TURBULENCE: AIR CANADA & BOMBARDIER
Introduction

Focus
Two of Canada's major transportation companies have suffered greatly since the tragedy of 9/11. Can they weather the storm and re-emerge once again as giants in Canadian industry?

YV Sections marked with this symbol indicate content suitable for younger viewers.

In recent times two of Canada's largest companies have fallen prey to the downturn in the world economy. Both Air Canada and Bombardier have incurred large debt loads, which may destroy these Canadian business icons.

Air Canada

Air Canada's current financial woes can be traced back to the takeover of Canadian Airlines in 1999. It assumed a massive debt at that time and struggled to remain profitable. By February 2001 it was reporting losses of over $200-million in one quarter. Following this the level of competition in the industry increased with the inauguration of new discount carriers. Roots Air lasted only a month before it ceased operations. Air Canada, wanting to enter the discount airlines arena, purchased controlling shares of Skyservice, Roots Air's parent company. Within weeks, Air Canada was asking its employees to reduce their working hours to reduce costs. Despite this, Air Canada continued its efforts to launch its own regional discount airline. Air Canada shares were selling in the $12 range. By early September they had dropped to $6.50 a share.

September 11, 2001, changed everything. All air traffic was suspended immediately after the tragedy of the twin towers of the World Trade Center and Air Canada accelerated its downward slide. Within days, flights across the Canada-U.S. border were reduced by 20 per cent. By September 17 Robert Milton, CEO of Air Canada, asked the government for up to $4-billion in cash and loan guarantees. He believed that the company would falter without aid. He also knew that even with this aid, there would still be the need for layoffs.

Business went from bad to worse. More layoffs brought the total for the year to 12 500. In addition, 84 planes were grounded to reduce costs. Air Canada shares sold for just over $3.

By early October the government announced a $100-million aid package for Air Canada. It was far from the original $4-billion asked for, but was welcome nonetheless. Stock prices dropped to $1.64.

Incredibly, Air Canada launched two new airlines within a month. Tango, a new discount carrier with limited routes and no frills sent up its first flight November 1, 2001. Robert Milton said: "In the post September 11 world of depressed demand, a move in this direction is all the more necessary, as we need to aggressively promote all consumer incentives that encourage and stimulate travel" (CBC News Online Staff, Toronto, October 10, 2001). The second new airline, AC JETZ was designed to provide a premium service to sports teams and executives.

By February Air Canada showed a loss of $1.25-billion for the 2001 fiscal year. Stock prices rallied somewhat though, settling in at $4.70.

The end of March and the beginning of April saw the inauguration of two more regional airlines from Air Canada: Jazz in the east and Zip in the west. By April, Air Canada significantly reduced its flights to the Maritimes, citing the new federal Security Tax of $24 as a contributing factor. By November the new Jazz Airlines was cutting jobs.

In 2003 the pending war in Iraq drove up oil prices and weakened traveller confidence. Once again, Air Canada announced an annual loss in February of $428-million. Air Canada called for wage concessions by employees. Said CEO Robert Milton, "The outbreak of war confirms our pressing need to achieve our target of $650-million in labour-cost savings in addition to the job reductions announced today. I regret the impact of this decision on the many loyal employees affected, but we need to accelerate our transformation into a leaner, lower-cost carrier" (CBC News Online Staff, Montreal, March 2, 2003).

On April 1, 2003, Air Canada filed for bankruptcy protection. With the suspension of stock trading and putting, Air Canada had to either resolve its financial difficulties or fold. On May 2, 2003, Air Canada asked its workers to accept a further 10 per cent reduction in wages for 60 days while still negotiating job cuts.

