10th
News in Review
December 1999

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Air Canada: One National Airline

For months the public drama of an attempted hostile takeover of both of Canada s major airlines by a third party was played out daily. Like an auction at which valued family property was for sale to the highest bidder, the prospective sale was watched on nightly newscasts by Canadians who waited while the power brokers of the three major players planned and executed their financial, political, and media strategies. The drama highlighted, however, some basic issues for Canadians. Who should own our major transportation systems? What is in the best interests of Canadians? Can this nation really support two major airlines? Above all, the Air Canada-Canadian Air-ONEX bidding war revealed once again national and regional issues that are integral parts of the fabric of Canadian society.

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Canadian Airlines: Fighting to Survive, February 1997

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Introduction

Air Canada: One National Airline

Imagine you are planning a trip from Toronto to Calgary and you decide you would like to fly out on a Wednesday afternoon. You call Air Canada and find out they have a flight leaving for Calgary at 5:00 p.m., one of eight non-stop flights to Calgary that day. Then you call Canadian Airlines. They also have a flight leaving Toronto for Calgary at 5:00 p.m., also one of eight non-stop flights to Calgary that day. You choose one of the airlines and arrive at the airport to find that your plane is only half full. Actually, two planes leave from the same location at the same time and arrive at the same location within minutes of each other, both only half full. And it happens eight times a day. This is not a hypothetical situation; competition laws in Canada require both of the national airlines to provide comparable services for customers to all the major centres across Canada. It is a law that benefits consumers who are given greater choice regarding when and with whom they want to travel and keeps ticket prices low.

Unfortunately for the airlines, the population of Canada is relatively small, and some critics suggest there just isn t enough air traffic within Canada to warrant two national airlines. The costs associated with flying half-empty planes across Canada has been taking its toll on the struggling Canadian Airlines in particular, which posted a loss of $138-million in 1998. Analysts have been suggesting for quite some time now that the airline could not stay in business much longer.

And then a new player, Gerry Schwartz and his company Onex

Corporation, stepped into this economic conundrum and offered a solution. Onex would buy Canadian Airlines, take over Air Canada, merge the two companies together, and have only one full plane leaving Toronto for Calgary at 5:00 p.m. on a Wednesday. Although the consumer would no longer have the same level of choice, Schwartz believed it would still be better for Canadians in the long run to have one strong airline rather than two competing in a marketplace of what, in Onex s opinion, is one of diminishing returns and quixotic economics.

Air Canada disagreed, and a no-holds-barred battle began in response to Onex s hostile takeover bid.

Air Canada proceeded to implement defensive strategies to stop Onex: with the backing of its foreign airline alliances and loans, it launched a counterbid to repurchase Air Canada s outstanding shares; and finally, it also put forth an offer of $92-million to purchase Canadian Airlines.

The bidding war escalated; Onex increased its offer price for Air Canada shares from an initial bid of $8.25 to an eventual $17.50 per share. It is difficult to say how high the share prices would have gone if a decision by the Quebec courts hadn t derailed Onex s bid. On November 5, 1999, the judge ruled that the Onex bid was not legal since it exceeded the 10 per cent single ownership limit that federal law placed on Air Canada shares at the time the airline was first privatized. Defeated, Onex withdrew its offer, and on December 4, the Board of Directors of Canadian Airlines, left with no significant ally, recommended that shareholders accept Air Canada s purchase offer of $92-million.

And then Air Canada reached a crucial deal with Canadian Airlines shareholders, in particular AMR Corp. (American Airlines), virtually assuring that Air Canada would become the world s 10th largest airline.

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Drama in the Skies

Air Canada: One National Airline

Dramatic events in the Canadian airline industry are integral to a nation that historically and geographically has evolved and developed thanks to airplanes, whether it be the adventurous bush pilots who opened up much of the remote areas of the country or the pioneer airlines like Air Canada s predecessor, the evocatively named Trans Canada Airlines (TCA), the innovative but short-lived charter airline Wardair, the fiercely independent western-based airlines like Canadian Airlines and its predecessor CPAir, or the numerous small and industrious regional airlines that serve so many of Canada s smaller communities. As for airline drama, older Canadians will also remember the classic television drama Flight Into Danger by the then-relatively unknown Arthur Hailey a drama that set the scene for his subsequent novels turned major motion pictures.

