

## WHERE DO WE FLY FROM HERE?

Text of a speech delivered to the Canadian Club of Toronto, January 27, 1969, by Mr. Yves Pratte, Q.C., Chairman and Chief Executive Officer, Air Canada.

I am grateful to you, Mr. Chairman, for your very kind introduction. I don't know if I deserve many of the nice things you said about me, but I must admit, nevertheless, that I rather enjoyed hearing them.

It was with some misgivings, ladies and gentlemen, that I accepted your kind invitation to address the Canadian Club of Toronto. I was very hesitant about talking to you about our national airline and its future role less than two months after my appointment as Chairman and Chief Executive Officer of Air Canada.

A few days ago when I received a copy of the announcement distributed by your club, I found that my misgivings were well-founded. According to this announcement, I am expected to provide answers to certain specific questions like the following: "Will Air Canada go public?", "Will Air Canada merge with CPA?", "When will Air Canada go supersonic?"

Well, if after six weeks in the saddle I attempted to answer such questions, you would be entitled to believe that I was either a fool, which I hope I'm not, or a genius, which I'm sure I'm not.

But as members of the Canadian public and, I assume, customers of Air Canada, you are entitled to know what my approach will be regarding the various problems facing the company in the next few years.

First of all, I'm convinced that these problems are no more than growing pains, suffered by any organization that refuses to slip backwards; as such, they must be placed in their proper perspective.

I think it would be useful, therefore, to turn back the clock, and review briefly the history of Air Canada in terms of why it was established, and whether or not it has accomplished its purpose.

Prior to 1937, commercial aviation in Canada was limited to bush pilot operations and to a few scheduled flights on the Pacific Coast, along the North shore of the St. Lawrence and in the Maritimes. Anything resembling a national network was non-existent; we were lagging behind inter-city aviation developments in the United States by ten years.

Canadians were justifiably concerned over the lack of main-line service within Canada. To remedy this situation, the Hon. C. D. Howe proposed that public and private capital combine to create a national, trans-continental airline. However, and perhaps unfortunately, the Government had to do it alone because private capital felt that a \$5,000,000 investment in the future of Canadian aviation was too risky.

Our Parliament therefore created a Crown corporation, Trans-Canada Air Lines, whose purpose was to establish a coordinated, main-line air service across Canada.

Roughly speaking, this Crown corporation had, by mid-1940, accomplished its original purpose; its planes flew regularly across the nation and between its major urban centres.

Moreover, because of World War II and the needs of growing communities in all parts of Canada, TCA had far exceeded its original mandate. No longer just a main-line carrier, it was now beginning to serve many small regional areas, and it had established a regular trans-Atlantic service.

It was obvious even then that the company was evolving into a vastly different organization from what it was intended to be. Trans-Canada Air Lines was on its way to becoming today's "Air Canada" - operating not only across Canada, but also to the United States, the British Isles, Continental Europe, Bermuda, the Bahamas and the Caribbean Islands.

Over the last decade, Air Canada has grown from a small national airline into a major international air carrier. And, in the process, it has converted the "jet age" from the vision of a few to an everyday reality for over twenty million Canadians.

Ten years ago, Air Canada's gross annual revenue was about \$120,000,000, as compared with over \$345,000,000 in 1967. This represents an increase of close to 300%. We also spend four times as much money in capital expenditures as we used to. In 1968, we carried almost 2-1/2 times as many passengers as we did ten years ago, and we performed over six times as many ton-miles of cargo.

All in all, Air Canada has tripled in size and scope of operation since the beginning of the last decade. It is now the world's eighth largest carrier, the largest outside the United States and the U.S.S.R. There is no question that its accomplishments have gone far beyond the point which even C. D. Howe could have imagined possible. Not only has it reached its objective, but it also has done much more.

And prospects for the future offer even greater avenues of accomplishment. At Air Canada, like everywhere in the airline industry, the term "jet age" is already becoming archaic. The vocabulary of the next decade is now common usage, and we are inclined to speak of "jumbo" jets and supersonics as if they had already been phased-out.