Bombardier

Bombardier Inc. began as a family business building and selling snowmobiles in the 1940s. Over the past two decades it has expanded and diversified frequently. It now has four major divisions—aerospace, transportation, recreation, and finance—which produce billions of dollars in revenue each year. The most significant portion of the industry is its aerospace division. Over the years it bought out Canadair, de Havilland, and Lear, becoming a world force in regional and executive air travel. The events of September 11, 2001, were devastating to the company. Within weeks, over 3600 employees had to be released, and orders for future aircraft construction fell significantly. The assets of the company declined and the solvency of the company deteriorated. With the loss of revenue the debt load became severe. Bombardier faced difficulties in meeting its financial obligations.

In January 2003 a new CEO, Paul Tellier, arrived and the restructuring of Bombardier began. Dealing with a loss for 2002 of over $615-million, Tellier organized a re-evaluation of the company's assets. With the downturn in the economy, company assets were $2.2-billion less than originally expected. This loss of asset value plus the loss of revenue from the previous year resulted in the need for the company to make some hard decisions. Tellier said: "We have good products, good people, loyal customers, and good technology. We can also rely on a strong backlog of orders, which provides our manufacturing facilities with two or three years' work" (*Globe and Mail*, Weber, 3 April 03).

Tellier issued new stock to generate a cash influx of $800-million. Acknowledging the decisions of the past, Tellier stated, "This company has had perhaps too much growth over the last decade. It's not a question of selling more aircraft or more trains, but of making sure these sales are profitable" (*The Globe and Mail*, Marotte, April 4, 2003). It was decided to sell off portions of the company to further solidify the revenue base for future operations. The recreational section of the company, which was its historical core, will be sold. Other divestitures include Bombardier's defence services operation and the Belfast City Airport holdings. All together the sale of these assets is expected to raise $1.5-billion. Unfortunately, this restructuring also includes the layoffs of 3000 employees in the aerospace division. It remains to be seen whether these efforts will succeed in saving this major Canadian company.

Responding

Why might the demise of Air Canada and Bombardier be important to Canada and Canadians?

TURBULENCE: AIR CANADA & BOMBARDIER

YV Video Review

As you review the video for this story, carefully respond to these questions.

Further Research
To learn more about current conditions at these two national corporate giants, visit www.aircanada.ca and www.bombardier.com

1. Which industry was most severely damaged by the events of September 11, 2001?

2. When air travel resumed a few days after the tragedy, what was the first reason for a reduction in passengers?

3. By September 19, 2001, how much money was estimated to have been lost by the world's airlines?

4. What happened to Canada's second largest airline?

5. What was the result for Air Canada of its takeover of Canadian Airlines in 1999?

6. What is the difference between Air Canada and discount airlines like Westjet?

7. To counter the low-price economy airlines, what two new subsidiary airlines did Air Canada create?

8. How large a cut did Air Canada have to make in its payroll?

9. What is CEO Robert Milton's goal for Air Canada?

10. What happened in March 2003 to make air travel even less desirable for people?

11. What was the result for Air Canada?

Did you know . . .
In spite of all the recent failures in the airline industry world-wide, one Canadian company, Westjet Airlines, based in Calgary, stands out as a solid success?

12. Why is Bombardier affected by the downturn in the air industry?

13. What was the original product produced by Bombardier?

14. What problems did its rail division face with Amtrak?

15. What measures has CEO Paul Tellier taken to address the loss of profits in Bombardier?

16. How much does the Bombardier company owe?

17. What technologies have made air travel less necessary?

18. What reasons since 9/11 have caused a continued reduction in air travel?

TURBULENCE: AIR CANADA & BOMBARDIER
Backgrounder

Both Air Canada and Bombardier have long been icons in Canadian industry. How did they develop and grow?

Definition
A *crown corporation* is a corporation that is owned by the federal or provincial governments of Canada.

Air Canada

Air Canada began its life as Trans Canada Air Lines in 1936. With $5-million in seed money it purchased three planes from Canadian Airways (later known as Canadian Airlines) and began its first flights in 1937. Trans Canada Air Lines (TCA) was a subsidiary of CN Rail, a crown corporation. TCA was given exclusive rights to trans Canada and international travel, making it "Canada's airline." Air travel became more accessible, even romanticized, and over the next 30 years, TCA expanded routes to places like the United States, Europe, Asia, and the Caribbean.

