Setting Direction

Study of Air Transportation

Newfoundland and Labrador

Prepared by

atlantisaviation

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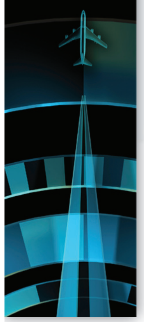

Foreword

It is important to note that the overview of the Newfoundland and Labrador aviation industry presented in this report represents the status of the industry in late 2007 and early 2008. Since that time a number of changes have impacted the industry, not the least of which is the cost of fuel. The implications of these changes will play out over the coming months of 2008 and in subsequent years and will no doubt have a direct and significant impact on the shape of this industry, in the province and around the world. It also lends a sense of urgency to be proactive in understanding this industry and in implementing the recommendations contained in this report.

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1 Executive Summary

Air transport can play a key role in economic development and in supporting long-term economic growth. It facilitates a country's integration into the global economy, providing direct benefits for users and wider economic benefits through its positive impact on productivity and economic performance.

Excerpt from the Report by IATA (International Air Transport Association) on Aviation Economic Benefits
www.iata.org/economics

This report undertakes "…to provide potential opportunities to encourage more capacity, more direct services, more frequent services and a wide range of provincial, national and international destinations to/from all regions of Newfoundland and Labrador."

To accomplish this directive from the Province, Atlantis Aviation Consulting in partnership with Aviation Strategies International, reviewed federal policies, provincial airport infrastructures, airfares within and to/from the province, and airlines that currently serve the province. This review also included current studies on airline passenger and cargo activities in establishing the assets, resources and air product offerings that exist in the province. The findings reveal a strong foundation from which to build opportunities to enhance air capacity for Newfoundland and Labrador.

We must also acknowledge the arena in which air access to/from and around Newfoundland and Labrador operates. The province confronts airlines with one of the most extreme aviation weather environments in North America, spanning a large geographic region with a low population density and, until recently, a struggling economy. These circumstances and variables alone create a business challenge that requires discipline and a very high standard of operational integrity.

Beginning with an examination of federal policies, this study examined the Blue Sky policies, Foreign Carrier Access, Air Cargo Transshipment, Bi-Laterals, National Airports, and Airport Rents. Based on this review, the conclusion is that wherever an opportunity to increase capacity for passengers or cargo is identified, the federal policy framework would not hinder the ability to pursue that opportunity and would in fact, in its current form, aid new initiatives in air transport as is its mandate.

In its review of airports, this study accepts the fundamental position that airports are an economic engine for the region they serve. This report also confirmed that there are initiatives and opportunities in all regions that require air access and that also, through their economic viability, create air access. Because they are an essential component of the air transport network, private sector or public sector airports must have a transparent partnership with airlines and other partners if this Province is to successfully meet the challenge of supporting airports as they grow the aviation industry.

From interviews with airport owners and operators, it is clear that they prefer to operate the airports without operational interference from the Province. In their view, the Province's efforts need to be directed not to operations but to other areas, such as identifying opportunities for public investment in economic activities that contribute to the success of airports and help them to grow capacity. Some examples of these opportunities are:

- Growth of tourism on the province's west coast through Deer Lake airport;
- US military presence at St. John's International Airport;
- Shipment of fresh seafood from Gander International Airport to new European markets.
- Continuing efforts to Market Goose Bay's military value; and
- Goose Bay's opportunities to become a Gateway to the Eastern Arctic

Air fares were another important area of investigation for this study. It included those fares applicable within and to/from the province. These have long been a subject of contention for the traveling public. A review of intra-provincial fares, domestic Canadian fares, international, and Transborder (USA) fares in comparison with similar jurisdictions reached some interesting conclusions. In fact, provincial fares are competitive with other areas in Canada on a cost-per-mile basis with two exceptions:

1. Labrador to points outside the province; and
2. Backhaul flying (For example St. John's to London via Halifax.)

These areas are explored in more detail below in the air fares section.

Airlines are among the nation's highest profile businesses. Canadians depend on airlines daily to keep them, and the economy, moving—delivering people and goods to destination whether for business or leisure. Newfoundland and Labrador, a large province with a remote mainland portion and a sparsely populated island portion, is extremely dependent on year-round air access as a key component of economic development of the region. It is the responsibility of each jurisdiction, whether that is airports, regions, provincial stakeholders, business stakeholders or all of these, to create positive communications with airlines in order to achieve the type of partnerships that will result in better air access. Enhanced economic development might be regarded as a byproduct of those partnerships that succeed. From this study's direct contact with Canadian, American and International airlines serving this province, it is clear that the door is open for ongoing dialogue on potential partnerships and opportunities for these carriers. This dialogue will enable them to better serve the needs of the province in areas such as the Humber Valley Resort Development and the increased western regional demand for international air access.

As a province, we must immediately, and with a sense of urgency, focus on our strengths, including our robust economy, and on the fact that an island's continuing economic growth is related to the transportation infrastructure that supports it. We must recognize that the aviation industry not only supports regional growth opportunities and economic activity, it also creates them. With this awareness and with a new commitment to this sector, the provincial government can assist in finding the solution to the challenge of greater air access to this province. We can do this using the current aviation expertise and infrastructure resident in Newfoundland and Labrador.

The *IATA Aviation Economic Benefits* report states that global economic growth is a key driver for air traffic demand. However, as has been demonstrated internationally, this is not a one way street: air traffic demand has increased as economies have grown, but this air transportation activity itself is facilitating economic growth. The reason is simple. The aviation sector is a major industry in its own right, employing large numbers of highly skilled workers, and is by its very nature linked to the rapidly growing global economy. Greater connections to the global air transport network can boost the productivity and growth of local economies by providing better access to markets, by enhancing links within and between businesses, and by providing greater access to resources and to international capital markets.[1]

This study found great strength to build on and an openness for partnerships among key stakeholders in the aviation industry, private sector and government. This was clearly articulated by the Airport Authorities throughout the province, amongst the airlines currently serving the province and provincial business leaders.

There are two directions to take to increase the opportunities for enhanced air capacity in Newfoundland and Labrador:

1. Building a business case to attract additional air capacity;
2. Investing strategically in economic activities related to aviation.

The Province should work with provincial stakeholders in building partnerships with these directions in mind.

"There are obvious stakeholders for the partnership - Airport Authorities, their respective municipalities the business community, the tourism sector and the provincial government. They all have to come to the table with resources and a commitment. The St. John's Board of Trade is willing to get the ball rolling and invite representatives from these organizations to meet."[2]

1.1 Summary of Recommendations

The recommendations in this report are not exclusive of each other, but rather ought to be implemented concurrently and on a continuing, long-term basis. The recommendations are devised to make the most of our aviation industry strengths including:

- Existing airport infrastructure,
- Existing airline partners, and
- Existing route networks.

This is the baseline for our way forward. From here we can grow and add to each of our existing strengths by focusing on opportunities in two areas. Firstly, recommendations one to three are intended to encourage the exploitation of aviation industry strengths and to overcome competitive

1 Excerpt from the Report by IATA (International Air Transport Association) on Aviation Economic Benefits. See Appendix B
www.iata.org/economics

2 "We need an air access strategy - now." Board of Trade article in the Independent newspaper, June 13, 2008

factors in other jurisdictions. Secondly, recommendations four, five and six, are focused on identifying those areas and opportunities where support mechanisms and strategic investment, informed by an awareness of the province's strengths, can help to take the provincial aviation industry to the next level. These recommendations are outlined below and are described in more detail in Chapter 6 of this report.

Focus on Strengths in Airport Infrastructure, in Airline Partners and in Route Network

Recommendation 1:
1A: Get the positive news out—With superior air transport infrastructure and an impressive list of active airlines, Newfoundland and Labrador is open and ready for business. We need to focus on our strengths in accessibility while working to build even better access.

1B: Maximize our strength in provincial infrastructure through partnerships that act to break down regional, municipal, business, and individual airport silos.

Recommendation 2: Work with current airline partners and help build the business case for increased access. Each of the airlines operating in the province is open to discuss new route developments but their business model does not lend itself to the lead role in such developments. The Province must lay the groundwork for a business case for them. To encourage that process, the Province should coordinate the effort among stakeholders and take action on relevant priorities identified.

Recommendation 3: Identify what routes represent growth opportunities. Determine whether or not they exist within the current routes, through expansion or through the addition of new routes for domestic, transborder, international, direct, non-stop or one-stop, and co-terminaling opportunities.

Focus on our Strengths by Identifying Support Mechanisms and Strategic Investment Opportunities

Recommendation 4: Newfoundland and Labrador requires its own Air Access Development Program. This program would have a regionally focused, multifaceted approach to support air access. Although there are many examples of these types of programs worldwide, there is a need to customize or create a program that best suits Newfoundland and Labrador's air access needs. The creation of the program will be dictated by the route in question, the current capacity, the demographics of the traveler, the opportunity identified and the business model of interested carriers. We must keep in mind that not all routes or airlines require a development program. See Appendix A for an example of successful air access development programs.

Recommendation 5: Identify support for economic sectors that have the potential to grow passenger and cargo traffic, for example seafood freighter flights, domestic and international tourism, tourism charter programs, and aerospace and defense industry initiatives.

Recommendation 6: Create a management position(s), funded jointly by the public and private sectors, to lead and facilitate the "Focus on Strengths" program and to engage in all necessary activities to ensure that the "big picture" of provincial air transportation drives the agenda to deliver improved air access.

Although the aviation industry is regulated by the federal government, the provincial government can provide the leadership as the coordinators of provincial efforts to build air access capacity throughout the province. This leadership role will require building the networks between stakeholders, managing the application of provincial resources, and maintaining the focus on achieving results. We can succeed through partnering within our community of stakeholders, with outside interests, and by supporting economic development and aviation related marketing initiatives. The incentive to build air access is to recognize the integral role that air transport can play in supporting long-term economic growth in all regions and economic sectors of the province. The priorities for this process are those activities identified in the recommendations and discussed in detail in this report and the appendices.

2.1 Federal Policy Assessment

Air transportation is regulated by the federal government. Therefore this report begins with an overview of the relevant federal policies to determine whether or not they present barriers to provincial air capacity growth.

Over the past decade, Canada, along with many countries in the international aviation community, has adopted a more open and dynamic approach to the aviation industry. Seen as a catalyst for development, air transport and the access it provides is regarded as a key driver of regional, national and international economies. Canada's relevant policies, as they apply to Newfoundland and Labrador, are outlined in this section.[3]

2.1.1 Blue Sky

The objective of Blue Sky, Canada's international air policy, is to allow greater freedom in the opening of new markets. It "provides a framework that encourages competition and the development of new and expanded international air services to benefit travelers, shippers, and the tourism and business sectors."

The Blue Sky Air Policy is in line with Canada's international trade objective: "...greater economic competitiveness for Canada through enhanced commercial engagement, secure market access and targeted support for Canadian business."

International air travel has long been subjected to complicated restrictions and bilateral treaties between nations. One of the main treaties that sets out the fundamental building

3 See federal government website at: http://www.tc.gc.ca/pol

blocks of air transportation regulation—the "rules of the skyway" —is the Chicago Convention of 1944.

These "building blocks" are widely referred to as the "freedoms of the air." They are fundamental to the international route network we have today. There are five basic freedoms that are, more or less, recognized by all countries, two freedoms that are less widely accepted, and one that is generally unaccepted.

Each is subject to specific conditions, such as establishing the frequency of flights between any two of the countries that are parties to the Convention. Such "rules" are set through bilateral agreements

For example the fifth freedom of air access (see Appendix D) is an opportunity that Newfoundland and Labrador can capitalize on through circumstances such as Continental operating from New York to St. John's and on to London, England carrying passengers from both the US and Canada through to their destination in the UK—and beyond—provided the agreement includes the third country.

For more information on the Freedoms of the Air see Appendix D.

2.1.2 Foreign Carrier Access (FCA)

Under the FCA provisions of Canada's international air policy, a foreign government may apply for one of its carriers to operate a total of two weekly scheduled services from the foreign country to one or more points of its choice in Canada, except Toronto, provided that:

1. The foreign country has no air transport agreement with Canada; and
2. No domestic carrier is interested in the foreign market in question.

This position opens the door for Canadian airports to seek traffic from carriers that are interested in considering new opportunities of growth. For reasons that are not immediately evident, very few foreign governments have taken advantage of the FCA provisions since their inception. Perhaps a lack of promotion may in part be the cause for this slow uptake. In that case, inclusion of these opportunities in any promotion made to foreign carriers could have a positive impact.

2.1.3 Air Cargo Transshipment

Canada's international air cargo transshipment program allows Canadian and foreign carriers to be authorized by the Canadian Transportation Agency to carry international cargo transshipments coming from, and destined to points outside Canada via approved Canadian airports **even if the rights are not provided in Canada's bilateral air transport agreements.** In transit cargo may also be stored in bond until it is transported to its final destination by air or by any other mode.

Carriers are not authorized to carry Canadian-originating or destined cargo unless licensed to do so under Canada's bilateral air agreements or arrangements, or under the charter regulations. Carriers must also meet all Transport Canada safety and security requirements.

The international air cargo transshipment program was initially intended to promote the use of small and underutilized airports by simplifying air carrier access for air cargo transshipment and providing an additional incentive to use these airports' cargo facilities. This program was not

available to larger airports (i.e.: Toronto, Calgary, Ottawa, etc.) until 2008 and currently it is an open door policy for airports to apply for recognition.
Transshipment programs have been introduced at:

- Mirabel (1982)
- Hamilton (1987)
- Windsor (1993)
- Gander (2000)
- Winnipeg (2004)
- Edmonton (2006)
- Moncton (2008)
- Abbotsford (2008)
- Vancouver (2008)

Transport Canada believes that Canadian airports should have the freedom to attract cargo transshipment activity where there are market opportunities. Consequently, the air cargo transshipment program will be expanded to allow any airport to participate in the program—subject to its meeting current application requirements and approvals.

2.1.4 Bilateral Agreements

In its position on international relations, Canada's starting position is towards open skies agreements, in an attempt to benefit Canadian passengers as well as the Canadian economy. This position should make it easier for foreign carriers, once they are designated by their government, to have access to the Canadian market. This positive attitude from Canada should help stimulate international traffic growth.

The latest Canada-US agreement dated March 12, 2007 allows carriers to serve points in third countries with fifth freedom rights (see Appendix D). This means that a US carrier could fly from New York to St John's and continue (after embarking/disembarking passengers) to a third country that would permit such traffic. This freedom opens new opportunities for airports to invite carriers to provide new air services.

Under a proposed Canada - European Union agreement, Canada's air transport relations with member states would be governed by a single regime. This would bring additional opportunities and provide access to new markets not currently covered by bilateral agreements.

Canada is an important trade partner for the European Union (EU) in sustainable development and in economic terms with respect to broader trade policy and a shared commitment to a strong, open, and rules-based multilateral trading system. The EU is Canada's second largest trade partner after the USA and among the EU's trade partners, Canada ranks tenth. Investment is a particularly significant feature in the bilateral relationship: the EU is the second largest investor in Canada and Canada is the third largest investor in the EU.[4]

Canada currently has bilateral agreements with nineteen of the twenty-seven European Union member states. In June 2007, the federal government held joint discussions on transportation initiatives with the European Union Transport Commission.[5]

As bilateral discussions continue worldwide, Canada is continuously considering air agreement negotiations with countries and territories in most regions of the world. Over time, Canada has concluded bilateral air agreements with more than 75 foreign countries and territories. A bilateral agreement does not always mean more flights with larger planes to larger centres. It does result in greater accessibility between the signatory member states and an opportunity for member airlines if they choose to pursue it.

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4 European Commission, Bilateral Trade Relations, See Appendix F. http://ec.europa.eu/trade/issues/bilateral/countries/canada/index_en.htm
5 See Federal website for full list of bilateral agreements: http://www.cta-otc.gc.ca/air-aerien/agreements/ Also see appendix.

2.1.5 National Airports Policy

Established in 1994 by the Federal Government to transfer airports to local interests and communities, the National Airports Policy includes four levels of airport designation:

1. National airports;
2. Regional/local airports;
3. Small airports; and
4. Remote airports.

Coastal Airstrips in Labrador are not included in this policy but are covered by a separate federal-provincial agreement.

The National Airports System (NAS) includes airports in all national, provincial and territorial capitals, as well as airports with annual traffic of 200,000 passengers or more. For the 26 airports in NAS, the federal government has changed its role from airport owner and operator to owner and landlord. It has also transferred ownership of regional/local airports to regional interests.

In Newfoundland and Labrador, Gander International Airport and St John's International Airport are part of NAS. Churchill Falls, Deer Lake, Stephenville, Goose Bay, St. Anthony, and Wabush are considered regional/local airports.

Regional/local airports, because of the nature of their passenger travel, contribute to the revenues of the larger or hub airport in their vicinity. The *Airport Capital Assistance Program*[6] is available to these regional/local airports if they maintain a minimum of 1,000 passengers per year. This program creates an opportunity to reduce the capital investment necessary for much-needed enhancement of facilities and infrastructure maintenance. It is an opportunity to return some of the revenues from the NAS airports to the regional/local airports (see Section 2.1.6 Airport rents below)

Newfoundland and Labrador airports operate under several different scenarios. For example St. John's and Gander have in place 60 year leases with Transport Canada, while St. Anthony and Wabush are still operated by Transport Canada. Goose Bay has a current lease arrangement with the Department of National Defense, while Churchill Falls, Deer Lake and Stephenville are owned and operated by local Airport Authorities. These different arrangements require different approaches to business development models and they can also impact any economic growth initiatives being considered.

2.1.6 Airport Rents

Following the implementation of the National Airports Policy in the mid-1990s and the subsequent transfer of responsibilities to local Airport Authorities, many airports have found it difficult to adjust to the new financial structure. The rent was basically established to ensure that the federal government would receive fair value for the assets transferred.

Airport Authorities are responsible for the maintenance and development of all airport lands and facilities. Upon the completion or termination of any airport lease agreements, all airport improvements or acquisitions completed or secured during the term of the lease by the lessee are subject to a reversion clause and become the property of the landlord without compensation at that time.

6 The Airport Capital Assistance Program *(http://www.tc.gc.ca/programs/airports)

"The viability of Canada's small airports is an issue of importance across all jurisdictions, including the four Atlantic Provinces. As an integral part of the nation's air transportation system, small airports require access to long-term and stable capital funding as well as appropriate policy and regulatory support. This will require involvement by all three orders of government and the private sector.

In September 2004, the Council of Ministers responsible for Transportation and Highway Safety agreed that the viability of small airports is a shared responsibility. Each province and territory and the federal government participated in a national study which was released in September 2006. Recommendations included ensuring small airports were eligible for certain federal funding support programs.

In the interest of preserving a healthy and competitive aviation system in Canada, the aviation policy and regulatory environment must be reviewed, with a focus on reducing the discrepancy between the money removed from the system and invested back.

In May 2005, the federal government announced a new airport rent policy that revised the formula for calculating the rent received from National Airport System (NAS) airports. The new formula will provide NAS airports across the country with reductions over the long term. However, the issue of airport rent is still a significant one for stakeholders nationwide and further negotiations must be undertaken to address residual concerns."[7]

7 Charting the Course-Atlantic Canada Transportation Strategy 2008-2018

2.1.7 Canada Border Services Agency (CBSA)

"Until recently only one National Airport System airport in Atlantic Canada had access to 24/7 customs service (Gander International). The Halifax Stanfield International Airport received these services in April, 2007. More Atlantic Canada airports need significant enhancements regarding CBSA services to be able to attract and retain international air services. In meeting the demands for customs services that fall outside an airport's core hours of service, the CBSA implements a full-cost recovery policy. This system is inequitable across the country.

There are several airports in Atlantic Canada that are disadvantaged by this cost recovery regime. With limited or no CBSA service, smaller airports have difficulty attracting and retaining trans-border and international air service. These cost recovery fees, which range from $300 to $4,500 per flight, can be sufficient reason for airlines to favour airports with 24/7 CBSA service outside Atlantic Canada.

A lack of efficient international and trans-border air service can act as a deterrent to economic growth in Atlantic Canada. The federal government must review the base services provided by CBSA at Atlantic Canadian airports with the intent of providing CBSA services on an equitable basis. The CBSA level of service and cost recovery policy is also an issue for other modes, including certain of the region's marine ports, particularly those smaller ports that receive cruise ship traffic."[8]

8 Charting the Course-Atlantic Canada Transportation Strategy 2008-2018
See Appendix J Atlantic Canada Airports Association press release 07/08

2.2 Policy Summary

As previously mentioned, Canada and many other countries, have adopted a more liberal approach to the aviation industry—an industry that is widely regarded as a key driver of regional, national and international economies. This greater liberalization of markets around the world has largely been characterized by foreign carriers and governments partnering with major national airports. But we believe there are tremendous opportunities for large and smaller airports to take advantage of this growing trend and in doing so develop new traffic and services.

With the growth in international travel, air carriers are relying on existing patterns (established routes) rather than studying emerging and smaller markets for the potential of new services. Newfoundland and Labrador can capitalize on this oversight by:

- Identifying niche opportunities for targeted carriers; and
- Promoting its advantages through new partnership incentive programs.

As well, policy liberalizations offer great potential for setting-up cargo transfer operations through a logistic center and for coordination of services between Canadian/North American cargo carriers and European/North African cargo carriers.

Taking into account the benefits for the Newfoundland and Labrador economy derived from improved air transportation, it is essential to develop partnership incentive programs that will make it more interesting for existing or new air carriers not only to consider serving Newfoundland and Labrador, but also to use Newfoundland and Labrador as a gateway to Canada, to North America, and to the Arctic.

The objectives of any incentive program must be clearly identified with performance measurements, timelines, and accountability for all parties in order to achieve the appropriate return on investment.

Current policy frameworks are aimed at aiding new initiatives in air transport, whether they are developing new markets for passenger traffic or creating increased trade opportunities for air cargo movements.

