%	133	
South Korea	3,700	36,200	39,900	91%	109	
Taiwan-Formosa	5,300	29,600	34,900	85%	96	
Italy	26,600	6,400	33,000	19%	90	
Singapore	24,300	8,700	33,000	26%	90	
Switzerland	11,500	20,700	32,200	64%	88	
Spain	13,400	14,500	27,900	52%	76	
Philippines	15,700	11,000	26,700	41%	73	
Republic Of Ireland	14,100	12,100	26,200	46%	72	
Dominican Republic	25,400	0	25,400	0%	70	
New Zealand	13,900	10,200	24,100	42%	66	
Thailand	20,300	2,500	22,800	11%	62	
Greece	22,400	100	22,500	0%	62	
Austria	9,200	10,300	19,500	53%	53	
Denmark	10,300	8,200	18,500	44%	51	
Belgium	9,700	7,200	16,900	43%	46	
India	11,600	5,100	16,700	31%	46	
Malaysia	14,000	2,100	16,100	13%	44	
Czech Republic	12,500	1,200	13,700	9%	38	
Ethiopia	12,800	0	12,800	0%	35	
Bahamas	12,400	200	12,600	2%	35	
Norway	7,800	4,700	12,500	38%	34	
Turkey	9,900	2,000	11,900	17%	33	
Sweden	8,200	3,300	11,500	29%	32	
Brazil	1,200	9,900	11,100	89%	30	
Russia	8,700	2,300	11,000	21%	30	
United Arab Emirates	9,800	500	10,300	5%	28	

Source: Statistics Canada, International Travel Survey

The change in number of trips to countries excluding the US over the three years between 2004 and 2007 are shown in Exhibit IV-19 separately for Canadian residents travelling from Alberta and for visitors to Alberta.





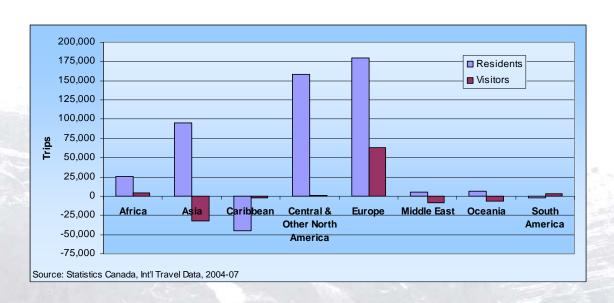


Exhibit IV-18. Changes in Travel to/from Alberta by Region, 2004-2007

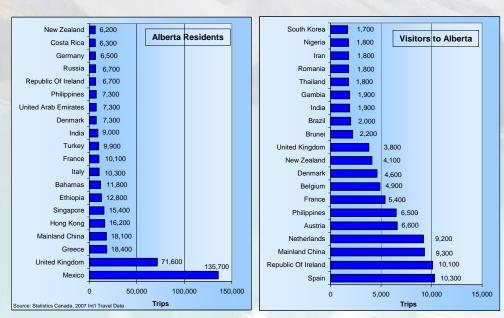


Exhibit IV-19. Changes in Travel to/from Alberta by Country, 2004- 2007, for Canadian Residents and for Visitors

For Canadian residents:

- → By far the largest increase is in travel to Mexico growth 29% per year;
- → Next largest is to the UK;
- > Resident travel to China is fourth; and
- → For others, the change is less than 20,000 trips per year.

For visitors to Alberta:

- → The largest increases were in visitors from Spain and Ireland, both with over 10,000 trips and with average annual growth rates of over 50% per year;
- Next largest increases were followed by China and the Netherlands, both increasing by at least 9,000 trips over the 3 years. China's growth rate average 17% per year over the three years; and

→ Of the 11 countries with the greatest change in visitors, 8 were in Europe. This is consistent with the significant improvement in air service to Alberta from Europe since 2005.

Seasonal Distribution: Europe & Asia

The seasonal distribution of traffic is an important factor when examining the potential for new services. Strong peaks in a particular season may indicate that service by a charter airline or a carrier with flexible schedules catering to vacation traffic may be appropriate. The numbers of trips by visitors to Canada by month in 2008 are presented in Exhibit IV-20.

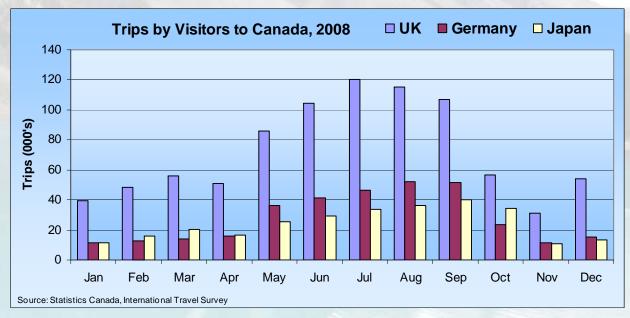


Exhibit IV-20. Numbers of Trips by Visitors to Canada by Month in 2008



Observations:

- The variation in trips over the year is similar for European and Asian travel
- The distribution of trips is very peaked:
- Over 60% of traffic occurred during 5 summer months
- Peak travel is in August, and the lowest level occurred in January
- Travel in the busiest month is 3 to 4 times than in the quietest month
- The season variation will have a significant impact how service is provided. Carriers will have to adjust capacity over the year for any new service to be sustainable/profitable.

Traffic Leakage through Gateways Outside of Alberta

Leakage of overseas traffic through gateways outside of Alberta was examined by comparing the transborder and international passengers at Alberta's Airports with the numbers of overseas trips from Alberta. Statistics Canada data on the numbers of passengers from Calgary and Edmonton that flew to a US airport to catch an international flight was used to assess leakage to US airports.

The most recent version of this data is for 2006 and shows:

- Many international passengers fly to the US and connect to an international flight to reach their final destination. This leakage to US airports in 2006 was 316,070 E/D passengers (Statistics Canada); and
- → Transborder E/D passengers at Alberta airports in 2006 were: 2,938,248.

Thus, 11% of transborder passengers were actually travelling to/from other international markets and connecting in the US.

It should be noted that these passengers support a higher frequency and sometimes the overall viability of transborder services:

- → International E/D passengers at Alberta airports in 2006 were: 1,075,135
 - Thus, the international passengers connecting in the US represented almost 30% of the total passengers flying on international flights (excluding the US) from Alberta; and
 - Most of these passengers would fly directly from Alberta if service were available.
- → There were 1,801,500 overseas trips to/from Alberta in 2007, equivalent to 3,603,000 E/D passengers. Of these E/D passengers:
 - 1,388,100 used Alberta gateway airports; and
 - 351,300 used US gateway airports.

Thus, 1,863,600 used other Canadian gateway airports. This represents 52% of the overseas trips to/from Alberta.

Estimates of the leakage to other Canadian and US airports by region was estimated by examining the flight schedules of Canadian and US airports to these regions. The estimated leakage by region is presented in Exhibit IV-21. This leakage is the result of:

- → Inadequate supply of airline seats from Alberta's gateway airports to specific international markets;
- Historic travel itineraries for western Canada that start and end in Vancouver but include ground transportation to/from Alberta;

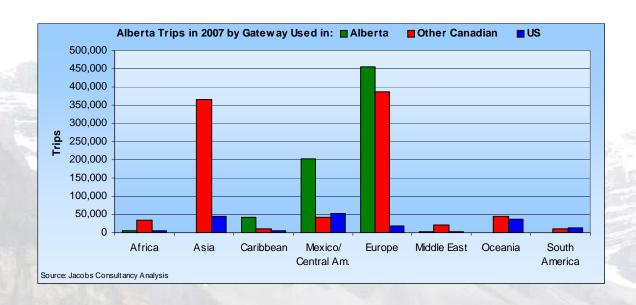


Exhibit IV-21. Traffic Leakage to Other Provinces and the US

- Airline network passenger flows that feed their international services provided at other major hubs; and
- Lower fares provided by airlines operating from major airports outside of Alberta particularly with respect to US carriers.
 Gateways used by Alberta international travellers in 2007 vary greatly by region of travel:
 - To Asia, most passengers used Canadian airports, primarily Vancouver, and approximately 11% used US airports;
 - To Europe, over half used Alberta airports, but still almost half used Canadian gateways particularly Toronto; very few used US gateways;

- To Mexico, Central America and the Caribbean, most used Alberta airports; and
- To Africa and the Middle East, most passengers used Canadian (Toronto and Montreal) or US gateways.

New services to Europe in 2008 and 2009 will have increased the share of European trips from Alberta airports from 53% in 2007 to approximately 56% in 2008-2009.

Note that some of these travellers visit other provinces on their trip and would not all use Alberta airports even if there was direct service to them. Many of these travellers travel by road or rail between those provinces and Alberta.



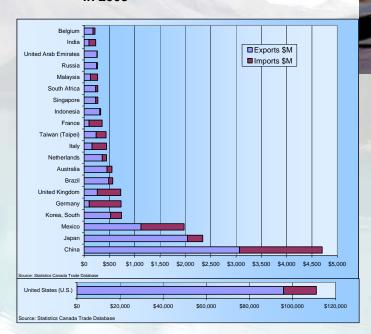


Alberta Trade

Alberta's Major Trading Partners

Trade is critical to the Canadian economy and good air service linkages are vital to allow Alberta business to connect to foreign markets and suppliers and to promote investment. The value of Alberta's exports and imports to the US and the top 20 overseas markets in 2008 are presented in Exhibit V-1. The US is shown separately as its trade is over 20 times that of the next largest country. It should be noted that the value of imports to Alberta will be understated, as imports are only recorded by province of entry into Canada. For example, marine-mode imports whose final destination is Alberta will not be recorded in these figures.