Drama Imitating Life
While watching this News in Review report, consider its dramatic aspects and qualities. Formulate answers for the questions below.

1. Who are the main characters, both human and corporate, in this drama?

2. What is especially unique or fitting, in dramatic terms, about the fact that individuals and large organizations play major roles in this drama? Are there heroic figures in this drama? Are there

villains? What roles do the Canadian people play in this drama?

3. Drama requires conflict, a catalyst, rising and falling action, a climax, and a dénouement. Identify each of these in terms of this story. Is this a comic, tragic, or heroic drama, or perhaps something else?

4. Describe the basic plot line a screen writer would develop for the adaptation of this drama to a visual medium like film or television.

5. Suggest what subplots might be present in this drama.

6. Identify a possible protagonist and antagonist in the drama. Why would the labels good guys and bad guys be too simplistic in terms of this drama?

7. Describe the economic, geographic, historic, and political setting and backdrop against which this drama has continued to be played out. How do these factors make this drama stimulating theatre ?

8. Drama portrays universal issues in life. Suggest what these might be in terms of this national airline drama.

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Breathless Course of Events

Air Canada: One National Airline

The potential merger of Air Canada and Canadian Airlines was a business transaction and drama that occurred over five crucial months in 1999. It is a compelling story. Employees of the companies involved and Canadian travellers followed the rapidly changing and escalating sequence of events closely; the outcome being very important to them. What might these spectators have felt during this time? To get an understanding of the tension and suspense of this drama, place each of the events in the following timeline on a plot graph.

August 13, 1999 The federal government suspends the Competition Act, thereby allowing the airlines to begin talks about restructuring.

August 20 Air Canada offers to purchase Canadian Airlines lucrative foreign routes, but the offer is rejected.

August 24 Onex Corporation announces its plan to purchase both Canadian Airlines and Air Canada and merge the two airlines. Canadian Airlines is pleased with the offer, Air Canada is not.

August 31 Air Canada announces that the Onex offer is considered a hostile takeover and adopts a poison pill plan. Air Canada schedules a shareholders meeting to take place after the date when the Onex bid expires. Onex goes to court to force

Air Canada to hold the meeting before the offer expires.

September 20 Air Canada s Board of Directors urges the shareholders to reject Onex s bid.

September 28 Onex wins the court decision and calls a shareholders meeting for November 8, a day before its offer expires.

October 19 Air Canada, with financial backing from foreign airline partners and its bank, makes a counterbid to buy outstanding Air Canada shares from its shareholders. This starts a bidding war. It also makes an offer to buy Canadian Airlines for $92-million.

October 25 Canadian Airlines rejects Air Canada s counteroffer.

October 28 Onex raises its offer to shareholders.

November 2 Air Canada makes a counterbid, raising its per-share offer.

November 5 Onex raises its offer to a high of $17.50 a share. Shares usually trade on the Toronto Stock Exchange for between $8 and $9.

November 5 A Quebec Court rules that the Onex bid is not legal since it contravenes a law that limits single shareholders from owning more than 10 per cent of Air Canada.

November 5 Onex concedes defeat and withdraws its offer to buy Air Canada and Canadian Airlines. Air Canada states that its offer to purchase Canadian Airlines for $92-million is still on the table.

December 4 The Board of Directors of Canadian Airlines recommends the Air Canada bid to its shareholders after they fail to come up with a better agreement elsewhere.

December 9 Air Canada wins control of Canadian Airlines. AMR Corp. gives up its governing rights over Canadian Airlines. Britain s Virgin Airlines announces that it is interested in expanding into Canada, citing a less competitive airline market.

After the Fact

Although a single major national airline in Canada was virtually a fait accompli as of December 9, 1999, Air Canada s victory would still be subject to government approval and imminent legislation that would put restrictions on a merged airline.

To Intervene or Not to Intervene?
This news story is also a case study in the role of government in a free-market economy. Government intervention in a nation s economy is a controversial issue and an issue of historic and political importance. In Canada, as opposed to the United States, for example, government intervention in the marketplace has been more pervasive, although all governments intervene in some way or another.

Research and analyze the reasons why and how the Canadian federal government intervened in the Air Canada-Canadian Airlines situation.

