

## FOR IMMEDIATE RELEASE

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### Research Opinion

#### Potential Air Canada Flight Attendants' Strike

TORONTO (AirTrav Wire - 20 Sep 2011) – Should there be a strike by Air Canada's (TSX: AC.A/B) flight attendants it will be short-lived thanks to the promise of back to work legislation from the federal government. Under the threat of similar legislation this past June, Air Canada and the Canadian Auto Workers reached a settlement only three days after the start of a strike by the airline's airport customer service and call centre employees. The potential work stoppage effective 12:01 AM this Wednesday involves the Canadian Union of Public Employees (CUPE).

#### Reasonable competitive options

A short-lived strike would still represent a void in available airline seat capacity depending on the market. However, substantive alternatives are available today that did not exist to the same extent even one decade ago. WestJet Airlines (TSX: WJA) holds between 35-40 percent domestic market share and Porter Airlines operates a robust schedule in eastern Canada. Air Canada's regional affiliate Jazz Air, owned by Chorus Aviation (TSX: CHR.A/B) would continue to fly as would Air Canada Express between Toronto City Centre Airport and Montreal since both carriers use different flight attendants. Many American, Asian, European and Mideast carriers fly to Canada, and other Canadian operators such as Air Transat, a subsidiary of Transat A.T. (TSX: TRZ.A/B) Sunwing and numerous regional carriers would also help pick up some of the slack.

#### Pension structure central to dispute

At the heart of the dispute is Air Canada's unfunded pension deficit. Surprisingly, the core issue is not operational cost parity between the airline and key competitors such as WestJet since Air Canada's revenue yields are higher. For example, excluding fuel costs the operating profit per available seat mile (a gold standard industry measurement) for Air Canada and WestJet was nearly identical in 2010.

Like many other companies inside and outside of the airline sector, a rising number of retirees are earning a retirement living from defined benefit pension programs that have not fared well in the stock market turmoil of recent years.

Air Canada's pension deficit now stands at \$2.1-billion and the company will have to finance an additional \$1.5-billion in the coming four years. The airline needs to move new hire employees as quickly as possible from this unwieldy defined benefit structure to a defined contribution program. The cash drain of the former has the potential of sending Air Canada back into another round of financial restructuring if left unchecked, as almost happened in 2009.

Speaking of WestJet, that carrier has no pension plan owing a much different arrangement with its employees. The airline allows employees to use up to 20 percent of their salaries to purchase company stock, with WestJet matching those purchases. It is up to individual employees whether to hold some or all of that stock in a personal registered retirement savings plan.

As well, WestJet has an attractive employee profit sharing program. Together, WestJet’s stock purchase and profit sharing plan provide strong motivation to its non-unionized work force. To compete effectively against WestJet and to stabilize its balance sheet and cash flow, Air Canada must make substantive changes to the structure of its pension plan. And to do that, the airline’s labour groups must come onboard and realize this is a “final call, now boarding” announcement.

### Potential to mitigate need for LCC division

Should the company be able to reach reasonable new collective agreements with all key labour groups, including the flight attendants, that lower pension costs and facilitate more flexible work rules, Air Canada may be able to avoid the complexity of establishing another carrier altogether. This year Air Canada has spoken publicly about plans to establish a low-cost carrier that would help the company compete more cost effectively on numerous leisure route, touting the plan as a way to grow the company which has seen its mainline fleet size stagnate in recent years.

History has not been kind to airlines opening low-cost divisions or parallel entities. Past efforts from Air Canada and others have ended in failure, perhaps with one notable exception, Jetstar Airways of Australia which is the low-cost subsidiary of Qantas. The Jetstar case aside, should the newly created *hybrid* pension system for new customer service hires be adopted by other labour groups, Air Canada could more substantively move forward absent a LCC subsidiary.

### Cost estimate of a potential strike

In a short duration strike, AirTrav Inc. has independently assessed the daily negative impact to Air Canada at \$11.7-million in Operating Revenue and \$1.2-million in Operating Income. While a longer term job action would accelerate losses, AirTrav believes it is irrelevant to estimate these numbers due to a strike duration that would likely last three days or less. The daily losses quoted would not constitute a material effect on Third Quarter earnings; however, material impact could come from medium-term impact to the Air Canada brand. AirTrav calculations are as follows:

	Daily	3-Day Strike (flat line)
<b>OPERATING REVENUE Impacts (estimated):</b>		
Air Canada Operating Revenues - Third Quarter 2010	\$3,026,000,000	
Per day, 3Q-2010	\$32,891,304	N/A
Per day, 3Q-2011 (estimate from detailed calculations)	\$34,970,472	\$104,911,415
Keep 2/3 from Jazz, AC Express, AC codeshares, pax re-booking	\$23,313,648	\$69,940,943
<b>LOSE 1/3 Operating Revenues outright</b> <i>(loss to other carriers)</i>	<b>\$11,656,824</b>	<b>\$34,970,472</b>
<b>OPERATING INCOME Impacts (estimated):</b>		
	Daily	3-Day Strike (flat line)
<b>Operating Income @ 10% operating margin</b> <i>3Q-2010 Op Margin was 10.80%; reduced due higher fuel 2011)</i>	<b>\$1,165,682</b>	<b>\$3,497,047</b>
Plus longer term hurt to brand	Unquantified	Unquantified

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