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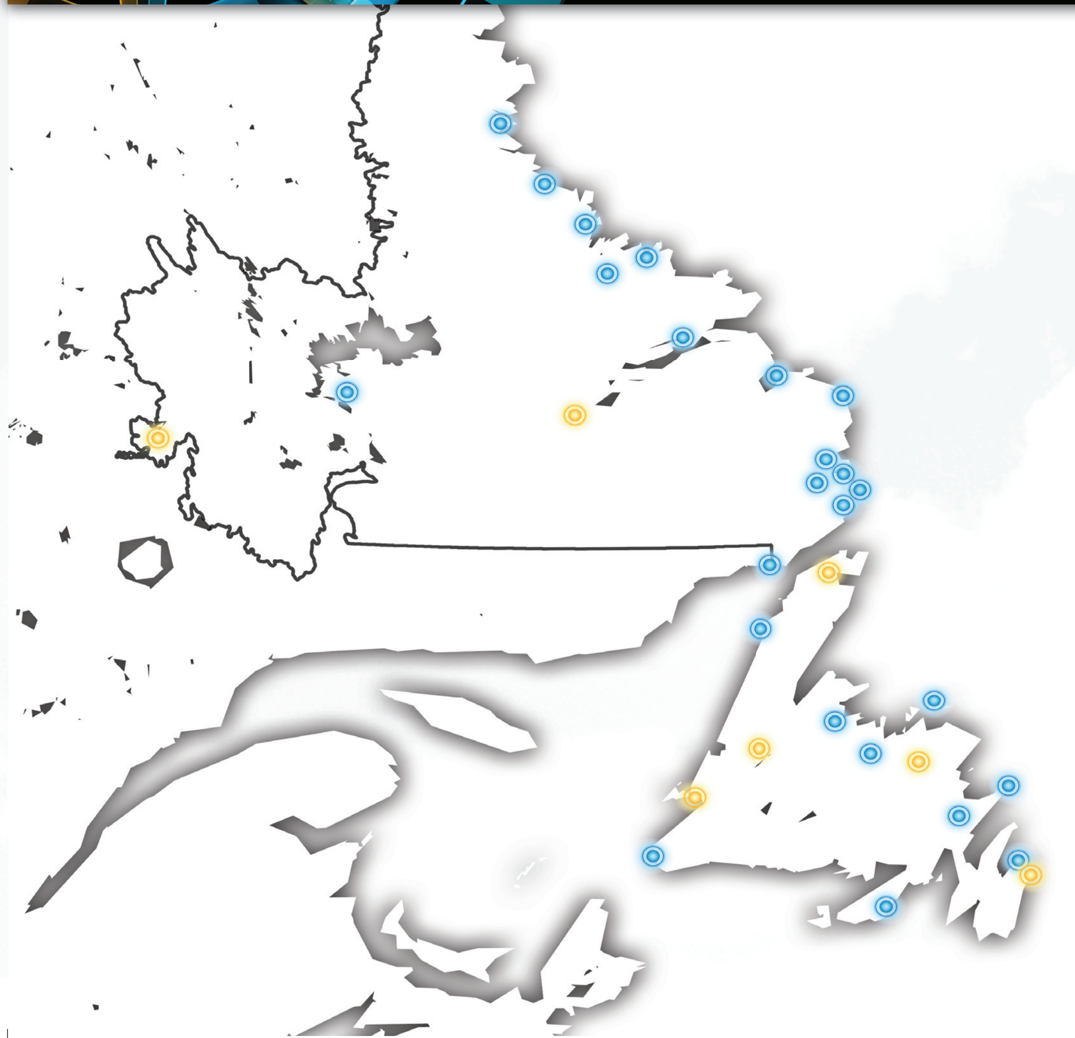
3 Newfoundland and Labrador Airports



An overview of strengths, challenges and opportunities

As suggested in the previous section, barriers to developing greater air access for any Canadian destination are being eliminated from the Federal policy framework. The current policies foster and promote the expansion of air services for the benefit of all regions of Canada. If a business case can be made, the opportunity can be addressed, as the freedom to move passengers and goods has been recognized as an economic driver for the country.

Newfoundland and Labrador, because of its strategic geographic location, has long occupied an important position in the world of aviation. And while technological developments have enabled aircraft to overfly provincial airports, the legacy of this pioneering industry is reflected in a significant airport infrastructure with major airfield capabilities at St. John's, Gander, Deer Lake, Stephenville, Goose Bay, Wabush/Labrador City, Churchill Falls and St. Anthony. In addition to these airfields, Newfoundland and Labrador is home to a series of airstrips on the Labrador Coast which provide the only year round transportation link to the outside world for the local area residents[9].

Newfoundland and Labrador airports were widely known as the "Crossroads of the World". Although technology advances in airplane capabilities have impacted in particular on how Gander's and Goose Bay's role in global aviation is perceived, there is no reason not to build on its history and the fact its strategic geographic position has not diminished. There is a role for the province to play as the "Crossroads of the World" and to build on that brand for the future, not only in aviation but in other transportation sectors as well.

9 For detailed location maps see Appendix L

In the past, Canada's airports were owned and operated by a single entity—Transport Canada. Today management has evolved so that each airport is independently operated by an airport authority. While there are many positive aspects to this development, such as regionally driven management, there are also some challenges such as competition among regional airports, which in some cases hinders the development of provincial access efforts.

When airports compete with each other for airline capacity, some are more successful (St. John's and Halifax) while others must face even greater challenges (Gander, Stephenville, Yarmouth, Sydney, etc). These challenged secondary airports still play a vital role in the overall aviation infrastructure and should be recognized for their importance as key contributors to regional economic growth. They enhance the aviation infrastructure that provides comprehensive air access to their respective provinces. In doing so, they support the growth of the hubs. Therefore, within the Newfoundland and Labrador airport sector, it is to the benefit of the hub airports to pursue partnership opportunities with these secondary airports.

The details discussed in the following overviews of the airports in the province, for the purpose of this study, capture the points of view of each of the airports through their spokespeople. They focus on the current issues, the strengths and the opportunities of each of these airports.

Figure 1 encompasses the passenger traffic numbers for seven of the airports in Newfoundland and Labrador up to and including 2007. Preliminary data to May 2008 indicates positive growth for all seven.

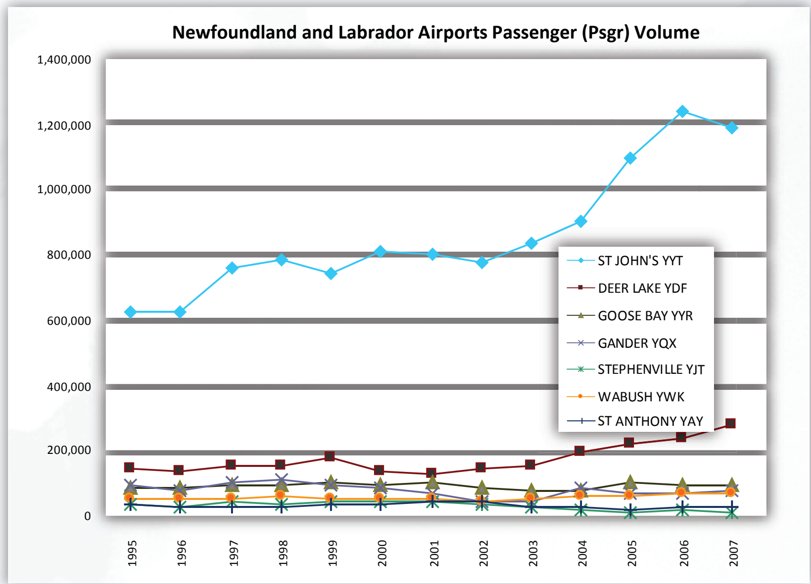


Figure 1 - Airports individual performance by enplaned/deplaned passenger numbers which represents the total number of passengers departing from and arriving at a designated airport.

3.1 St. John's Airport – YYT Overview

Airport Contacts: *Keith Collins, President and CEO; Marie Manning, Director of Marketing and Community Relations*

Greatest Current Challenge: Attracting international carrier(s).

Airline operators:

Air Labrador	Provincial Airlines	Continental
Air Canada	WestJet	EVAS
Sunwing	Air Transat	Skyservice
Air St. Pierre	Canadian North	Purolator
Prince Edward Air		

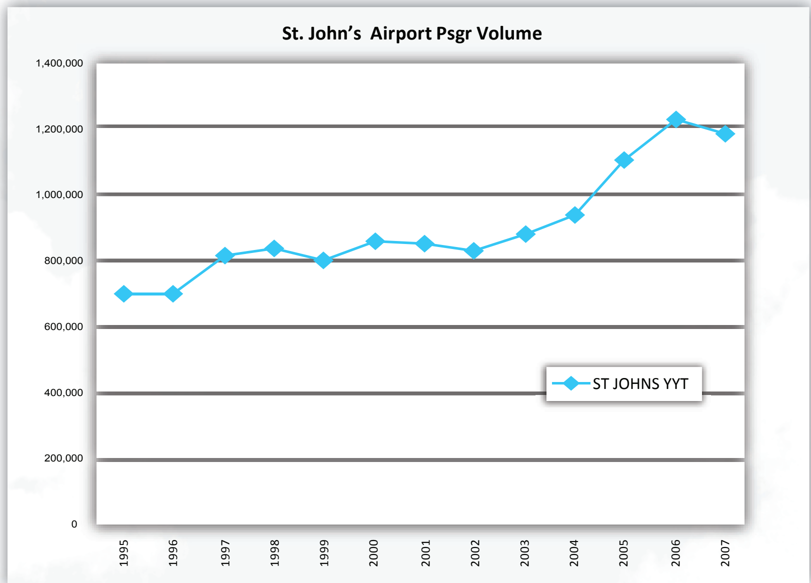


Figure 2 - Airport Performance by Enplaned/Deplaned Passenger Numbers. Total number of passengers departing from and arriving at a designated airport.

St. John's shows a stable and consistent growth trend over several years with particularly strong showing since 2001/2002. This is reflected both in local growth and connecting traffic to/from other provincial airports and St. Pierre. Although St. John's passenger traffic had a slight decline in 2007, it has begun trending upward showing a 3.2% increase as of May 2008.

3.1.1 St. John's Airport Authority Discussion Points

3.1.1.1 International

After Air Canada changed the way it planned to serve the St. John's to London, England route for 2007 and after the disappointing result of the Astraeus exercise on that same route in 2007, the Airport Authority conducted research throughout the Avalon region, assessing the decision-making factors of the traveling public when choosing an international carrier. Through this exercise they achieved insights that will help them plan strategies and approaches to attract Canadian or international carriers and to develop the St. John's-to-Europe corridor.[10]

This current lack of international service is a top priority for the airport authority and they have the full support of the business community (Newfoundland and Labrador Business Caucus) as they pursue this initiative. Through support resources and programs identified by the airport authority and community stakeholders, the Provincial Government can assist in helping to re-establish a direct air link between St. John's and Europe. Such programs would take into account the longer term vision, and must be considered an investment in the economic development framework of the province.

3.1.1.2 Domestic

The loss of CanJet service was a significant blow to domestic capacity and frequency. The airline represented approximately 30 percent of domestic capacity. St. John's International Airport is working cooperatively with the airline industry to replace the lost capacity and offer passengers a range of carriers and frequencies within the province, in the Atlantic Region, and across Canada. The way ahead for growing capacity to/from the province is to convince a limited number of regular scheduled national operators (Air Canada, WestJet) to increase resources committed to Newfoundland and Labrador. However, this is a challenge when the current carriers enjoy high load factors without the pressure of meaningful competition and the associated risk of market-share erosion.

3.1.1.3 Transborder USA

For Transborder traffic, beyond the connections to the United States via Halifax, Toronto or Montreal, the only current direct route is St. John's – Newark, NJ. It is operated by Continental Express Airlines and the airport reports that this route is doing very well. Continental has responded to this success in 2008 by upgrading to a Boeing 737 aircraft thereby increasing the capacity by 24 percent on this important Transborder corridor. The Authority continues to seek opportunities to further develop capacity to/from the USA, lessening dependency on Canadian carriers and Canadian connecting points. The challenge is to grow the relationship and success with Continental while being open to discussions with other carriers on possible new route developments which would improve transborder capacity.

3.1.1.4 Regional

St. John's enjoys the regional presence of two Newfoundland and Labrador carriers with significant operations based at the airport: Air Labrador and Provincial Airlines. These carriers are critical to the growth of the airport as the Newfoundland and Labrador economy prospers and Labrador becomes a major industrial and construction centre. The Route Traffic

10 International and Transborder Travel: Market Expectations and Demand- St. John's International Airport, 2008.

Rankings[11] for passenger traffic out of St. John's is a clear indication of how important these regional carriers are and how frequently the intraprovincial routes they fly are used. These numbers show route volume rankings as follows:

- Goose Bay is ranked fifth
- Deer Lake is ranked seventh

3.1.2 St. John's: Opportunities

Partnerships are a critical part of St. John's strategic approach. It needs to build consensus that it is Newfoundland and Labrador's main passenger gateway to the world, while recognizing the important role other airports play in the province's aviation sector. These other airports represent significant traffic flow to/from St. John's and they offer critical connecting traffic to St. John's limited "hub" opportunities.

As the provincial economy continues to grow, especially the oil and gas, energy and tourism sectors, St. John's (as the provincial capital) must provide efficient, dependable and cost effective transportation links. There has probably never been a better time to sell St. John's and the province as a destination for business, investment, and leisure travel.

International air service provides global access to Newfoundland and Labrador. It is a critical component in advancing the province's economic growth. Without direct access, industry sectors such as tourism are limited by outside forces such as airline schedules and more accessible competing destinations. In attracting another international airline for the key St. John's – Europe corridor, the airport needs the full support of the provincial government and the business community. This support can come in many forms, such as subsidies, marketing incentives, and business initiatives that integrate air transport into the business model. But innovative approaches are essential. This European link is critical to the economic well being and growth of the province. At the time of the publication of this report, some opportunities are developing between St. Pierre, St. John's and the Government of France in an attempt to find a solution to St. Pierre's air transportation woes. With Air St. Pierre and Air France as part of this process, a flight operation between Paris, France and Newfoundland could have obvious spin-off benefit for St. John's and the province. The outcome of the deliberations is yet to be determined.

Domestically, the main trunk carriers (Air Canada, WestJet) will continue to address the air access demands of the province as they have historically. But, whether or not their response has been realistic in terms of demand/usage, the dissatisfaction of the community with this level of service—especially in the peak travel times—is fodder for consumer dissatisfaction and media coverage. Although open and continuous communication with these two carriers is essential, there appears to be more potential for domestic seasonal growth from the niche carriers (Sunwing, Air Transat, Skyservice, Porter) that are expanding services throughout the country either on a year-round basis (Porter) or seasonal (Sunwing, Air Transat and Skyservice).

As stated above in 3.1.1.3, increasing transborder capacity to and from St. John's has been successful and the Airport Authority has built an excellent working relationship with Continental. Before attempting to add a new carrier on any alternate US route, all efforts should be made to grow the transborder business in partnership with Continental, encouraging them to add flights and/or larger aircraft.

11 Route Traffic Rankings is an aviation industry standard that measures airport traffic and ranks the airports based on through volume.

In 2007, St. John's International Airport opened a new multi-purpose/central de-icing facility (MPF/CDF). This 45,000 sq. metre facility is the only one of its kind in Atlantic Canada. It increases the efficiency and safety of the aircraft de-icing process and enhances the airports environmental efficiency. When not in use for the de-icing process, this facility provides a significant area for the parking of commercial, cargo and military aircraft.

The military business is particularly beneficial to the local economy and in 2007 hosted 1,300 military aircraft with 16,000 military personnel passing through the airport area generating about $30 million in annual spending. The objective of the St. John's Airport Authority is to work in partnership with stakeholders to further develop the military aircraft business.

St. John's Airport is one of four airports in Newfoundland and Labrador designated as a NASA Space Shuttle alternative safe landing area. (For more details see the Provincial Opportunities section, 3.9.3).

3.2 Gander Airport—YQX Overview

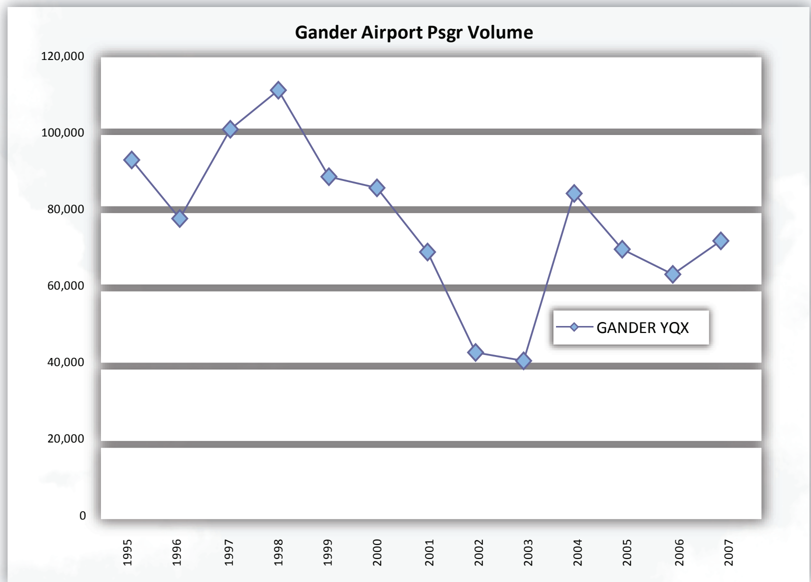


Figure 3 - Airport Performance by Enplaned/Deplaned Passenger Numbers. Total number of passengers departing from and arriving at a designated airport.

Airport Contacts: Gary Vey, President and CEO; Reg Wright, Business Development Manager

Greatest Current Challenge: Maintaining level of domestic services while creating international opportunities for the utilization of its airfield.

Operators:
Air Canada Jazz
Sunwing
Exploits Valley Air Services (EVAS)
Icelandair Cargo

Gander has endured the loss of airline capacity and at the same time the growth of capacity and schedule offerings at both Deer Lake and St. John's. However 2007 saw the return of two direct flights a day by Air Canada from Gander to Halifax. These flights combined with their Gander to St. John's flights will generate significant improvements in passenger traffic numbers as is reflected in the graph data for 2007 while showing a healthy 63.2% increase as of May 2008.

3.2.1 Gander Airport Authority Discussion Points

Gander International Airport believes that the provincial government can make a significant contribution to the airport's success. To support this belief the Province should recognize airport authorities as marketers and seek out generic marketing partnership opportunities such as in tourism development, air cargo transshipment, aerospace and defense industry, and flight training. Rather than get directly involved in airport operation business, the Province should work with airport authorities to identify ways and means to support air access growth as an economic driver of the region.

As evidence of its importance as an economic driver, Gander Airport is building partnerships throughout the Central Newfoundland business community and, in particular, with the province's seafood sector. This outreach has led to the introduction of a once-weekly air cargo service to Europe with fresh Newfoundland seafood products.

Although the Airport has struggled with it's domestic passenger numbers, if they maintain the current regular schedule to both St. John's and Halifax, the domestic passenger target could reach 100,000+ passengers yearly.

Internationally, Gander is an Airport of Entry (AOE) for Canada. As an unrestricted AOE, Gander has 24/7 customs coverage year round. There are only 12 AOEs in Canada providing international flights and foreign carriers with controlled access to Canada. There are other airports in Newfoundland and Labrador designated with restricted AOE status.[12]

12 See Appendix J

The air transport sector can support regional growth by sharing resources. For example, because of its status as the capital city and its location on the heavily populated Avalon Peninsula, St. John's Airport has many obvious opportunities for success. This success need not come at the expense of Gander International Airport which has its own set of unique opportunities. Gander would look to cooperation with other airports such as St. John's to improve the overall air access to the region.

3.2.2 Gander: Opportunities

There are a broad range of opportunities for the expansion of Gander International Airport in support of related regional business and services. For example, one sector in Central Newfoundland that would benefit from increased air passenger service is tourism. Year round opportunities include whales, icebergs, festivals, outfitting, adventure tourism, cultural/aboriginal tourism, and the regional conventions and meetings business.

Gander is an ideal provincial centre for cargo and transshipment development opportunities. The airport could serve the Newfoundland and Labrador seafood industry as a doorway to access international markets for fresh seafood. An initiative to develop this opportunity, using Icelandair Cargo aircraft, began in late 2007. With ongoing support from the provincial Department of Fisheries and Aquaculture, the projections for seafood exports through this effort are substantial.

This export opportunity for seafood is one step in the process of building a transshipment centre at Gander Airport. As global air cargo traffic increases, it is essential to develop solutions for the efficient movement of goods between international jurisdictions. Gander can play a dynamic role in providing these solutions. Building on ten years of research and development by Gander Airport, the time is right to build the capacity to attract transshipment activity. Additional work has been completed recently relating to the opportunity for Newfoundland and Labrador interests to partner with St. Pierre and Miquelon to use the flight from Gander to Europe to increase its own export opportunity and to import French goods to their island colony.

In aerospace and defense, Gander has at least four potential areas for growth. Based on its strategic location, and the availability of fuel, Gander Airport has an opportunity to expand fuel transits and generate fuel surcharge revenue through its continued strategic positioning with the international military community. With the presence of a world-class bonding and composite facility in the community, whose clients are worldwide, the opportunity for exporting of these components by air is a very real possibility. The area also has the infrastructure and strategic location that makes sense as a regional base for government air services. And finally, as one of four designated NASA Space Shuttle alternative landing sites in the province. Gander has an opportunity to market its services more aggressively to the aerospace industry. (For more details see the Provincial Opportunities Section 3.9.3)

World Disaster Staging Point—At the time of writing, the town of Gander has called for proposals to develop a business plan to pursue this initiative further. A not-for-profit organization, the proposed National and International Relief Distribution Centre (NIRDC) will procure and stockpile goods for agencies involved in local and international relief efforts. Such agencies include the World Bank, United Nations, Red Cross, Salvation Army, and the Government of Canada.