Exhibit V-1. Value of Alberta's Exports and Imports to the US and the Top 20 Overseas Markets in 2008



For the top 20 trading partners with Alberta:

- Five have direct air service: US, UK, Germany, Netherlands and Mexico; and
- Those without direct air service include: China, Japan, South Korea, Brazil, Australia, Italy, Taiwan (Taipei), France, Indonesia, Singapore, South Africa, Malaysia, Russia, UAE, India, Belgium.

Obtaining air service to at least the top 3-5 of these countries should be considered a priority.

Alberta's trade is growing strongly with a number of these countries. Over the three years 2005-2008, countries with increases in exports or imports of at least \$50 Million and with high average annual growth rates listed in Exhibit V-2:

- Of the countries where exports to/from Alberta are growing rapidly, only Mexico has direct air service; and
- → Growth rates are high to the BRIC countries Brazil, India, Russia and China - and to the Middle East (UAE, Iran and Saudi Arabia).

Air service to these growing markets would help strengthen and expand these trading links.

Region of Exports/Imports by Air

The tonnages of exports and imports by air mode to/from Alberta are presented in Exhibit V-3:

- Over 90,000 tonnes of exports and imports by air mode to Asia;
- → Over 2/3rd of cargo is exports this is unusual as typically the majority of trade is in-bound to North America;
- Currently, most of this cargo is trucked or flown to/from Vancouver;
- → Apart from the US and the UK, no country has more than 5% of exports or imports by air mode;

Exhibit V-2. Top Countries with Export and Import Growth 2005 to 2008

Country	Avg. Annual Growth	Change \$M
Exports		
China	14%	\$1,020
Japan	15%	\$695
Mexico	27%	\$577
Brazil	101%	\$426
Australia	35%	\$268
South Africa	79%	\$188
Indonesia	33%	\$179
UAE	42%	\$167
Russia	33%	\$143
Pakistan	58%	\$119
Iran	30%	\$104
Saudi Arabia	37%	\$95
Sri Lanka	47%	\$78
Chile	30%	\$75
Kazakhstan	38%	\$73
Imports		
China	18%	\$633
Germany	20%	\$265
India	24%	\$63
Argentina	49%	\$52

Source: Statistics Canada Trade Database

- Trade is spread amongst many countries;
- → To cater effectively for this traffic, cargo service is required to major freighter hubs serving each region; and
- → The levels of export and import tonnages indicates that there is sufficient cargo demand to fill belly space of wide-body aircraft used for passenger service to the top passenger markets.

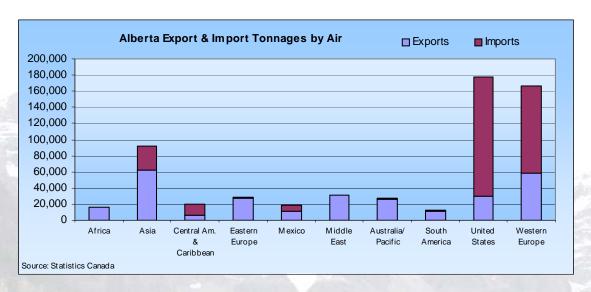


Exhibit V-3. Exports and Imports by Air Mode by Region, 2006/7

Investment in Alberta

Investments in Alberta are helping to drive the high levels of economic growth in the province. Transportation links with investing countries are critical for attracting investments and availability of direct air service is one of the most important links.

Capital expenditures in Alberta doubled between 2003 and 2008 as shown in Exhibit V-4, but are expected to decrease in 2009. The largest component of these investments is in the oil and gas sector.

Although much of these investments come from other parts of Canada, approximately 20% come from foreign sources. Limited data is available on the origin of these investments due to confidentiality concerns. The investment values presented in Exhibit V-5 were published by Statistics Canada⁸. Values for most

countries are not available and the countries shown are not necessarily those with the greatest investment in Alberta.

A more detailed breakdown of investment by country of origin is available for investment in Canada as a whole. While the distribution of investments in Alberta will differ from those of Canada as a whole, it will likely provide some insight into the sources of investment in Alberta. Exhibit V-6 presents the foreign direct investment in Canada by the top nine countries in 2008. Note that foreign direct investment in Canada includes foreign takeovers of Canadian firms and are different from the investment numbers provided for Alberta. The US, UK and the Netherlands are the top three, consistent with the Alberta investment data. France is fourth, but may not be ranked so highly for Alberta as much of the Canadian investment may be in Quebec. The other five countries are likely significant investors in Alberta.

^{8 2006} values provided by Alberta Finance and Enterprise



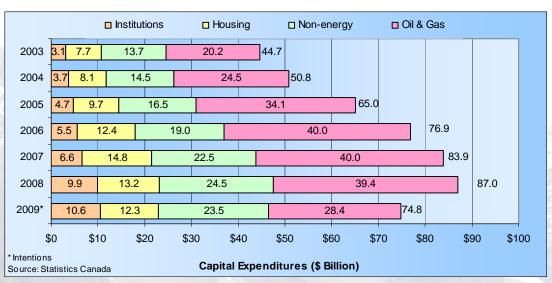


Exhibit V-4. Total Capital Investments in Alberta, 2003 to 2008, and Intended Investments in 2009

Exhibit V-5. Capital Investment in Construction, Machinery and Equipment in Alberta in 2006 and 2009 by Country of Control*

		\$ Million		
Country	2006	2007	2008	2009
United States	11,700	10,477	8,646	8,754
United Kingdom	607	462	1,179	1,070
Japan	192	407	204	201
Netherlands	190	n.a.	n.a.	n.a.
Germany	n.a.	234	92	105
France	n.a.	114	91	78
Sweden	n.a.	21	22	21
Italy	n.a.	15	17	14
Switzerland	n.a.	14	14	14
All other countries	2,411	4,226	6,805	4,397
Total Foreign	15,100	15,969	17,068	14,653
Other Canadian Provinces	50,900	67,963	69,914	60,168
Total	66,000	83,933	86,981	74,821

Values for other countries not available, the countries shown are not necessarily those with the greatest investment in Alberta.

Source: Statistics Canada, Foreign and Domestic Investments in Canada – 2007-2009.

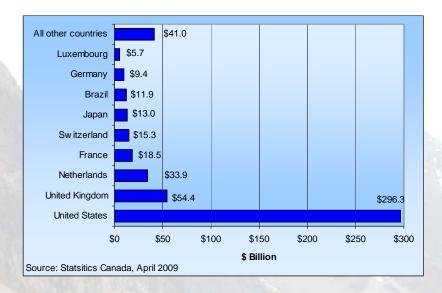


Exhibit V-6. Foreign Direct Investment in Canada in 2008 by Country of Origin

Air Cargo

Air cargo is important in two ways when considering air service improvements to benefit Alberta:

- → Air cargo facilitates the export and import of high value and/or urgent/perishable goods; and
- → The additional revenue generated from air cargo can make the difference between a passenger service being viable or not.

The air cargo at the two major Alberta airports in 2007 was:

Calgary	134,250
Edmonton	42,700
Total	176,950

This total includes both international and domestic cargo. International cargo accounts for approximately 80% of the cargo at these airports.

Leakage of Air Cargo to Airports Outside Alberta

The leakage of air cargo to airports outside of Alberta was examined by comparing the tonnages of air cargo reported by Alberta's two international airports with tonnages of exports and imports by air mode reported by Statistics Canada.

Alberta trade data indicates the tonnes of exports and imports by air mode to/from Calgary & Edmonton were:

Exports	219,067 (in 2006, data for 2007 not released)
Imports	313,192 (in 2007)
Total	532,259

The total export and import tonnages by air mode far exceed the tonnages reported by the airports and the difference is even greater considering that some of the airport tonnages are purely domestic. While it is acknowledged that the export/import tonnage data has some reliability issues, it indicates that much of Alberta exports and imports by air mode are not transported as air cargo from Alberta airports.

It should also be noted that some of the air cargo to the US is transferred to/from international flights at US airports.





Passengers at Alberta's International Airports

Edmonton and Calgary are the only two airports with scheduled international service. As shown in the table, there were almost 19 million enplaned/deplaned (E/D) passengers⁹ in 2008 at Calgary and Edmonton airports:

- → Almost 5 million (26%) were international, most (two-thirds) to the US; and
- → Approximately 75% of transborder and other international passengers fly from Calgary.

Calgary and Edmonton airports have had the highest growth in passengers of all Canadian airports over the past three years

	Enplaned/Deplaned Passengers								
Sector	2006	2007	2008						
Domestic*	12,477,608	13,749,444	13,981,802						
Transborder	2,938,248	3,192,820	3,379,364						
Other Interna	1,075,135	1,388,100	1,583,279						
Total	16,490,991	18,330,364	18,944,445						

Calgary & Edmonton only

Source: Calgary Airport Authority & Edmonton Regional Airports Authority

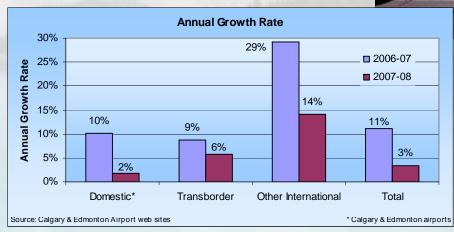
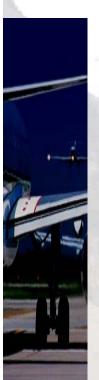


Exhibit VI-1. Recent Growth in Passenger Traffic by Sector at Alberta Airports

 $^{^{\}rm 9}\,$ Note that airports report traffic as E/D passengers. One trip equates to two E/D passengers.