1. On December 8, 1999, the House of Commons Transport Committee released a report calling for significant changes in the airline industry in Canada including: higher limits on foreign ownership of Canadian airlines; in the event of a merger, a freeze on fares for two years, a guarantee of a reasonable number of discount seats during that period, the requirement that fare increases should have to be approved by the Canadian Transportation Agency; the requirement that a merged airline (Air Canada) divest itself of its interests in regional airlines if the Competition Bureau decides this would be in the best interests of Canadians; and increasing from 10 to 20 per cent the amount that any one person or group can own of the merged airline. The report is based to a great extent on the Policy Framework For Airline Restructuring in Canada of Transport Canada. Prepare a summary report and present your opinion as to the validity of the position outlined in the policy, which you will find at www.tc.gc.ca/pol/en.

2. The Competition Bureau of Canada submitted a report to David Collenette, Minister of Transport, on October 22, 1999, that said in part, It is the view of the Competition Bureau that very significant competition concerns will develop in most domestic airline passenger markets if a dominant carrier emerges from this process. . . . Access this report at http://strategis.ic.gc.ca/SSG/ct01638e.html and prepare a summary presenting your opinion as to the validity of the position outlined in the letter.

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Understanding fully the political, social, and economic implications of Onex s bid to merge Canadian Airlines and Air Canada requires the understanding or acquisition of some specialized language, concepts, terms, and metaphoric expressions relevant to business, industry, and the marketplace. Study the language items below so you can incorporate them into your working vocabulary.

Leveraged Buyout

Usually when one company buys another, the company that is the buyer is larger than the company it purchases. This has been the case, for example, when Microsoft Corp. bought smaller competitors in order to enhance its overall market position. In a leveraged buyout, however, a smaller company buys a company that is larger than itself. The smaller company may not have the funds available to buy a larger company but acquires the larger company by obtaining loans based on the fact that acquiring the larger company will make the smaller company more valuable and therefore a good risk. With the promise of money lent to it by banks, trust companies or pension plans, the smaller company makes an offer to purchase the shares of the larger company from the shareholders.

A leveraged buyout can be a risky proposition, since the new company will have a heavy debt load. If the economy is good and interest rates are low, the new company will probably be able to make payments on the debt. However, these companies are often at risk when the economy experiences a downturn because they owe too much money. Probably one of the most famous leveraged buyouts in Canadian business history also occurred in the airline industry. In March 1987, the much smaller Pacific Western Airlines of Calgary purchased the larger carrier CP Air, and the new company, Canadian Airlines, emerged. The new company then purchased the charter airline Wardair. Although this new company was large enough to face competition from Air Canada, there was one major cost associated with its meteoric rise: the very debt that was created when Pacific Western purchased CP Air crippled the new company. The heavy debt load continued to plague Canadian Airlines and is partially responsible for its $138-million loss recorded in 1998.

Hostile Takeovers

A hostile takeover occurs when one company buys another against the wishes of the management of the company purchased. The Onex bid to take over Air Canada was considered a hostile takeover. The management of Air Canada, which had been running a successful company, was not pleased with the prospect of having to merge with its arch rival Canadian Airlines. Although Air Canada had previously made an offer to purchase Canadian Airlines itself, management found the idea of a merger under the Onex deal intolerable. The difference between the two is the amount of control the management of Air Canada would have been able to retain. By purchasing controlling interest in Canadian Airlines, the management of Air Canada will control the merging of the two companies as well as the companies themselves. If, however, the Onex bid had been successful, both the management of Air Canada and the management of Canadian Airlines would have reported to Onex Corporation.

It is important to understand that the individuals who make up the management of Air Canada are employees of the company rather than owners. Air Canada is a publicly held company, without any individual shareholder holding more than 10 per cent of the shares. By offering more money for each of the shares of Air Canada than the current selling price of those shares on the Stock Exchange, many shareholders could be enticed to sell. This is something that the management of Air Canada wanted to stop. It was successful in stopping the takeover with the help of the Quebec courts. When the federal government privatized Air Canada, the government placed the 10 per cent ownership restriction to stop the airline from being purchased by another foreign airline. The Quebec courts decided that the Onex bid did not meet the federal guidelines since Onex would own 31 per cent of Air Canada, and American Airlines would own 14.9 per cent. The judge felt he had no choice but to rule against Onex.

