

**WINGS OF SASKATCHEWAN  
SPEAKING NOTES FOR JOHN McKENNA  
PRESIDENT AND CEO - ATAC  
October 16, 2009**

Good morning,

Bill, thank you for that very nice introduction, I couldn't have done a better job had I written those words myself.

I want to thank Janet Keim for giving me an opportunity to speak to you today.

It's always nice to get out of Ottawa and it's especially pleasant to get a chance to meet with so many of you and helpful to listen to your concerns about aviation in Canada today.

It's too bad that my friend and colleague CBAA President Sam Barone couldn't be here today. He sent his regrets for his no-show and his regards to everyone.

One of the key priorities I've set for myself since coming to ATAC is to meet with the air transport industry people all over Canada. I get a chance to meet with ATAC members and with members of all the other air transport associations, such as Saskatchewan Aviation Council and the Saskatchewan Aerial Applicators Association, and of course the local chapter of the CBAA. You are all doing a great job of bringing people together, and working collectively to solve problems, facilitating life for operators and promoting our proud industry.

I only wish I could stand up here today and tell you that our industry is finally coming out of the year long recession, that traffic is growing, that load factors are building up, and that cargo shipments are finally on the move again. Well, that is not the case, not for most everyone.

All over the globe our industry is still struggling. Although economists worldwide are talking about an impending end to the recession, we all know that economists are much better at analysing the past than they are at predicting the future.

Associations all over the globe are promoting themes of restructuring, downsizing, rethinking. World leading companies are claiming to be reborn, offering better-than-ever products. Governments have to cope with budgets yielding huge deficits in a way that won't jeopardize the national economy. Both blue and white collar workers, lucky enough to have held on to their jobs, are living from pay check to pay check.

Consumers are saving what little they can scrape up and spending and investing less, which is not helping to rebuild the economy. The low US dollar is driving up gas prices and hurting our competitiveness in North America. Taxes and user charges are bound to go up as governments are looking for ways to limit the deficits.

In mid-September, IATA has once again adjusted its estimate of 2009 airline industry-wide losses to \$11 billion, up from \$9 billion in June and from its \$5 billion estimate in January. The number of passengers is still down, the number of high yield passengers is lower still and cargo is drastically down.

Airline companies are cutting jobs, parking aircraft, trimming routes and reducing flight frequencies, limiting the number of seats available in an attempt to keep load factors at acceptable levels. Airlines have little choice but to implement these measures.

The Wall Street Journal reported last week that there are 21% fewer seats for sale this month in the US than there were in October of 2000. Carriers are running out of options to reduce costs. Although governments are saying that the worst is over, airlines have yet to see any sign of recovery.

Results from the usually strong business travel months of September and October will give us a good indication of things to come.

Let's not kid ourselves. What we are going through is more than a recession; it's not just a bump in the road, it's a major shock wave. Short term remedies won't be enough to get us through.

What is required is an acknowledgement that the very foundations of our economy have gone through a major shakeup and that simply holding our breath, as some do during a patch of turbulence, won't lead to long term survival.

The repercussions of this crisis will last for a long time and we need to adjust to the new reality it has brought upon us. Airlines will have to adapt to this new emerging economic model. Global and domestic carriers will consider mergers and acquisitions; they will resort back to their core competencies, re-evaluate their competitive advantage, realign their missions and mandates, rethink their corporate cultures and reposition themselves in the market, banking on their strengths.

IATA further predicts that global revenues for airlines will drop by 15 percent to \$455 billion in 2009 and could take three years to climb back to the 2008 (\$535 billion) all-time peak. No region of the world is spared from this worldwide phenomenon whose impact is far greater than 9/11. We will most likely see the number of airlines drop over the next year. Those who take the initiative and seek out who they can merge with, acquire or sell to will have the advantage. Those who prefer to sit out the storm will lose.

The National Air Transport Association in the US claims that regional carriers, suffering less than the major airlines, should bounce back more quickly. Although no data is available in Canada to support a similar claim, conversations with regional carriers point to the same conclusion. Let's hope that turns out to be true.

Also on the good side, flight training schools and colleges are fairing quite well this year. This is very encouraging news.

The air transport picture in Canada could change drastically over the next year.

It appears Air Canada will keep its head above water for the time being but what happens in 12 to 18 months?

Now that the Harper Government has been given a reprieve for the next few months, it is revisiting foreign ownership limitations. ATAC will be involved in this consultation to ensure that the interest of all Canadian carriers is considered.

Governments as usual are favouring short term measures for short term gains. The Canadian aviation industry needs better government vision than that. It desperately needs for authorities to take a serious look at the conditions imposed on our industry.

Canada is a very expensive country in which to operate an airline and airlines struggle to be competitive although the travelling public wouldn't know it once all the charges have been added to the price of a ticket.

Governments are pumping money into what they consider to be crucial industries. Major companies are being propped up and great infrastructure projects are being resurrected. A clear example is the government injection of \$250 million into Air Canada. Officials, however, prefer to refer to this government contribution as a loan, avoiding at all cost the word bailout. Call it anything you want, if you lend money to an organisation desperate to close the financial restructuring required for its continued existence that it cannot get on the open market, you are de facto bailing it out.

Other carriers, better managed for the most part, have to accept that the aviation market in Canada is not a level playing field because no government wants to see Air Canada fail under its watch.

Most importantly, the Canadian Government has to quit seeing Air Canada as the Holy Grail of air transport in this country. Canadian officials clearly don't believe in the vitality of other Canadian airlines and their ability to fill the void should the 'national carrier' falter.

Rather than temporarily propping up individual companies, governments have to favour a competitive transport industry in Canada. It must put together a much needed stimulus

package for the air transport industry as a whole. This would ensure continued excellent and much needed service to all regions of Canada, not just the main corridors.

A level playing field would benefit all taxpayers and the travelling public. The government, moreover, has to honour its promise to lower fuel excise tax levied against aviation fuel and reduce or eliminate airport rents. Lower airport rents could lead to lower landing fees and lower airport improvement fees. The government must also moderate its appetite for additional security measures which directly affect the cost of flying in Canada, thus lowering our competitiveness against other modes of transport.

As with every federal election, high speed rail projects are dusted off the shelves. There is no way high speed rail could ever be financially viable in Canada. We don't need taxpayer money to permanently bail out unrealistic dreams at the expense of the air transport industry.

All airlines in Canada deserve the support and attention of this government. If the government doesn't have the necessary vision and imagination to come up with fresh approaches to solve this inequity, all it has to do is ask industry leaders, those carriers who offer competitive and essential service to all regions of Canada, not just to the major airports.

Finally, ATAC is very concerned with SMS for the 703 and 406 operators. ATAC clearly endorses the principle behind SMS and we are working with Transport Canada to come up with an industry designed SMS model for local operators. For a model to be realistic and applicable to these carriers, it has to reflect their reality, not be a watered down version of the 705 model. Carriers have to be consulted and have tangible input in the design of a realistic model. Only then will they wilfully invest the time, effort and resources needed to fully implement it.

ATAC looks after its members' interests nationally and will gladly continue to work hand in hand with the Saskatchewan aviation associations on all issues of common concern.

ATAC works for its members.

ATAC is a solid investment.

ATAC is good for the Canadian air transport industry.

Together we are stronger.

Together we make a difference.

Thank you.