The Town of Gander will receive $41,250 from the Provincial Government to conduct a study that will evaluate the feasibility of establishing a National and International Relief Distribution Centre in the community.[13]

Given the training capacity and facilities of Gander Flight Training and the strong worldwide demand for pilots and other aviation related personnel, there is significant potential in attracting foreign students from Asia and elsewhere to Gander for flight training.

Another growth trend in the aviation industry that presents opportunities for Gander is the strong regional demand for charter and direct flights. In particular the airport has identified Sunwing's increase in domestic and Caribbean charter activity (which Gander shares with Deer Lake and Moncton) as an opportunity for increased traffic. This is an example of airports partnering and co-terminaling to build air access for their regions. Airport leaders and stakeholders believe there is solid market opportunities to increase frequency, capacity and destinations domestically, transborder and internationally.

13 Innovation, Trade and Rural Development Press Release January 17, 2008

3.3 Deer Lake—YDF Airport Overview

Airport Contact: Jamie Schwartz, Airport Manager and Chief Operating Officer

Greatest Current Challenge: Customs costs due to lack of Customs onsite.

Operators:

Air Canada Jazz
WestJet
Monarch
Provincial Airlines
Air Labrador
Canadian North
Astraeus
Exploits Valley Air Service(EVAS)

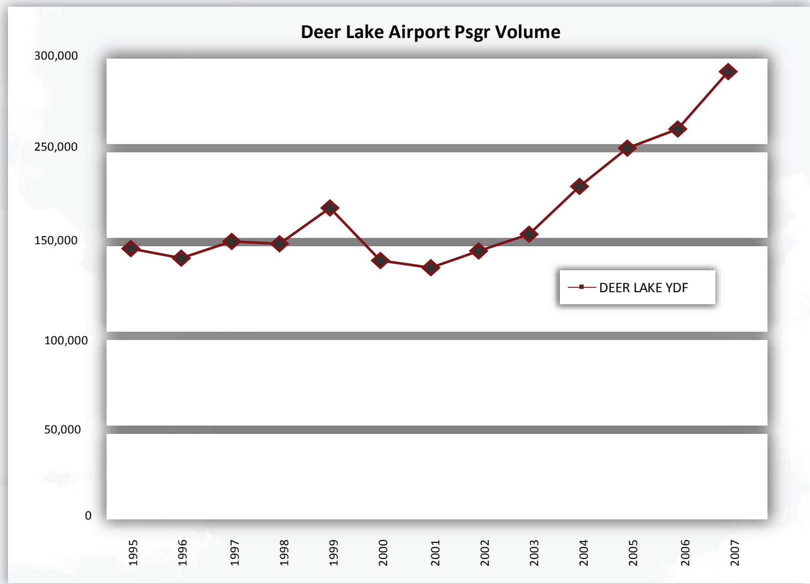


Figure 4: Airport Performance by Enplaned/Deplaned Passenger Numbers. Total number of passengers departing from and arriving at a designated airport.

Deer Lake is well positioned as a HUB for the West Coast and Northern Peninsula. Tourism is the greatest contributor to the growth of the Deer Lake airport and this is reflected in the passenger numbers since 2001 and is showing a 13.3% increase as of May 2008.

3.3.1 Deer Lake Airport Authority Discussion Points

Deer Lake Airport is enjoying regular growth year over year. With passenger movements of more than 278,500 passengers annually, it is now the fourth largest airport by passenger movements in Atlantic Canada. Thirty percent of this traffic originates from the catchment area of Corner Brook/Deer Lake and extends east and north from there. Deer Lake currently has less reliance on Halifax as a hub, and is attracting more direct service to Central Canada and beyond.

Western Newfoundland and Labrador is primarily a leisure market. Fly-in traffic growth is very strong due to provincial tourism successes (70 percent of Deer Lake's traffic originates outside their catchment area as inbound traffic). There are several resort developments currently being constructed in Western Newfoundland. This boom in tourism infrastructure development is reflected in the schedules offered by the main trunk carriers, Air Canada and WestJet, and the seasonal approach both carriers have taken when providing product to Deer Lake.

The bulk of business travel is intra-provincial and serviced primarily by Air Labrador and Provincial Airlines which both offer schedules province wide and have developed Deer Lake as a West Coast hub. EVAS operates two flights a day to St. John's for Air Canada. All of these services are essential to Deer Lake Airport and surrounding communities and must be sustainable, competitive, and priced fairly to enhance business opportunities within the province.

The West Coast of Newfoundland is a very popular tourism destination. The new terminal building provides a modern gateway with an efficient and friendly atmosphere for travelers. Sunwing Airlines is an example of the attention being paid to Deer Lake from new niche leisure carriers. Their healthy load factors lead to additional in-season capacity year over year. With the ramp area expansion now underway and a runway extension in the planning stages, Deer Lake is poised for additional growth.

From the Deer Lake Airport's perspective, the Province should operate under the business model that airport development must be market driven. It is understood that the Province faces difficulties in pleasing all airports when it considers rationalization of airports. However Deer Lake's management team strongly suggests the Province remain at arm's length from airport business. The Government should build on the strengths of its airport infrastructure and look for partnership opportunities within each airport's business development plans, that are market driven and sustainable.

Customs services with CBSA are an important issue with the Deer Lake Regional Airport Authority. The Atlantic Canada Airport Association and The Canadian Airport Council have taken the position that inbound traffic from outside the country should receive the same federal scrutiny as when driving a car across the border—same charge and same service regardless of the point of entry. Currently Deer Lake's ability to attract additional transborder or international air services is restricted by the fact that the airport or air carrier has to pay cost recovery fees for customs services while other comparable airports do not pay for services during core hours.

3.3.2 Deer Lake: Opportunities

In a word: tourism. Deer Lake Airport is committed to building more direct flights to Central and Western Canada, especially during peak summer season. There is also an opportunity to grow similar capacity for the winter season around Marble Mountain and the regional resort build-up that includes Humber Valley Resort. Ontario remains a prime target for skiers and summer adventure traffic as Air Canada and WestJet respond with more direct service to/from Toronto.

The Western portion of the island offers tourism opportunities year round including soft or extreme adventure with unique cultural, historic and world heritage resources. These opportunities are well documented in the Province's tourism strategy and include such unique offerings as the Acadian influence of Port au Port, the Viking settlement at Lance aux Meadows, Gros Morne National Park, Marble Mountain, and Humber Valley Resort. Western Newfoundland also boasts a world class consumptive tourism product with skilled outfitters providing many hunting and fishing opportunities that are attractive to international clientele. This product mix can be featured and marketed internationally and is unsurpassed in Atlantic Canada.

But growth of the tourism industry is dependent on air capacity for both domestic and international traffic. Deer Lake Airport is part of a local/regional partnership group formed to focus on building greater international access for their region. Based on the experience of Humber Valley Resort's international charter program, this group feels it is critical to grow these international flight frequencies. The international flights will help maintain the positive economic impact on the region and foster the ability to grow new tourism business opportunities. The Humber Valley Resort has engaged the services of Monarch Airlines to provide air service requirements for the 2008 summer season. This leadership initiative in acquiring international air service can form an integral part of the overall solution the province seeks on improving international air access.

With regard to concerns about the high cost of customs services, a reasonable solution can be negotiated to minimize scheduling difficulties and the associated manpower costs. This assumption is based on the fact that since flight schedules are published well in advance, Canada Customs, as a service provider, should be able to provide a straightforward and cost effective scheduling of this essential service for Deer Lake Airport.

Another area of new activity for Deer Lake has been the mobile work force moving between Deer Lake Airport and Fort McMurray, Alberta. Currently there are three charters a week operating – two operated by Canadian North and the other by Flair Air.

3.4 Stephenville—YJT Airport Overview

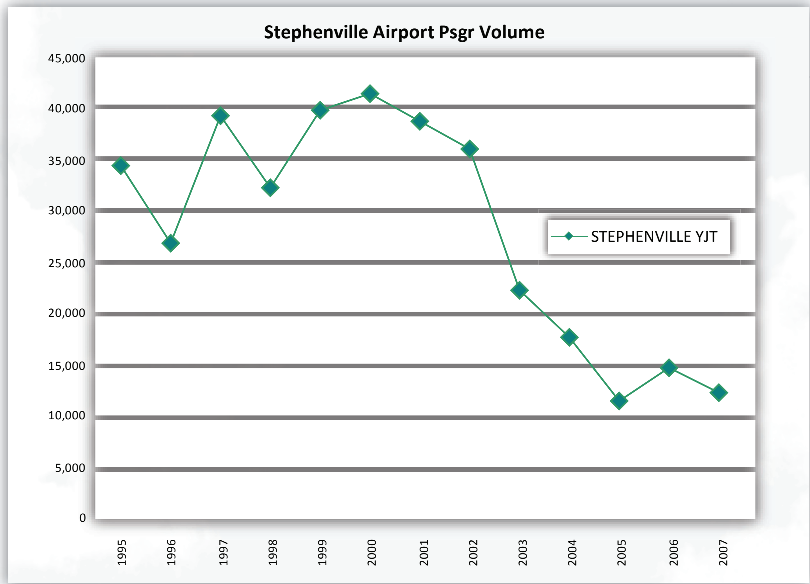


Figure 5 - Airport Performance by Enplaned/Deplaned Passenger Numbers. Total number of passengers departing from and arriving at a designated airport.

Airport Contacts: Bob Byrne, Chairman; Larry Smith, Airport Manager; Jack Tilley, Board Director; Lorne King, Board Director.

Greatest Short Term Challenge: Lack of fuel storage capacity.

Operators:

Provincial Airlines   Sunwing
Air St. Pierre Charters

Stephenville has continued to experience a decline in airline capacity, but strives to attain new capacity as its local economy rebounds. Currently Stephenville is showing a 11.9% increase as of May 2008.

3.4.1 Stephenville Airport Authority Discussion Points

The number one priority of the Stephenville Airport is finding a resolution to their low fuel capacity issue and on-field fuel storage. Currently, the fuel they have for sale is insufficient to attract their largest potential customer base: international technical stops for passenger and cargo airlines, military and private corporate jets. These clients will not land their aircraft at any airport unless there are one million liters of fuel on site. To reach that mark, Stephenville requires additional tanks to bring their capacity to an appropriate level.

The current fuel provider, Shell, does not want to incur the cost of installing the additional tanks. So the airport authority has taken the lead in finding the ways and means to expand the fuel storage capacity. A recent application to ACOA for funding to install new tanks on the airfield was declined on the grounds that the agency does not fund airports. The Authority is continuing to look for ways and/or support programs to help solve this barrier to their business development plans.

This situation creates lost business opportunities due to the following factors:

1. To refill existing tanks, under Stephenville Airport's current tank capacity, requires a minimum 12 – 14 hours road travel for fuel delivery;
2. Stephenville cannot advertise 24/7 fuel availability;
3. The ability for Stephenville to act as the provincial airport alternative for weather closures in St. John's and Gander is compromised. This leads to a loss of aviation business provincially.

Stephenville's catchment area is experiencing positive economic growth. According to airport management, Stephenville Airport is poised to grow but the airlines remain hesitant. Provincial Airlines does offer one daily flight, six days per week to and from St. John's. However this schedule doesn't support same-day return which would boost traveling convenience. Stephenville is looking for an airline to serve Halifax. The airport's goal is to generate 100 passengers a day total, enplaned and deplaned, to reach long-term viability. Currently with the one flight, six days a week, they handle approximately 30 passengers a day.

3.4.2 Stephenville: Opportunities

The Marine Institute is a substantial economic presence in Stephenville and is a very active entity within the community and at the Stephenville Airport. The Safety and Emergency Response Training Centre (SERT) represents a significant growth opportunity for airline passenger traffic. Recently, a feasibility study led by the Marine Institute was conducted to assess the feasibility of training fire fighters and paramedics, and other first responders, beyond aviation. The program, Atlantic Canada First Responder Academy can be tied into diploma certifications with Memorial University and offers contract training for the airline industry. They have already signed a $1.7 million contract with the Canadian military. These programs are delivered to technical and national certification criteria.

Compared with a similar program at Texas A&M, which trains 100,000 students annually, Stephenville is currently in the early stages of growth with plenty of potential to expand. In fact this would be one of only very few certified programs in Canada and students currently enrolled come from Ontario east and the program has been delivered by the centre in Nunavut. There are currently 72 students in course at the Stephenville centre. There exists a world-wide market demand for this type of training and these students would require convenient air access to and from Stephenville.

Stephenville Airport can be a greater component of regional economic infrastructure for the Southwest portion of the province. It is in close proximity to the Stephenville seaport which harvests 20 million pounds of locally harvested fish. The catch-basin area which extends from Corner Brook south to Port aux Basques and west to Burgeo has promising activity from the energy and mining sectors. Recent announcements by oil/gas interests have created renewed confidence in the business community. One example of investment outside of the exploration commitment is the refurbishment of an existing hangar on the airfield to service the offshore industry. There has been several hundred thousands of dollars invested on renovations and upgrades. The mining sector is seeing increased activity with Vulcan Minerals exploration ongoing and new exploration activity by AUR Resources.

Other developments with potential positive implications for the airport cover a myriad of sectors. With the shortage of workers across the country, Stephenville and catchment area like other areas of the province have many workers that are mobile to Fort McMurray requiring frequent departure and arrival flights

The Stephenville region, with its French heritage and bilingualism, has interesting connections and an international relationship with St. Pierre and Miquelon. Air St Pierre's potential to serve Stephenville requires a Ministry of Transport waiver. Air St Pierre on a regular basis flies ski charters to Marble Mountain through Stephenville Airport. Management is now investigating further regional developments with Air St. Pierre such as educational exchanges and joint tourism marketing.

Stephenville's Aerospace and Defense potential includes but is not limited to:

a. NASA Space Shuttle alternative; (which is expanded on in provincial opportunities section – 3.9.3)
b. International Civil Aviation Organization - Alternate International Status Designation;
c. Partnership opportunities with Goose Bay and Gander airports as support for military activities and an alternate for international traffic;
d. Opportunity to partner with Gander Flight Training to provide airfield and airspace requirements for the influx of Asian students at Gander;
e. Coast Guards presence at the airport.

3.5 Goose Bay Airport –YYR: Overview

Airport Contact: Goronwy Price, General Manager

Greatest Short Term Challenge:
Focus on business growth and the operation of two airports in one.

Operators:

Provincial Airlines	Air Labrador
Air Canada Jazz	Innu Mikum

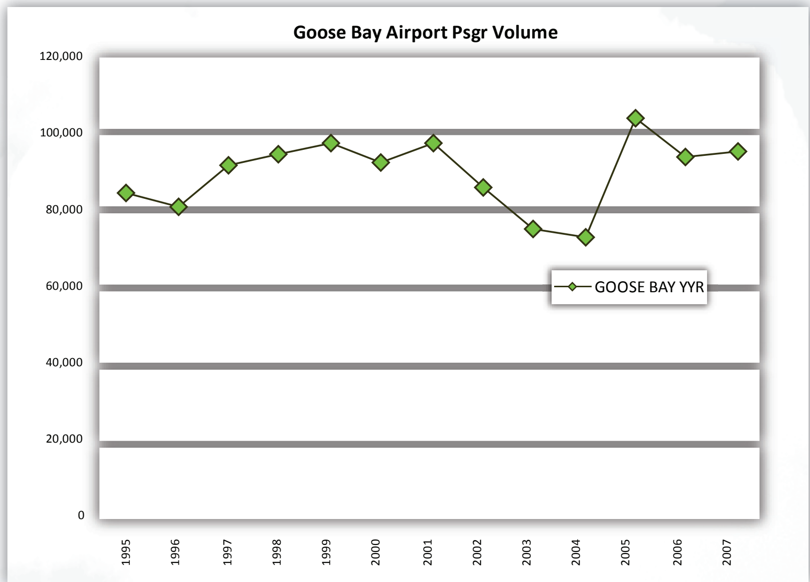


Figure 6: Airport Performance by Enplaned/Deplaned Passenger Numbers. Total number of passengers departing from and arriving at a designated airport.

Goose Bay enjoys the presence of four competing carriers, Air Labrador, Provincial Airlines, Innu Mikum and Air Canada Jazz. Currently a strong mining exploration and energy sector is driving economic development. Goose Bay is the hub airport for the coast of Labrador. As of May 2008, Goose Bay is showing a 6.8% increase.

3.5.1 Goose Bay Corporation Discussion Points

Goose Bay Airport is unique in its operational structure as it functions as a civilian airport within a military partnership and infrastructure. There are both benefits and longer-term questions of viability with this arrangement of two airports in one.

Two Airports in One

The civilian airport serves as the Labrador regional hub for eastern and coastal Labrador with flights operating through the airport from the island of Newfoundland, from the Maritimes, from Halifax and also from Quebec through Labrador West. Connecting to all these flights are aircraft that serve the North and South Coast of Labrador. Goose Bay airport hosts activities in the aerospace and defense industries, and is the regional airport support for a number of industrial developments in several sectors particularly in the mining and energy sector. Goose Bay enjoys solid working relations with Aboriginal groups, and plans are being considered to expand its role as a southern gateway to Nunavut and the eastern Arctic.

The Department of National Defense airfield provides airfield maintenance, while at the same time operating the military installations and providing an active airfield for the Canadian military as required. Canada's Triple 4 Squadron, based in Goose Bay, provides military support and civilian search and rescue support.

Partners and Customers

In its responsibility to operate the civilian airport, the Goose Bay Airport Corporation (GBAC) actively pursues partnerships within the community and has developed strong working relationships with the tenants and operators by focusing its energies in a client-based approach. Current partnerships include the town of Happy Valley-Goose Bay, Serco, the Regional Economic Zone Board, the Labrador North Chamber of Commerce, the town of Northwest River, various aboriginal development corporations, and the Department of National Defense.

GBAC acknowledges that they work in a complicated operating infrastructure requiring a broad based partnership approach. They also acknowledge the need to recognize the requirements of their customers, including the various airlines that serve their airport. Some of these entities include the north and south coasts of Labrador, Provincial Airlines, Air Labrador, Jazz, Innu Mikum, Fixed Base Operators (FBOs), and the foreign military customer base.

Within their long-term corporate plan, the GBAC has identified the following five priorities:

Priority One: Passenger Terminal

a. Self sustainability through outright ownership of current Airport Terminal Building(ATB);
b. Building to projections with board approval to move forward with $6M expansion of the ATB during 2008.

Priority Two: Professionalization of GBAC

a. External and internal Communications;
b. Clients as priority; and
c. Improved governance model.

Priority Three: Civil Aviation

a. A three year lease with Department of Defense (DND) is in effect July 2007 – July 2010. GBAC has to inform DND by July 2009 whether to continue with status quo or request transfer ownership of the Civil Aviation Airport to GBAC.

b. Northside Development:
   1. CHC;
   2. Universal;
   3. Industrial Park — town of Happy Valley-Goose Bay.

c. Studies completed
   1. SG Acres: Goose Bay Airport Management Plan;
   2. Chamber of Commerce — Labrador Nunavut Transportation — North East Trade Corridor Transportation Study.

Priority Four: Otter Creek – Float Plane facility

A $500,000 development is in the design stage; growth opportunity at 30 per cent tied to mining exploration and the Outfitters business.

Priority Five: Marketing

a. Corporate Identity and re-branding; and
b. Regional marketing strategy.

3.5.2 Goose Bay: Opportunities

As business, tourism, and resource-related activities in Labrador increase, the future of aviation in the region looks promising—provided the infrastructure can be maintained and enhanced to make the most of these opportunities

Through Goose Bay, these opportunities include support for mining and industrial activity, such as the Voisey's Bay mine and mill site and the potential hydro development on the lower Churchill River. Other promising sectors include forestry and tourism—with the new national park in the Torngat Mountains. There are also real opportunities in the complex aerospace and defense industry for the existing Unmanned Aerial Vehicles program, for military training, and for an expanded role as one of four provincial NASA Space Shuttle Alternative airports. (See Provincial Opportunities section 3.9.3)

The Goose Bay Airport Corporation welcomes the participation of the provincial government in developing a strategy to grow Happy Valley-Goose Bay as a regional industrial hub for Labrador. Among the items that they recommend that the Province consider in its strategy are:

- Support for local efforts with Federal Government and Department of National Defense;
- Support for Aerospace and Defense industry (Provincial Airlines, and Aerospace and Defense Association of Newfoundland and Labrador);
- Support for economic development including:
  - Business attraction,
  - Servicing mineral sector exploration,
  - Tourism
    - Destination Labrador
    - Torngat National Park
    - Outfitting Industry;
- Develop Goose Bay as an Eastern Arctic Gateway by recognizing the North East Trade Corridors Transportation Study— key findings:[14]
  - Promote the introduction of regular scheduled air service from Goose Bay to Iqaluit,
  - Promote the expansion of the role of Goose Bay in the Federal Food Mail Program.

14 North East Trade Corridors Transportation Study-Labrador North Chamber of Commerce and Baffin Island Chamber of Commerce 2007

3.6 Wabush/Labrador City—YWK: Overview

Airport Contact: Kevin Squires, Transport Canada Manager

Greatest Short-term Challenge:
Grow air capacity in parallel with economic growth projections.

Other Contacts:

- Jim Farrell, Wabush Mayor, Chair of the Combined Councils of Labrador
- Graham Letto, Labrador City Mayor, Chair of the Federation of Newfoundland and Labrador Municipalities
- Patsy Ralph, Executive Director, Labrador West Chamber of Commerce, and
- Todd Kent, Regional Tourism Development Officer, Department of Tourism, Culture and Recreation, Labrador West.