In 1965 the company name changed to Air Canada. Canadian Pacific Air was also given the right to fly outside Canada, allowing full competition between the two carriers.

Air Canada continued to expand, buying out small regional carriers and purchasing more planes. This led to an increasing debt load. In 1987 Air Canada went public, selling its first shares at $8. By the end of the 1980s Canada had two major carriers: Air Canada and Canadian Airlines. For the next several years these two companies battled for supremacy in the skies, resulting in significant losses for both.

By 1992,with each losing $1-million per day, the two companies began to discuss a merger. These talks collapsed, but were restarted in 1999 when Canadian began to falter. After battling against American Airlines and Onex Corporation for control over Canadian Airlines, Air Canada purchased a controlling interest for $92-million.

After assuming the debts of Canadian, Air Canada's a debt load soared to over $12-billion. The company was in this financial position when the tragedy of 9/11 struck. Since that time Air Canada has struggled to survive, laying off thousands of workers and grounding whole fleets of aircraft. Finally, in April 2003, Air Canada filed for bankruptcy protection, adding it to the list of companies devastated by the World Trade Center disaster. Many observers fear that in the restructuring to come, many jobs will be lost, planes grounded, routes cut, and Air Canada shares reduced to pennies or even nothing at all.

Bombardier

Bombardier began as a private company, established in 1942 by Joseph-Armand Bombardier, an inventor who developed a way to travel quickly over snow. He produced the first snowmobiles. The company expanded to produce industrial vehicles and by 1959 was producing the first Ski-Doos.

By 1974 the company again expanded to begin production of underground rail cars for Montreal. This led to the development of a full-fledged rail stock industry. Bombardier is currently one of the largest rail stock producers in the world.

In 1986 Bombardier bought out Canadair, entering the aerospace industry. It followed by purchasing Lear Jet and Ireland's Short Brothers. Included in these expansions was the acquisition of de Havilland, making Bombardier the third largest civil aircraft manufacturer in the world.

By 1988 Bombardier was manufacturing Sea-Doos and had begun to buy out small water-engine manufacturers like Johnson and Evinrude. The com-

Did you know . . .
Across the globe over 300 aircraft have been grounded by major airlines because of the loss of business since 9/11?

pany even entered the world of ATVs with its own four-wheeled vehicles.

By the end of January 2001 the company showed sales of over $13-billion. September 11 changed all that drastically. With the downturn in air travel, there were fewer demands for new aircraft. Sales declined, orders were cancelled or postponed, and the company began to have trouble. Now, with over $13-billion in debt, Bombardier is experiencing serious difficulties and is looking to divest itself of a number of its non-core assets. Combined with significant layoffs, this leaves Bombardier in a tough position. Its stock price has plummeted from the mid 20s to less than $4 in early 2003. In January 2003 the company hired a new CEO, Paul Tellier. He came from Canadian National Railways where he earned a reputation for toughness, cutbacks, and success. Investors seemed to welcome his appointment. He has initiated a series of asset sales, staff cuts, and new strategies to reduce the current debt load and launch a new path for the beleaguered company. Recently, the stock price has stabilized and new contracts have been won.

To Do

1. In your notebook create a timeline that shows the comparative developments of Air Canada and Bombardier from their inception to the present. Start with the birth of TCA (1936) and continue to the present day. Leave enough space to write in important developments.

2. What appears to be the most important recent development for the companies?

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3. Explain your choice.

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4. Describe the major similarities and differences in the development of these two Canadian companies.

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5. What do you think is the likely future for both companies? Explain.

   Bombardier ______________________________

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   Air Canada______________________________

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TURBULENCE: AIR CANADA & BOMBARDIER
Hard Landing

Both Air Canada and Bombardier have suffered as a result of the 9/11 tragedy. Were their current situations inevitable? Could they have been better prepared to weather the economic storm?

