

Air Canada

infrastructure. Its first function was to move the mail. Then, as time went by, it evolved as a passenger air travel service, moving people from Atlantic to Pacific.

It is now suggested that this is no longer a valid role for Air Canada. We disagree and the employees represented by the unions disagree. In fact, they argue that the case for a public carrier is stronger in a deregulated environment into which we have been pushed, first as a proposal of the formal Liberal Government and now by the Conservative Government. We say that public ownership is more necessary than ever in a deregulated environment where certain services are vulnerable.

We believe Air Canada should have the responsibility of providing equality of service, not just between Montreal and Toronto, or Toronto and Winnipeg, or Vancouver and Halifax. We believe cities such as Sault Ste. Marie and London, Ontario, are entitled to high quality service. We believe that Whitehorse and Yellowknife are entitled to high quality service. With competition will come diminution of the quality of service for these smaller cities and towns.

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It is suggested that we need to privatize Air Canada because Air Canada needs larger amounts of money to buy new aircraft, and that if we do not privatize Air Canada then the purchase of new aircraft by Air Canada, publicly owned, will add to the national debt. The fact is that that would not happen.

In 1986 Air Canada reported a profit of over \$40 million. Its rate of return on equity was a respectable 9.1 per cent. That figure ranked it among the best of Canada's top corporations.

Over the long term Canada has performed very well. In the past 10 years it has reported profits in all but two years. Over this period pre-tax profit exceeded losses by \$379 million. Its cumulative net income was \$243 million.

Air Canada has not received a direct infusion of government subsidies in 25 years. In fact, it has not received any new equity since 1978 when Air Canada was finally separated from Canadian National. Air Canada has been more profitable than competitors such as CP Air, Eastern Provincial and Nordair. It has done so while continuing to meet its public policy responsibility.

It has been suggested that Air Canada needs to be privatized in order to compete. Proponents of this theory point to the imminent passage of transportation deregulation legislation to support their view. There is no evidence that any Government interfered in the day-to-day operations of Air Canada. We know that the existing DC-9 aircraft need to be replaced, but there are many ways to raise investment capital. Issuing shares is only one. There are many options which have been used in the past and which could be used to a greater extent.

The traditional way for closely-held airlines to finance their fleets is by issuing long-term bonds. CP Air, as a unit of

Canadian Pacific Limited, took this approach in 1985. CP Air had a debt to equity ratio higher than Air Canada's current ratio of debt to equity. Or, there are leasing arrangements. An innovative way to arrange fleet expansion to avoid high capital costs is third party leasing arrangements. Here, a consortium of banks and other financial intermediaries own the aircraft and lease them to the carrier for a fixed term.

PWA pioneered this approach with its 1986 resale and leasing of its 737 fleet. Air Canada has experimented with lease-back arrangements on some of its DC-9 fleet recently.

Or, there is financing by manufacturers. As the world market for commercial aircraft becomes more competitive the manufacturers have turned to financial packages as a way to make sales. For example, several years ago McDonnell Douglas offered favourable financing to sell its new MD-80 aircraft to both American Airlines and Trans World Airlines. Given the competition between McDonnell Douglas, Boeing and now Airbus, the European consortium, there is no question that leasing arrangements and financing by the companies that build aircraft could be arranged.

Or, if further equity is required, the Government should issue it. Air Canada, we say, has proven to be a good public investment. A case could be made for the first equity issue in 10 years.

It has been argued by some that Air Canada should be privatized because it would be more efficient. We say that there is no proof that Air Canada has not been operated efficiently as a Crown corporation.

Let us look at some of the examples of Air Canada efficiency. In terms of broad measures of efficiency that is, passenger load factor, revenue passenger miles per employee, and revenue tonne miles per employee, Air Canada was in the late seventies just above the median of a profile of the North American airline industry. Fuel expenditures for Air Canada at the end of the 1970s was 20 per cent of operating expenditures compared to CP Air's 25 per cent. With respect to revenue yield per revenue passenger and safety record, Air Canada's yields over the past two decades have been consistently better than the record of CP Air. These facts were brought forward in a study done by Mr. Langford and apply to the 1960s and the 1970s.

With respect to air safety, in a study covering the years 1960 to 1975 it was shown that Air Canada tied for first place with seven other airlines as the "safest among 40 international carriers".

As I have indicated, the unions representing the vast majority of Air Canada employees have expressed their opposition to this privatization. They have explained their reasons. They believe that the national airline, publicly owned, continues to serve an important public policy role. This policy basically needs to be strengthened and not diminished. Air Canada continues, they say, to meet this objective within the constraints since 1978 of operating a commercially profitable