CANADA AT THE CROSSROADS IN INTERNATIONAL TOURISM:
THE CHALLENGE OF ENSURING OUR ECONOMY BENEFITS
FROM THIS INDUSTRY OF THE FUTURE

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Check against delivery

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Ladies and gentlemen, good afternoon.

Today I want to speak to you about Transat, but especially about the travel industry, which is very much in the spotlight these days because of its exposure to oil prices, along with the financial woes of many airline companies, and environmental issues.

Transat is one of the world's leading integrated tour operators, with 6,000 employees in eight countries, more than 60 destination countries, and sales of $3 billion in 2007. We serve approximately 2.5 million customers, mainly from Canada and Europe. When it comes to inbound travel to Canada, we sell our products just about everywhere the world, and every year we help bring close to half a million foreign tourists to our shores.[1]

Over the past five years, we have grown by more than 50 percent.[2] International tourism has reached cruising altitude, and we fully intend to continue our expansion.

As you know, the current economic context demands steely nerves, talent and a savvy blend of daring and caution.

A few days ago, we announced our quarterly results, as I am sure you are aware. Not surprisingly, our environment remains very demanding when it comes to profit margins... But it also comes as no surprise, in spite of all the talk about oil prices, that it remains very, very difficult to discourage travellers. So far in 2008, we have increased our customer numbers by 20 percent over last year. We have a seasoned organization, which not only allows us to absorb these kinds of impacts, but also to work at winning more market share.

If we look at things over a long period – let's say the past half-century – the tourism industry in general, and *international* tourism in particular, is probably among those that has been least volatile. There has almost always been growth.

I see no reason why this should not continue. Demographics are on our side. People have time and money. They want to discover the world. New source markets are emerging, and increasing numbers of destinations are offering solid infrastructure and products. All this translates into colossal economic activity, to the tune of $6 trillion and 220 million jobs around the world.[3] In terms of international tourism alone, it is expected that the number of travellers will increase from around 900 million today to 1.6 billion in 2020.[4]

[1] Transat, via its Jonview Canada business unit, is the leading incoming tour operator in the country. In 2007, Jonview Canada sold close to 250,000 travel packages to Canada, in around 50 countries. In addition, carrier Air Transat serves more than 30 European airports in the summer season, in about 10 countries to which it flies. Vacances Transat (France) and Canadian Affair, in the United Kingdom, two other Transat business units, are the leading tour operators selling Canadian destinations in their respective markets.
[2] Sales were $2.1 billion in 2003, and are well on their way to topping $3 billion in 2008 ($2.7 billion after nine months, as at July 31, 2008).
[3] World Travel and Tourism Council.
[4] World Tourism Organization.

Two million Canadians and 300,000 Quebecers[5] rely on tourism, directly or indirectly, for employment. Our tourism-generated revenues are of the order of $67 billion[6] a year.

I'm not sure if anyone here today enjoys skiing. If so, maybe you're worried about global warming. Maybe you're asking yourselves whether Canada's ski industry is jeopardized.

Well, it may indeed be at risk. But not only because of global warming. Right now, Dubai, in the United Arab Emirates – a region not exactly known for freezing-cold temperatures – is positioning itself as a world-class ski destination. It has even adopted the slogan "An Unforgettable Snow Experience" no less! This is more than an anecdote. It is a sign of the times.

The Emirates already welcome close to eight million tourists every year – that's almost four times as many as the Bahamas.

And did you know that you will soon be able to visit the Emirates and see the Louvre? In 2012, thanks to a $1.5-billion agreement, *including $630 million simply for authorization to use the name,*[7] a part of the museum's collection will be on view in Abu Dhabi. The Louvre is one of the most powerful tourist attractions in the world, with some eight million visitors every year, five million of them from outside France.

It should therefore come as no surprise that investors in that part of the world have seized the opportunity to buy a 20 percent stake in Cirque du Soleil,[8] which will open a permanent show in Dubai.

Dubai is not only positioning itself firmly as a first-class tourism destination. That is barely the tip of the iceberg.

The Emirates' wealth relies on a non-renewable resource that will one day be exhausted. And they know it. With their capital, they are making strategic, long-term choices. Nothing is off-limits to them; they can gain a foothold in any industry segment they wish. And yet to which sector have they undertaken to migrate their economy? The tourism and travel industry. I think that says a lot.

There is a certain irony in this situation, and I am sure it is not lost on you. Remember the fate we reserved for the planned casino in Montreal's Peel Basin, which Cirque du Soleil was part of, and which would have enabled us to enhance our profile as an international destination? It was shelved forever! In light of that scuttled deal, should we be surprised to see that we are in decline as a destination? And let me be clear: I have nothing bad to say about that Cirque du Soleil deal, quite the contrary! I know an entrepreneur when I see one. But it's nevertheless odd to see home-grown talents from Quebec becoming star attractions in Dubai and Las Vegas, while we sit here twiddling our thumbs.