Did you know . . .
Air Canada, in a bid to boost air travel and support Toronto, launched a special discount program for travel to Toronto? It was called "Canada Loves Toronto" and offered major reductions for air travel to the city.

The Air Canada Problem

Air Canada, as Canada's premier airline, found itself embroiled in a price war with its biggest competitor, Canadian Airlines. The two companies had been rivals since the 1930s. Each had routes across Canada and beyond. Each believed they were entitled to be number one. Price wars through the 1980s and 1990s contributed to consistent losses quarter after quarter. Air Canada bought out smaller competitors and the "national" carrier assumed a growing debt load.

By 1999 Canadian Airlines could compete no longer. It was forced to accept a merger with Air Canada. In the process of negotiating the merger, Air Canada promised to absorb the employees of Canadian. As well, Air Canada assumed the debt of Canadian, bringing its total debt up to $12-billion. This led to layoffs and reduced working hours. Labour negotiations became difficult. Air Canada was barely surviving when the twin towers of the World Trade Center were brought down.

Immediately after the collapse of the twin towers, Air Canada had no choice but to suspend its flights. With the world in shock, air travel came to a standstill. Losses ran into the millions for each day grounded, and once flights resumed a widespread fear of flying caused even further losses.

Air Canada requested aid from the government, but only a fraction of what was asked for was given. Labour strife ensued. The unions were reluctant to allow layoffs or salary reductions. The CEO, Robert Milton, insisted that it was the only way to weather the storm, but there was little agreement.

Since 9/11 Air Canada has tried to restructure itself, creating low-cost carriers like Tango and Zip. These were created to reduce costs and compete with other low-cost carriers like Westjet. Even these airlines have struggled, finding the competition difficult.

The war in Iraq, started in March 2003, has had a further impact on air travel. Fewer and fewer people are choosing to fly. They find it too expensive, inconvenient, and unnecessary. Conference calls and the Internet have revolutionized world-wide communications, making face-to-face meetings less important. Complicating the situation more is the current SARS outbreak in Toronto, Vancouver, and other parts of Canada. The situation in Toronto, with the ban on travel recommended by the World Health Organization, has yet again impacted on air travel. People are now afraid to fly, not because of a possible terrorist attack, but in fear of catching a disease.

It is no great surprise that Air Canada was forced to seek bankruptcy protection.

The Bombardier Problem

Bombardier has been a victim of its own success. Over the past two decades it expanded continuously, incurring a debt load, always confident that future earnings would cover it. The original division, recreational snowmobiles, expanded to include Sea-Doos, outboard motors, and all-terrain vehicles (ATVs). Another division builds underground rail cars and whole rail systems for surface travel. Bombardier has even developed its own bank, to assist customers in buying its products. Moreover, the company also owns the airport in Belfast, Ireland, and has plants in 12 different countries. Its largest division is the aerospace industry, the most vulnerable to the impact of the losses at the twin towers, the war in Iraq, and the SARS epidemic. When airlines are collapsing, the need for new aircraft is eliminated. The events of 9/11 hurt Bombardier badly. Within weeks 3000 employees had to be laid off. Profits dropped and the company became less able to meet its financial obligations.

Bombardier was forced to find a way to restructure itself to survive. A smaller, leaner company might well return to favour with investors and lenders. As well Bombardier is a leader in the regional jet industry. Smaller airlines may well prefer to purchase these jets for more profitable shorter routes. This is a niche in the air industry that has the potential to grow in these leaner times.

Responding

1. What might Air Canada have done over the past 20 years to reduce its vulnerability to the aftershocks of 9/11?

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2. What makes Bombardier so vulnerable to the problems facing air carriers?

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3. Which of these two companies is most likely to survive? Why?

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4. Do you personally care if either of these Canadian companies survives? Explain your opinions fully.