International traffic in particular has grown very strongly over the past few years (Exhibit IV-20):

- Other International grew 29% in 2007 and another 14% in 2008:
- Growth in transborder passengers more comparably modest, 9% and 6% in 2007 and 2008; and
- Other International was the only segment still growing in early 2009 (Jan-Feb at YYC).

Competitive Analysis of the Province as an Air Passenger Gateway

Alberta's airports are in a good competitive position to serve as a gateway for international travel. The airports strengths and weakness are summarized below.

Strengths

- Strong domestic hub airports allow connections throughout Canada and to the US;
- → Significant O/D passenger and cargo demand;
- Long-range aircraft can access most Asian and Indian routes or both Calgary and Edmonton;
- → They are close to the major tourism attraction in western Canada the Canadian Rockies;
- The Canadian Rockies is a popular tourist destination with European tourists;
- Alberta has strong cultural ties with the UK and mainland Europe;
- → There is a high percentage of high yield, year round business traffic especially from YYC;
- → Aircraft landing fees are much lower than at Toronto airport.

Weaknesses

- → The local population base and catchment areas of Calgary and Edmonton is less than the other cities with significant international service: Vancouver, Toronto and Montreal;
- → Calgary's major hub carrier, WestJet, does not yet have interline agreements allowing a single ticket and easy connections with foreign carriers10;
- Airport and air navigation fees are higher than at major North-west US airports;
- → Cultural and business ties between Alberta and Asia are relatively weak, especially compared with Vancouver.

Target Markets Identified by Province

In reviewing priority target markets for Alberta, an examination was first conducted of the priority target markets identified by Travel Alberta and Alberta Ministry of International and Intergovernmental Relations. Exhibit VI-2 illustrates the primary (bold) and secondary (red) markets that are common to both agencies. Five of these key markets which are important from both a tourism and trade perspective for Alberta, have no open skies agreements at the moment and would be considered a priority to ensure that air service linkages are not hindered by the existing air service agreements.

Examination of Potential Opportunities

The tourism, trade and investment data presented in Sections IV and V were analysed to identify the priority countries for establishing international air service. The order of priority was determined based on a combination of their travel, trade, recent growth in travel and trade, air cargo exports and imports, and



VI-2

WestJet is working on installing the Sabre Sonic Network booking system that will allow it to interline and code-share with strategic partner airlines around the world. They expect to have interline capability by the end of 2009.

Exhibit VI-2. Target Markets Identified by Province

Travel Alberta	Alberta's International Marketing Strategy
Australia	Australia
China	China
France	EU
Germany	UAE
Japan	Japan
Mexico	Mexico
South Korea	South Korea
UK	UK
US	US
India	India
Taiwan	Taiwan
Netherlands	Netherlands
New Zealand	Indonesia
Italy	Italy
Norway	Singapore
Denmark	Saudi Arabia
Sweden	Belgium
Brazil	Brazil

Note: Identified Secondary Market Priorities in red

Source: Travel Alberta Business Plan 2009-2012, and Alberta Ministry of International and Intergovernmental Relations.

investment (to a lesser extent due to lack of data) with Alberta. In determining the priority, a high weighting was applied to inbound tourist trips, a moderate weighting to total trips per day, exports, export growth, air exports and investment, and a low weighting to trips by Alberta residents, imports, air imports and import growth. The values are for the most recent year data is available¹¹ and

It should be noted that this ordering is based on Alberta-country O/D travel and trade and does not account for connecting passengers and cargo. That is why it differs from the list of potential air services of high priority. South Korea has very high potential for connecting traffic, Taiwan much less (as they are further south and have marginal direct air service to China).

Countries with existing air service to Alberta: the US, the UK, Germany, the Netherlands and Mexico, were all in the top 10 priority markets, as would be expected. Of those currently without air service, China was by far the top candidate. Each of the potential candidates is listed below, together with the primary factors which led to their selection.

China (Mainland)

China is the highest priority country of those without air service currently. China has a high number of tourist visits to Alberta and growth of tourist visits has been high in recent years, 17% per year, and this high growth is expected to continue. China is also a popular choice for Canadian residents travelling overseas, both for business travel and tourist visits, and has grown strongly over the past three years (27%/yr). The number of trips per day is 165, the seventh highest of all countries, but is still less than that required for air service (a wide-body aircraft with approximately 300 seats is required for the route). Also, passengers would be going to multiple destinations in China and a single new service would not provide non-stop service to all passengers.

China is Alberta's largest export market and import market after the US and the growth in exports and in imports over the past



growth values/rates are the average per year over the latest three year period that data is available. Ranks are based on values, not percentage growth rates, and are provided for all countries excluding the US. The top 31 priority markets and their travel and trade data are presented in Exhibit VI-3.

²⁰⁰⁷ for trip data and 2008 for export/import values, 2007 for import tonnages by air and 2006 for export tonnages by air.

three years is also the greatest of all countries except the US. Export growth has averaged \$340 M per year, with an average annual growth rate of 14%. Import growth was \$211M per year

at a rate of 18% per year. There is also a high volume of air cargo, both exported (18,350 t) and imported to China (13,975 t) which would support a new service. Such a service would likely stimulate further air exports and imports.

Exhibit VI-3. Priority Countries for Air Service Based on Travel, Trade and Investment