The White Knight

As is the case in fairy tales, when all hope seems lost, a white knight shows up and saves the day. In the case of a hostile takeover the white knight is another company (or perhaps the management of the threatened company) that offers a greater amount per share than the company that is attempting the hostile takeover. For instance, in October 1999, Air Canada, with support from its alliance partners Lufthansa Air and United Airlines and from its bankers (CIBC), offered a counterbid of $930-million, or $12 a share, for 35 per cent of its own stock held by shareholders. The offer from this combined white knight started a bidding war. Onex upped the ante by offering to purchase the shares of Air Canada for $17.50 each, a large jump from its first offer of $8.25 a share. It would have been interesting to see how high the bidding would have gone if the Quebec Court s decision had not eliminated Onex from the battle.

The Poison Pill and The Golden Parachute

Management of a threatened company can do several things to create obstacles for the company launching the takeover bid. The two most popular tools at management s disposal are the poison pill and the golden parachute. It is called the poison pill tactic because it is hard for the takeover company to swallow. The threatened company increases the number of its shares outstanding so that the price to purchase the company will increase dramatically. For example, it could offer current shareholders rights to buy additional stock at a very low price if any one shareholder buys, or offers to buy, more than 20 per cent of the stock outstanding. Air Canada s management adopted a shareholder s rights plan that forced Onex to double its bid to stay in the game. A golden parachute was not used in the Air Canada case, but is also an effective way of stopping a takeover. Using this strategy, the company changes its by-laws in order to give key executives giant severance packages in the event that an outsider were successful in its takeover bid. The new owners would subsequently be forced to pay millions of dollars to the exiting management team upon purchase of the company and would have to consider this prohibitive cost factor in its financial bid and post-purchase financial plan.

Pension Funds

One of the interesting realities in today s economy is the role the institutional investor plays. At one time, average investors were usually company founders, management, or the individual who had some extra capital to invest in the stock market. Today a large percentage of stocks held in Canada are owned by mutual funds or pension funds. A pension fund is a pool of money to which employees and employers contribute equally. Upon an employee s retirement, an annual pension is paid out from the fund. Since employees start contributing to their pension plan many years before their retirements, a large pool of money is available for investing. Pension plan administrators hire investment specialists to invest this money in the hopes of making the greatest return possible. Most institutional investors are interested in maximizing growth of the money they manage and, therefore, have very little long-term commitment to the companies they invest in. It is relatively easy for a company such as Onex to convince institutional investors (pension or mutual funds) to sell their shares in Air Canada, for example (if the price is right), since the investors main motivation is to receive a healthy return on their investments rather than develop loyalty or a long-term relationship with the company (Air Canada).

Undervalued Companies

Takeover specialists, such as Onex Corp., are always looking for undervalued companies to invest in. An undervalued company has a low share price that doesn t accurately reflect the assets the company owns. Canadian Airlines is a good example of an undervalued company. As Tae Oum, a professor of aviation policy at the University of British Columbia told Maclean s magazine, I have done a lot of productivity studies. Canadian outperforms Air Canada slightly. They have lower unit costs and higher productivity than Air Canada. However, when it comes to pricing their services and managing their product, they fail miserably . . . I think it is clear that Canadian has been very mismanaged. A company like Onex would look at the fundamental financial picture of Canadian Airlines and conclude that the airline could be a profitable operation if it were to clean up some of the management problems to which Oum was alluding. The prospective buyer (Onex) would consider Canadian Airlines an undervalued company since the share prices do not reflect the real potential value of the airline if it were redesigned and reorganized. However, since Onex s vision of a viable, profitable, redesigned airline included and required a merger with Air Canada, it could not consider a purchase of Canadian Airlines unless a merger were possible. The Quebec Court decision on November 5th made that merger impossible.

Another Case Study

In late October 1998, Torstar Corp., the parent company of The Toronto Star attempted unsuccessfully a hostile takeover of Sun Media Corp., the newspaper chain that publishes the various Sun newspapers across Canada. Research this attempted takeover by looking through newspaper articles from that period. In what ways did that takeover bid have the same elements as the Onex bid for Air Canada and Canadian Airlines? In what ways did it differ? Use the vocabulary and the issues above to discuss the takeover bid.