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TURBULENCE: AIR CANADA & BOMBARDIER
Flight Path

Did you know . . .
Air Canada's 40 000 employees have been asked to help out the struggling airline by agreeing to thousands of job losses, heavy wage cuts, and loss of benefits totalling $1.17-billion? In your view, should employees do this?

Air Canada is clearly fighting for its very survival. Having accepted bankruptcy protection, it is now in the position where it must develop a viable plan to restructure its future existence. Costs must be significantly reduced and value must be increased to promote air travel. Smaller planes will fly shorter distances. Major routes will remain. Unprofitable routes may have to be dropped. Unions will have to be flexible in order to maintain the company. Layoffs will likely occur and wages cannot remain the same. All must work together to find the funds necessary to survive. In the long run this approach can work for the benefit of all.

Bombardier's plans are very clear. The new CEO, Paul Tellier, has developed a plan designed to instil confidence in the company, raise significant operating income, and re-establish the business in a different form. In an effort to reassure creditors and shareholders, the company has chosen to admit that its assets had been previously inflated. Now it claims to be worth $2.2-billion less than before. Part of Tellier's plan requires layoffs. Part requires a significant roll-back in salary. Yet another involves the sale of portions of the company. The recreational division, which makes snowmobiles and Sea-Doos, is up for sale and should bring a very good price. The proposed sale of the airport of the City of Belfast and other non-core assets will bring in much needed funds to reduce debt. The sale of these portions of the company is designed to raise about $1.5-billion. In addition to this, a new share issue brought in about $800-million. All this should significantly improve the cash flow of the company.

To Consider

1. Working in pairs, review and evaluate the courses of action proposed by each company. You may wish to visit www.aircanada.ca and www.bombardier.com for more details on these restructuring plans. Which is most likely to succeed? Why?

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2. What role might the unions play in the success or failure of these efforts? What would you recommend to the labour leaders at Air Canada and Bombardier? Why?

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TURBULENCE: AIR CANADA & BOMBARDIER
Crisis CEOS

Did you know . . .
Ottawa has had to help out Air Canada several times in the past, including in 1992, 1996, 1999?

Robert A. Milton, Air Canada

"We are in a fight for survival."
— *Toronto Star*, April 4, 2003

Robert Milton graduated from the Georgia Institute of Technology in 1983 with a Bachelor of Science Degree in Industrial Management. He founded and was CEO of an aviation-related consulting company. Later, in 1988, he established an overnight package service that was sold shortly thereafter. He joined Air Canada in 1992 as a consultant. Working his way through the hierarchy of the company, he was appointed as a Senior Director in 1993 and a Senior Vice President in 1995. By 1999 he was President and CEO of Air Canada, just in time to oversee the merger with Canadian Airlines.

What They Say About Robert Milton

"I think Robert Milton is a genius. He has pursued a brilliant and innovative strategy. If there is any criticism, it is that he hasn't been tough enough with unions." — Stanley Hartt, *The Globe and Mail*, McNish and McArthur, April 5, 2003

"Robert is very principled. He is not going to take a sweetheart deal when he is about to ask the unions to make painful cuts." — David O'Brien, *The Globe and Mail*, McNish and McArthur, April 5, 2003

"There needs to be comprehension that you cannot operate in an integrated North American market where on one side of the border there is massive government support and on the other side of the border, there is none."
— Robert Milton, *The Globe and Mail*, Chase, April 2, 2003

"The business model is broken and it must be fixed without burning any more furniture. Air Canada and our people need to embrace a new way of doing business." — Robert Milton, *The Globe and Mail*, Reguly, April 2, 2003

"I would fault him on his relationship with the unions. But it's hard to have a good relationship in the context of the terrorist attacks, war in Iraq and—most fundamentally—Air Canada's shift from a full-service model to a Westjet type of model." — Karl Moore, *The Globe and Mail*, Marotte, April 2, 2003