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[5] Direct and indirect.

[6] Statistics Canada, National tourism indicators.

[7] *Business Week,* August 4, 2008.

[8] "Istihmar World and Nakheel PJSC, both units of government-owned Dubai World, said they acquired 20 percent of circus operator Cirque du Soleil Inc. as the sheikhdom seeks to grow as a tourism destination. The remainder of Canada-based Cirque du Soleil will continue to be owned by founder Guy Laliberté. (...) Dubai is investing in tourism with the aim of increasing visitor numbers to 10 million per year in 2010 from 7 million last year. Cirque du Soleil has agreed to perform at Nakheel's Palm Jumeirah, a man-made island in the shape of date palm, for 15 years starting in 2011." (Source: Bloomberg, August 6, 2008).

Now let's take a look at the submerged part of the iceberg. Twenty-five million passengers travelled through Dubai's international airport in 2006. That number is expected to grow to 65 million by 2010. Meanwhile, construction has begun on *another* airport, Dubai World Central, near Abu Dhabi, which will have a passenger capacity of *120 million*.

A large portion of those passengers, of course, do not visit Dubai or Abu Dhabi, but simply *transit* through the airport. Thus the name of the new airport *Dubai World Central* speaks volumes. It will be a planetary hub.

The strategy, or at least the *vision,* of these movers and shakers in the Emirates could not be clearer. They have seen and properly grasped that the travel industry holds promise. Huge promise. And they are taking steps to give it a dominant position and to ensure their economy benefits from it.

Emirates, the area's "local" airline, is in fact a company with an increasingly vast global reach. It has a fleet of 113 aircraft and serves 100 destinations in 62 countries. But that is only the beginning, since it has a staggering *58 Airbus A380s* on order.

I've just spoken at length about the United Arab Emirates, but I could also have used South Africa, Asia or Latin America as examples. The majority of countries, not only the larger ones, and not simply those blessed with the finest tourist attractions or the best infrastructures, have taken the opportunity to hitch their economies to the "turbo-propulsion" of the travel industry, and a great many of them are already reaping the benefits, with international tourism on the upswing.

Of course, we are trying to do the same thing in Canada. In our own way. In other words, slowly – by taking one step sideways and one backward for every two that we take forward. That explains the unique situation in which we find ourselves: international tourism to Canada has been declining for several years.[9]

There are times when we seem to discern the trend and try to take advantage of it. For example, when we decide to back the efforts of a Bombardier to develop a new line of aircraft, or of a Pratt & Whitney to develop new jet engines. We seem to click, and "get" the fact that people are going to be travelling more and more, and that there will be companies that, in a bid to satisfy that demand, will buy those planes and those engines. And in so doing, we position ourselves on the international market.

The same is true when we negotiate, with the European Union for instance, so-called open skies agreements, the purpose of which, by using access to our market as currency, is to open up new markets to Canadian companies. At this very moment, the European delegation is in Toronto, and we trust that discussions are moving in the right direction. But it is far from easy, and it is far from a done deal.

[9] 18 million foreign tourists in 2007 (CTC) versus 20 million in 2002 (WTO).

It is clear, though, that we have one foot on the gas pedal and the other on the brake. One strategy is moving in one direction, while another is pulling us the exact opposite way. On the one hand, we are working to open up new markets for our companies; but on the other, we are doing a lot to make them more vulnerable to competition from abroad.

If this situation persists, we will essentially have to rely on the Emirates of this world to buy our planes and engines, and even to travel. And this will eventually lead to a considerable weakening of our ability to hold on to major tourism destination status.

Canada is currently not attractive to air carriers, either as a hub or as a gateway to North America. The reason for this is simple: *landing in Canada is more expensive than almost anywhere else in the world.* It costs three times as much to land at Pearson in Toronto as it does at Charles-de-Gaulle in Paris. It also costs three times as much to land in Montreal as it does in Rome. Overseas carriers have the option of flying somewhere else. They can also reduce the frequency of their flights to Canada. It doesn't make a very big difference to them. Obviously, Canada normally doesn't carry much weight in their cost structures. Meanwhile, we lose out in terms of tourism flows and economic activity – but it doesn't seem to bother anyone.

For Canadian-based carriers, it's a different story. We have no choice. Our bases are here. We land in Montreal, Toronto and Vancouver numerous times a day, every day. As a result, because of the policy I just mentioned, our operating costs are higher than those of our foreign competitors.