	- 200	No. 1		Avg. Cha	nge per	r year 2004	-2007	Albe	rta, All Modes	, 2008	Avg. Change per	year 2005-2008	Air Mode	(2006/07)
Country	Trips by Visitors to Alberta	Trips by Alberta Residents	Total Trips per Day	Visitors to All No., Rank &			Residents nk & Rate	Exports (\$M)	Imports (\$M)	Exports + Imports \$M	Change Exports \$M, Rank & Rate	Change Imports \$M, Rank & Rate	Alberta Air Exports Tonnes	Alberta Air Imports Tonnes
US	676,000 (1)	1,014,000 (1)	4,630 (1)	35,106 (1)	6%	105,500	(1) 13%	\$95,947 (1)	\$15,193 (1)	\$111,139 (1)	\$27,289 (1) 12%	3,646 (1) 10%	30,314 (1)	146,812 (1)
China (Mainland)	24,700 (9)	35,700 (5)	165 (7)	3,100 (4)	17%	6,033	(5) 27%	\$3,069 (2)	\$1,633 (2)	\$4,702 (2)	\$340 (2) 14%	211 (2) 18%	18,350 (3)	13,975 (4)
United Kingdom	217,300 (2)	121,000 (3)	927 (2)	1,267 (12)	1%	23,867	(3) 35%	\$259 (10)	\$463 (5)	\$723 (7)	-\$9 (220) -3%	9 (15) 2%	20,479 (2)	36,963 (3)
Netherlands	40,100 (5)	19,100 (14)		3,067 (5)	9%		(58) 2%	\$358 (8)	\$83 (16)	\$442 (10)	\$47 (11) 18%	-1 (218) -1%	13,077 (7)	3,188 (11)
Japan	68,900 (3)	14,600 (16)		-8,600 (225)	-10%	333 ((58) 2%	\$2,042 (3)	\$302 (6)	\$2,344 (3)	\$232 (3) 15%	26 (5) 11%	13,555 (6)	4,592 (8)
Mexico	13,400 (14)	255,100 (2)	736 (3)	300 (32)	2%	45,233	(2) 29%	\$1,124 (4)	\$850 (3)	\$1,974 (4)	\$192 (4) 27%	83 (4) 12%	11,024 (8)	7,284 (6)
France	23,100 (10)	38,700 (4)	169 (6)	1,800 (8)	9%	-,	(11) 11%	\$97 (31)	\$258 (8)	\$356 (13)	-\$1 (213) -1%	25 (6) 12%	4,603 (20)	3,431 (10)
Australia	31,500 (7)	22,500 (11)	148 (9)	-3,700 (223)	-10%		(40) 4%	\$451 (7)	\$98 (14)	\$550 (9)	\$89 (6) 35%	5 (24) 6%	17,535 (4)	1,245 (16)
Germany	67,700 (4)	29,100 (7)	265 (4)	-33 (194)	0%		(19) 9%	\$100 (30)	\$630 (4)	\$730 (6)	-\$13 (222) -11%	88 (3) 20%	5,107 (16)	50,690 (2)
Brazil	9,900 (19)	1,200 (70)	30 (34)	667 (14)	8%		(65) 44%	\$486 (6)	\$80 (17)	\$566 (8)	\$142 (5) 101%	8 (16) 13%	1,745 (35)	176 (41)
Italy	6,400 (23)	26,600 (8)	90 (13)	433 (24)	8%	3,433	(<mark>10)</mark> 18%	\$157 (19)	\$285 (7)	\$441 (11)	-\$6 (218) -3%	13 (12) 5%	8,552 (10)	4,313 (9)
Taiwan	29,600 (8)	5,300 (39)	96 (12)	-7,467 (224)	-17%		(25) >100%	\$238 (13)	\$195 (10)	\$434 (12)	\$13 (30) 6%	14 (10) 9%	1,323 (40)	4,999 (7)
Singapore	8,700 (20)	24,300 (10)	90 (13)	-633 (218)	-6%	5,133	(7) 40%	\$229 (14)	\$43 (24)	\$272 (15)	\$26 (15) 15%	6 (20) 18%	4,553 (21)	385 (30)
South Korea	36,200 (6)	3,700 (47)	109 (11)	567 (21)	2%	-200 (2	205) -5%	\$524 (5)	\$214 (9)	\$738 (5)	-\$11 (221) -2%	19 (8) 11%	3,301 (24)	716 (23)
India	5,100 (24)	11,600 (24)		633 (15)	17%		(13) 65%	\$93 (33)	\$134 (13)	\$227 (20)	\$16 (28) <mark>29%</mark>	21 (7) 24%	4,710 (19)	1,238 (17)
Hong Kong	15,600 (12)	33,000 (6)	133 (10)	167 (39)	1%	5,400	(6) 25%	\$123 (25)	\$17 (38)	\$139 (29)	-\$7 (219) -5%	0 (215) -3%	4,170 (22)	113 (46)
Rep. of Ireland	12,100 (15)	14,100 (17)		3,367 (3)	82%		(17) 24%	\$15 (65)	\$47 (23)	\$61 (52)	\$0 (198) -3%	7 (18) 21%	373 (63)	757 (22)
New Zealand	10,200 (18)	13,900 (19)		1,367 (11)	19%		(21) 22%	\$89 (35)	\$17 (39)	\$106 (37)	\$11 (31) 17%	0 (52) 1%	7,942 (11)	465 (26)
Philippines	11,000 (16)	15,700 (15)		2,167 (7)	35%		(16) 23%	\$71 (41)	\$11 (45)	\$82 (41)	\$11 (33) <mark>23%</mark>	-1 (216) -5%	92 (83)	206 (39)
Thailand	2,500 (30)	20,300 (13)		600 (17)	53%		(34) 5%	\$95 (32)	\$96 (15)	\$190 (23)	\$21 (23) <mark>45%</mark>	10 (13) 13%	1,785 (34)	1,453 (15)
Spain	14,500 (13)	13,400 (20)		3,433 (2)	51%		(24) 19%	\$48 (46)	\$41 (27)	\$89 (39)		-1 (221) -3%	405 (62)	349 (31)
Denmark	8,200 (21)	10,300 (26)		1,533 (10)	32%		(14) 51%	\$26 (58)	\$52 (21)	\$78 (44)	\$2 (57) 8%	7 (17) 19%	682 (49)	1,786 (12)
Switzerland	20,700 (11)	11,500 (25)	88 (15)	-367 (210)	-2%	-67 (1		\$45 (49)	\$140 (12)	\$185 (26)	\$1 (62) 3%	6 (23) 4%	1,879 (32)	1,655 (14)
South Africa	4,100 (26)	5,200 (40)	25 (37)	300 (32)	9%		(36) 26%	\$228 (15)		\$269 (16)	\$63 (7) 79%	3 (28) 8%	2,343 (29)	292 (34)
Belgium	7,200 (22)	9,700 (29)	46 (25)	1,633 (9)	46%		(36) 11%	\$175 (17)	\$40 (28)	\$214 (21)	-\$14 (223) -7%	0 (48) 1%	345 (64)	331 (33)
Austria	10,300 (17)	9,200 (30)	53 (23)	2,200 (6)	41%		(83) 1%	\$3 (98)	\$66 (19)	\$69 (50)	-\$1 (201) -12%	13 (11) 37%	408 (61)	1,667 (13)
Sweden	3,300 (27)	8,200 (33)		467 (23)	20%		(22) 55%	\$11 (73)	\$57 (20)	\$68 (51)	-\$2 (214) -11%	3 (27) 7%	164 (71)	1,204 (18)
Russia	2,300 (31)	8,700 (31)	30 (35)	167 (39)	9%	, ,	(17) 63%	\$249 (12)	\$16 (41)	\$265 (18)	\$48 (10) 33%	2 (30) 23%	6,494 (12)	121 (44)
Malaysia	2,100 (34)	14,000 (18)	44 (27)	-500 (213)	-16%		(27) 17%	\$123 (24)	\$143 (11)	\$266 (17)	\$16 (29) 19%	-18 (225) -10%	5,625 (15)	997 (19)
Norway	4,700 (25)	7,800 (34)	` '	133 (42)	3%		(23) 52%	\$45 (48)	\$30 (31)	\$75 (48)	\$2 (52) 6%	6 (21) 32%	1,394 (38)	790 (21)
UAE	500 (56)	9,800 (28)	28 (36)	-500 (213)	-37%	2,433 ((14) 58%	\$256 (11)	\$4 (55)	\$260 (19)	\$56 (9) 42%	0 (51) 7%	5,795 (14)	146 (42)

Values % Change Country Rank 1 - 10 20% or more Market in Travel Alberta Business Plan Rank 11 - 20 10% to 20% Not market in Travel Alberta Business Plan Rank 21 - 39 -10% to 9% Rank 40+ -10% or below

Notes: The values are for the most recent year data is available: 2007 for trip data and 2008 for export/import values, 2007 for import tonnages by air and 2006 for export tonnages by air

Growth values/rates are the average per year over the latest three year period that data is available.

Ranks are based on values, not percentage growth rates, and are provided for all countries excluding the US.

Order based on combined travel, trade, recent growth in travel and trade, air cargo exports and imports, and (to some extent) investment. Weighting is high for inbound tourist trips, moderate for total trips per day, exports, export growth, air exports and investment, and low for trips by Alberta residents, imports, air imports and import growth.



China was identified as a target market by Travel Alberta and Alberta Ministry of International and Intergovernmental Relations.

Japan

Japan has the third largest source of tourists to Alberta after the US and the UK, despite having declined slightly over recent years. Visits by Albertans to Japan are much lower, but there is still an average of 229 trips per day to Japan. Although higher than China, it is not sufficient for a daily wide-body service and a service would rely on connecting traffic.

Japan is Alberta's third largest export market and growth has been high over the past three years (15%). Japan is also a large import market for Alberta (ranked sixth) and growth in imports has also been high averaging 11% over the past three years. High volumes of air cargo are flown both to and from Japan which would help support any new passenger service to Alberta. Business ties are strong with Japan being the fourth largest investor (by country) in the province.

Japan was identified as a target market by Travel Alberta and Alberta Ministry of International and Intergovernmental Relations.

France (currently only summer charter service)

France is Alberta's tenth largest source of tourists and visits have been growing fairly strongly over the past three years, averaging 9% per year. France is a popular tourist destination for Alberta residents, ranking fourth, and is also growing rapidly at 11% per year. With an average of 169 trips per day, there is insufficient O/D demand for a daily service and any service would have to rely on connecting traffic. Demand is also very seasonal making it difficult to provide a daily service year round.

France is a large import market for Alberta, ranking eighth, and imports having grown strongly in recent years (12%/yr). Exports to France are, however, relatively weak. There is significant air

cargo between Alberta and France which would support any new service. France has significant investments in Alberta, ranking approximately sixth.

France was identified as a target market by Travel Alberta and Alberta Ministry of International and Intergovernmental Relations.

Australia

Australia is a large tourist market for Alberta with 31,500 visits in 2007, seventh of all countries, but the number has declined in recent years. Australia is also a popular tourist destination for Albertans and recent growth has been steady (4%). The total number of trips per day was 148 in 2007, well below that required to support an air service. Even if combined with passengers travelling to New Zealand, the number is well below that required. Since there would be few connecting passengers beyond Australia, the service would have to attract passengers from other provinces to be viable.

Australia is a large export market (rank seventh) and growth has been very high over the past three years averaging 35%. Imports from Australia are much lower, but still significant, and have been growing steadily (6%/yr). Air cargo exports from Alberta are high at approximately 18,500 t, while imports by air from Australia have been much lower (1,250 t). The high outbound air cargo demand would help any new service, but the low level of inbound cargo would offset this advantage to some extent.

Australia was identified as a target market by Travel Alberta and Alberta Ministry of International and Intergovernmental Relations

Brazil

Brazil is a significant source of inbound tourism for Alberta with 9,900 visits in 2007 with a fairly strong growth rate averaging 8% over 2005 to 2007. Few Alberta residents currently travel to Brazil and total trips per day are currently low at only 30 per day.







However, Brazil is a major trading partner with Alberta, ranking sixth for exports and 17th for imports. Growth in exports have been explosive averaging 100% per year over the past three years, while imports have also grown fairly strongly at 13% per year. Brazil was one of the top 10 foreign direct investors in Canada in 2008. Travel to Brazil has been driven by business links, but with the strong economic growth and its large population base, Brazil has the potential for significantly greater travel and tourism to Alberta.

Brazil was identified as a secondary target market by Travel Alberta and Alberta Ministry of International and Intergovernmental Relations.

Italy

Italy has strong ties with many Alberta residents and is a popular destination for residents travelling overseas. In 2007, 26,600 Albertans visited Italy and growth was very strong, averaging 18% between 2005 and 2007. Only a relatively small number of tourists visit Alberta from Italy and growth has been moderate (8%/yr). The total trips per day averaged 90, insufficient for a daily service without significant connecting traffic. The level of demand may better suit a summer charter service.