Operators:

Air Labrador Provincial Airlines Air Canada Jazz

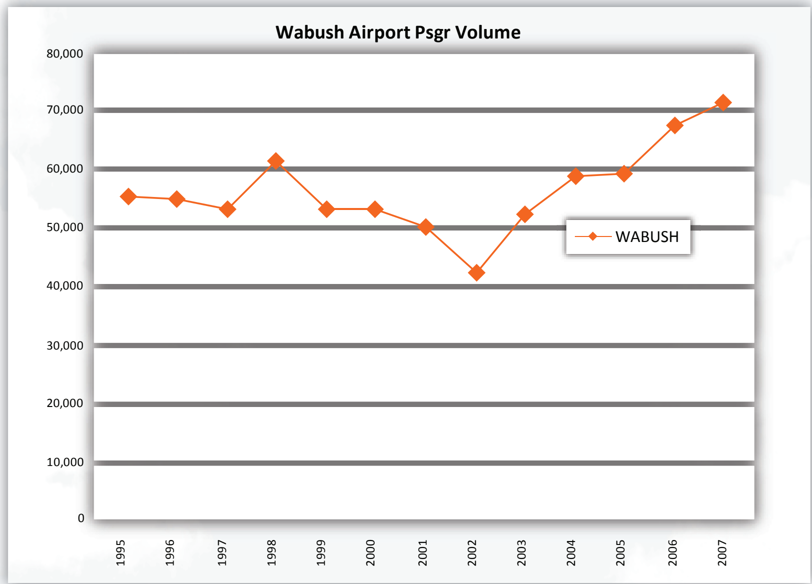


Figure 7 - Airport Performance by Enplaned/Deplaned Passenger Numbers. Total number of passengers departing from and arriving at a designated airport.

Wabush is served by the presence of three competing players – Air Canada Jazz, Provincial Airlines and Air Labrador. Showing strong, steady since 2002 and trending upward at 16.7% as of May 2008.

3.6.1 Wabush/Labrador City: Discussion Points

All contacts from Labrador West anticipate strong economic performance in the region tied to industrial growth. IOC's recent announcement of a $500 million expansion is proof of the significant potential for 2008 and beyond. Other projects, such as Bloom Lake, Iron Ore Mine Holdings and Shabogamo Mining, are all adding to the regional economic revival.

Labrador West is the western gateway to Labrador and the province in general and, in the opinion of regional contacts, should be promoted as such, not only in regional promotions but also in the promotional materials produced by the province. However, even if promotion was at a level acceptable to the region, summer and winter tourism growth is hampered by accessibility levels.

The high cost of air fares for Labrador West provide no guarantee of enhanced services. In fact, only one of the three regional carriers offers connections beyond Montreal, and this marginalized connectivity is a major contributor to the higher than average air fares to national and international destinations. The size of aircraft now flying into Wabush/Labrador City is the limiting factor on the current demand for a range of air fares. It remains to be seen whether ongoing expansion of the iron ore mining will enable the community to build a business case for larger aircraft or more frequency of flights.

3.6.2 Wabush/Labrador City: Opportunities

Opportunities to grow air access for Labrador West will be driven by industrial economic activities. Expansion plans are underway for IOC's operations, growth in Fermont is anticipated and possible new mining initiatives are on the horizon. Major airlines, including those now serving the region as well as other providers, need to know about the area's projected economic growth.

There is a growing interest in northern tourism destinations. To take advantage of this opportunity, Labrador West must solve the region's limited connectivity beyond Montreal, the limited availability of air fare types, and the higher-than-average air fares to and from destinations outside the province. This is certainly an area of discussion with the carriers serving Labrador West, whatever the end result, it is important that the air fare issue be explored by the airport and appropriate air carriers as well as other regional stakeholders such as business, and all levels of government.

3.7 St. Anthony YAY: Overview

Airport Contact: Gregory Roache, Transport Canada

Other Contacts:
Tom Simms, Dispatcher, Grenfell Health
Barry Budgell, Economic Development Officer, Town of St. Anthony.

Operators:
Provincial Airlines Air Labrador

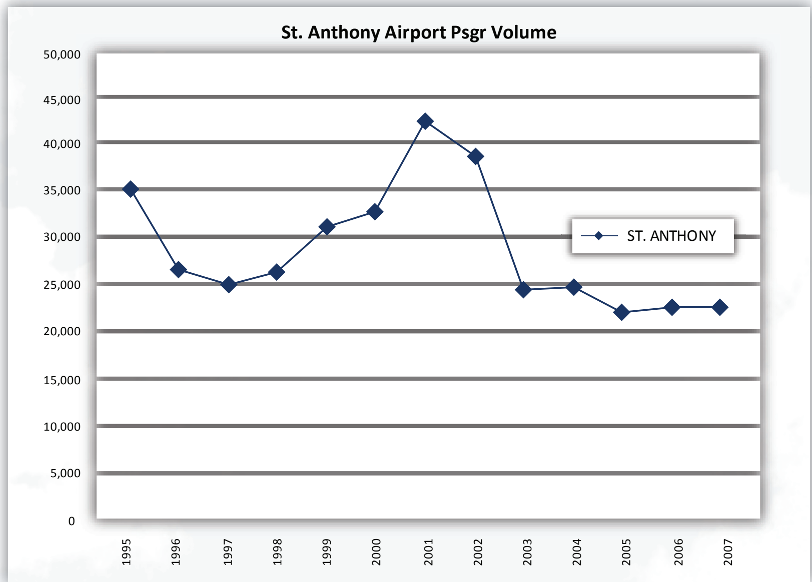


Figure 8 - Airport Performance by Enplaned/Deplaned Passenger Numbers. Total number of passengers departing from and arriving at a designated airport.

After a major drop in traffic in 2002/2003 the numbers have stabilized and are showing a 1.1% increase as of May 2008.

3.7.1 St. Anthony Airport Discussion Points

St. Anthony Airport is owned and operated by Transport Canada. It serves as a regional airport hub for the Northern Peninsula, the Straits of Labrador, and Southern Labrador communities. St. Anthony's main trunk routes are Goose Bay and St. John's, with connecting services to a wide variety of destinations provided from these points.

The airport is an important economic contributor to the business base of the area. It ensures accessibility for travelers and opportunities for sector development such as tourism. The future of St. Anthony Airport is closely linked to the continuation of air services provided by both Air Labrador and Provincial Airlines.

The general consensus from stakeholders in the community is that the present service of Air Labrador and Provincial Airlines to the coast of Labrador, as well as to the island, is sufficient. Medical-related issues are handled through the Labrador-Grenfell Regional Health Authority and the general population is pleased with the services. For any major medical issue medivac service is available.

3.7.2 St. Anthony: Opportunities

Within the Labrador South Coast airports rationalization project, the provincial government has identified Port Hope Simpson as the regional airport facility for the South Coast of Labrador. Discussions are currently underway with the federal government for the required upgrades to that facility. This regional airport situated central to the South Labrador region and linked by a new highway to other communities will use St. Anthony as one of its Hub airports to access greater flight options.

St. Anthony Airport is Northern Newfoundland's link to Coastal Labrador, Goose Bay and Western Labrador for workers and business interests. As road networks improve in Labrador, and tourism infrastructure grows, St. Anthony Airport's role in providing access to and from Labrador will be impacted and they will need to evolve their role within the transportation infrastructure of the region.

3.8 Coastal Labrador Overview

There are six Labrador airports on the north coast and seven on the south coast excluding Blanc Sablon Airport in Quebec. This report touches briefly on the subject of Coastal Labrador airstrips. The complex network and difficult operating environment periodically create challenges for regular services to the coastal communities. Planned upgrades to Nain Airport and the regionalization of airports on the South Coast of Labrador will enhance the operational reliability of coastal services.

Figure 9 - For a more detailed map see Appendix L: Maps

3.8.1 Labrador's North Coast: Discussion Points

Operators:

Air Labrador — Provincial

Innu Mikum

North Coast Communities Served

- Nain
- Natuashish
- Hopedale
- Postville
- Makkovik
- Rigolet

The north coast of Labrador is served by six community airstrips operated by the provincial government. Air service is the only year-round transportation link and plays an essential role in the community and business life of Labrador's north coast.

With good planning and careful design, an ongoing engineering study for the relocation and upgrading of the Nain airstrip will create an opportunity to improve air access to one of the key communities on Labrador's northern coast. It is also important to ensure that the other five coastal air strips have appropriate navigational aids, strip maintenance and building infrastructure to support regional economic development and natural resource exploration.

3.8.2 Labrador's North Coast: Opportunities

With planning for the Torngat Mountains National Park progressing, Nain Airport will become a Gateway for one of Canada's great natural wonders. The value of relocating the Nain landing strip should not be underestimated. It has potential to make a significant contribution to the growth of air service and air traffic to/from the north coast. The new airstrip will also have a positive impact on the regional hub, Goose Bay Airport.

Economic activity is currently on the upswing with base metal and uranium prospecting and mining. Aurora is preparing for the Environmental Impact Stage, Voisey's Bay operations and site infrastructure are ongoing, a vibrant transient workforce, the upgrading of the Nain airstrip and other Nunatsiavut Government initiatives all contribute to a level of activity not seen before.

3.8.3 Labrador's South Coast: Discussion Points

Operators
Air Labrador

South Coast Communities Served
- Black Tickle
- Cartwright
- Charlottetown
- Mary's Harbour
- Port Hope Simpson
- Williams Harbour
- St. Lewis (Fox Harbour)

The new Labrador highway is changing transportation dynamics along the South Coast. A regional airport for the coast may be an appropriate direction for the evolution of air services in this region of the province. The TransLabrador Highway will be extended to include Cartwright to Goose Bay and will be completed in late 2009. This will connect communities in the Labrador Straits to Wabush/Labrador City and beyond into Central Canada, creating new opportunities for growth and accessibility. In preparation for meeting the changing transportation needs of this area, government has completed a review of South Coast air services and airports, to recommend the appropriate number of strips required to serve the people in this region.

3.8.4 South Coast Opportunities

The planned regional airport operation will enhance their ability to improve the frequency and dependability of air services. Traffic will be consolidated over one airport instead of several smaller airports currently, and this regional airport will be connected by road to all the south coast communities.

3.9 Airports: The Provincial Opportunity

Marketing the collective infrastructure:
Newfoundland and Labrador, Open and Accessible for Business.

3.9.1 Focus on the provincial strength

It is time to influence greater partnering of airport jurisdictions:
- Partnering between airports on joint project opportunities,
- Partnering between airport communities, and
- Partnering between airports and seaports.

The province needs to provide the leadership to combine the individual strengths of our airport communities. This can be accomplished through regular dialogue and communications identifying common ground and provincial goals for air access improvements. In doing so, the leaders and decision makers need to embrace that shared viewpoints and collective efforts are likely to lead to more business and better access to the world markets.

3.9.2 Gateways

There has been much discussion about gateways across Canada and to their absence in Atlantic Canada. But when it comes to airport infrastructure, that absence is a misperception. The province's current airport infrastructure is actually a viable platform for economic development. In place already are airports and airport communities with resident expertise in all aspects of aviation. These facilities and this expertise constitute active gateways for businesses access to and from this province. Each of our major airports is an economic engine for their region and the province contributing to local economic activity and facilitating accessibility.

The federal government's *National Policy Framework on Strategic Gateways and Trade Corridors* is based on long-term planning and a systems-based approach to policy and investment issues. In addition, The Government of Canada's *Building Canada* infrastructure plan, with a budget of $33 billion between 2007 and 2014, provides more funding for a longer period of time for provincial, territorial and municipal infrastructure than any federal government since WWII. It includes $2.1 billion through the new Gateways and Border Crossings Fund to improve the flow of goods between Canada and the rest of the world by enhancing infrastructure at key locations, such as major border crossings between Canada and the United States.[15]

Although the talk of Atlantic Gateway is garnering attention, especially from Halifax, we must remind ourselves of the significant air infrastructure currently in place in Newfoundland and Labrador—an infrastructure that provides gateway access to Canada and provides significant air access value upon which a successful expansion strategy can be built.

15 See www.tc.gc.ca/GatewayConnects/Atlantic/AtlanticGateway

By way of example, we have four airports that can be easily identified as tourism gateways that provide entry points, connectors and disbursement to other communities. Travel and Tourism is the fourth largest industry in the world with 900 million travelers in 2007 generating revenue of $500 billion.[16] The tourism gateways are:

1. Wabush/Labrador City—Western Gateway to the province,
2. Goose Bay—Gateway to Coastal Labrador and the Eastern Arctic (see Labrador-Nunavut Trade Corridors Study),
3. Deer Lake—Gateway to year round tourism
4. St. John's—Provincial Passenger Gateway and potential North American Gateway

We have four intermodal Airport/Seaport Gateways:

1. St. John's—cruise, re-supply oil and gas, fishery,
2. Stephenville—fishery, oil and gas,
3. Goose Bay—adventure cruise and supply base to the Arctic,
4. Gander—seafood transshipment Gateway central to the provincial fishery.

Two Airports/Highways to Central Canada Gateways and Mining sector Gateways:

1. Labrador is poised for substantial growth in both mining and energy sectors. Both sectors depend heavily on transportation infrastructure for operational success. In the airports of Goose Bay and Wabush/Labrador City they have dependable air service with room to add capacity.

16 Source: World Tourism Organisation 2007 & Tourism Development International Michael MacNulty -Hospitality Newfoundland and Labrador - 2008

2. The relevance of these airports is further enhanced by the expansion of the Trans Labrador Highway to the South Coast and Straits area. When it is completed in late 2009, Labrador will have an intermodal transportation base that can grow as the tremendous economic potential of Labrador is realized.

3.9.3 Actively Engaging NASA

Newfoundland and Labrador is a NASA Space Shuttle alternative safe landing area. Although we provide landing alternatives for NASA at Gander, Goose Bay, Stephenville, and St. John's, representing four out of five sites in Canada, have we truly maximized this connection and relationship as a province? We must renew any previous efforts and collectively approach officials of NASA to enhance and grow this relationship. NASA is the top of the ladder in aerospace and defense activity in North America. A renewed partnership approach could broaden the scope of what we can do as a province for NASA in areas such as research and development, secure training facilities, and Homeland Security Ports to name a few areas of opportunity.

Strategic planning and partnering with the Aerospace and Defense Association of Newfoundland and Labrador can help as we pursue additional interaction with this important global industry player.[17] It is interesting to also note that NASA utilizes one of their own facilities in Argentia to track space shuttle activities.

The value of the Aerospace and Defence industry in Newfoundland and Labrador is estimated to be $150 million per year and employs 1000 professionals.

17 See Appendix E for Canadian Aerospace Numbers and recent press release

3.9.4 Transshipment

Both Gander and Goose Bay have been active in pursuing the potential for transshipment development, due to their geographic location, history and superior aviation infrastructure assets.This chart shows Gander's strategic position on the Great Circle Route - the shortest distance between North America and Europe.

EU code	US Code	Route		Distances (nautical miles)			
		Direct	Gander YQX Stop	Direct	YQX stop	Added	Long leg
London England LHR	Boston BOS	LHR-BOS	LHR-YQX-BOS	2,837	2,837	0	2,043
LHR	NewYork JFK	LHR-JFK	LHR-YQX-JFK	2,999	2,999	0	2,043
LHR	Atlanta ATL	LHR-ATL	LHR-YQX-ATL	3,659	3,659	0	2,043

Figure 10 - Approximately 1500 flights a day pass over Gander and over 200,000 per year file flight plans with Gander as an alternate.

Gander can build upon a centre for Newfoundland and Labrador seafood producers to access the insatiable European and Asian fresh seafood markets. Currently a weekly air cargo flight is operating from Gander to Europe carrying fresh mussels. Contact has been made with St. Pierre and Miquelon to connect with this flight at Gander to send their own products to France and bring French products to Newfoundland, St. Pierre and Atlantic Canada markets. This type of interest in two way shipping is a building block for other transshipment opportunities.

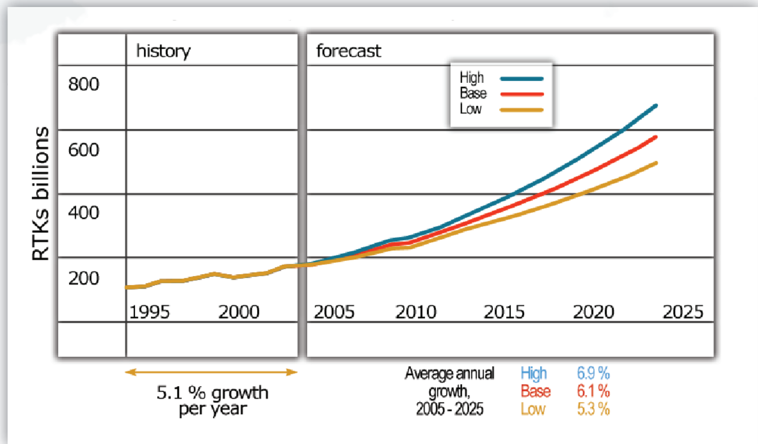


Figure 11 - World air cargo traffic will triple over the next 20 years.

Goose Bay is striving to open trade corridors between Labrador and Nunavut and the Eastern Arctic. Such routes position Goose Bay as a gateway to the region, to Greenland and to other circumpolar nations. One of the lead opportunities for Goose Bay to become a gateway for Nunavut and the Eastern Arctic is the Federal Food for Mail program. This federal program includes several points in southern Canada designated as origins to supply the North. None of these are in Atlantic Canada but Labrador falls within the boundaries as a southern supply zone. As described in the recently completed North-East Trade Corridors study[18], a great deal of preparation, planning and lobbying is needed to establish this gateway.

18 North East Trade Corridors Transportation Study-Labrador North Chamber of Commerce and Baffin Island Chamber of Commerce 2007

"Countries should view air routes as highways in the sky, a competitive public good every bit as important as surface transportation infrastructure in which huge government investments are made. Under a fully liberalized aviation environment, numerous new international highways in the sky are possible which markedly improve the speed and accessibility of the nation's businesses to their global suppliers and customers. In so doing, the competitiveness of the nation's businesses will increase, more foreign direct investment will be attracted and economic development promoted."[19]

3.10 Summary

An airport's success and its value to the economic life of a community cannot be measured by sales revenues alone. Consideration must also be given to the quality and cost-effectiveness of the privatized airport to serve the traveling public and to enhance the movement of goods to, from, and within a region.

Airports are an essential component of the air transport network. A transparent partnership between airlines and private sector or public sector airports is important to ensure that airports fulfill their role within this network.

Therefore, the federal framework must be updated and monitored regularly in order to benefit both the industry and its customers. Privatizing airports should not be viewed simply as a short-term revenue raising option for the federal government or as a means of avoiding expenses.

19 AIR CARGO: ENGINE FOR ECONOMIC DEVELOPMENT
Presented to The International Air Cargo Association
Air Cargo Forum Bilbao, Spain, September 15, 2004

Privatization is best viewed as an investment in transportation infrastructure. Revenue generated by airports for the federal treasury should be re-invested in air transportation to:

- control costs (i.e. security), and
- develop a long-term transportation vision for economic development nationally and regionally.[20]

“Their future cash flows will be limited by the requirement to pay ground rents. With ground rents in place, the ability of the smaller NAS airports to borrow to finance capital development will be very limited, and will unlikely be sufficient for viability in the long term.”[21]

20 Airport Privatization – IATA Economic Briefings No. 1 For a copy of the full report visit: www.iata.org/economics. Also see Appendix C

21 STUDY OF THE VIABILITY OF SMALLER CANADIAN AIRPORTS Developed for Consideration by: Provincial Departments Responsible for Transportation Prepared by: Sypher:Mueller International Inc. 220 Laurier Ave. W., Suite 500 Ottawa, Ontario K1P 5Z9 August 2002

4.1 Analysis of Fares to/from Newfoundland and Labrador

A detailed analysis was conducted comparing the air fares to and from selected points in Newfoundland and Labrador, with the fares on other comparable routes, for four major route categories:

- Intraprovincial
- Domestic
- Transborder
- International

In all cases, the lowest available fares were extracted from airline websites, based on midweek travel about two months in the future. In general, these fares represent absolute minimum, although in some cases, they may not reflect discounts from last-minute seat sales.

NOTE: In order to minimize the effects of different tax rates and surcharges, all fares discussed in this section exclude tax and surcharges (such as airport improvement fees).

4.1.1 Intraprovincial Air Fares Comparison

Comparisons were made with two provinces, Manitoba and Saskatchewan, where population densities and traffic levels were similar to those in Newfoundland and Labrador. For this province, fares were based on those offered by Provincial Airlines and Air Labrador, which were generally identical. Saskatchewan intraprovincial routes are served by Transwest Air, generally without competition, while those in Manitoba are flown by Calm Air, Bearskin Airlines and Perimeter Aviation. A graph of the intraprovincial trend lines for all three provinces is shown in Figure 12.