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When the plan for a hostile takeover of Air Canada first made the news, most Canadians had never heard of Gerry Schwartz or his company, Onex Corp., even though Schwartz is one of the richest businessmen in Canada, and his company manages assets valued at approximately $3-billion. Who is this man and what does his company do? As you read the following information, list reasons why you think most Canadians had never heard of Gerry Schwartz.

The Man

A 57-year-old Toronto-based businessman, Gerry Schwartz was born and raised in Winnipeg, the only son of a lawyer and auto parts dealer. He studied law at the University of Manitoba and articled for the firm of the well-known lawyer, Izzy Asper. Soon Schwartz found that Winnipeg was too small for his growing ambitions and he moved to Boston to earn an MBA from Harvard University. Once he completed his studies, he moved to New York City and became a prominent investment banker and part of a team that pioneered new leveraged buyout techniques. Here Schwartz had the opportunity to cut his business teeth.

Even though Schwartz was doing exceptionally well in New York, he yearned to come back to Canada, and in the late 1970s, he returned to Winnipeg and started the CanWest Capital Corp. with his former boss, Izzy Asper. Schwartz took what he had learned on Wall Street and decided to apply it to Canadian business.

There was no one in Canada at the time who was doing leveraged buyouts, and Schwartz and Asper figured, correctly, that they would have the field pretty much to themselves. Together they ran the very successful company until 1983, when a difference in management styles convinced the partners to go their separate ways. Asper stayed in Winnipeg and became exceptionally wealthy as the founder of the CanWest Global media empire. Schwartz moved to Toronto and started Onex Corporation.

The Company

Schwartz started Onex Corp. as a private company with major financing from various banks, trust companies, and Canadian pension plans. The company s mission was to find undervalued, mismanaged companies, especially those with easily recognizable names, and purchase them. Onex operates by quietly stepping in and reorganizing a recently purchased company and then runs its operations until the company starts to make money and the share prices go up. At this point, Onex sells the company and makes a profit from the increased share prices. Among Schwartz s purchases on behalf of Onex were Purolator Courier Ltd., the airline catering company Sky Chefs Inc., Beatrice Foods Inc., and many U.S. railway car and auto parts firms. Although the company had a few lean years during the recession in the late 1980s, overall Onex s subsidiaries far outperform other companies in the same industries. Unlike many other companies specializing in leveraged buyouts, Onex takes a long-term approach with the companies it purchases. Schwartz is not only interested in making a profit but also in building solid companies. As he told Maclean s magazine, In every business we ve been in, employment is higher than when we started. This is true with Sky Chefs, which grew from a company with 6800 employees to one with 27 000. When Onex purchased Celestica, a computer parts manufacturer once owned by IBM, there were 2500 employees. Today the Toronto-based company has grown to be the third-largest company in this industry in the world and employs 15 000 people.

Investors on Bay Street started to recognize Schwartz s name, and he developed a reputation as a long-term, patient investor who knew how to develop strong companies and make shareholders wealthy. Onex has grown to a $3-billion company, and Schwartz s personal net worth is approximately $500-million. (This doesn t include the personal wealth of his wife, Heather Reisman, founder of Indigo Books & Music Inc.) Schwartz, however, wanted more. He was not content that the power brokers on Bay Street knew his name; he wanted people in the rest of Canada to know his name as well. His first attempt at a high profile takeover was his 1995 bid to buy John Labatt Ltd. on behalf of the giant Ontario Teachers Pension Plan Board. The bid fell through and he started to look for other high-profile deals that would make Gerry Schwartz a household name. He then turned his attention to the airlines.

Discussion

1. How has the educational background and work experience of Gerry Schwartz worked together to make him the leveraged-buyout king of Canada?

2. In the 1980s, at the height of the leveraged-buyout craze, takeover specialists were often lambasted by critics who believed they were motivated by making a quick dollar, rather than concern for the long-term viability of the companies they purchased or the welfare of employees or shareholders. In your opinion, does this criticism apply to Onex Corporation?

3. Gerry Schwartz says he believes that ensuring the long-term viability of the companies and the welfare of employees makes the best business sense. Suggest reasons for such thinking.