This relentless technological change, the population explosion, expanding urbanization, and increases in discretionary income, have the potential to produce growth so breathtaking as to make recent changes seem slow.

Indeed, we expect that by 1977 Air Canada will be carrying 18 million passengers a year, as compared with 6,400,000 in 1967. We expect to have operating revenues of 1.4 billion dollars a year, and to provide employment for more than 35,000 people.

But if we're to exploit this potential, we must recognize the obvious. Our role as a main-line domestic carrier has changed. Our original long-haul routes have become short-haul. Because jets are more profitable over great distances, with prolonged high-altitude cruising, the economics of serving short-haul routes versus long-haul are very much different. And it's not unlikely that these differences will become greater as new generations of equipment are introduced.

You have been told that this future growth will saddle us with some serious financial problems, that the Government would like to cease acting as our banker, and that we will have to resort to outside financing. The sceptics say this is hardly possible under present circumstances, considering our low rate of return on investment.

In addition, they claim that Air Canada's history of relatively low profits is proof of our inefficiency, and that our growth is a product of our so-called "monopolistic" position. Indeed, many of these sceptics feel that Air Canada, being a Crown corporation, cannot be anything but

inefficient, and that its accomplishments over the past years must be attributed to factors other than the collective know-how, expertise and dedication of its officers and employees.

I do not share these views. In fact, I take strong exception to them.

The industry recognizes that Air Canada is one of the best-run, most efficient airlines in the world. Its employees made it that way. Their future goal is simple: to make Air Canada the greatest of all airlines. If they should fail, it won't be their fault. It will be because I have not been able to provide them with the kind of leadership they deserve. I can assure you that I shall try not to fail them.

Secondly, you must recognize that as a Crown corporation, we have obligations different and more onerous than those of a private company. We have to maintain many unprofitable routes in order to provide air services to communities that otherwise would be without them. You must remember that Air Canada was not intended to be a large, profit-making organization; and that present Government policy still reflects this philosophy. It seems that under this policy, the more profitable we become, the more likely we are to have business taken away from us. This is certainly a strange way to generate enthusiasm among the employees of any organization, whether it be a Crown corporation or a publicly-held company.

Thirdly, we are not a monopoly. Approximately 80% of our total route mileage is exposed to competition, and close to 95% of our revenue is earned on these competitive routes. Because of geographical location and population distribution, no other airline in the world operates such a

difficult international and domestic route pattern,

If 20% of our routes are non-competitive, very often it's because they are operated at a loss and must be cross-subsidized, that is, maintained at the expense of money-making competitive routes. Private carriers are usually not interested in competing for routes that can't support themselves. Air Canada, however, has no choice. As a Crown corporation, it must serve the nation's best interests.

Let it be clearly understood; we are not afraid of competition. Time and time again, we've proven that we can compete with the best the industry has to offer. Take, for example, our Toronto-Los Angeles service, where we have to compete with one of the largest and most competent U.S. airlines. We started this service seven months after the U.S. carrier. They still have only one flight a day; we have two and we're carrying 70% of the traffic.

We welcome competition. In theory, there's no question that competition has its advantages. But in practice, because all carriers are heavily regulated and because they all have practically the same equipment, the only real advantage of competition is to give customers the satisfaction of being able to choose between services that are substantially similar. Then, of course, the question of cost raises its ugly head. What price are we prepared to pay, or should we have to pay as Canadians, to enjoy such satisfaction of choice?

There are, on the other hand, several potential disadvantages to airline competition. One is duplication of services, which results in an inefficient use of manpower in relation to traffic handled. Another is under-employment of facilities. And a third is over-investment in latest model aircraft, which in turn produces excessive seat capacity and an increase in operating costs. In Europe, for example, the effect of excessive competition has been an uneconomic expansion of route networks, and the introduction of many direct flights which are not justified by traffic volume. As a result, Europeans pay more for their air services, on a per-mile basis, than do Canadians.