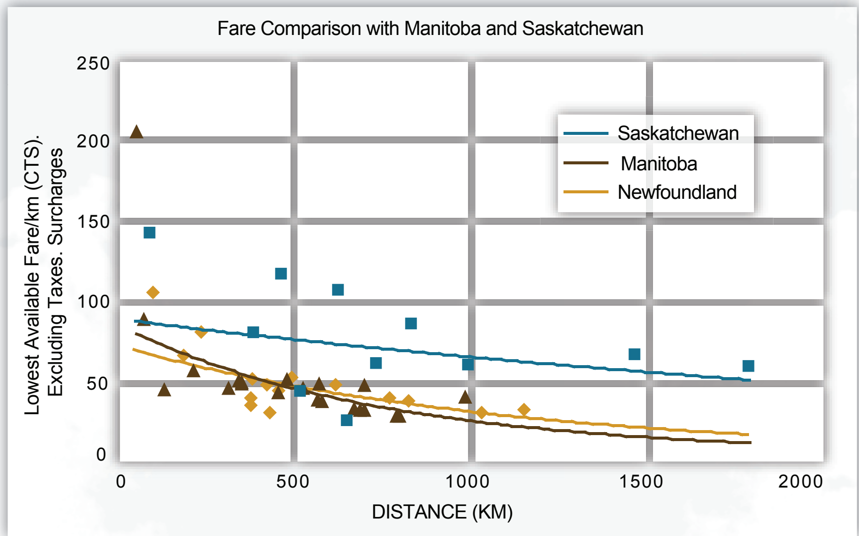


Figure 12 – Intraprovincial Fare Levels

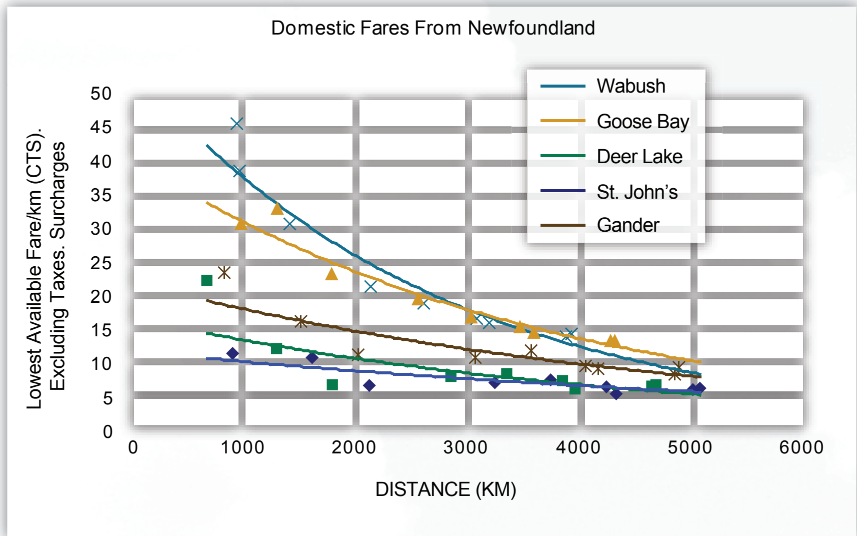


Figure 13 - Domestic Fare Levels – Newfoundland and Labrador Points

The Newfoundland and Labrador and Saskatchewan curves are very similar on a fare per kilometer basis, with little scatter. The Manitoba curve is substantially higher, despite a higher level of competition. But as can be seen from the graph, there is far more scatter in the Manitoba data. The reason for this increased scatter seems to be that the airlines in Manitoba are much more selective about when and where to offer their lowest fare categories, leading to difficulties with fare comparisons among different routes. By eliminating the highest fares from the data set, the curve drops, but would still be above the levels for the other two provinces.

4.1.2 Domestic Air Fares Comparison

The analysis of domestic fare levels was based on two separate comparisons of fares offered by Air Canada:

- Among various Newfoundland and Labrador cities;
- Between St. John's, and other similarly-sized Canadian cities.

Shown in Figure 13 is the comparison among Newfoundland and Labrador cities. Fare levels from St. John's are the lowest of all, followed by Deer Lake and Gander. The fare levels from the two Labrador centres are much higher, particularly for the shorter distances.

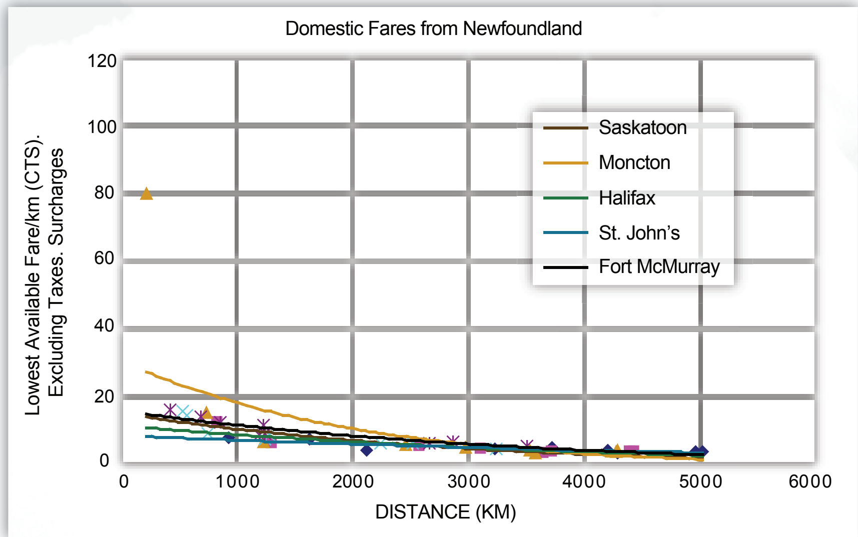


Figure 14 - Domestic Fare Levels Newfoundland and Labrador – Canadian Comparison

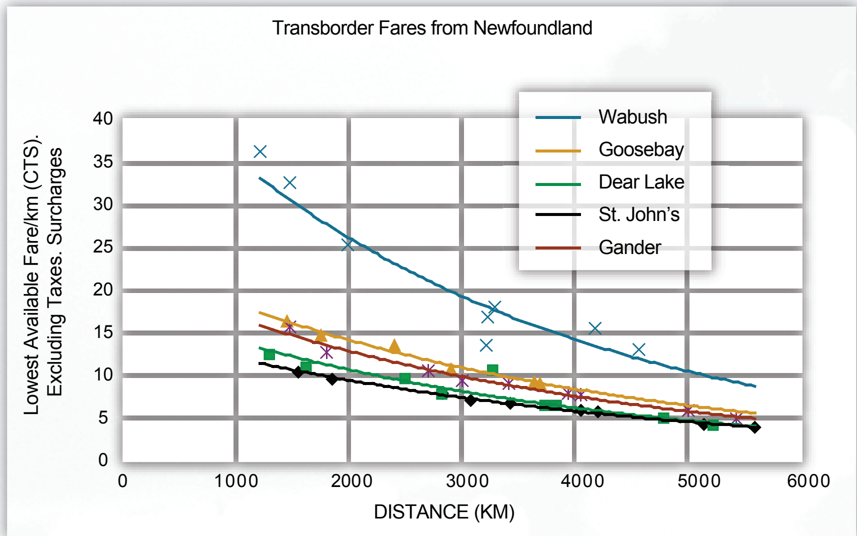


Figure 15 - Trans-border Fare Levels – Newfoundland and Labrador Points

The domestic comparison with similar points (Moncton, Halifax, Saskatoon and Fort McMurray) is shown in Figure 14. With the exception of shorter stage lengths, fare levels are almost identical. For shorter-haul routes, fares from St. John's are actually lower, in general, than those from the other comparative cities.

4.1.3 Transborder Air Fares Comparison

As with domestic fares, the Transborder analysis was based on the same two separate comparisons of fares offered by Air Canada:

- Among various Newfoundland and Labrador cities;
- Between St. John's and other similarly-sized Canadian cities.

The comparison among Newfoundland and Labrador cities is shown in Figure 15. The comparison is very similar to the domestic structure, with fare levels from St. John's being the lowest of all, followed by Deer Lake and Gander. The airfares from Goose Bay are relatively lower than their domestic equivalents, but still above other Newfoundland points. Fares from Wabush are substantially higher over all distances.

The Transborder comparison with the same points as in the domestic analysis is shown in Figure 16 below. As with the domestic analysis, fare levels are relatively closely grouped. Relative to other points, St. John's fares are lowest at the shorter stage lengths, while they are higher over longer stages.

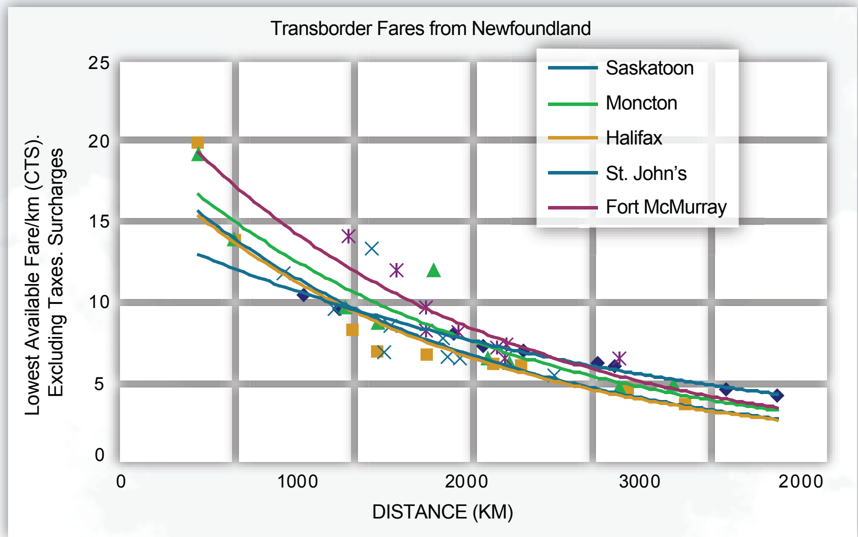


Figure 16 - Trans-border Fare Levels Newfoundland and Labrador – Canadian Comparison

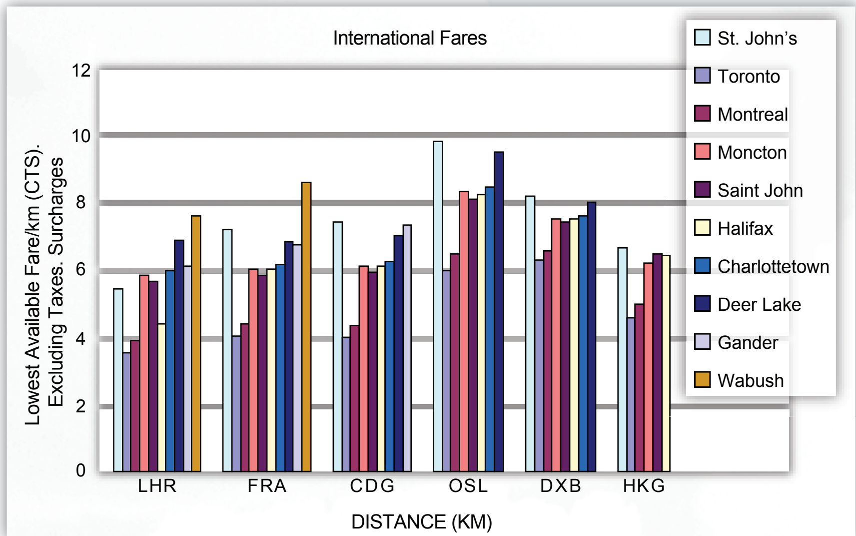


Figure 17 - International Fare Levels – Canadian Comparison

4.1.4 International Air Fare Comparison

International fares tend to be much more variable, and it is difficult to generalize in terms of an overall fare per kilometer graph. However, data were collected for a representative selection of points in Europe (London-LHR, Paris-CDG, Frankfurt-FRA, and Oslo-OSL), Dubai-DXB and Asia (Hong Kong-HKG), with the results shown in Figure 17, for a variety of Canadian gateways. Fares to some points such as Goose Bay, Wabush and Gander are not available; however, there are several generalizations that can be made:

- Fares to and from Toronto and Montréal are substantially lower than those to and from other points, particularly to cities where non-stop flights are available;

- Unit fares to and from St. John's are generally higher than those from other comparable points in the Atlantic Provinces. This is generally because St. John's is common-rated with Halifax, although on a great circle basis, (shortest route between North America and Europe passes directly over Newfoundland and Labrador) the route distance can be substantially less. Without direct services, St. John's passengers generally fly via Halifax (or even Toronto or Montréal), resulting in a substantial backhaul;

- With the exception of Goose Bay, and to a lesser extent Wabush, international fares from other Newfoundland and Labrador points are not higher than those from St. John's, presumably because a similar backhaul is also involved.

4.2 Air Fares Conclusions: Opportunities to Pursue

As discussed earlier, there are several conclusions to be drawn from the fare analysis:

- Intraprovincial fares are in line with those in other less-densely populated provinces;

- Domestic and Transborder fares from Newfoundland are similarly in line with those found elsewhere in Canada. However, domestic fares from Labrador are relatively higher;

- International fares from Newfoundland, particularly over the North Atlantic, are quite high relative to other Canadian cities.

There are two levels of major disparity in North Atlantic fares between:

- Newfoundland and Maritime cities;

- Maritimes in general and major cities in central Canada.

St. John's is 1,000 km. closer to Europe than Halifax, and 2,000 km. closer than Toronto. Despite this geographical fact, North Atlantic fares are not cheaper from Newfoundland and Labrador. For most European points, the lowest available one-way fare is $60 less expensive from Toronto than from any Atlantic point, despite the fact that the distance is much greater.[22] As well, all Maritime points tend to be co-rated, which means that St. John's traffic pays the same fare as Halifax traffic, despite being much closer to Europe.

22 This is largely due to the fact that there is a substantial level of competition on European services from Toronto, which does not exist in the Atlantic Provinces. As well, the airlines fly larger aircraft from Toronto, which has lower seat-kilometer costs.

In fact, Newfoundland and Labrador's North Atlantic traffic is being routed over either Halifax or Montréal/Toronto, which involves a substantial backhaul. Fare levels reflect this additional carriage. Thus, limited airline service on a direct routing negates Newfoundland and Labrador's major competitive advantage, its proximity to Europe.

The obvious solution to this disparity is to develop competitive services on direct routes, where the seat-kilometer costs are lowest. To the extent possible, the Province, airport authorities, and business communities should develop targeted promotional materials to explain Newfoundland and Labrador's advantages to prospective carriers, and show how Newfoundland and Labrador air service can be profitable to them. To support this promotion, more information must be developed regarding traffic levels, destinations, seasonality, and fare levels all brought together in an opportunity profile promoting the province to the airline industry. The federal government can assist here by ensuring regulatory issues do not hinder these development issues and by providing international support where possible.

While there is no direct airline discussion in this part of the study on air fares, clearly potential airlines might include but not limited to:

- WestJet,*
- Icelandic,
- Niche European carriers – Ryanair, Easyjet, etc.
- Charter airlines – Monarch, Air Transat, etc.

** From a network point of view (connectivity flights and airlines), it makes sense to target airlines that are in a position to connect with WestJet at St. John's, allowing traffic distribution to other Canadian cities.*

The areas of concern with air fares as a barrier to increasing passenger volumes are the points identified earlier in this section:

- Domestic fares from Labrador are relatively higher;
- International fares from Newfoundland, particularly over the North Atlantic, are quite high relative to other Canadian cities.

And:

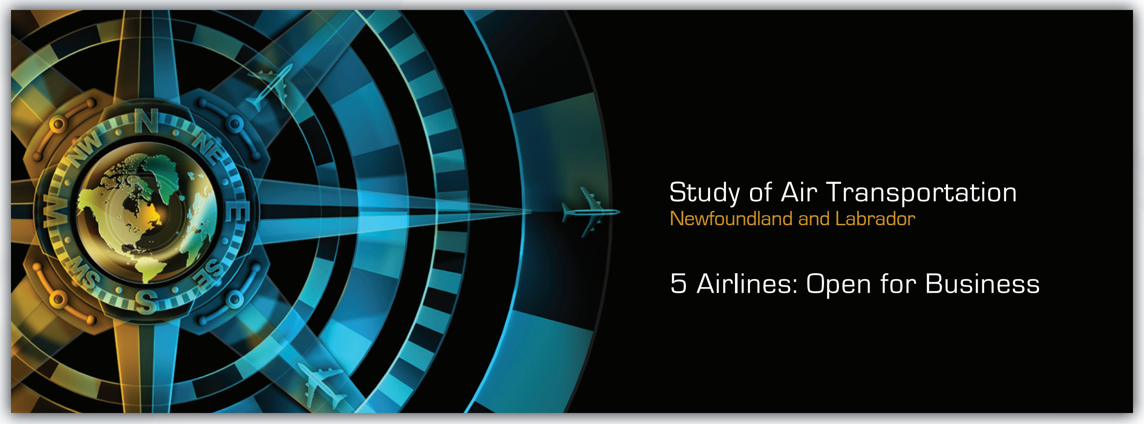
- The volume of lower end air fares available in the marketplace has been trending downwards (see Figure 18), however the question remains whether the volume of these lower end air fares is significant versus the seat capacity offered.

City Legend for Figure 18:

LON	London, Eng.
NYC	New York City
YDF	Deer Lake
YHZ	Halifax
YJT	Stephenville
YQM	Moncton
YQX	Gander
YUL	Montreal
YWK	Wabush/Labrador City
YYC	Calgary
YYR	Goose Bay
YYT	St. John's
YYZ	Toronto

Figure 18: Average Fares To And From Newfoundland And Labrador Points

Average Fares (Canadian dollars)									
City Pairs	1998	1999	2000	2001	2002	2003	2004	2005	2006
NYC YDF	3467	1242	800	927	995	1164	941	765	860
NYC YJT	3347	1779	792	785	846	942			
NYC YQX	1541	1043	794	950	1051	1231	981	730	823
NYC YWK	3595	1349	881	1024	1005	987	893	745	859
NYC YYR	1512	1189	885	1084	1094	1048	1032	930	1086
NYC YYT	2418	1131	730	710	849	873	864	717	702
YDF YHZ	930	539	566	473	450	438	417	236	304
YDF YQM	1356	734	731	635	651	564	549	351	458
YDF YYZ	1716	799	561	571	637	567	586	373	515
YDF YUL						119	200		144
YDF YYC	3231	1562	1414	1274	1260	1084	1203	783	955
YHZ YJT		555	553	457	449	482	216	198	204
YHZ YQX	1032	593	654	500	542	543	403	242	399
YHZ YWK	1110	846	842	685	692	775	809	565	669
YHZ YYR	1137	675	754	598	584	695	742	498	578
YHZ YYT	1077	483	369	341	333	359	344	232	244
YQM YQX	1497	776	835	681	686	587	564	416	628
YQM YWK	1139	612	650	555	583	673	648	468	547
YQM YYR	1356	756	850	675	730	741	794	581	675
YQM YYT	1581	769	731	485	559	474	489	342	381
YQX YYZ	1857	851	507	478	504	552	530	404	688
YQX YYC	3372	1526	1644	1278	1215	955	858	727	1132
YYZ YWK	1422	1107	1008	818	810	764	801	574	762
YYZ YYR	1689	1078	1162	843	848	782	872	654	857
YYZ YYT	1938	700	467	450	442	481	472	338	373
YYC YYR	2973	1672	1716	1443	1398	1228	1365	1020	1351
YYC YYT	3501	1287	1032	885	1044	903	832	596	625
YYT LON	752	1142	1029	1130	1052	1070	1145	1008	1027
LON YYT	1186	1174	1185	1298	1189	1463	1517	1706	1471



This section covers discussions with the current list of scheduled and charter airlines serving the province, including Canadian, American and International airlines.

Newfoundland and Labrador has a stable number of airlines currently providing air access. Although, not perfect and oft times criticized, we must remember to put the access requirement question in perspective if we are to identify clearly the proper parameters for future planning and growth.

As mentioned in the forward to this document, airlines are facing many new challenges in today's operating environment. Together with the high cost of fuel other challenging variables such as security, the environment and liberalization or commercial freedoms are all having a dramatic impact on the industry.

The International Air Transport Association (IATA) has recently challenged Australia to take a leadership role in reviewing these areas that are critical to aviation.

« Oïl prices are re-shaping the air transport industry. In recent months at least 25 airlines have gone bust and airlines could lose as much as US$6.1 billion this year. While prices have come down from their peak, oil is still trading above US$110 per barrel (Brent). Fundamental changes are critical," said Bisignani. "Australia's National Aviation Policy Review is a golden opportunity for Australia to take a leadership role and drive change in security, environment and liberalisation". »[23]

The opinions expressed in the discussion points are those of the individual carriers. Whether they are Canadian, American or International carriers, they are all faced with these global challenges.

23 For full press release, go to www.iata.org/pressroom/pr/2008-08-20-01.htm

5.1 Canadian North

Airline Contacts: *Kelly Kaylo, Vice-President Marketing & Sales*
Cindy Radford, Marketing & Sales

Operates into:
Deer Lake St. John's

5.1.1 Canadian North: Discussion Points

Canadian North operates Fort McMurray-to-St. John's and Deer Lake under a full charter agreement with a third-party company in the oil sector. They have no marketing, sales, or risk responsibilities in the operation. At present it is solely a passenger operation. The belly of the aircraft is not used for perishables or oil sector cargo.

1. Canadian North is acquiring additional aircraft and may have further interest in Atlantic Canada. An opportunity exists with the organization for discussion pertaining to the region, even though they are not in a market developmental phase. They are operating seven 737 Boeings and three Dash 8s. Owned by northern aboriginal groups, the company has been operating in Northern Canada for more than 80 years.

2. They fly a scheduled operation through northern Canada and Ottawa, Edmonton, and Calgary. They fly 6 days weekly to Ottawa, and there are 24 weekly Edmonton connections in Calgary.

3. The company is also open to new opportunities. They have a positive reputation in charter business with oil sands companies. Major Fort McMurray companies are the target for their Newfoundland and Labrador charter flights. The current Newfoundland and Labrador operation does not have cargo.

4. Canadian North's charter 737 operation for the two northern diamond mines flies four times weekly.

5.1.2 Canadian North: Opportunities

Canadian North recommends regular discussions as it relates to their fleet expansion plans and interests in additional flying to Newfoundland and Labrador points from Fort McMurray with passenger and cargo.

5.2 Air Canada

Airline Contact: Susan Grant, Manager, Network Planning

Operates into:

St. John's	Gander
Deer Lake	Goose Bay
Wabush/Lab City	

5.2.1 Air Canada: Discussion Points

5.2.1.1 International Service:

Air Canada advises they did very poorly on the St. John's – London route during the summer of 2007. The airline's actions may have exacerbated the poor performance. They added a second daily direct flight to London, Heathrow to compete with Astraeus Airline's three-day-a-week schedule to London's Gatwick. Combined with Air Canada's primary product offering of flights to London via Halifax, this situation dumped many more seats in the market than in previous years. This resulted in an early withdrawal by Air Canada from the route in September rather than the previously planned end of October.

Air Canada does not intend to re-establish international service (including seasonal) on this route. This is due in part to the poor financial performance of 2007 as well as to a stated lack of available slots at London's Heathrow Airport.