Italy is a large import market for Alberta, ranking seventh, and growth in imports has been steady averaging 5% over the past three years. The export market is smaller, but significant, although it has declined slightly in recent years. There are high air cargo tonnage, both for exports and imports, which would support a passenger service. Italy is also a significant investor in Alberta.

Italy was identified as a secondary target market by Travel Alberta and Alberta Ministry of International and Intergovernmental Relations.

Taiwan

Taiwan is one of the top 10 sources for inbound tourism to Alberta with 29,600 visits in 2007, although the number has

declined significantly in recent years. Outbound trips by Albertans is relatively small and likely mostly business related. The total trips per day averaged only 96 in 2007, well below what would be required for a daily service. Significant connecting traffic would be required for the route to be feasible, but direct flights to China it is unlikely it would attract sufficient connecting traffic.

Taiwan is Alberta's 12th largest trading partner, with strong exports and imports. Exports have grown steady at 6% per year over the past three years, while imports have grown more strongly at 9% per year. Air cargo imports have been high but exports by air have been much lower and this imbalance could reduce the benefits air cargo would provide to a passenger service.

Taiwan was identified as a secondary target market by Travel Alberta and Alberta Ministry of International and Intergovernmental Relations.

Singapore

A high number of Albertans travel to Singapore – in 2007 they made 24,300 visits making it the 10th most popular destination country. Growth in these trips has been very strong over the three years 2005 to 2007 averaging 40% per year. The number of trips by Singapore resident to Alberta is much lower with a total of 8,700 in 2007, and has declined recently. Total trips per day averaged 90, well below that required for a daily service. Singapore is a major air hub serving East, South-east and South Asia and Australia and would likely attract some connecting traffic, although the location in relation to travel from Alberta to these markets may be a disadvantage in attracting this connecting traffic.

Singapore is a relatively large export market for Alberta, ranking 14th and growth in exports has been strong in recent years averaging 15% per year. Imports are more modest, but are growing strongly at 18% per year. There are significant air cargo exports to Singapore to support a passenger service, but imports by air are low.

South Korea

South Korea is a major source of inbound tourism for Alberta with 36,200 visits in 2007, ranking sixth overall. Growth in recent years has been slow at only 2% per year. Few Albertans travel to South Korea, only 3,700 in 2007, and the number has been declining by 5% per year in recent years. Most of this travel is likely for business purposes. The total number of trips to South Korea averaged 109 per day in 2007, well below that required for daily air service and any service would rely on connecting traffic. Korean Airlines has good connections from its hub in Seoul to the major markets in East Asia and its geographical location makes it an ideal routing for connecting passengers.

South Korea is Alberta's fifth largest trading partner and is a particular strong export market. Exports have declined slightly in recent years, but imports from South Korea have grown significantly averaging 11% per year since 2006. Air cargo export and import tonnages to/from South Korea are moderate, but like passenger traffic, a new service would serve other East Asian air cargo markets via Seoul.

South Korea was identified as a target market by Travel Alberta and Alberta Ministry of International and Intergovernmental Relations.

India

Travel between India and Alberta is relatively modest but is growing strongly and is expected to continue to do so as strong economic growth makes air travel more affordable to their large population. In 2007 there were 11,600 trips by residents with extremely strong growth of 65% per year between 2005 and 2007. Tourist visits to Alberta were low at 5,100 in 2007, but grew strongly at 17% per year. Currently the total trips is low at only 46 per day, but the number is expected to continue to grow strongly making India a good potential market over the longer term.

As with passenger traffic, trade between India and Alberta is currently at relatively low levels, ranking only 20th. However, exports have grown by 29% per year and imports by 24% per year over the past three years. Over the longer term, India is expected to become a major trading partner and will make India a priority for new air service. There is currently significant air cargo tonnage, both for exports and imports, and these can be expected to grow and will support any passenger service.

India was identified as a secondary target market by Travel Alberta and Alberta Ministry of International and Intergovernmental Relations.

Hong Kong

The Hong Kong travel market is Alberta's tenth largest market. The number of tourist visits to Alberta is high at 15,600 in 2007, while double that number of Albertans travel to Hong Kong. Growth in inbound tourists has been weak, 1% per year, but outbound trips have grown strongly by 25% per year in recent years. The total trips per day were 133 in 2007, the second largest in Asia after Japan. Any air service to Hong Kong would rely greatly on connecting traffic.

Trade between Alberta and Hong Kong is surprising weak, ranking only 29th over all countries, and has declined in recent years. Significant amounts of China's trade passes through Hong Kong, but is not recorded as being with Hong Kong. Hong Kong has strong business ties with mainland China, Alberta's second largest trading partner after the US, and a significant amount of China's business dealings are done through companies based in Hong Kong. These business linkages make Hong Kong an important destination in Asia for Alberta businesses.

Republic of Ireland

Ireland is a significant travel market for Alberta, both for inbound and outbound travellers. In 2007 there were 12,000 tourist visits





to Alberta and another 14,100 Albertans travelling to Ireland. Inbound tourist growth has been explosive, averaging 82% per year between 2005 and 2007. Outbound travel also grew strongly but at a more modest growth rate of 24% per year. In 2007 there was an average of 72 trips per day, well below that required for daily air service. Given the seasonal variation, the market may be better suited to summer charter air service.

Trade between Ireland and Alberta is very weak, Ireland ranking only 52nd overall. Exports have declined recently but imports have grown strongly by 21% per year, but from a small base. Air cargo exports are low, while imports by air are moderate. Direct air service could stimulate business and trade between the two jurisdictions.

New Zealand

Like Ireland, New Zealand is a significant travel market for Alberta, both for inbound and outbound travellers. In 2007 10,200 tourists visited Alberta and 13,900 Albertans travelled to New Zealand. Growth in both has been strong at approximately 20% per year between 2005 and 2007. The total number of trips is relatively low averaging 66 per day in 2007, and any service from Alberta would rely on connecting traffic to Australia.

New Zealand is a moderate export and market and growth in exports has been strong (17%) in recent years. Air cargo exports have been high to New Zealand (7,940 t), but imports by air have been much lower (465 t).

New Zealand was identified as a secondary target market by Travel Alberta and Alberta Ministry of International and Intergovernmental Relations.

Middle East

While no individual country in the Middle East featured high on the priority list, this region is important in terms of trade, investment and travel. Factors for the Middle East region (including north-east Africa) are as follows:

- → Significant number of trips by residents (33,900) and strong growth (5,700 per year, 17%);
- Relative small number of tourist visits (9,900) and declining in recent years;
- → Significant export market (\$1,217M) and strong growth (\$252M/yr, 21%);
- → Moderate import market (\$61M, rank 13th) and steady growth (\$5M/yr, 8%); and
- → Significant air cargo tonnage for exports (26,620 t) and moderate for imports (718 t).

In addition, business linkages between Alberta's and the Middles East's oil industries are strong and this is not well captured by the trade and investment data examined. United Arab Emirates is one of the primary generators in the region of trade and travel with Alberta and its major air carrier, Emirates Airline, would serve traffic to the region, plus connecting traffic to Africa and South Asia, from its hub in Dubai.

Lower Priority Markets

Exhibit VI-3 includes some lower priority countries (at the bottom of the table), The tourism demand and trade links for these countries is currently too low for them to be considered priority markets at this time, but over the longer term they may develop. These countries include: Spain, Denmark, Switzerland, South Africa, Belgium, Austria, Sweden, Russia, Malaysia and Norway.

Consistency With Travel Alberta Plan

The identified high priority countries match closely with those identified as the targeted geographical markets in the Travel Alberta Business Plan 2009-2012. Only the Scandinavian countries, **Denmark, Norway and Sweden** are identified in Travel Alberta's plan, but not in the above priority countries (excluding those countries which already have scheduled service). These countries are ranked highly in terms of travel, trade and

investment, but did not quite make the 12 priority countries identified. Only **Hong Kong, Singapore and Ireland** are on the above priority list, but not on Travel Alberta's plan.

Potential International Air Service Routes and Carriers

Having identified the markets that present opportunities, we need to match up the potential routes and carriers that would best serve those markets.

The priority for international air service routes is to hubs in Asia which have significant O/D demand, inbound tourism, trade and investment in Alberta. Total passenger demand, including connecting passengers, is a crucial element in identifying the priority routes. Considering these factors and the air service network of prospective airlines, the routes with the highest priority were identified as:

- → Seoul
- → Hong Kong
- China: Shanghai or Beijing

Due to the seasonality in demand on these and existing routes, it may be necessary to operate seasonal service or have higher frequency or capacity in summer to meet peak tourist demand.

Air Canada has the right fleet to serve these markets. Potential international carriers to serve these routes include:

- → Korean Airlines
- → Cathay Pacific
- + Air China or China Eastern

Factors supporting the introduction of these high potential routes include:

→ Passenger demand for wide-body long range aircraft (300+ enplanements per day), including connecting traffic;

- → High number of inbound tourists and/or high growth potential;
- → Strong business ties; and
- → Air cargo demand available to fill belly-space of passenger aircraft.

Air service to Australia and/or New Zealand is a priority in terms of tourism and trade, but is not feasible without significant connecting traffic from other Canadian provinces. This could prove a challenge given the length of the route and competing locations with better airline economics such as Vancouver for serving the route. Service to Australia or New Zealand should be considered a long-term priority. Air service to Singapore is not feasible without a stopover in Asia. The O/D passenger market to Taiwan is much smaller than China, Japan and South Korea and these are considered higher priority than Taiwan at present.