This situation stems from very unwise decisions on the part of the federal government, which in the 1990s decided to spin off airport infrastructures and discreetly turn Canada's airports into cash cows. This was the golden age of deficit fighting, and creative solutions were all the rage. There are two components to this wonderful system: first, "airport rents," that translate into "landing and terminal fees." The resulting fees have reached astronomical levels, out of all proportion to the value of the assets and the services rendered.[10]

Second, air traffic control was privatized, leading to the creation of NAV Canada, which bills us for its services.

The same goes for security, which is the responsibility of the state and benefits everyone, but in Canada, air transport industry is financed by travellers. And don't be fooled: you're being charged for security, but in fact a large part of what is collected doesn't go into providing security at all – it goes straight to the government coffers.

This approach, the Canadian approach, is practically unique in the world.[11] It is counter-productive, inconsistent and devastating, and the current government has thus far refused to revisit it. It is a hindrance to economic development. Even Doug Young, the former Liberal Transport Minister, has been honest enough in the past to state that he regretted the adoption of this policy.

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[10] $300 million in airport rental fees in 2007; $2.8 billion since 1992.

[11] To our knowledge, Peru and Ecuador are the only other countries to levy "airport rent" fees, the mechanism that causes the high landing fees referred to here.

Recently, the International Air Transport Association, IATA, forecast that the industry is facing consolidated losses in excess of $5 billion in the year to come, essentially because of the economic slowdown and the price of fuel – and, I would add, unjustified fees.

With the airline industry worldwide having to deal with these economic conditions, the Canadian system is weakening our airlines, which are forced to go up against foreign carriers on an uneven playing field. These competitors are often huge. They are supported in various ways by their respective governments. And, increasingly, they are joining forces.

Two studies have sounded the alarm and tried to make the government listen to reason, but in vain. One was issued by the Montreal Economic Institute; the other by the CD Howe Institute.

The good news is, the demand is not going away. The governments haven't managed to curb it yet! We have a market, and it is growing. The challenges are coming primarily from the competition, which is frenzied, and from the constantly rising costs that we face.

There is more to this than taxes and fuel costs – there are also costs related to the environment. In 2012, if the European Union goes through with its plans, significant tariffs will be imposed on airlines, tied to their greenhouse gas emissions. Once again, these costs will have to be passed on to travellers, lengthening the list of indirect, hidden and discriminatory taxes inflicted on those who choose air travel over another mode of transportation.

Although the air transport industry has nothing to be ashamed of when it comes to its environmental record, we are acutely aware of the fact that we must step up the fight against global warming. But we are concerned about the unilateral approach advocated by Europe. Not all companies will be equally exposed to the EU tariffs, meaning those that do not fly to Europe – including some of our competitors – will gain an advantage. Like ICAO, and IATA as well, we favour a multilateral approach to the issue. And we would very much like to get a feeling of some support, some vision, coming from Ottawa.

A word now on the competition, which of course is something we face day-in, day-out.

Zoom Airlines is the latest air carrier to declare bankruptcy. I think I have seen something like 30 Canadian-based airlines disappear since I started in the business. Every time, it's the same thing: customers left in the lurch, creditors high and dry, brutal layoffs, all by surprise. With reason, some customers have taken Zoom Airlines to task for the fact that it continued to take reservations right up to the last minute. The company owed millions of dollars – to Canadian airports, among other creditors. Those airports are going to have to absorb the blow, fold all those costs into their current operating budgets, and pass the bill on to the survivors – including us – who will do what they can to pass it on to their customers in turn. It's the "same-old, same-old" story: those who manage to keep their heads above water are the ones who pay – as if someone, somewhere, is hoping that one day everybody else will end up going under.

None of this is very healthy, if you ask me. All the less so given that history is only going to repeat itself. I know: I've been watching it repeat itself for 30 years.

To ensure their customers are better protected, tour operators like ourselves must deposit these customers' money in trust until their travel is completed – this is a requirement under provincial legislation. But the airlines, which are under federal jurisdiction, don't face the same requirement, even though they sell basically the same types of products. The same goes for advertising, by the way: we are required, as a tour operator, to list our all-inclusive prices almost to the nearest penny, while the airlines can run ads trumpeting the one-way fare only, exclusive of fees and taxes. To consumers, these prices look a lot more appealing – before they manage to figure them out.

So, we have one industry segment. One category of products. But two distinct regulatory contexts, with no harmonization. In other words, once again, an uneven playing field, just the way we like it in Canada.

So, yes, we are in favour of competition. But not if the dice are loaded.

It his high time we held a debate on the barriers to entry to this industry. For that debate to happen will require leadership.