5.2.1.2 Domestic Service:

Air Canada will continue to have a dominant presence to/from the points they serve in Newfoundland and Labrador. Currently these include St. John's, Gander, Deer Lake, Goose Bay, and Wabush. They continue to fine-tune their business model with Halifax as a hub, at the same time satisfying the competitive and demand pressure to fly trunk routes to/from St. John's and Deer Lake direct to Central and Western Canada.

Air Canada business model for communication during flight delays, especially at peak seasons such as Christmas, Easter and summer appears to be flawed from the consumers' perspective. Recently the provincial government and other agencies have received numerous complaints about Air Canada's lack of good communications and terrible customer service attitude. The government needs to assist in creating ongoing and timely exchanges with Air Canada in order to force improvements to customer service. The Passengers' Bill of Rights recently passed by the House of Commons is an indication that Canadians want stronger protection when it comes to service by domestic carriers

5.2.2 Air Canada: Opportunities

As the dominant carrier serving the province, Air Canada represents the greatest opportunity and the greatest challenge among the airlines.

It is in the domestic segment that Air Canada concentrates its efforts on Newfoundland and Labrador. Those efforts will build traffic to the hubs of Halifax, Toronto, and Montreal—except where competition (WestJet) influences them to fly more direct services. With traditional high load-factors, and limited competition, they are likely to continue setting their own domestic agenda.

5.3 SunWing

Airline Contact: Mr. Paul DesRochiers, Vice-President Marketing

Summer Domestic Program operates into:

Stephenville	Deer Lake
Gander	St. John's

Winter Caribbean program operates into:

St. John's	Gander
Deer Lake	

5.3.1 SunWing: Discussion Points

The Sunwing Airline model is as a low cost leisure carrier. They co-terminal (one-stop) most operations on routes they operate. And the airline is continually seeking expansion opportunities. This strategic entrepreneurial approach has enabled Sunwing to successfully establish a niche throughout Canada, including Newfoundland and Labrador, on domestic and sun destination routes. Their Newfoundland and Labrador route—Gander- Stephenville-Toronto and return—is an example of the success of this strategy.

The airline is committed to maintaining its marketed schedules, and not removing themselves from advertised routes. By maintaining this commitment they have successfully developed the routes and have established credibility with the various travel industry sales outlets. (travel agencies, internet, and direct sales).

Sunwing serves Stephenville, Deer Lake, Gander and St. John's on domestic summer operations to points throughout Canada. For the Winter '09 season they will operate out of Gander to La Romana, Dominican Republic, out of Deer Lake to Varadero, Cuba and out of St. John's to Punta Cana, Dominican Republic, Cancun, Mexico and Varadero, Cuba. Trans-Atlantic product offerings are not expected in the short term as the required aircraft type is presently difficult and expensive to attain.

5.3.2 SunWing: Opportunities

Sunwing is pleased with their current operating performance on all route sectors between the island of Newfoundland and Central Canada and between the island and the Caribbean. They are interested in expanding their capacity in sync with the growth in tourism opportunities in Newfoundland and Labrador.

5.4 Astraeus Airlines

Airline Contact: Hugh Parry, Managing Director
Richard Cann, Manager Schedule Service

Operated into:
St. John's Deer Lake

5.4.1 Astraeus Airlines: Discussion Points

Astraeus served the province through its charter contract arrangements with Humber Valley Resort operating through Deer Lake Airport. Their experience during the summer of 2007 serving Gatwick–St. John's return, three days a week, was disappointing and costly for the airline. Traffic did not materialize despite their impression that the community was saying "anything but Air Canada." As noted above, Air Canada did react very aggressively to protect the route.

5.4.2 Astraeus: Opportunities

Astraeus has not ruled out future opportunities, but needs to see a balanced business approach with an operational guarantee.

Their relationship with Humber Valley Resorts was not be extended beyond Winter, 2008 and ended in April.

Humber Valley Resorts now has a relationship with Monarch Airlines of the UK for the summer 2008 season.

5.5 Skyservice

Airline Contact: Christian Ilumin, Director of Airports

Operates into:
St. John's

5.5.3 Skyservice: Discussion Points

Skyservice Airlines is a leading airline for the charter industry with customers that include tour operators, corporations, professional sport teams, government relief agencies and travel incentive companies.

According to the airline spokesperson, Skyservice currently does not operate a domestic summer schedule. There is a business aviation division servicing corporate and private sector business, but they are mainly tour operator driven (Signature, Conquest and Sunquest) catering to the leisure market.

The Skyservice fleet includes 757s, 320s, 319s and, in the summer, Airbus 330s. They operate 24 aircraft in their winter sun schedule. On their summer schedule 80 percent of the fleet flies to the UK and Europe (Portugal, Italy and Eastern Europe) and the remaining aircraft continue to service the sun destinations market throughout the summer.

For Newfoundland and Labrador it is a winter seasonal operation only with flights to Porto Plata and Punta Cana in the Dominican Republic once a week

5.5.4 Skyservice: Opportunities

Skyservice will entertain any proposal for new routes that are deemed viable. They will also operate “ad hoc” services on a “needs” basis.

5.6 Air Transat

Airline Contact for Government Relations:
Mr. George Petsikas,
Legal Counsel and Director

Operates into:

Deer Lake	Gander	St. John’s

Seasonal operations

5.6.1 Air Transat: Discussion Points

Air Transat’s fleet of 17 wide-body aircraft includes Airbus 300s, 310s, and 330s. Transat Group, which oversees the division of Air Transat, generates $3 billion in annual sales, the second largest in Canada, behind ACE (Air Canada Enterprises) and ahead of West Jet. Among their other holdings are travel agency retail and wholesale distribution including Nolitour in Quebec.

The business model for this successful airline is focused on the leisure traveler and there is no emphasis on the corporate traveler. As a point-to-point carrier (as opposed to hub and spoke) Air Transat flies 58 city pairs on the North Atlantic. They operate in conjunction with WestJet to connect passengers from Newfoundland and Labrador to their programs offered out of Halifax and Toronto. Their cargo operations are contracted to EXPAIR Cargo; however, market decisions are based on leisure passenger requirements.

The have two seasonal routes for which the points of origin and destination vary from year to year:

1. Summer is 80-85 per cent trans-Atlantic. From Atlantic Canada they operate a service Fredericton – Halifax to London, England and also a service from Halifax to Frankfurt.

2. Winter is 80-85 per cent North-South routes including Mexico, South America, and the Caribbean. From Newfoundland and Labrador they operate out of St. John's to the resorts of Puerto Plata and Punta Cana in the Dominican Republic and Varadero in Cuba.

5.6.2 Air Transat: Opportunities

Air Transat constantly pursues new route opportunities. They currently fly Halifax to London and are open to discussions with Newfoundland and Labrador on the trans-Atlantic route, provided the business plan indicates market potential. Another possible destination for direct service from Atlantic Canada is Florida. They also seek to risk-share whenever possible.

5.7 WestJet

Airline Contact: Peter Tong. Manager, Network and Schedule Planning

Operates into:
St. John's Deer Lake

5.7.1 WestJet: Discussion Points

WestJet's view of performance in Newfoundland and Labrador has been neutral to positive. The airline has experienced seasonal effects in the winter months where they would like to see better performance, but results over the summer are on target. The re-launch of the seasonal service to Deer Lake from Toronto in May is evidence of this seasonal growth.

Corporately, they are projecting a 10 percent annual rate of growth to 2013, including their Newfoundland and Labrador routes. The company continuously evaluates opportunities and will adjust capacity in the region up or down as warranted to help improve results.

5.7.2 WestJet: Opportunities

While reluctant to reveal their plans for the Newfoundland and Labrador market, the company did express an interest in exploring opportunities in Newfoundland and Labrador. They have an "open door to communications," and would welcome mutually beneficial business case proposals.

5.8 Continental

Airline Contact: Mabel Alonso, Sales Manager — Eastern Canada

Operates into:
St. John's

5.8.1 Continental: Discussion Points

Continental operates with Express Jet - ERJ daily in the summer since spring, 2004, and four times weekly the winter season. They experimented with twice daily service from June to August in 2006 and 2007 but extremely high customs charges for late arrivals combined with poor passenger demand on the second flight made the extra daily flight financially nonviable. However Continental is endeavoring to replace that capacity by:

- Upgrading the one flight to a B737 aircraft and by
- Commencing the daily service in March instead of May and
- Extending to October 1 the extra-capacity flights.

Although pleased in general with the financial performance of their services to St. John's, Continental is monitoring current performance to determine if further adjustments are necessary.

5.8.2 Continental: Opportunities

Continental has no further expansion plans for its service in Newfoundland and Labrador at this time but remains optimistic for the long term and enjoys a good working relationship with the airport and community.

5.9 Air St. Pierre

Airline Contact: Remy Briand, President and CEO.

Operates into:
St. John's
Stephenville—Charters

5.9.1 Air St. Pierre: Discussion Points

Air St. Pierre management is interested in expanding or changing the way it operates to/from Newfoundland. This includes pursuing better connections to Paris, France via St. John's.

5.9.2 Air St. Pierre: Opportunities

The St. John's connection with Air France presents, at first glance, a strong business case and is currently under study by French Government.

Air St. Pierre is also in discussions with Newfoundland and Labrador interests in connecting to/from the European seafood freighter operation at Gander Airport.

5.10 The Newfoundland and Labrador Regional Carriers

Regional Carrier Airlines:
Provincial Airlines
Air Labrador
Innu Mikum

5.10.1 Regional Carriers: Discussion Points

According a news release by the St. John's Airport authority in June 2008, an increase in regional flights by Air Labrador supports the premise that regional carriers operating in Newfoundland and Labrador are strong sustainable business models. In fact Air Labrador is one of the oldest regional carrier airlines in the country. They have been a steady influence on the intra-provincial air travel sector for many years.

Provincial Airlines at the same time is maintaining its current high level of frequent service within Newfoundland and Labrador and expanding its network beyond our borders into the neighboring province of Quebec.

Operating in one of the most extreme aviation weather environments in North America, over a large geographic region with a low population, has created a business challenge that requires discipline and a high standard of operation. Both carriers have exhibited a strong commitment to quality and safety as they serve the traveling public of Newfoundland and Labrador.

They are well equipped with aircraft resources, efficient maintenance and operational bases, and a management and employee team well skilled in their professions. As opportunities to expand have evolved, both carriers have moved beyond the traditional Newfoundland and Labrador territory into other regions including Quebec and the Maritimes.

Although they guard their business development plans closely, growth from these carriers seems likely as the economy of the province continues to expand and create new opportunities for the aviation transportation sector.

5.10.2 Regional Carriers: Opportunities

Our research suggests that there is potential beyond the obvious within this corporate group as the Province looks to expand air access and investment in this sector.

In particular there is potential to expand their reach in Quebec and from there enter the Maritime market. Interprovincial access into Quebec is already a reality for these airlines which fly into Sept Iles, Quebec City, and Montreal from Labrador West. With the support of the Province these airlines could explore partnerships to expand these connections and foster the growth of tourism from Quebec into all regions of Labrador. Likewise, with Provincial support, these regional carriers can explore opportunities for expanding their service to Halifax for tourism and other business opportunities.

5.11 Airline Opportunities

Several of the current carriers have opened the door to further discuss opportunities in Newfoundland and Labrador. The Province should encourage an analysis of opportunities by airport authorities, regions and appropriate tourism and business stakeholders. They in turn can then build a business cases for any opportunities that favour a working partnership with any or all of these airlines and others that have not yet emerged as part of the air transport sector in Newfoundland and Labrador.

This process could be facilitated by the new government management position(s) described in Recommendation 6 of this report. He or she (or they) could help ensure that regular dialogue within the industry is established and continues towards strategic and achievable business goals, enabling the airlines to receive and make business case submissions during their planning cycle.

Beyond the current cache of carriers, other mainline and niche carriers could be approached about their interest in serving a new market. Also, the Province should look at home-grown solutions through current Newfoundland and Labrador operators.

It should be the role of the Province to partner with stakeholders and assist in the identification of opportunities for air access growth and partner in providing resources to pursue same.

1. Coordinate the work:

- Collect economic information and provide to airports/ stakeholders;
- Assist in coordinating positive message with airports to airlines;
- Encourage partnerships both within communities of interest, and between communities of interest – "break down the silos".

2. Coordinate the case for increases to capacity route by route:

- Domestically;
- Transborder;
- Internationally;
- Match the route opportunity with appropriate airline(s).

3. Allocate personnel and financial resources to achieve results; and

4. Formulate a communication strategy with the airline community for long-term relationship building.[24]

List of airlines currently serving Newfoundland and Labrador

Air Canada	Air Canada Jazz
Air Labrador	Air St. Pierre
Air Transat	Astraeus
Canadian North	Cargo Jet
Continental	Exploit Valley Air Services
Icelandair Cargo	Innu Mikum
Monarch	Prince Edward Air
Provincial Airlines	Purolator
Skyservice	Sunwing
WestJet	

24 *See Newfoundland and Labrador Business Caucus Report Recommendations

Figure 19: The chart below indicates the flight frequency per day and total number of seats per day.

City	Flights and Seats per day		
St. John's	**2007**	**2006**	**2000**
Total All Points	34 @ 2578	39 @ 2672	27 @ 1853
Deer Lake	**2007**	**2006**	**2000**
Total Domestic	18 @ 923	18 @ 825	11 @ 487
Goose Bay	**2007**	**2006**	**2000**
Total Domestic	16 @ 569	15 @ 528	8 @ 268
Gander	**2007**	**2006**	**2000**
Total Domestic	5/6 @ 283	6/7 @ 250	6/7 @ 366
Stephenville	**2007**	**2006**	**2000**
Total Domestic	1/2 @ 20	1/2 @ 42	6 @ 150
Wabush	**2007**	**2006**	**2000**
Total Domestic	11 @ 407	10 @ 359	5 @ 185

Note: Increased frequencies do not always translate into increased capacity.

Note: Where flight frequencies are shown such as 5/6 for example, this represents 5 daily flights and one additional flight factored in that operates on less than daily frequency

Note: Overall airline seat capacity has not changed dramatically in recent years.

6 Recommendations—Focus on our Strengths

As a government committed to facilitating social and economic development in all regions of the large island portion and the vast and remote mainland portion of this province, it is crucial to build an integrated air transportation system. The province is well on its way in that regard with:

- Strong economic growth;
- Airfield availability to satisfy that growth; and
- The ability to coordinate efforts to achieve positive capacity results.

To build the air transport sector, we must focus on those strengths and develop an effective marketing, communication and incentive strategy program strategy around them. A key part of that strategy is delivering to targeted airline operators the message that Newfoundland and Labrador is a key destination/location with well developed infrastructure for the successful development of new passenger and air cargo operations.

With a total population of a small to mid-sized city, Newfoundland and Labrador's economic activity does not always attract the attention of corporate Canada—airlines included. In fact, the province's greatest challenge with regard to the aviation industry is its ability to set an agenda with a convincing business case for improved air service. Our competitors, the Maritime Provinces, are more successful in vying for the same airline resources. Ironically, statistics on passenger traffic to and from Newfoundland and Labrador are used by Halifax Airport as connecting-traffic statistics to attract airlines, thereby building on their importance as a regional air hub.

6.1 Provincial Strengths and Competitive Factors:

In drafting the following recommendations, the authors turned their attention to those factors that could most impact the success of the aviation industry in Newfoundland and Labrador and separated these factors into:

- Building on those provincial strengths most likely to help overcome the competitive factors of other jurisdictions (Maritimes), Hub airports from outside the province (Halifax) and availability of aircraft capacity from a variety of airlines. (Recommendations 1– 3);
- Investing in the creation and facilitation of programs to identify and target opportunities for air access growth (Recommendations 4–6).

6.1.1 Focus on our Strengths in Airport Infrastructure, in Airline Partners and in Route Network

Recommendation 1:

A. Tell our story—communicate the positive: Newfoundland and Labrador is open for business. When compared to any provincial jurisdiction, we have, in relative terms, superior accessibility infrastructure and a very impressive list of airlines currently serving the province. Ensure federal policies are monitored and remain supportive of air access as an enabler of economic growth. We need to focus on our strengths in accessibility while working to build even better access.

B. Maximize the strength of our provincial aviation infrastructure through the encouragement of stakeholder cooperation and partnership development. In some cases we need to break down the silos in:
   - i. Provincial jurisdictions;
   - ii. Government:
     - i. Regional; Municipal; Departmental;
   - iii. Business sectors; and
   - iv. Airport to Airport—for example St. John's and Deer Lake sharing resources and traffic to attract international airlines.

Recommendation 2:

Each of the airlines operating in the province is open to discuss new route developments, however, they need to be convinced to look more closely at the potential for new business. This approach is required if the province is to seriously grow air access. It is our responsibility as a community.

We cannot depend on an airline management position in another part of the world to take care of Newfoundland and Labrador air access concerns. To encourage that process, the Province in partnership with the airport authorities and stakeholders, should utilize current research and data and take action on the following:

a. Identification of route potential and capacity growth;
b. Identification of the carriers best suited for each situation;
c. Identification of investing opportunities;
d. Target new airline partners. e. Determine how carriers apply air fares on Newfoundland and Labrador routes;
f. Build the partnerships;[25]

25 For examples of partnerships in other Canadian jurisdictions see Appendix K

Recommendation 3:

Newfoundland and Labrador has an extensive air route network that connects regions of the province, and connects the province to Canada and to the World. There are opportunities to grow these networks for passengers and cargo. New growth will be accomplished within the existing route network or by adding additional routes and/or additional capacity in one or more of the following:

a. Domestic;
b. Transborder;
c. International;
d. Direct, non-stop or one-stop and co-terminaling opportunities; and
e. What external Hubs would serve Newfoundland and Labrador most efficiently (Halifax, Toronto, New York, London).

6.1.2 Focus on our Strengths by identifying Support Mechanisms and Strategic Investment Opportunities – (Preparing to Invest)

Recommendation 4:

Create a Provincial Air Access Development Program customized to meet the air access needs of Newfoundland and Labrador. This program would have a multi-faceted approach to support air access and be developed in cooperation with the provincial stakeholders and the airline industry. Throughout this exercise, we must keep in mind that not all routes and airlines require a development program.

In other jurisdictions, airlines gain financial and other support from private and public local bodies such as governments, chambers of commerce and others. Throughout Canada, air access development strategies have been designed to assist airlines in risk sharing ventures that are focused on improved air access from targeted destinations. Airlines are encouraged to introduce service to a particular route or expand an existing service based on a particular business case. Part of that proposal often includes risk-sharing in which the airlines would introduce a service, provided there was financial support to mitigate risk among the various stakeholders. This group often includes airport authorities, municipal governments, the business community and provincial governments that are working in partnership to share risk and rewards in the successful growth of air access.

Such subsidized costs in Europe have encouraged the creation of unique routes. This creative approach is labeled as "marketing support" to avoid European competition laws. Nevertheless, large legacy carriers have taken legal action, claiming unfair support. But despite this harassment, the subsidies continue, ranging from hundreds of thousands to multi-million-dollar deals. The bottom line is that there must be third parties interested in the route before it can be offered with any hope of viability.

Among the common types of support is a substantial subsidy to airlines that agree to deliver a predetermined number of passengers for that subsidy amount. So, for example, when Ryanair offers one-pence fares, it is the passenger subsidy agreement that encourages this discount. Because the subsidies are large enough, they become more important than yield—therefore the airline is more concerned with hitting the subsidy targets than with the fares it charges its passengers.

However, the spin-off benefits of this air traffic for the airport and the community are very real: there is no risk to them because they only pay if their passenger quotients are met. The passengers of such discount flights actually have more disposable cash to spend in the community. The biggest issue with this model is establishing what that magic number for passenger traffic ought to be and each route's ability to establish long-term sustainability.

The formula required for a successful revenue guarantee program is determined in each individual case, depending on the route, the airline business model and the potential for growth. But one thing is certain: such a business support program will require a substantial monetary commitment by the Province. (See Air Route Development Fund in the Appendix A).

Recommendation 5:

Identify support, financial or other, for economic sectors that have potential for passenger and cargo traffic generation. Among the examples are:

- Fishery - Fresh seafood to Europe;
- Tourism growth in domestic and international markets;
- Aerospace and Defense Industries;
- Arctic Gateway-Goose Bay to Circumpolar Nations.

Recommendation 6:

Participate in creating a full-time management position(s), funded jointly by the public and private sectors, to lead and facilitate the "Focus on Strengths" program. To engage in all necessary activities to ensure that the "big picture" of provincial air transportation drives the agenda to deliver improved air access.

This position(s) should be guided by a steering committee to administer and quarterback the flow of information between government departments, business community, airports and the airline community. Recommendation 1 – 5 would set the agenda for this position(s). Given proper support and resources to coordinate provincial stakeholders' input, this position can be effective in acting on air access issues. This is an opportunity for the government and the business community to engage their efforts in a common agenda—to partner in the investment in air access to generate economic benefits to the provincial economy.

This position(s) would fill a void currently in the province by providing day to day attention to provincial air access issues and focus on achieving improved access to and from the province to regional, national and international destinations. We must ensure that the "big picture" of provincial air transportation requirements sets the agenda to deliver improved air access.

7 Conclusion

Virtually from the dawn of the aviation era, Newfoundland and Labrador has occupied a central position in this modern transport sector. The aircraft from around the world passed through our skies—and our airports—in times of peace and times of war. And because of this attention, the province was recognized internationally as a logical aviation staging point. This activity spurred the founding of economic development in regional centres like Goose Bay, Stephenville, Gander and St. John's, and was the underpinning cause that led to the development of a significant aviation infrastructure throughout the province.

While the aviation industry remains a key driver of our local economy, the gaze of the larger domestic and international airlines has been diverted elsewhere. The province has the infrastructure and the expertise to turn this around. The way to do that is to make a bold decision. We have to stop asking permission of airlines to build our air capacity. They are not the risk takers in economic development. Nor should they be. We must take the risk and become our own centre of aviation activity by establishing the provincial agenda for air access as our guiding principle for development.