With the current trends in the growth in air travel demand and the strong economic growth in the BRIC countries, there will be potential for future air services to India, Brazil, Russia. There are currently less than 50 trips per day to these countries and significant growth is required before air service would be feasible. However, air service to Brazil would be attractive to other travellers from southern South America and for the Brazilian ski market. Air service to Brazil would be feasible before air service to India and Russia. Service to India and Russia are considered long-term priorities.

Trade and travel to/from the Middle East is growing strongly and service to a hub in the region (e.g., Dubai) would serve this growing market in addition to providing connections to South Asia and eastern Africa. The strong business ties between Alberta and oil producing countries, particularly in the Middle East, would contribute to and benefit from direct air service.

Mexico is Alberta's third largest travel market and its fourth largest trading partner. Alberta currently has daily scheduled service to Mexico City and less frequent service to vacation





destinations. With business linkages continuing to increase, schedule services to other destinations will become important and the current bilateral may hinder commencement of such services.

Status of Air Service Agreements Beneficial to Alberta

The important markets, routes and potential carriers were identified in the previous sections. For some, such as Hong Kong

and Japan, the necessary air service agreements are in place today to allow service to commence. Other markets will require new or revamped ASA to be in place before any service can be provided. Priority setting needs to recognize the status of current and anticipated air service negotiations.

Exhibit VI-4 summarizes our understanding of the status of the current negotiations of air service agreements for Alberta's priority air service markets which don't have Open Skies type agreements.

Exhibit VI-4. Status of Negotiations of Air Service Agreements for Markets of Interest to Alberta

Country	Comment
South Korea	The two negotiating teams met in November and talks are on-going. CTA has granted some interim expansion of services for the summer season.
China	China has not wanted to discuss Open Skies or Approved Destination Status due to other political considerations unrelated to tourism or transportation. Recently, however, negotiations have resumed between Canada and China.
UAE	No appetite to give them full rights to serve Canada on a scheduled basis as they wish to funnel Canadian traffic over Dubai (mainly interested in beyond traffic to feed their world network) that potentially would dilute the market carried over other European hubs and thereby jeopardize the sustainability of more important point to point services to major European centres.
India	There are enough rights to start air service.
Mexico	ASA is of the traditional bilateral type with no 5ths. A number of Canadian and two Mexican airlines are designated to serve the two markets with limitations by city pair. Last such designation was February 2008. Delegations from both countries have agreed to meet again in 2009 to explore further areas of modernization and liberalization.
Taiwan	An air service arrangement signed in 1999 allows air service between the two countries. It is the only country without an ASA.
Russia	Difficult negotiations to date - future negotiating date set.
Brazil	There are no restrictions in place at this time.
Hong Kong	Scheduled service to Alberta could be initiated today - Cathay Pacific and Air Canada currently serve this market to Canada.
Japan	ASA just amended for cargo operations and liberalized its ASA with Canada allowing access beyond Tokyo together with potential access to Haneda (Tokyo's metropolitan airport). Advised by DFAIT that Japan does not wish to have full Open Skies Agreement with Canada. Interestingly, the US has announced that Japan and the US are set to begin negotiating an Open Skies Agreement on May 13, 2009.
Australia	Current bilateral sufficient, no timetable set for negotiating Open Skies type agreement.
Singapore	Allows any number of air carriers from either country to operate non-stop passenger scheduled air services as frequently as desired, between any city in Canada and Singapore.

Note: Excluding countries already with Open Skies Type Agreements



Priority Markets and Open Skies Agreements

In summary, the priority markets, air services and new air service agreements based on the available data are presented in Exhibit VI-5.

Exhibit VI-5. Priority Markets, Air Services and Air Service Agreements

Priority Markets	Priority Air Service	Priority Air Service Agreements		
Markets With Existing Open Skies Type Agreements				
US	Adequate Service	Existing Open Skies ASA		
United Kingdom	Adequate Service	Existing Comprehensive ATA with EU		
Netherlands	Adequate Service	Existing Comprehensive ATA with EU		
Germany	Adequate Service	Existing Comprehensive ATA with EU		
France	Medium term	Existing Comprehensive ATA with EU		
Italy	Longer term	Existing Comprehensive ATA with EU		
Rep. of Ireland	Longer term	Existing Comprehensive ATA with EU		
New Zealand	Longer term	Existing Open Skies Type ASA		
Mark	ets Without Existing Open S	kies Type Agreements		
South Korea	Short term	High priority		
China (Mainland)	Short term	High priority		
Mexico	Medium term	Medium priority		
UAE	Medium term	Medium priority		
Brazil	Medium term	Low - no restrictions on AB presently		
Hong Kong	Short term	Medium priority		
India	Longer term	Low - sufficient rights exist		
		Low – demand inadequate to support		
Australia	Longer term	service		
		Low – demand inadequate to support		
Taiwan	Longer term	service		
Singaporo	Longor torm	Low - demand inadequate to support service		
Singapore	Longer term	Low - demand inadequate to support		
Russia	Longer term	service		
Japan	Medium term	Medium priority		



Introduction

In setting up the Alberta Open Skies Forum the input of key stakeholders was recognized as being critical in formulating Provincial priorities with respect to air service markets and targeted concerns with respect to Canada's International Air Policy.

Accordingly, the input of delegates was solicited during interactive workshop sessions moderated by Jacobs Consultancy to capture stakeholders' opinions in three primary areas:

- First, to validate the assumption that air access to international markets was a vital issue for provincial tourism and trade;
- Second, to identify stakeholder concerns with respect to Canada's extant Blue Sky Policy and how it was being implemented; and
- 3. Third, to formulate the position of the Province of Alberta in terms of air service priorities and related air service agreements.

The specific questions posed and a summary of the key points raised during the subsequent discussions are provided below.

I. <u>Is Air Access to International Markets an Important Issue for</u> Provincial Tourism and Trade?

Stakeholders responded overwhelmingly in the affirmative. Air access was unanimously cited as being extremely vital to the success of the Tourism Industry and to facilitate Trade between Alberta and its principle markets.

The inbound travel statistics for Alberta provide an important insight into the key issues. Today only 50% of inbound international tourists destined for Alberta arrive by air. This is symptomatic of a major issue whereby seat capacity/supply is inadequate to meet the demands of foreign tourists traveling to





the province. As a result, inbound visitors are choosing other Canadian gateway cities outside of Alberta, which in turn results in a dilution of tourism spend within the province.

Furthermore, in light of the perceived less-than-adequate air service to Alberta there is a significant lost opportunity as tourists are choosing other international destinations. Indirect flights, with one or more stops, add extra time and expense for a visitor, consequently the province is losing potential tourists to the many competing national and international tourism opportunities that are more convenient and, as a result, often less expensive.

Further evidence of the importance of good air access was apparent when examining the foreign visitor statistics. This information illustrated that as airline seat capacity expanded there was a corresponding increase in inbound visitors to the province. Specifically, in 2006, there was an increase in flights/seat capacity between Alberta and the UK with the introduction of new scheduled services to London with British Airways service to Calgary and Air Canada service to Edmonton along with increased service between Calgary and Frankfurt with Lufthansa Airlines. In all cases, when non-stop air travel was provided to Alberta there was a significant growth and stimulation of inbound passenger traffic clearly demonstrating that these markets were underserved.

Delegates also felt that business traffic was the key to year round sustainability of international air services and that air service target markets should be pursued with strong linkages in both tourism and trade. This is particularly important with the distinct seasonality of tourism demand to Alberta particularly during the shoulder seasons. During these periods, the volume of passenger traffic is lower however the business traffic tends to be strong and produces a higher yield for the airlines thereby making the route profitable and sustainable year round.

Another key issue that was identified was the need to continue an open dialogue and develop an on-going proactive process that would allow airports, tourism, business and other stakeholders to collaborate and provide the winning conditions to improve and sustain air access links to the province. It was suggested that a formal mechanism be developed to obtain the input of key airport, tourism and business stakeholders on air access issues and to highlight priority target markets and the corresponding air service agreements.

Other key rationale expressed by the delegates in terms of the importance of good air access to international markets and more Open Skies Air Service Agreements included that more open agreements:

- make it easier for foreign carriers to serve routes to Alberta this is important as the number of visitors/tourists tend to be higher when foreign airlines operate the service as they tend to carry more originating traffic from their country;
- promote tourism and business investment and trade opportunities as it makes it easier to do business in Alberta;
- promote low cost fares through increased airline competition which in term will stimulate inbound travel; and,
- generate new revenues from the additional tourists that will be attracted to the province which in turn will lead to more jobs in the industry.

II. What Changes to the Current International Air Policy Negotiation Process Would Most Benefit Alberta and Its Stakeholders?

There were three key changes that were suggested by stakeholders with respect to the air service agreement negotiation process.