4. When Onex Corp. first opened its doors for business, it received money to help fund its operations from banks, trust companies, and pension funds. Banks and trust funds are in the business of lending money at a fixed interest rate, lending money to make money through interest payments and the eventual repayment of the entire loan. Pension funds buy shares in a company (pieces of the company) and in that way contribute capital to a company. Why do you think pension funds invested money in Onex Corp.? What would they have received from Onex Corp. in return?

5. Why would the Ontario Teachers Pension Plan Board, with Gerry Schwartz s assistance, have been interested in buying John Labatt Ltd.? Do you think it is ethically responsible for a teacher-owned pension plan to own a brewery? This pension plan has at various times owned major shares in such companies as Maple Leaf Gardens, Sun Media Corp, and recently purchased controlling interest in Cadillac-Fairview, the largest retail mall owner in Canada.

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What's the Big Deal?

Air Canada: One National Airline

Although Onex s proposed bid for a combined Air Canada-Canadian Airlines sounded complicated it was actually relatively simple and could be broken down into five steps.

1. Buy Canadian Airlines: Canadian Airlines has been losing money for years, partially because of strict anti-competition laws that require Canadian Airlines and Air Canada to fly the same routes even if there is only enough traffic to support one carrier, and partially due to financing a large debt load. Canadian was bailed out once before when American Airlines purchased 25 per cent of the company, the maximum amount a foreign company can own of a Canadian airline. Therefore, when Canadian Airlines once again ran into financial problems with a $138-million loss in 1998, laws prohibited American Airlines from infusing more money into the company. When Onex made a bid for the airline, it was welcomed with open arms by the management of Canadian Airlines. However, the bid was contingent on step two, a hostile takeover of Air Canada.

2. Take Over Air Canada: Onex approached the shareholders of Air Canada and offered to purchase company shares for approximately $1.8-billion (raised to $2.2-billion when negotiations proved more difficult than Onex originally anticipated), made up partially of a cash payment and partially of a payout of the new merged company s shares. Although the shareholders of Air Canada were interested in considering the

bid, the management and employees of Air Canada were adamantly opposed. The CEO of Air Canada, 39-year-old wunderkind Robert Milton, refused to give in without a fight and launched a vicious public relations campaign and a court challenge about the legality of the offer. His strategies paid off.

3. Merge the Two Airlines: If Onex had proven successful in its hostile takeover bid of Air Canada, it would have merged the two airlines into a single carrier. The new airline would be called Air Canada. A single airline, however, would contravene Canadian anti-competition legislation and would not have been possible under existing laws. David Collenette, the Federal Transport Minister, was willing to consider the deal if Onex promised that the consumer and airline employees would be protected, regional service was guaranteed, and airline control remained in Canadian hands.

4. Integrate Operations: Once the two airlines were merged, Onex planned to cut 5000 jobs, stop the duplication of flights, and in some cases increase the number of stopovers, in order to ensure that flights that currently were half empty were filled. Onex would also have outsourced many of the airline s operations to American Airlines (whose parent company AMR Corp. of Dallas would have owned 15 per cent of the new airline) through centralized reservation bookings and accounting operations. Once these changes were made, Onex believed the new Air Canada would be a viable, money-making venture.

5. Sell Gradually: Onex and AMR Corp. would have owned just under 50 per cent of the new Air Canada; the general public would have owned the rest of the company. As the new company started to make money and share prices increased, AMR and Onex would then have gradually sold its shares and would have realized a substantial profit.

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Flying Air Monopoly

Air Canada: One National Airline

The new merged Air Canada-Canadian Airlines, which at the time of this writing is only dependent on government approval, would control 90 per cent of all Canadian air travel. Whether one agrees with it or not, this is a monopoly. Air Canada says that it will keep each of the airlines running as separate entities and that each will fly under their own banners for at least a year. All existing tickets will be honoured, and all frequent flyer points collected by Canadian Airline patrons will remain valid. Transport Minister David Collenette has proposed new legislation to protect consumers in the event of a monopoly. The proposed legislation would: (a) require any dominant carrier not to raise prices and to have that guarantee in writing and enforceable by law; (b) require that landing and departing slots be left open at all of the major airports in Canada for any new regional or charter carrier committed to increasing domestic services; (c) ensure that new entrants would have fair access to frequent flier plans and reservation systems; (d) ensure that the government regulations are enforceable, and that government will be able to police the dominant carrier s activities to ensure that there is no abuse of the monopoly situation.