This kind of issue, although it is clearly a strategic one, doesn't seem to be on the agenda. Two weeks ago, the federal government unveiled what it is calling "Flight Rights Canada," a passenger bill of rights, if you will. It provides for the following, among other things: passengers are *entitled to information on flight times*, and *to retrieve their luggage quickly*. Good. But it got me to thinking. And I wondered what I, in my wildest dreams, would like to see in a passenger rights charter. It could state, for example, that:

- Our passengers have a right to reasonable, diligent security formalities, and they must not be made to pay for them, in the same way people who travel by train, bus or ship don't need to pay for them.

- They have the right to expect Canada's airport infrastructures to be financed and managed according to international standards and best practices.

- And most of all, they have the right not to be forced to subsidize the Canadian government every time they fly.

Yes, travellers and airlines alike do have the right to keep others from rifling through their pockets in secret. And yes, we are entitled to hope the federal government can and will adopt a strategic, coherent vision of the future when it comes to air travel and tourism.

All in all, over the next few years, there will be winners and losers in this industry. There will be winning destinations. Winning industry segments. Winning companies. But there will be losers as well.

In Canada, at the moment, our fate is uncertain. Currently, we manage by surfing the same wave that has propelled our industry for the past two generations. We have always been an important destination, and we still are. But we are losing ground, and we are undermining our potential.

As for Transat, we are number five in the world, and we plan to grow on new outgoing markets. We will capitalize on our solid European presence. Our playing field is international. And make no mistake about our most recent financial results. Considering we paid $30 million more, quarter over quarter, for fuel, the bottom line is we do fairly well.

More than ever, Canada needs to roll up its sleeves and develop a long-term national strategy in order to capitalize on the inevitable growth potential of the global travel industry.

- Our airport infrastructures must be made accessible at competitive rates – they are currently among the most expensive on the planet. When it comes to price competitiveness in the travel market, Canada ranks 114th out of 130 countries, and in terms of airport taxes and fees, we rank 122nd out of 130 – between Cameroon and Ecuador.[12] *We must equip our airport facilities with a sound financing structure.* This issue must rank very high on the list of priorities. Everybody knows it. But nobody is moving on this issue.

  In principle, when it comes to this issue, we should revisit the recipe that prevailed before the reforms implemented in the 1990s, and stop making users pay for the financing of critical infrastructures. Why do we impose a model on the aviation industry that we impose in no other area – especially when it proves harmful to our economic development? We therefore need to take a cold, harsh look at all this, and have the modesty to accept that we are not going in the right direction; that we are shooting ourselves in the foot. We need to show creativity and leadership. We need to act now, and not wait for pressure from the general public. Besides, that pressure is not going to be forthcoming, because everything I've been mentioning today is unknown to the public.

- We also need a good open-skies agreement with Europe. We need a deal that paves the way for much greater flexibility for companies like ours, which have a strategy completely different from that of Air Canada, for instance. What we must avoid, at all costs, is an agreement that opens the door to competition without offering our companies anything in exchange. It might seem obvious to say so, but it needs to be said, because we've heard some real gems when it comes to this subject.[13]

- Third, we must be inventive on environmental issues, and find ways for our carriers to gradually renew their fleets to make them "greener." This will be a competitive advantage in the future if we can succeed at it faster than others.

- We must invest more money in promoting our country. We face a daunting challenge. And although the Canadian Tourism Commission is doing fine work, more funds are needed. Tourists today come from all over the world, and money is needed to conduct marketing on a vast scale. The situation is urgent.

[12] World Economic Forum, 2008.
[13] For example, the Competition Commissioner's position in favour of a unilateral opening of the Canadian market to foreign companies.

- We must also take steps to ensure that our product – our tourism offering – continues to evolve. Because travellers' expectations are evolving. Dubai has understood this. We understand this in Canada as well, but things are not moving fast enough.

These are issues that I have raised many times in public, and unfortunately, and sadly, they have fallen up to now on deaf ears among our political leaders. It is imperative that action be taken.

Given that for years we have invested public funds to support the development of a world-class aerospace industry, it seems to me that it is senseless not to carry this reasoning through to its logical conclusion, by building even more on the travel industry and on Canada's natural advantages. At present, the government is going to great lengths to support the companies that build aircraft, while bleeding dry those it counts on to buy them.

I challenge our elected officials to make these matters an election issue. Obviously, it is easy for them *not to.* The public, which at the end of the day is the one footing the bill, is not truly aware of all these taxes and indirect fees inflicted on it, nor of the fundamental issues at stake. Today, from Ottawa's perspective, there are two things going on: the money is piling up in the coffers, and the people aren't paying attention. So life goes on. It's a case of "Out of sight, out of mind."

We will never succeed in making the Canadian travel industry a true engine of economic development, and maintain Canada's rightful place among the world's major tourism destinations, unless we adopt a strategic, coordinated and visionary approach instead of practising shortsighted management.

Thank you.