First, it was felt there was a need to improve communication during each stage of the negotiation process and to have a structured plan to support the priority air service agreements for Alberta. To this end, the following specific actions were suggested:

- There was a request to stage a similar Open Skies Forum on an annual basis with key Alberta stakeholders to update the list of priority air service markets and corresponding air service agreements. It was felt that this it a dynamic situation that needs to be reviewed regularly to ensure that prime market opportunities are not obstructed by air access barriers. It was suggested that a smaller group of stakeholders, lead by the province, could meet on a more regular basis throughout the year.
- 2. A proactive political lobbying effort, led by the Province of Alberta, needs to be carried out that would be directed towards federal ministers that generate the negotiation mandates for air service agreements. Specifically, the two key ministers of Transportation and International Trade as well as the Tourism Minister should also be approached for support. This lobbying effort would ensure that Alberta's target markets are considered on the list of priority air service agreement negotiations to be pursed by the Federal Negotiator in the future.
- 3. Concurrently, business cases should be prepared, with input from all stakeholders, to provide critical input into Transport Canada and to assist with lobbying selected federal political representatives. It was felt that there was a need to document and communicate the vital importance of specific Air Service Linkages and associated Air Service Agreements that are tied to the sustainability and growth of existing and emerging markets that demonstrate strong tourism and trade linkages to Alberta. This input was directed at improving the priority setting process within Transport Canada and DFAIT, and to inform the negotiators of the community's needs and aspirations in line with the Blue Sky Policy of greater inclusiveness and prior to negotiations.
- 4. Observer status at the negotiation table was felt to be important and could be granted to a single party who would represent the collective interests of all provincial stakeholders. It was

- generally felt that a representative from the major Canadian airports should perform this role as they have the most direct expertise and knowledge in this area. Another option suggested was to have the Canadian Tourism Commission fill this role on behalf of the Canada-wide tourism industry, although the Canada-wide mandate they would have was seen as likely to be less responsive to Alberta's needs than having one of Alberta's major international airports on the team. In either case this party would provide input into the negotiating team when required while acting as a liaison with the Alberta stakeholders by communicating progress and outcome of specific air service agreement negotiations.
- 5. More transparency was suggested from Foreign Affairs and International Trade Canada regarding the disclosure of the specific agreement details. This is a joint responsibility of both the Canadian Transportation Agency and DFAIT. To this end it was suggested that a debriefing conference call be conducted by the negotiating team subsequent to negotiations with all interested parties to provide an understanding of the details and implications of the specific agreements. In addition, it was suggested that the details of both current and future agreements be published in a consistent form (noting that TC, CTA and DFAIT all maintain published lists that have been found to be out of sync) and made available on the web for easy access.

Second, there was overall support for the Federal 'Blue Sky' Policy; however, there is a need to have a more targeted approach with a focus on Strategic Commercial Markets that are important for Canada and Alberta from both a tourism/travel and business/trade perspective and that are clearly underserved by air transportation. It was felt that there has been too much time and resources dedicated towards agreements with countries that have weak tourism and business linkages and consequently have little positive benefit to the country and the province.





Third it was suggested that Transport Canada seek a broader regional perspective when formulating their negotiating strategy with balanced input from the airports, shippers, provincial government, and the communities rather than just focusing on air carriers. To accomplish this Transport Canada needs to expand their list of contacted parties when they solicit input prior to negotiations that would include tourism, business and government representatives. Currently only the airlines and, to a lesser extent, airports are consulted and it was felt that the airlines have their own commercial objectives that they are pursuing that are not necessarily consistent with the objectives of the wider economic, business and tourism interests of the Province of Alberta.

III. The Priority Markets for New Air Service Agreements Were
Previously Identified As: Short Term: South Korea, China and
Hong Kong; and, Medium Term: Mexico, Japan and
UAE. Should These Be Alberta's Priority Air Service Markets?

Delegates were asked to identify their priority markets and their reasons for selections. The consensus view of attending stakeholders is summarized below.

In order of importance, as identified by delegates, the target markets of interest are shown in Exhibit VII-1.



Exhibit VII-1. Short and Medium Term Target International Air Service Markets

Country	Comment
	Short-term (1~3 Years)
	Large inbound market potential confirmed by CTC and Canadian Embassy
	- Already sixth largest inbound visitor market (2007)
South Korea	■ High load factor on current flights
	Lack of available seats restricting growth opportunities
	Large trade as well as tourism potential
	- Fifth largest export market for Alberta in 2008
	- Understood both countries interested in Free Trade Agreement which will boost trade and travel
	Korean Airlines stated their willingness and ability to service Alberta market
	Opportunity to capture large market from number of Arab countries beyond UAE through Dubai hub
	High yielding visitors
United Arab Emirates	Strong petro-business ties to region
	Potential for Canadian carriers to serve market and beyond as currently happens through London-Heathrow, Frankfurt, Hong Kong and Singapore
	Emirates stated their willingness and ability to service Alberta market
	Proven ability to develop new markets (Perth and Queensland in Australia) from established network while competing national carrier (Qantas) has been applied to the carrier
	increased number of flights
	Increasing business links
	In 2008 represented the second largest export and import market for Alberta
China	- in 2006 represented the second largest export and import market for Alberta - Second largest market increase from 2005 to 2008
Cillia	
	 Large Visiting Friends and Relatives market Large number of Chinese students already in Alberta education system – direct air service would help serve and grow that market
	Earge number of offinese stadents affected in Alberta education system affect all service would neep serve and grow that market
	Materi de open ones with orinia to cristic opportunites don't siprior on to orine dotates by delaute
	- Increasing middle class with ability to traver
	- In 2007 represented the ninth largest inbound tourism market even with limited access to Canada at present
	- Fourth largest market increase from 2004 to 2007
	Ready for thawing in political relationship and the advent of Approved Destination Status
	Large air cargo market
	Large leisure travel market potential
	Gateway to South East Asia
Hong Kong	Noted that market currently well served from Vancouver and so lower priority than others in this group
	Current Air Service Agreement too restrictive
	Need to expand list of authorized carriers and cities
Mexico	Significant business links
	Fourth largest export market for Alberta (2008)
	O Increasing middle class would visit if air links and competitive pricing improve
	O Significant business links
	O Significant business links
	Could be gateway to South America
	Medium Term (3~7 Years)
	Current Air Service Agreement too restrictive
	Convenient air service from/to Japan significantly decreased by Air Canada resulting in fewer visitors
Japan	- In 2007 still represented third largest visitor market to Alberta
	High yield visitors
	Mature market: challenges with relative weak economy in recent years
	Third largest export market for Alberta in 2008
	Also third largest increase in Alberta exports between 2005 and 2008
	CTC shows potential for Western Canada
	Expanding trade links, including oil/gas, hi-tech and film industries
India	Likely to emerge from recession earlier and stronger
	Large tourism and Visiting Friends and Relatives potential
Brazil	OTO Shows potential for Western Ourland
	Expanding trade links: sixth largest export market for Alberta in 2008 The state of the
	- Fifth largest increase in exports from Alberta from 2005 and 2008
	Leisure travel potential: Australians are prolific travellers, both at a young age and in middle/senior years
	Seventh largest visitor market to Alberta in 2007
Australia	Also seventh largest export market for Alberta in 2008
	- Sixth largest increase in Alberta exports between 2005 and 2008
Cuba	Current Air Service Agreement too restrictive
	Overwhelmingly outbound market







Freedoms of the Air

The **Freedoms of the Air** are a set of commercial aviation rights granting a country's <u>airline(s)</u> the privilege to enter and land in another country's <u>airspace</u>. In anticipation of the need to both enable and regulate the anticipated growth in international civil aviation after the Second World War, the <u>United States</u> had called for a standardized set of separate air rights which may be negotiated between states.

The "Freedoms" were formulated as a result of disagreements over the extent of aviation liberalization contained in the Convention on International Civil Aviation of 1944. The Convention signed on December 7, 1944 in Chicago, Illinois, and became known as the "Chicago Convention", was successful in drawing up a multilateral agreement in which the first two freedoms, known as the International Air Services Transit Agreement, or "Two Freedoms Agreement" were open to all signatories. As noted below, several other "freedoms" have

since been added, although not all are recognized under international <u>treaty</u>.

The Convention also established the International Civil Aviation Organization (ICAO), a specialized agency of the United Nations charged with coordinating and regulating international air travel.



ICAO defines the Freedoms or Rights as follows¹²:

First Freedom of the Air - the right or privilege, in respect of scheduled international air services, granted by one State to another State or States to fly across its territory without landing (also known as a).



Since the end of the <u>Cold</u>

<u>War</u>, *First Freedom Rights*are almost completely
universal, although most
countries require prior
notification before an
overflight.

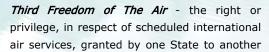
Second Freedom of the Air - the right or privilege, in respect of scheduled international air services,

granted by one State to another State or States to land in its territory for non-traffic purposes.

The most famous example of the **Second Freedom Right** is Gander, Newfoundland which was a frequent stopping point for

airlines from the U.S.S.R. and East Germany on the way to Cuba and South America. Shannon Airport was used as a stopping point for most North Atlantic flights until the 1960s. Anchorage was similarly used for flights between Europe and East Asia,

bypassing Russian airspace, until the 1980s. Anchorage is still used from some Chinese airlines for flights to the U.S. from China. Second-freedom rights are not commonly exercised by most passenger carriers today, but they are widely used by air cargo carriers, and are more or less universal between countries.





Manual on the Regulation of International Air Transport (Doc 9626, Part 4).

State to put down, in the territory of the first State, traffic coming from the home State of the carrier.

Fourth Freedom of The Air - the right or privilege, in respect of scheduled international air services, granted by one State to another State to take on, in the territory of the first State, traffic destined for the home State of the carrier.

the carrier.

Third and Fourth Freedom Rights are almost always granted simultaneously in bilateral agreements between countries.



Fifth Freedom of The Air - the right or privilege, in respect of scheduled international air services, granted by one State to another State to put down and to take on, in the territory of the

first State, traffic coming from or destined to a third State.