By focusing on our strengths as defined in this report, we can build towards our objective of improving air access and developing an aviation sector that utilizes the full potential of our existing infrastructure. Newfoundland and Labrador has the potential to develop an aviation support sector that will position our province as the pivotal air support destination on the North Atlantic and the northern and eastern coast of North America. The rewards can be great. But first we must make the commitment to build an economic highway in the sky. The greater risk as a province is not to act on the opportunity.

Appendix A: Air Access Programs

1. Air Route Development Fund - Northern Ireland

Air Access has been identified as one of the strategic priority areas for economic development and tourism. The maintenance of existing air routes and the introduction of new routes, particularly to Continental Europe, are vital to the Northern Ireland economy.

The need to improve air access to Northern Ireland was recognized as a strategic objective for Northern Ireland in the Programme for Government (NI Executive), the Regional Development Strategy (DRD) and the Tourism Strategic Framework (NITB).

Launching the fund in September 2003, Enterprise Minister Ian Pearson MP said, “Improved air access has been identified as a strategic priority for economic development, including tourism, in Northern Ireland and this Fund will address that need. I am confident that it will deliver considerable benefits to the local economy. It will benefit local business people in terms of developing business linkages and improving access to overseas customers and international markets, and more generally will contribute to improving the overall competitiveness of Northern Ireland businesses. It will also greatly benefit the efforts being made by Northern Ireland Tourist Board to promote in-bound tourism, particularly in relation to the lucrative short break and business tourism markets.”

Objectives of the Air Route Development Fund

The objectives of the Fund are:

to encourage the development of new air links, particularly with continental European centres, for the benefit of promoting business linkages, enterprise development and tourism;

to allow a day's business to be transacted at a wider range of European cities;

to improve the competitiveness of Northern Ireland's businesses by developing close links with international markets and through travel time savings; and

to encourage inbound tourism, particularly in the short-break and city-break markets, which are a key priority for future tourism developments in Northern Ireland.

How does the Air Route Development Fund work?

Air Route Development (NI) Ltd

The Fund is operated by a company called Air Route Development (NI) Ltd. This company was created by the Department of Enterprise, Trade and Investment and Invest Northern Ireland using powers under the Industrial Development (Northern Ireland) Order 1982. The sole purpose of the company is to operate the Fund.

The Board of the company is chaired by Bill McGinnis, an Invest NI Board member, and comprises officials from relevant Departments along with independent expert advice from Professor Brian Graham of the University of Ulster.

Air Route Development (NI) Ltd can be contacted through the Company Secretary, Richard Molyneaux, on 028 9069 8344.

Operation of the Fund

The Fund seeks to encourage the development of new routes by providing investment support to airports. The airports offer discounts on aeronautical charges to airlines introducing new routes, and the Fund then provides match funding which allows the airports to double the amount of discount offered.

The Fund will only do this if an independent economic appraisal of the route proposal shows that the amount invested will result in a net economic benefit to Northern Ireland.

The Fund's investment is limited to the first three years of operation of the new routes. Beyond that period it is expected that the routes will be self-supporting. Investment, which is paid on a per-passenger basis, is also limited to load factors of up to 75 percent.

01/06/05
Summary of new services supported by Air Route Development Fund

Belfast Int'l to New York
Introduced: 27/05/2005 Operator: Continental

Belfast Int'l to Paris
Introduced: 15/06/2004 Operator: EasyJet

Belfast Int'l to Rome
Introduced: 01/07/2005 Operator: EasyJet

Belfast Int'l to Berlin
Introduced: 01/07/2005 Operator: EasyJet

Belfast Int'l to Geneva
Introduced: 01/07/2005 Operator: EasyJet

Belfast Int'l to Nice
Introduced: 15/06/2004 Operator: EasyJet

Belfast City to Norwich
Introduced: 10/02/2005 Operator: flybe

City of Derry to Birmingham
Introduced: 07/06/2004 Operator: Aer Arann

City of Derry to Manchester
Introduced: 07/06/2004 Operator: Aer Arann

Northern Ireland Air Route Development Fund – Post Project Evaluation see FGS McClure Watters report for Department of Enterprise, Trade and Investment 2007.

Review Of Air Route Development Scheme (Ards)
An independent review of the ARDS has been completed. The Review has concluded that ARDS fulfilled the objectives set for it. This can perhaps best be summed up by the simple fact that prior to the introduction of ARDS, Northern Ireland had one international scheduled route - now it has 35. ARDS has been an important catalyst for this increase.

Key findings of the Report include:

(i) £2.8 million has been spent on grant support for routes;
(ii) 9 routes were funded - 6 of the 9 routes continue to operate;
(iii) ARDS funded routes have carried over 127,793 visitors to NI, of which 29,392 would not have come if there had been no direct flight;
(iv) the new visitors have spent an estimated £5.4 million per annum;
(v) new routes have created an estimated 207 new jobs; and
(vi) wider economic benefits include expenditure of an additional £6.8 million and an extra 196 jobs.

The full report can be viewed online.
http://www.detini.gov.uk/

2. Atlantic Canada

In May 2008 for a six-month period, a new weekly Fredericton – London, Gatwick flight, operated by Air Transat for Canadian Affair, UK's tour operator was scheduled to begin operations. This was made possible with the support of a number of incentives offered by the airport and a $500,000 guarantee investment from the Province of New Brunswick.

3. UK Route Development Fund Scheme

n June 2006 the European Commission granted State aid approval to the UK for the operation of a scheme under which devolved administrations and regional development agencies can offer start-up aid for a limited period for new air services from airports within their areas. The Welsh Assembly Government and One Northeast, the regional development agency for North East England, have both established funds for this purpose. They commenced activities during the financial year 2006-07, and supported the following routes during that period:

Wales Route Development Fund

Cardiff - Brussels	Air Wales, Eastern Airways
Cardiff - Manchester	Air Southwest

North East England Route Development Fund

Newcastle - Bergen	Jet2
Newcastle - Copenhagen	Cimber Air
Newcastle - Inverness	Eastern Airways
Newcastle - Krakow	Jet2
Durham Tees Valley - Brussels	Eastern Airways

http://www.dft.gov.uk/pgr/aviation/domestic/fundscheme

4. The Scottish Route Development Fund (RDF)

Established in November 2002 in partnership among The Scottish Government, Scottish Enterprise, Highlands and Islands Enterprise and Visit Scotland to improve business BMI Embraer 145 connectivity and inbound tourism access all year round.

Prior to the RDF, the majority of international traffic to Scotland was routed through hub airports such as Heathrow. The Fund has contributed to a dramatic improvement in Scotland's direct international air network by concentrating only on those routes that helped business and in-bound tourism. As at May 2008, 37 routes continue to operate as result of investment from the Fund.

The RDF ceased in its current form at the end of May 2007. However, routes that started by that date remain eligible for funding. The Scottish Government has been exploring how route development should go forward. Options are being considered but no final decisions have so far been made.

The Route Development Fund is provided through the Scottish Budget with £14.4 million funding over the period 2005-06 to 2007-08. It is operated in partnership with Scottish Enterprise, who administer the fund on the Executive's behalf.

The Route Development Fund supports new air links where airlines can demonstrate the services will have a direct economic benefit to Scotland. The flights must involve regularly scheduled services and must not undermine existing flights. The exact amount from the fund given to the airline cannot be disclosed due to reasons of commercial confidentiality.

http://www.scotland.gov.uk/Topics/Transport/19675/air-route-dev-fund/about-air-rdf

5. Barcelona Air Route Development Committee

Objectives

The main objective of the ARDC is to get new intercontinental routes for Barcelona Airport, as well as working on the maintenance of the present ones.

ARDC actions are mainly focused on three points:

- To carry out market research studies in order to detect market opportunities for opening new direct flights to Barcelona.

- Once the potential route or routes have been detected, the ARDC establishes contact with those airlines that might be willing to operate them; the objective being the joint analysis of the feasibility of the potential route and to share the relevant data used in the study cases.

- Help in the opening of new routes. Once the airline has taken the decision of opening a new route, ARDC designs a global promotion action plan focussed on promoting its commercial launching.

These promotional acts are performed locally, but occasionally certain actions are also performed at the origin markets of the new route. The aim of these overseas promotional acts is to promote Barcelona and Catalonia and, fundamentally, the route in question.

Barcelona Air Route Development Committee

The Barcelona Air Route Development Committee was created at the beginning of 2005 by the Town and County Planning and Public Works Department of the Generalitat - the **Catalonian autonomous government**, the **Barcelona Chamber of Commerce**, the **Barcelona City Council** and **Aena** - Spanish Airports Manager - in order to promote the development of new intercontinental routes from Barcelona Airport.

The ARDC deals with co-ordination between the local institutions and is a point of contact for airlines, which thus favours the possibility of establishing new air services to Barcelona.

http://www.bcnair-route.com/en/presentacio_objectius.html

Appendix B: Aviation Economic Benefits

Air Transport can play a key role in economic development and in supporting long-term economic growth. It facilitates a country's integration into the global economy, providing direct benefits for users and wider economic benefits through its positive impact on productivity and economic performance.

Global economic growth is a key driver of growth in air traffic demand. However, while air traffic demand has increased as economies have grown, air transportation itself can be a key cause and facilitator of economic growth. Not only is the aviation industry a major industry in its own right, employing large numbers of highly skilled workers, but more importantly it is an essential input into the rapidly growing global economy. Greater connections to the global air transport network can boost the productivity and growth of economies by providing better access to markets, enhancing links within and between businesses and providing greater access to resources and to international capital markets.

Scope of the report

IATA worked closely with InterVISTAS consulting to analyse the relationship between a country's level of connectivity to the global air transport network and its level of productivity and economic growth. Aviation connectivity is a measure which reflects the range and economic importance of destinations, the frequency of service and the number of onward connections available through each country's aviation network. The analysis is across a wide range of 48 countries – including both developed and developing economies – and across a ten-year period, 1996 to 2005.

The Economic Rate of Return of Aviation Investment

The report uses statistical techniques to estimate the economic rate of return – i.e. those that are in addition to the direct returns earned by investors and users – illustrated by a few examples of aviation investment projects. For example, an investment of C$1,805 million at Vancouver airport was estimated to have led to a 5.4% increase in connectivity for Canada as a whole. As such, this raised Canada's long-term productivity by 0.04%. Assuming that the number of hours worked remains constant, this implies an annual boost to Canadian GDP of C$348 million (an annual economic rate of return of 19.3%, implying a full economic payback on the investment within five to six years).

The economic rate of return was also estimated for aviation investment examples in several developing economies (see Table 1). Kenya, with the highest increase in connectivity and a larger economy than the other examples, enjoys the highest annual economic rate of return of 59%. For the other developing economies, the annual economic rates of return are lower but still high, ranging from 16% to 28%. Developing countries face capital costs, especially for new aircraft, that are similar to those faced by developed countries. As such, though the boost to GDP is higher in proportional terms for developing economies, the capital costs are still high. Nevertheless, the available economic return is still large and provides a strong justification for investment in the aviation industry.

	Kenya	Cambodia	Jordan	El Salvador	Jamaica
Investment (US$ million)	351	538	360	488	168
Increase in national connectivity/ GDP	59%	46%	55%	35%	28%
Impact on GDP (%)	0.42%	0.32%	0.39%	0.25%	0.20%
Impact on GDP (US$ million)	209	100	100	85	26
Annual Economic Rate of Return (%)	59%	19%	28%	16%	16%

For further details and for a copy of the full report, please go to: www.iata.org/economics

Appendix C: Airport Privatization

Summary

Airports are an essential part of the air transport network. Consequently, the renewed trend for privatizing airports is of importance to all stakeholders in the industry.

Airport privatization is not new. But the success of airport privatization so far is often disappointing. We now have over twenty years of experience from which to learn appropriate lessons.

This report examines the success or otherwise of twelve airport privatization in Europe, Asia and Latin America, and extracts some key lessons for Governments considering how to privatize airports in the future.

IATA And Airports

Airports are key partners for IATA and its member airlines. Without airports, airlines have no business.
Without airlines, the airports have no business.
For IATA, whether an airport is in public or private ownership is not the central question. The key factor is that an airport can deliver the cost and service levels that airlines require, regardless of the airport's ownership structure.

Therefore, where a decision is taken to privatize an airport, the framework put in place must benefit both the industry and its customers. Privatizing airports should not be viewed simply as a short-term revenue raising option for Governments. It must be seen as part of a long-term vision for economic development.

Investment in new airport capacity - along with more efficient usage of existing capacity - is essential if the air transport industry is to meet future growth in demand in a

sustainable way. A transparent partnership between airlines and private sector or public sector airports is important if we are to meet this challenge successfully.
Airport Privatization IATA

Ten Key Lessons For Successful Airport Privatization

1. Customers as key stakeholders should be engaged from the outset and involved on an ongoing and regular basis through agreed processes.

2. A strong focus should be placed on achieving a more efficient management of the airport assets through the transfer to private ownership.

3. Good governance is extremely important if the privatization is to be in the public interest.

4. Independent, robust economic regulation is essential in order to create incentives for efficiency improvements. Government interference in airport regulation automatically creates an unacceptable conflict of interest.

5. The economic regulator should also be overseen by an independent Competition authority to which airports and their customers have the right to appeal.

6. Economic regulators have, so far, been more effective at extracting efficiencies from existing assets rather than ensuring cost-effectiveness from new investment.

7. Mechanisms to incentivise cost efficiency must be built in to the process from the outset. Regulation must avoid preserving monopoly profits or inefficiencies from the start.

8. Service level agreements (or similar systems) must also be put in place to deliver a good quality as well as a cost-effective service.

9. Controls must be put in place to prevent unjustified asset revaluations or regulatory structural changes that burden airlines and their passengers with substantial charge increases.

10. Customer involvement in new investment is essential to ensure it appropriate, cost effective and delivered on time and on budget. The 'gold plating' of investment must be avoided.

Full Report

For a copy of the full report and further economic analysis of the airline industry, visit: www.iata.org/economics Appendix D: Freedoms of the Air

Appendix D: Freedoms of the Air

Air transportation is different to most other forms of commerce, not only because of its international components but also because of its governmental participation and the fact that many national airlines or 'flag carriers' are either in large part government owned, or, even if not, are felt by the government to reflect the prestige of their nation.

In addition, nations often feel that they can only rely on their locally owned carriers to have a commitment to providing service to their own country. This is unimportant if you're a small country in Europe with excellent road and rail service to other countries, but if you're a remote island in the Pacific, air service is essential.

And so, for reasons variously good or bad, international air travel has long been subjected to all manner of complicated restrictions and bilateral treaties between nations. One of the main treaties that sets out the fundamental building blocks of air transportation regulation - the 'rules of the road' - is the Chicago Convention in 1944.

These 'building blocks' are widely referred to as the "freedoms of the air", and they are fundamental to the international route network we have today. There are five basic freedoms that are, more or less, recognized by all countries, two others less widely accepted, and one hardly accepted at all.

Each is subject to specific conditions, such as establishing the frequency of flights, that are determined through bilateral agreements between any two of the countries that are parties to the Convention.

First Freedom - The right to fly and carry traffic over the territory of another partner to the agreement without landing. (Almost all countries are partners to the Convention but some have observed this freedom better than others. When the Korean airliner lost its way over Soviet air space a few year ago and was shot down, the Soviet Union (among other offenses!) violated this First Freedom.)

Second Freedom - The right to land in those countries for technical reasons such as refueling without boarding or deplaning passengers.

Third Freedom - The right of an airline from one country to land in a different country and deplane passengers coming from the airline's own country.

Fourth Freedom - The right of an airline from one country to land in a different country and board passengers traveling to the airline's own country.

Fifth Freedom - This freedom is also sometimes referred to as 'beyond rights'. It is the right of an airline from one country to land in a second country, to then pick up passengers and fly on to a third country where the passengers then deplane. An example would be a flight by American Airlines from the US to England that is going on to France. Traffic could be picked up in England and taken to France.

Sixth Freedom - The right to carry traffic from one state through the home country to a third state. Example: traffic from England coming to the US on a US airline and then going on to Canada on the same airline.

Seventh Freedom - The right to carry traffic from one state to another state without going through the home country. Example would be traffic from England going to Canada on a US airline flight that does not stop in the US on the way.

Eighth Freedom - This is also called cabotage and almost no country permits it. Airline cabotage is the carriage of air traffic that originates and terminates within the boundaries of a given country by an air carrier of another country. An example of this would be an airline like Virgin Atlantic Airways operating flights between Chicago and New Orleans.

Appendix E: Aerospace

News release
For Immediate Release
August 13, 2008

Canadian Aerospace Industry Posts Increased Revenues for the 4th consecutive year, yet long-term challenges remain Ottawa, ON – The Aerospace Industries Association of Canada (AIAC) today released performance results for Canada's aerospace industry in 2007:

- Revenues increased slightly from $22.1 billion in 2006 to $22.7 billion in 2007.
- Aircraft, aircraft parts and components remained the largest segment of revenues
- totaling $12.5 billion (55% of overall revenues).
- Direct industry employment in 2007 was 82,000, up from 79,000 in 2006.
- Export sales in 2007 generated $18.6 billion (82% of total industry revenue) while
- domestic sales totaled $4.1 billion.
- Despite a slight decrease, the United States remained the most important market
- for Canadian aerospace goods and services, accounting for sales of $12.6 billion
- in 2007 (68% of total sales). European customers generated increased sales
- totaling $4.1 billion (22% of total sales) compared to 20% the previous year.
- Canada continues to focus on expanding opportunities in the fast growing Asian
- and Eastern European markets where Canada's market share has shown
- promising growth over the past years.
- Sales to defence customers increased to 22% ($5.0 billion) of total sales in 2007,
- up from 18% in 2006.
- Expenditures on aerospace research and development remained stable at $1.2
- billion (75% of total investment) in 2007.

"Canada's continuing strong performance in global aerospace markets shows that the innovative, cost-effective and proven technologies and services Canadian aerospace companies develop are in demand," says Lajeunesse. "This success is not only good for our industry, but for communities across Canada where our companies operate".

Despite Canada's strong performance, serious long-term challenges are confronting the industry. For example, while the rising cost of jet fuel is having a negative impact on many airlines and their profitability. The upside, however, is this is presenting new opportunities for Canadian companies developing more fuel efficient products.

A second challenge is research and development. Building on the capacity of Canadian firms to increase R&D expenditures in strategic technologies is critical for the Canadian aerospace industry to position itself on future major platforms. "R&D is the key to creating new leading-edge aerospace products and services, and keeping us globally competitive," Dr. Lajeunesse.

Human resources are the industry's third challenge. There is a tremendous need for highly skilled workforce in the Canadian aerospace industry, at a time when baby boomers are facing retirement. "AIAC is reaching out to universities and colleges to help promote the exciting and well-paying opportunities for graduates coming into aerospace," says Dr. Lajeunesse.

AIAC is the national trade association of Canada's aerospace manufacturing and service sector - the fourth largest aerospace industry in the world. The Association represents the interests of 400 companies, in all regions of the country.

For further information contact:
Maryse Harvey
Vice-President Public Affairs
Aerospace Industries Association of Canada
(613) 232-4297
mharvey@aiac.ca

2007 Canadian Statistical Highlights-Aerospace

- Revenue: $22.7B
- Aircraft, aircraft parts and components: $12.5B (55%)
- Domestic: $4.1B (18%)
- Exports: $18.6B (82%)
- US sales: $12,6B (68%)
- Europe sales: $4.1B (22%)
- Civil sales: $17,7B (78%)
- Military sales: $5B (22%)
- Direct jobs: 82,000
- Investment in Capital: $0.4B
- Investment in R&D: $1.2B

Appendix F: Bilateral Agreements

Bilateral air negotiations between Canada and foreign countries

Fast facts: Canada and foreign countries

Over the past 50 years, the evolution of air transportation has contributed significantly to economic growth in Canada and around the world. Technological advances in aircraft and at airports as well as the streamlining of administrative rules and regulations between countries have increased the flow of goods, people and ideas around the globe.
Canada's principal goals when negotiating air agreements are to:

- Provide a framework that encourages competition and the development of new and expanded international air services to benefit travellers, shippers, and the tourism and business sectors.
- Provide opportunities for Canadian airlines to grow and compete successfully in a more liberalized global environment.
- Enable airports to market themselves in a manner that is unhindered by bilateral constraints to the greatest extent possible.
- Support and facilitate Canada's international trade objectives.
- Support a safe, secure, efficient, economically healthy and viable Canadian air transportation industry.

In 2006, Canada introduced a new international air policy titled Blue Sky to modernize its approach to international air transportation. This policy can be found on Transport Canada's website: Blue Sky: Canada's New International Air Policy

Air agreements recently signed or updated by Canada
The modernized approach has proven successful. Since January 2007, Canada has successfully negotiated new air agreements or updated existing agreements with the following countries:

Japan
February 5, 2007 – Under this bilateral agreement, airlines from both countries will be able to adjust the capacity of their services and aircraft types. They will also have greater route flexibility to market partner airline flights as their own, offering additional means of serving markets.

United States of America
March 12, 2007 – The Open Skies agreement enables Canadian passenger and cargo carriers to use the larger U.S. market as a platform to serve a third country and vice versa. The agreement also fosters the development of new markets, new services, lower prices and greater competition.

Ireland
April 30, 2007 – The new agreement will allow air carriers to provide services between any city in Canada and Ireland. Canadian carriers will also be authorized to use Ireland as a platform to serve a third country and vice versa.

Kuwait
May 17, 2007 – Under this agreement, carriers from both countries are permitted to serve destinations of their choice in the other country. Each country has the right to designate any number of carriers to operate scheduled air services between the two countries.

Jordan
July 13, 2007 – Under this agreement, any number of carriers from both countries are allowed to serve destinations of their choice in the other country and to operate scheduled air services between the two countries. Carriers can also provide code-sharing services whereby an airline uses the flights of other airlines to transport passengers for part of their trip.

Iceland
July 18, 2007 – This air agreement allows airlines of both countries to operate passenger and all-cargo scheduled air services between any city in Canada and Iceland. Canadian carriers will also be allowed to use Iceland as a platform to serve a third country and vice versa.