Fourthly, I believe that the importance of our financing problems has been greatly overplayed. There's no question that we'll need vast sums of money. We have ordered - or have line position agreements - for new aircraft worth about \$820 million for delivery over the next decade. This includes, in various quantities, more "stretched" DC-8's and DC-9's, the Boeing 747 "jumbo" jet, the Lockheed L-1011, as well as the supersonic Concorde and the Boeing 2707 supersonic.

Over the next five years, we'll need over \$300 million in external funds to pay for new equipment and property. But we're not alone in our need for outside financing. U.S. carriers, for example, have to find some \$13 billion to pay for over 1,000 new aircraft ordered for delivery in 1969 through 1971 and beyond.

I don't think obtaining the funds Air Canada needs will be as difficult a problem as the pessimists claim. Because of our record as an efficient, well-run airline, and because of our substantial assets and enormous growth potential, there's no reason why most of our future financial requirements could not be met through sources outside the Government.

As a matter of fact, this is what I intend to do; and, barring any unforeseen circumstances, I'm confident it can be done.

My main task in the immediate future, therefore, will be to study existing air policy in the light of recent and future technological developments, and to assess the economic consequences of present policy for Air Canada and for the industry in general. To approach the situation purely from a selfish point of view certainly would not be in the interests of the Canadian people. Airlines are like public utilities. The country's economic and social well-being, as well as its security, depend heavily on the state of their health.

Of course, policy is a matter for the Government to decide. We fully realize that. However, because we are a major airline and because of our considerable experience, I think we owe it to the Government to bring to its attention developments that, in our view, might make changes in policy advisable or even imperative.

Take, for instance, international air policy. Canada is one of the very few countries in the world with two international flag carriers. I'm not suggesting that such a policy is wrong. I'm only saying that

alternatives should now be considered. We should ask ourselves whether Canadians can afford such a luxury. Perhaps our two carriers can live together without either becoming a burden on the Canadian taxpayer.

Perhaps, too, their merger into one airline operating all of Canada's international air services around the world, as well as providing service to major domestic points, would be a reasonable proposition. It may be that such a scheme would result in considerable savings which could be put to better use somewhere else in the economy.

Whatever the alternatives, I believe that present policy "dividing the globe" between Air Canada and CP Air must be looked at anew, particularly since other international carriers are penetrating further and further into Canada. Air transportation today is such that you cannot divorce the problems of domestic competition from the problems of competition in the international sphere.

Another area that needs looking at is regional air policy. It is, in my view, far too vague. No one really knows what constitutes a regional route. Among other things, this makes the sorting of applications for new services a long and complex process. Licensing authorities have to grapple with terms of reference that absolutely boggle the mind.

In the past five years, the regional carriers have filed numerous applications with the Air Transport Committee. Some claim to be in financial difficulty and they're getting impatient. They want new and longer routes, many of which parallel main-line routes served by Air Canada, so they can

take advantage of the fact, as I mentioned earlier, that jets are much more profitable on long hauls.

Maybe that's the problem. Perhaps a greater effort should be made to develop regional markets, so that the smaller carriers could continue using less expensive conventional equipment. On the other hand, it's only natural that they should wish to provide their customers with the most modern aircraft available.

What we must do is determine the best and most economical way to provide air services to regional areas. Certainly, if regional carriers are to continue serving these routes, some means must be found for them to operate effectively and profitably without endangering the viability of our national airline.

Perhaps, as one possible answer, Air Canada could share some of its services, such as counter space at airports, personnel and even maintenance facilities. This would avoid unnecessary duplication of costs for all parties concerned and would go a long way in helping the regional carriers out of their financial difficulties.

Whatever the solutions may be, Air Canada will try to take an enlightened, unselfish approach to the problems of the future. Personally, I don't intend to be dogmatic or theoretical. I'm not going to make any assumptions about the advantages or disadvantages of free enterprise versus Crown corporations. Nor am I going to assume that competition per se is necessarily good or bad.

I can only hope that, as Canadians, the other carriers will look at the future from the same perspective. Airlines, whether private or public, are semi-social instruments; their interests must be weighed against the interests of Canada as a whole.