"I'm just fascinated we got to this point without a lot more dialogue. Everyone tells me he knows how to run an airline, but in terms of management of people, there's no rapport. It's a gun-to-the-head approach." — Buzz Hargrove, *The Globe and Mail*, Marotte, April 2, 2003

Paul Tellier, Bombardier

A graduate of the universities of Ottawa and Oxford, Paul Tellier has managed a successful career as a federal civil servant and held a number of public portfolios such as deputy minister of Indian and Northern Affairs (1979), deputy minister of Energy, Mines and Resources (1982), Clerk of the Privy Council and Secretary to the Cabinet of the Government of Canada (1985).

In 1992 he was appointed CEO and President of Canadian National Railway. In that capacity he revamped the scheduling and service of the railway, cutting numerous positions in the process. He took a weak company and made it one of North America's most powerful firms.

He was appointed President and CEO of Bombardier Inc. in January 2003. He has won numerous honours, including Companion of the Order of Canada.

Tellier assumed the role of CEO with Bombardier while it was in the throes of financial distress. He has come up with a plan of action designed to minimize the impact of the heavy debt load carried by the company and to return the company to growth and profitability.

What They Say About Paul Tellier

"We will rebuild our credibility with investors with the action plan we are announcing today. The sale of our recreational products business provides a good balance between our asset divestitures and the equity offering. Combined with our cost reduction programs, it gives us the financial flexibility we need going forward." — Paul Tellier, *The Globe and Mail*, Dixon, April 3, 2003

"My first priority is changing the culture of the company. This is not a criticism of the past, but we are facing changing times and, as a result, Bombardier is moving into a new era. Tighter accountability and financial discipline are being applied across the corporation. Bombardier today is focused on value creation." — Paul Tellier, *Toronto Star*, Acharya and Yew, April 4, 2003

"Mr. Tellier has huge credibility so I wouldn't count the company out. This is perhaps what they need to do to pare down and cut costs." — Patricia Croft, *Toronto Star*, Acharya and Yew, April 4, 2003

"If Paul Tellier sold Fords, we'd all be driving Edsels." — Andrew Willis, *The Globe and Mail*, Willis, April 4, 2003

"This (plan) does not give me any comfort. All they've achieved is a deferral of the covenants for three quarters." — Bay Street money manager, *The Globe and Mail*, Marotte, April 4, 2003

Responding

1. Would you want to be the CEO of either Bombardier or Air Canada? Explain.

2. Consider the backgrounds of the two CEOs. Which do you think is better suited to his role? Why?

3. Compare the quotes concerning the two CEOs. What similarities and/or differences exist?

TURBULENCE: AIR CANADA & BOMBARDIER

YV *Government Help?*

Further Research
Canada's federal political parties have strong views on the survival of Bombardier and Air Canada. Visit their Web sites to determine the most current position: Bloc Québécois, www.bloc quebecois.org, Canadian Alliance www.canadian alliance.ca, Liberal Party of Canada, www.liberal.ca, New Democratic Party of Canada www.ndp.ca, or the Progressive Conservative Party of Canada, www.pcparty.ca.

Group Activity

Form into groups of three or four and discuss the following:

"Should the Government of Canada actively support , through financial grants and loan guarantees, the recovery of Air Canada and Bombardier?" Complete a list of Pro and Con arguments for the chart below. Make sure you have good arguments supporting your positions. After the discussion, share your responses with your class.

Example: Pro – The United States Government provided a $15-billion package to support their airline industry. This makes international competition unfair because Canadian air carriers did not receive a comparable package.

Con – Both Air Canada and Bombardier are private companies with stock for sale on the stock exchange. Why should the government pay with our tax money to resolve the results of poor money management in these companies?

Pro Arguments	Con Arguments

Extension

1. After a vigorous discussion of the issue, record a straw vote on the issue. Results: Pro_______ Con________

2. Consider passing on the results of your analysis and discussion to your local member of Parliament.