Merger of Canada's major airlines will mean massive job losses, fare hikes

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The struggle for supremacy among Canada's airlines is rapidly approaching its denouement. Whichever of the competing cliques of investors, shareholders and international industry players ultimately triumphs, the impending reorganization and probable merger of Air Canada and Canadian Airlines International will be at the expense of airline workers' jobs and consumer service.

Federal law forbids foreign interests from owning the majority share of a Canadian-based air carrier. But the two Canadian carriers are tied to rival consortiums of the world's major airlines, through cost-cutting agreements under which carriers pool routes, equipment and operations. According to industry analysts, the battle for control of Canada's major air carriers is largely a proxy war between Star Alliance, which is led by United Airlines and Lufthansa, and One World, whose principal partners are American Airlines and British Airways. Air Canada, Canada's biggest airline, is a member of Star Alliance, while Canadian Airlines is tied to One World.

"If you split the Canadian market," explains Standard & Poor's Mark Mettrick, "it's not much. But if you hand the whole Canadian market to your competitor, that's really going to hurt." The victor's quasi-monopoly position in Canada's domestic market would ensure large profits; it also would impact significantly on US air travel. Canada is the single biggest international destination for US carriers and Toronto and Vancouver already serve as important gateways for US passengers to Europe and Asia.

The rival international air industry consortiums and their respective Canadian allies are trying to exploit Canadian Airlines' rapidly deteriorating financial position to force through an industry reorganization at their rivals' expense. Canadian Airlines has indicated that unless it receives a cash infusion of $500 million by the end of the year, it will be driven into bankruptcy.

For political as well as economic reasons, the Canadian government has traditionally favored the existence of two major domestic carriers, one based in eastern Canada, the other in the West. But faced with Canadian Airline's latest financial crisis, the government signaled a change in policy. In August, Transport Minister David Collenette indicated Ottawa is not prepared to inject more money into the troubled air carrier, announcing instead a suspension of Canada's competition regulations for 90 days to allow the airlines to find an "industry solution" without the normal constraints of anti-trust legislation and the scrutiny of the Competition Bureau.

Less than two weeks after Collenette's announcement, Onex, a Toronto-based investment firm, announced a $1.8 billion offer to buy a controlling interest in both airlines with the intent of merging them into a single carrier. Because the bid calls for Onex to also assume responsibility for the two airlines' $3.9 billion in debt, the offer's total worth is $5.7 billion.

While Onex boss Gerald Schwartz has touted his takeover bid as "a made-in Canada solution," it enjoys support, including significant financial backing, from American Airlines. In addition to being tied to Canadian Airlines through the One World Alliance, American owns 25 percent of Canadian Airlines' shares. Moreover, the offer is conditional on the new merged airline bolting Star Alliance for One World.

The speed with which Schwartz announced his takeover bid and his close ties to the Liberal Party—he previously served as the governing party's chief fundraiser—have led to allegations that Schwartz had advance knowledge of Collenette's decision to suspend the competition regulations. Schwartz has vigorously denied the charges and the government has tried to counter the allegations of collusion by noting that in February Air Canada requested the competition regulations be suspended so it could pursue its interest in buying up Canadian Airlines' most lucrative international routes.

The Onex-American Airlines takeover bid caught Air Canada off guard, but Air Canada management is now scrambling, along with its Star Alliance partners, to put together a counteroffer to take control of Canadian Airlines.

Major job losses and fare hikes will result whichever corporate group ultimately effects the reorganization of Canada's airline industry. Schwartz says he anticipates cutting the 39,000-strong workforce of the two airlines (Air Canada has 23,000 employees, Canadian Airlines 16,000) by 5,000. But many experts think that if the merged company is to reach industry norms for returns on investment, 10,000 jobs will have to be slashed. Schwartz has denied he will either eliminate routes or raise prices, but analysts says fare increases of 20 to 30 percent are probable.

The airline unions—the International Association of Machinists (IAM), the Canadian Auto Workers (CAW) and the Canadian Union of Public Employees (CUPE)—have all accepted the inevitability of a restructuring of the industry and major job losses. CAW President Buzz Hargrove met with Schwartz last month and appeared to support his takeover bid, "We're certainly more comfortable with what's on the table here," he said at the meeting's close. But after coming under fire from union representatives at Air Canada, who think the Onex offer too favorable to workers at Canadian Airlines, Hargrove denied he was supporting any particular reorganization plan. The principal demand of the CAW and other unions is for buyout packages. Said Hargrove, "We're calling for a restructuring that will mean less jobs, but doesn't have to mean layoffs."