New Zealand
September 7, 2007 – The new agreement allows any number of air carriers from either country to operate passenger and all-cargo scheduled air services as frequently as desired, to and from any point in either country's territory. The agreement also allows stand-alone cargo services between each other's territory and third countries, and includes a fully flexible tariff regime.

Singapore
November 7, 2007 - The agreement is a modern framework for air services that permits any number of air carriers from either country to operate non-stop passenger and all-cargo scheduled air services as frequently as desired, between any city in Canada and Singapore.

Mexico
December 14, 2007 – This updated arrangement for air services will lead to more choices for travellers and shippers in terms of prices, routes, and destinations. This new arrangement will provide greater market access for airlines from both countries and will also help to strengthen our commercial ties with Mexico.

Barbados

February 8, 2008 - The agreement allows airlines to provide scheduled air services as frequently as desired between cities in Canada and Barbados. In addition, airlines from both countries have greater flexibility in offering flights (passenger and cargo) to and from third countries, with the gradual phase out of all limitations.

Current air agreements

Over time, Canada concluded bilateral air agreements with more than 75 foreign countries and territories. For a full list, please consult the Canadian Transportation Agency website.

Ongoing and upcoming air negotiations

Canada is continuously considering air agreement negotiations with countries and territories in most regions of the world. On November 27, 2007 Canada announced the launch of negotiations for an Open Skies-type air transport agreement between Canada and the European Union (EU) and its member states. Canada currently has concluded bilateral air transport agreements with 19 of the 27 member states of the EU. If negotiations are successful, a single air agreement could rule air transportation between Canada, the EU and its member states.

Appendix G: Terms of Reference

REQUEST FOR EXPRESSIONS OF INTEREST

STUDY OF AIR TRANSPORTATION

1.0 Background:

The Department of Transportation and Works has been identified as the lead department in the development of a study of air transportation, and what can be done to encourage more capacity, more direct services, more frequent services and a wide range of provincial, national and international destinations.

A steering committee of representatives from the Departments of Transportation and Works; Innovation, Trade and Rural Development; Labrador and Aboriginal Affairs; Tourism, Culture and Recreation; and Intergovernmental Affairs has been put in place to manage this study.

The study will encompass all regions of Newfoundland and Labrador including St. John's, Gander, Deer Lake, Stephenville, St. Anthony, Happy Valley-Goose Bay, Churchill Falls, Wabush, and the Coastal Labrador Airstrips.

Transportation and especially air transportation, is critical to the province and its people for social, economic, economic development and tourism reasons. Air services for the residents of Newfoundland and Labrador have traditionally been delivered utilizing both scheduled and charter air services.

The Department is presently seeking an aviation consultant to assess the scope of work required to encourage more capacity, more direct services, more frequent services and a wide range of provincial, national and international destinations.

2.0 Summary of Requirements

2.1 Overview

The Government of Newfoundland and Labrador is inviting Expressions of Interest (EOI) from aviation consultants who are interested in developing a plan to encourage more capacity, more direct services, more frequent services and a wide range of provincial, national and international destinations.

The successful consultant will be required to demonstrate experience inidentifying domestic and international aviation capacity and a knowledge of the aviation operations in Newfoundland and Labrador.

2.2 Scope of Work:

The successful consultant will be required to provide potential opportunities to encourage more capacity, more direct services, more frequent services and awide range of provincial, national and international destinations to/from all regions of Newfoundland and Labrador including St. John's, Gander, Deer Lake, Stephenville, St. Anthony, Happy Valley-Goose Bay, Churchill Falls, Wabush, and the Coastal Labrador Airstrips.

As well as an analysis of the potential opportunities, the successful consultant will be required to provide a review of existing and potential barriers to regional air services, including passengers and cargo.

The consultant will complete a thorough review of the existing air services, including passenger and cargo services, provided to all regions in Newfoundland and Labrador.

Complete an analysis, including passenger and cargo services, of the business and tourism capacity requirements to all regions of Newfoundland and Labrador together with a comparison of existing services to capacity requirements.

Analyze existing airfares to all regions of Newfoundland and Labrador in comparison to other similar jurisdictions in an effort to ascertain whether these airfares have an impact on encouraging more capacity, more direct services, more frequent service, and a wide range of provincial, national and international destinations.

Liaise with all Newfoundland and Labrador airport authorities/operators to identify existing initiatives the airport authorities/operators are presently investigating to improve air services, including passengers and cargo, at their airport.

Assess short and long term plans for charter and/or scheduled air services, including passenger and cargo services, to all regions of Newfoundland and Labrador.

In consultation with provincial and industry officials and key stakeholders (list attached) assess the existing and potential future capacity for air service requirements, including passenger and cargo services, in areas of tourism, oil and gas exploration, forestry, fishery, mineral development, technology and the manufacturing sector.

Review existing federal international air agreements, ongoing and planned future negotiations to assess areas of potential capacity building for airports in Newfoundland and Labrador.

The successful consultant through existing staff or sub-contractors will carry out the required work by September 30, 2007.

3.0 Deliverables

Consultant proposals are required to be organized and cover all the following items:

1) Consultants responding to this call for Expressions of Interest must submit 8copies of their proposal in a sealed envelope clearly marked “Expressions of Interest, Consultant Services for Study of Air Transportation” by 3:00 p.m.on July 23, 2007 (Newfoundland Standard Time).

2) The submission shall include the experience of the consultant as referred in the “Scope of Work”, including resumes and the relevant experience and information concerning staff and any sub-consultants.

3) Consultants are requested to outline the estimated budgets to provide the consulting services described herein, including anticipated completion date.

4.0 Evaluation Criteria

The following criteria will be evaluated for all proposals.

Project Understanding - Demonstrated understanding of the assignment and the issues associated with the topic.

30%

Approach & Suitability of Process – Proposed Project Plan Methodology, tools and techniques proposed.

30%

Team Proposed - Project Team's experience, team size & suitability, availability of additional resources.

30%

Cost

10%

Total

100%

5.0 Project Funding Limit

The budget for this project is not to exceed $45,000.

The proposal will indicate a level of effort including all professional fees, consultant travel costs and HST. All costs associated with space rentals for meetings, printing and publishing costs of the study will be the responsibility of the consultant.

6.0 Submissions:

Consultants are reminded that a response to the EOI does not bind the parties to a contract. The Department will negotiate the terms of a contract with the successful consultant.

All requests for clarification must be received by the Assistant Deputy Minister at least five (5) working days prior to the closing date to allow written clarification to all interested consultants.

All proposals must remain valid and open for acceptance for not less than ninety (90) calendar days from the closing time of this EOI.

Responses to this call for Expressions of Interest should be forwarded to:

Deputy Minister
Dept. Transportation & Works
c/o Tendering & Contracts
Ground Floor, East Block, Confederation Building
P.O. Box 8700
St. John's, NL. A1B 4J6

Inquiries regarding scope and technical requirements should be addressed to:

Keith Healey, CA
Assistant Deputy Minister
Strategic and Corporate Services
Dept. of Transportation & Works.
P.O. 8700
St. John's, NL.
A1B 4J6

Appendix H: Stakeholders Contact List

List of Entities to be Contacted by the Successful Consultant to carry out the Study on Air Transportation

Newfoundland and Labrador Airport Authorities/Operators

Hospitality Newfoundland and Labrador including the Outfitters Association

The St. John's Board of Trade

Regional Chamber of Commerce and Regional Economic Development Boards - Gander, Deer Lake, Stephenville, St. Anthony, Happy Valley-Goose Bay and Wabush.

Business Industry Associations

- Newfoundland and Labrador Manufactures and Exporters Association including
- Customs/Freight Group and Importers/Exporters
- Newfoundland Oceans Industry Association (NOIA)
- Newfoundland Environmental Industry Association (NEIA)
- Newfoundland and Labrador Association of Technology Industries (NATI)
- Newfoundland and Labrador Chamber of Minerals Resources
- Newfoundland Business Caucus
- Fisheries Association
- Aquaculture Association
- Agriculture Association

Government Departments

- Transportation and Works
- Tourism, Culture and Recreation
- Business Innovation, Trade and Rural Development
- Labrador and Aboriginal Affairs
- Natural Resources
- Fisheries and Aquaculture
- Executive Council – Rural Secretariat.

Other Government

- Nunatsiavut Government

Appendix I: Atlantic Canada Airports Association Press Release

Atlantic Canada Airports Association pleased customs services will be enhanced at three airports

CHARLOTTETOWN (July 11th, 2008) – The Canada Border Services Agency (CBSA) announced today that customs services will be enhanced at three airports in Atlantic Canada; Charlottetown Airport, Fredericton International Airport and Greater Moncton International Airport.

"Finally we are seeing some positive changes," said Monette Connaughton, executive director of the Atlantic Canada Airports Authority (ACAA). "The airports in this region have been advocating for additional customs services for a number of years. It is very encouraging to see the CBSA respond to enhance service requirements at these three airports."

The increased service brings Charlottetown, Fredericton and Moncton airports from eight hours of customs services daily to 16 hours (8:00am to midnight).

"This is a great first step." noted Mrs. Connaughton. "However, there are still many discrepancies with CBSA service delivery at airports throughout Atlantic Canada."

Some airports enjoy 24/7 services at no cost, others have restricted levels of service with full cost recovery after scheduled hours, and some have no scheduled service and pay full costs at all times.

"Customs services is a federal responsibility and any cost is a burden to the respective airport. For example, in 2007 the Deer Lake Regional Airport paid $120,000 in service fees as they have no scheduled service and airlines servicing St. John's International Airport paid $150,000 for services outside the scheduled hours. These costs are undoubtedly passed on to the traveler", added Connaughton.

"The ACAA has long contended that customs services should be provided at no cost and all airports should be given an equal opportunity for customs services to meet demand regardless of their location. Airports facilitate significant economic activity and we look forward to working with CBSA in order to provide the necessary resources to allow airport communities and the regions they serve to grow and prosper, said Connaughton."

The ACAA represents 13 airports in Newfoundland, Nova Scotia, New Brunswick and Prince Edward Island. ACAA provides a collective voice for its member airports to undertake collaborative action on policy issues affecting our airports and communities.

Media Inquiries: Monette Connaughton, Executive Director, Atlantic Canada Airport Association Phone: (902) 628-4403 Cell: (902) 314-5651

Appendix J: Airport of Entry (AOE) Definitions

Gander International Airport - Airport of Entry (AOE) - is an authorized airport of entry for clearance of all classes of scheduled and non-scheduled aircrafts (passenger and cargo)

Marystown/Winterland Airport – Airport of Entry (AOE/15) – is an airport of entry solely for the clearance of persons arriving by general aviation traffic where the flights are unscheduled and the passenger capacity, including crew, does not exceed 15 people.

St. John's International Airport – Airport of Entry (AOE/165) - is an airport of entry for the clearance of scheduled and unscheduled air traffic but with passenger restrictions as indicated by an appropriate numerical designator.

Stephenville Airport - Airport of Entry (AOE/30) – is an airport of entry for the clearance of scheduled and unscheduled air traffic but with passenger restrictions as indicated by an appropriate numerical designator.

Please note:

Goose Bay airport has a status of AOE/M – as an airport of entry for clearance of military aircraft only, unless otherwise designated. CFB Goose Bay's airfield is also used by civilian aircraft, with civilian operations at the base referring to the facility as Goose Bay Airport.

The airport is classified as an airport of entry by NAV CANADA and is staffed by the Canada Border Services Agency. CBSA officers at this airport currently can handle general aviation aircraft only.

Deer Lake airport does not have AOE status however they did provide service to Astraeus and Monarch Airlines through cooperation with the Canadian Border Service Agency.

Appendix K: Partnerships

In achieving the region's full potential, it is essential for all agencies to work toward the same objective. There are examples of achieved success within communities working with this common objective.

Enterprise Greater Moncton

The city of Moncton has clustered some developmental business organizations into one central group including the Greater Moncton Chamber of Commerce, Downtown Moncton Inc., and Moncton Industrial Park; joined together to present a unified approach in developing various projects. Once agreed on the objective of developing the area, momentum was initiated and Enterprise Greater Moncton was launched. With the unwavering support of the additional two adjacent communities, Dieppe and Riverview, the provincial and federal governments became involved.

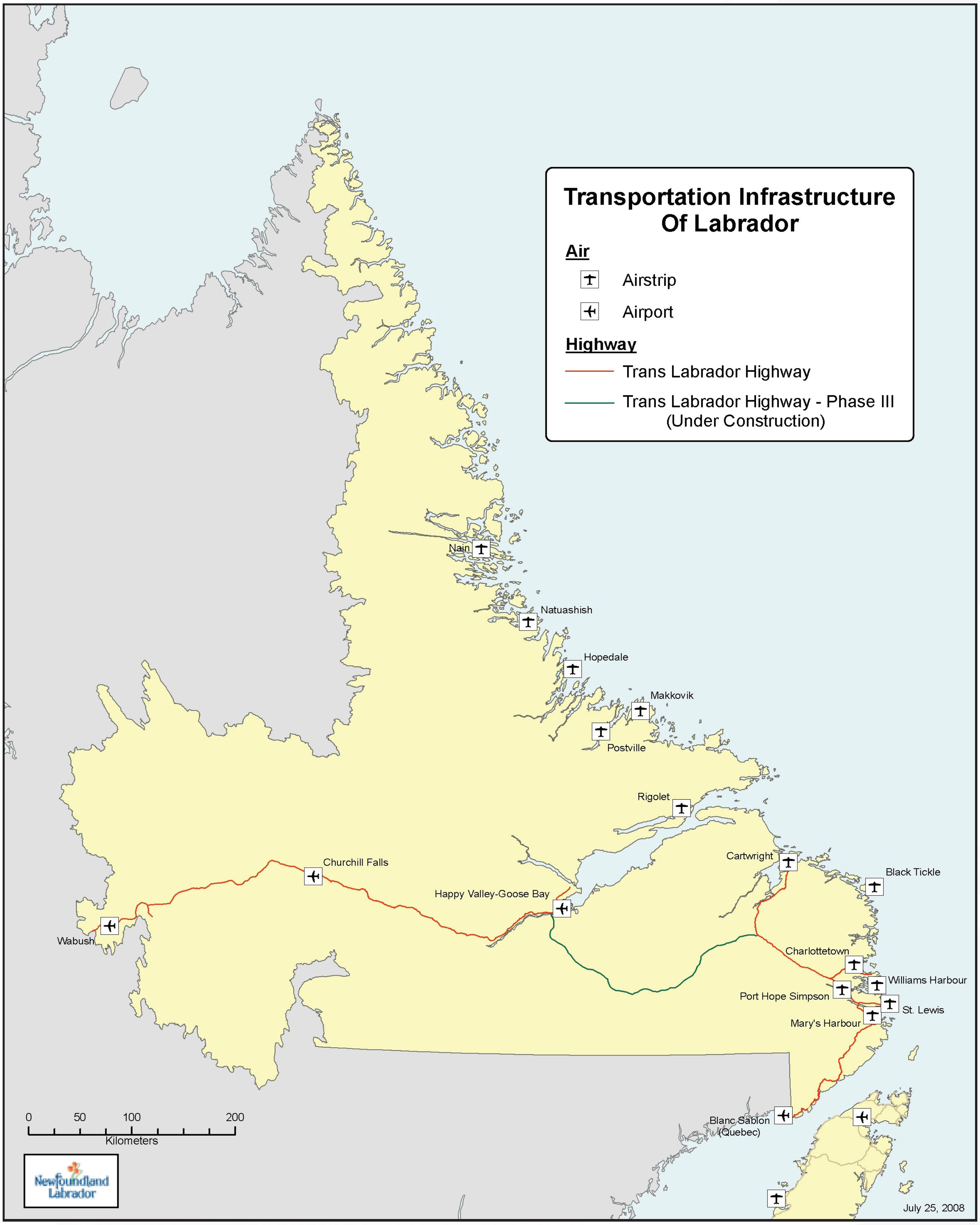
The Greater Halifax Partnership

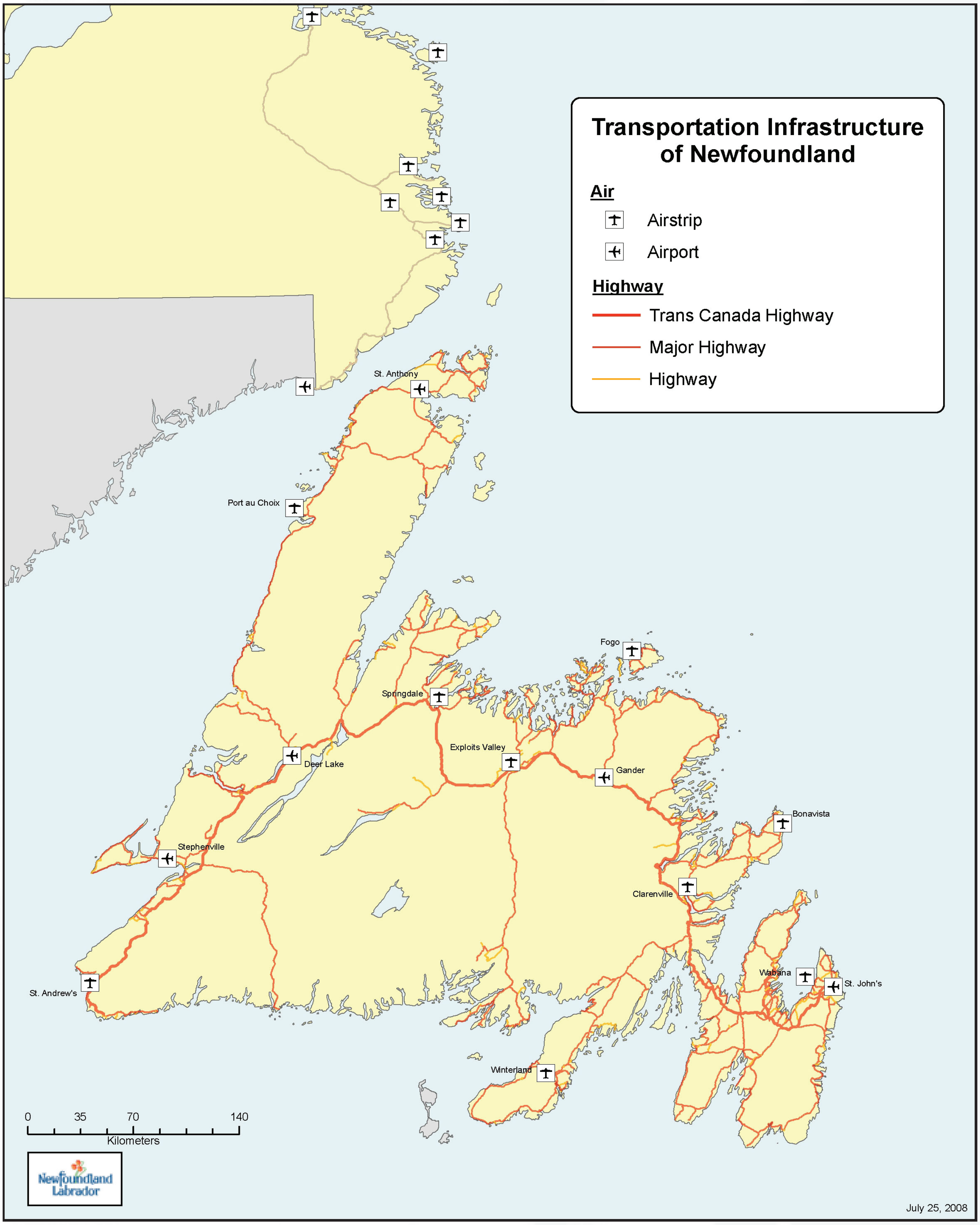
One of North America's most dynamic and effective economic growth organizations. This public-private partnership involves more than 130 private-sector companies, three levels of government, and a dedicated staff of skilled business professionals – all taking action to drive economic growth. The Greater Halifax Partnership is a private-sector led organization responsible for the economic growth of Greater Halifax. Its priorities are to retain and grow existing businesses and to recruit new businesses to the area.

AIMBC - Airline Industry Monitoring Consortium of British Columbia.

AIM BC is a consortium of key British Columbia tourism stakeholders formed because of concerns about the direction of Canadian air transportation policy. The organization was created in August 2000 when the merger between Air Canada and Canadian Airlines International threatened to reduce the level of competition in Canadian domestic, transborder and international air service.

Events such as Air Canada's restructuring, the terrorist attacks of September 11, 2001, increasing costs due to security fees, fuel surcharges and airport rents, war in Iraq, SARS, and concerns about small airport viability combined to necessitate the continued work of AIM BC. Current members include the Council of Tourism Associations of BC (COTA), Vancouver International Airport Authority (YVR), Tourism Whistler, Tourism Vancouver, Tourism Victoria, B.C. Restaurant and Foodservices Association, B.C. (BCRFA) the Yukon Hotels' Association (BCYHA), and the B.C. Chamber of Commerce


Transportation Infrastructure Of Labrador
Air
Airstrip
Airport
Highway
Trans Labrador Highway
Trans Labrador Highway - Phase III (Under Construction)
Nain
Natuashish
Hopedale
Makkovik
Postville
Rigolet
Cartwright
Black Tickle
Churchill Falls
Happy Valley-Goose Bay
Wabush
Charlottetown
Williams Harbour
Port Hope Simpson
St. Lewis
Mary's Harbour
Blanc Sablon (Quebec)
0
50
100
200
Kilometers
Newfoundland Labrador
July 25, 2008


Transportation Infrastructure of Newfoundland
Air
Airstrip
Airport
Highway
Trans Canada Highway
Major Highway
Highway
St. Anthony
Port au Choix
Fogo
Springdale
Exploits Valley
Deer Lake
Gander
Bonavista
Stephenville
Clarenville
Wabana
St. John's
St. Andrew's
Winterland
0
35
70
140
Kilometers
Newfoundland Labrador
July 25, 2008