Two sub-categories exist.

Beyond Fifth Freedom allows the right to carry passengers from the second country to the third country. Intermediate Fifth Freedom allows the right to carry passengers from the third to the second country.

Fifth Freedom

Many airlines have fifth-

freedom rights to transfer passengers across the Pacific Ocean via Japan, including <u>United Airlines</u>, <u>Northwest Airlines</u>, <u>China Airlines</u>, and <u>Singapore Airlines</u>. Taiwanese airlines such as <u>China Airlines</u> and <u>EVA Air</u> have limited rights to fly over Chinese airspace, so many of their European destinations have a stop in Southeast Asia

or the Middle East before continuing on to Europe. Northwest likewise has Fifth- Freedom Rights to carry passengers from the United States to India via Amsterdam. Many European, Middle Eastern and Indian sub continent airlines have these rights inside South East Asia, and/or on the way to/from/between Australia and New Zealand, on the way to/from both South East Asia, and their home country. For Example, Emirates Airlines has these rights from Dubai to Bangkok, from Bangkok to Sydney, and between Australia and New Zealand (New Zealand being a forth country).

Of note, ICAO characterizes all "freedoms" beyond the Fifth as "so-called" because only the first five "freedoms" have been officially recognized as such by international treaty.

Sixth Freedom of The Air - the right or privilege, in respect of scheduled international air services, of transporting, via the home State of the carrier, traffic moving between two other States.

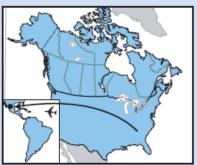
Singapore Airlines, Cathay Pacific Airways, and other airlines in Asia use Sixth Freedom Rights extensively to fly passengers between Europe and Australasia. Likewise, American Airlines connects passengers from Europe and



Asia to other countries in the Americas via U.S. airports, and <u>British Airways</u> commonly tickets passengers from America to Asia via London. <u>Icelandair</u> sells tickets between Europe and North America via <u>Iceland</u>.

Seventh Freedom of The Air - the right or privilege, in respect of scheduled international air services, granted by one State to another State, of transporting traffic between the territory of the granting State and any third State with no requirement to include on such operation any point in the territory of the recipient State, i.e. the service need not connect to or be an extension of any service to/from the home State of the carrier.

Seventh Freedom



The *Seventh Freedom Right* is rarely used because it is usually not in the commercial interest of airlines. Still, there are a few notable examples. <u>Grupo TACA</u> offers service from the United States and Canada to Cuba, which does not feed any of its other routes.

Eighth Freedom of The Air - the right or privilege, in respect of scheduled international air services, of transporting cabotage traffic between two points in the

territory of the granting State on a service which originates or terminates in the home country of the foreign carrier or (in connection with the so-called Seventh Freedom of the Air) outside the territory of the granting State (also known as a

The Eighth Freedom Right is also known as "consecutive cabotage" Cabotage, and is extremely rare. The main example of eighth-freedom rights is the European Union which will be discussed later. Other examples of an exchange of this right include the Single Aviation Market (SAM) established between Australia and New Zealand in 1996 and the 2001 Protocol to the Multilateral Agreement on the Liberalization of International Air Transportation (MALIAT) between Brunei, Chile, New Zealand and Singapore. Otherwise, such rights have usually only been granted in isolated instances where the domestic air network is very underdeveloped. A notable instance was Pan Am's authority to fly between Frankfurt and West Berlin during the 1950s and 1960s. In 2005, the United Kingdom and New Zealand concluded an agreement granting unlimited cabotage rights. Given the distance between the two countries, the agreement can be seen as reflecting a political principle rather than an expectation that these rights will be taken up in the near future. New Zealand had previously exchanged eighth-freedom rights with Ireland in 1999.

Eva Air of Taiwan currently flies from Taipei to Seattle to New York, with the right for Taipei/New York passengers to make a stopover in Seattle, if continuing later on to New York, and vice versa. In the 1950's through the early 1970's, B.O.A.C. flights from London to New York to Los Angeles to Honolulu permitted London origination passengers to make stopovers inside the U.S. In the 1980's and 1990's, El Al Israeli airlines had similar rights for passengers to/from Tel Aviv to Los Angeles, which stopped in New York. JAT Yugoslav Airlines had similar rights in the 1980's from Zagreb to Chicago to Los Angeles

Ninth Freedom of The Air - the right or privilege of transporting cabotage traffic of the granting State on a service performed entirely within the territory of the granting State.

(also known as a *Ninth Freedom Right* or "*stand alone" cabotage*). Pan Am had many flights to/from West Berlin to cities in West Germany from the 1950's to 1990's, which did not continue on to other destinations in the

The U.S. Department of Transportation also defines and comments on Cabotage in the following way:

Airline cabotage is the carriage of air traffic that originates and terminates within the boundaries of a given country by an air carrier of another country. Rights to such traffic are usually entirely denied or severely restricted. Under 49 U.S.C. section 40109(g), we may authorize a foreign air carrier to carry commercial traffic between U.S. points (i.e., cabotage traffic) under limited circumstances. Specifically, we must find that the authority is required in the public interest; that because of an emergency created by unusual circumstances not arising in the normal course of business the traffic cannot be accommodated by U.S. carriers holding certificates under 49 U.S.C. section 41102; that all possible efforts have been made to place the traffic on







Algeria	Grenada	Pakistan
Antigua*	Guatemala*	Panama
Argentina	Guyana	Peru
Aruba	Haiti	Philippines
Australia	Hong Kong	Poland
Austria	Hungary	Portugal
Bahamas*	Iceland	Romania
Barbados	India	Russia
Belgium	Indonesia	Saint Lucia
Brazil	Ireland	Saudi Arabia
Bulgaria	Israel**	Serbia
Chile	Italy	Singapore
China	Ivory Coast	Spain
Columbia	Jamaica	St. Kitts & Nevis
Costa Rica	Japan	Sweden
Croatia	Jordan	Switzerland
Cuba	Korea	Taiwan**
Czech Republic	Kuwait	Thailand
Denmark	Lebanon*	Trinidad & Tobago
Dominican Republic	Malaysia	Ukraine
Egypt	Mexico	United Arab Emirates
El Salvador	Morocco	United Kingdom
Fiji	Netherlands	United States of America
Finland	Netherlands Antilles	Venezuela
France	New Zealand	Vietnam
Germany	Nicaragua	
Greece	Norway	

Source: CTA website (April 2009)



^{* 1949} Canada-UK Air Services Agreement, by succession ** Other instrument in lieu of an Agreement



Alberta Open Skies Forum

tourism and trade opportunities benefiting the province, the tourism industry, trade linkages, airports service agreements to facilitate access to international markets - but first we need to identify the priority destinations and frequency of service. facilitate access by eliminating barriers with respect to the number of airlines providing service, fares, and ultimately the consumer through more choice of flights and lower fares. Opening Alberta's skies to more air service is a key economic growth enabler that would increase target markets. The time is right to aggressively pursue more liberalized air Open skies agreements

as to the benefits of open skies agreements from different stakeholder perspectives. markets and the international air service priorities for the Province of Alberta. Information will be shared This forum will provide delegates with an opportunity to assist with the identification of those key target review of potential new air services that demonstrate sufficient demand will also be reviewed A preliminary

your input on the key international air service markets for Alberta. Industry & Trade and from the Federal Government followed by a workshop of all delegates to obtain The event will feature presentations from industry leaders and experts in the Tourism, Airline, Airport,

workshop format centered on the key geo-markets that have been identified as possible candidates to support new or enhanced air service. on new emerging markets that should be considered. Industry participation is critical in terms of validating the priority geo-markets and providing information networking. Sufficient time will be provided for questions, discussion and This participation will be facilitated using a



OPEN SKIES FORUM: Alberta's Air Service Priorities

May 14, 2009

Shaw Conference Centre
Edmonton, Hall C
RSVP by May 8, 2009 to Bill Hodgins
Phone: 780-427-6485

E-mail: bill.hodgins@gov.ab.ca













Program

8:00 am Reception and Light Breakfast

8:30 am Welcome and Opening Remarks

The Honorable Luke Ouellette
Minister of Transportation, Province of Alberta

Minister of Tourism, Parks and Recreation, The Honorable Cindy Ady

Province of Alberta

9:00 am Federal Government Perspective

Federal Chief Air Negotiator Mr. Rob Ready

9:30 am Tourism Perspective

Don Leitch

CEO, Travel Alberta

10:00 am Refreshment Break

10:15 am Airline Perspectives – Panel Discussion

Airlines to be announced Moderator: Bob Scott, Assistant Deputy Minister Tourism, Parks and Recreation

11:15 am Airport Perspectives

Calgary Airport Authority - representative TBA

and Business Development Edmonton Airports - Peter McCart, VP Marketing

11:45 am Trade and Commerce Perspective

Mr. Guy Turcotte

Chairman, Stonecreek Properties

12:00 pm Luncheon Keynote Address

The Honorable Ed Stelmach (TBC) Premier of Alberta

1:30 pm Alberta's Air Service Targets

Neil Raynor, Director, Jacobs Consultancy

2:00 pm Workshop Discussions

Asia-Pacific

Europe

Emerging Markets

3:30 pm Workshop Discussion Outcome

4:00 pm Closing Remarks/Next Steps

Bill Werry

Recreation Deputy Minister, Alberta Tourism, Parks and

Alberta Tourism, Parks and Recreation Moe Rehemtulla