

AVIATION: CANADA-EU PACT

## Rules relaxed, but will it open up the skies?

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Canada and the European Union heralded their aviation pact yesterday, expressing hope that liberalized rules will lead to more flights and heightened competition, despite airlines struggling during the recession.

EU Transport Minister Antonio Tajani said the agreement is a breakthrough that opens up markets for EU and Canadian airlines while Canadian Transport Minister John Baird said he's counting on expansion of trade and tourism, noting there would be more choices for destinations and flights, and perhaps lower fares.

The Canadian Airports Council said the agreement, which replaces a patchwork of bilateral pacts signed over the years between Canada and 19 of 27 EU members, is an important policy initiative that loosens restrictions.

Industry analysts agreed that the deal sounds fine on paper but cautioned that, in reality, most airlines are scaling back and not adding overseas routes, citing weakened travel demand. The world's airline industry remains protectionist, and allowing full-fledged competition within Canada isn't in the cards, analysts say.

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Still, the EU-Canada pact is seen as a step forward. Japan and South Korea are just two examples among dozens of other markets in which Canada could use better bilateral agreements.

There's also the possibility of foreign investment in individual carriers in Canada and Europe. The agreement could eventually clear the way for increasing the limits on foreign ownership of airlines, notably **Air Canada** and **WestJet Airlines Ltd.**

In January, Canada's Competition Bureau called on Ottawa to raise those voting limits to 49.9 per cent from 25 per cent. However, no foreign carriers have indicated interest so far in buying even small stakes in either of Canada's two largest airlines.

Hans de Roos, KLM's senior vice-president of strategy and corporate development, said in an interview yesterday that the Canada-EU deal didn't spur his airline's decision to start Calgary-Amsterdam service next May.

"It's pure coincidence," he said.

Mr. de Roos said both Air France and KLM are holding talks with WestJet, but declined to speculate on the timing of any alliances. Calgary-based WestJet could benefit because code-sharing agreements are expected to be easier to reach with potential partners such as Air France-KLM and British Airways PLC.

Cash-strapped Air Canada of Montreal already flies to key European destinations and could face increased competition during a vulnerable period, analysts say.

But Yves Dufresne, Air Canada's vice-president of international and regulatory affairs, said he's optimistic that the airline will be able to capitalize on other new opportunities. Other industry officials complained that Ottawa still needs to reduce the ground rent that it charges to the country's major airports.

Although WestJet chief executive officer Sean Durfy welcomed the relaxation of international restrictions, he urged Ottawa to review the domestic taxes and fees imposed on Canada's airline industry and passengers.