Examine the statements below with reference to the merged airline monopoly. To what extent do you think the proposed legislation would protect the interests of Canadians and create a balance within the airline industry in Canada?

If a merger is allowed to go ahead without any other regulatory measures, I would estimate that fares would go up by 30 per cent in the next two years. There is evidence for this in the United States if you look at the markets where there is limited competition.   Tae Oum, professor of aviation policy at the University of British Columbia

You re creating a real monopoly and nobody can compete with it because, under our current law, the other large international carriers aren t allowed to come in and fly against it. If you want to start a small regional carrier, a monopoly carrier can immediately send airplanes against you, use predatory pricing, or subtle contract rules to knock you out.   Robert Dexter, CEO of Maritime Marlin Travel

The Liberal government seems willing to see the creation of a monopoly because the alternative is even worse. Canadian Airlines is effectively bankrupt. If it were allowed to die, 16 000 jobs would be at risk and Air Canada would simply create a monopoly of its own by picking up the pieces.   Eric Reguly, columnist, The Globe and Mail

Obviously prices have been very, very good (for consumers) and this is one of the problems. The air carriers can t afford the prices they re flying at.   Ken Landry, vice president of the Association of Canadian Travel Agents

The question of fares is a key issue. I have observed how WestJet has grown in Western Canada in following the business practices of Southwest Airlines in the United States. I believe that WestJet, and others, will fill the vacuum and create a competitive environment that will result in reasonable and competitive fares in the circumstances.   Peter Lougheed, premier of Alberta from 1971 to 1985 and current board member of Canadian Airlines.

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Comprehensive News in Review Study Modules

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Canadian Airlines: Fighting to Survive, February 1997

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Discussion, Research, and Essay Questions

Air Canada: One National Airline

1. The problems surrounding the Canadian airline industry are not new. Research the history of deregulation of the industry, the privatization of Air Canada, and the financial problems that plagued Canadian Airlines. A good place to start your research is in the News in Review archives: Merger: Canada s New Flight Plan, October 1992 and Canadian Airlines: Fighting to Survive, February 1997.

2. The Competition Bureau rejected a bid last year for the five major banks in Canada to merge into three institutions because they felt the bank mergers cause an unacceptable reduction in competition. Do you think the decision to disallow the bank mergers would be inconsistent with a decision on the part of the federal government to allow the airlines to merge? Research each of the decisions and analyze in what ways they differ and in what ways they are similar. Begin in the News in Review archives with Bank Mergers: Is Bigger Better? November 1998.

3. Many countries around the world with populations similar to that of Canada have only one national airline that they promote internationally. Choose either Great Britain, France, Germany, or Australia and research its major airline. How successful is that nation s airline financially? Does the government have controls in place to curb the airline s monopoly? How do smaller regional airlines fare in these countries?

4. In order to get a better understanding of the investment banking world of Wall Street in the 1980s and the nature of leveraged buyouts, watch the movie Wall Street. How much of the vocabulary introduced in the section titled Language Issues on page 36 of this resource guide is used in the movie? What other terms do you learn? Do you think the movie is realistic? Research the controls that the Securities Exchange Commission has in place in Canada to ensure that leveraged buyouts are performed legally.

5. In early 1999, a controversial takeover occurred in the Canadian publishing industry. The large German publishing company Bertelsmann made a successful bid to purchase Random House of Canada and Doubleday Canada. Many critics were outraged because they felt that a strong Canadian publishing industry is crucial to our identity as a country. Research the takeover and write a one-page position paper in which you discuss your thoughts on the need to protect a Canadian publishing industry. Do you think the takeover should have been prohibited? A good place to start your research is through the Internet, especially http://reviews.theglobeandmail.com/headlines/19990121-RBERT.html.

6. One alternative to a corporate takeover is an employee takeover. What is the difference between the two? Write a strategic guide for employees, explaining step by step the process through which they could purchase the company they work for. For information check out www.tbs-sct.gc.ca.

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