

Air services arrangements

- Air services between Canada and the United Arab Emirates (UAE) are governed by the Agreement on Air Transport (AAT) negotiated in May 1999 and signed in June 2001.
- Pursuant to the Route Schedule annexed to the AAT, Emirates is currently restricted to operate only three (3) flight frequencies per week.
- The UAE has been proposing air services consultations to the Canadian side since 2002, with a view to enhancing traffic rights of the designated airlines of both countries, in particular flight frequency entitlements.

Emirates' plans for Canada

- Emirates started its services to Canada on 29 October 2007, operating three weekly non-stop flights on the Dubai-Toronto and vice versa route using an ultra-long haul Boeing 777-300ER aircraft. In operating its three weekly flight frequencies to Toronto, Emirates is fully utilising its current flight frequency entitlement under the AAT.
- Emirates believes that the commercial and economic potential of its operations on this route cannot be fully realised with less than a daily flight frequency:

In order to commence its ultra-long haul services to Toronto, Emirates has had to make significant long-term investments - particularly in aircraft acquisition. Emirates is economically disadvantaged by operating to Toronto with less than daily flight frequencies, given the diseconomies of scale associated with fewer flights.

Commercially speaking, Emirates believes that the market potential for its non-stop services between Canada and Dubai by far exceeds the three weekly flight frequencies available to it under the AAT. This view is supported by the extremely high seat factors on Emirates' existing services, which have averaged 88% since the start of operations between Toronto and Dubai. The high demand is a pressing commercial issue for Emirates and its ability to properly serve the Canadian passenger market.

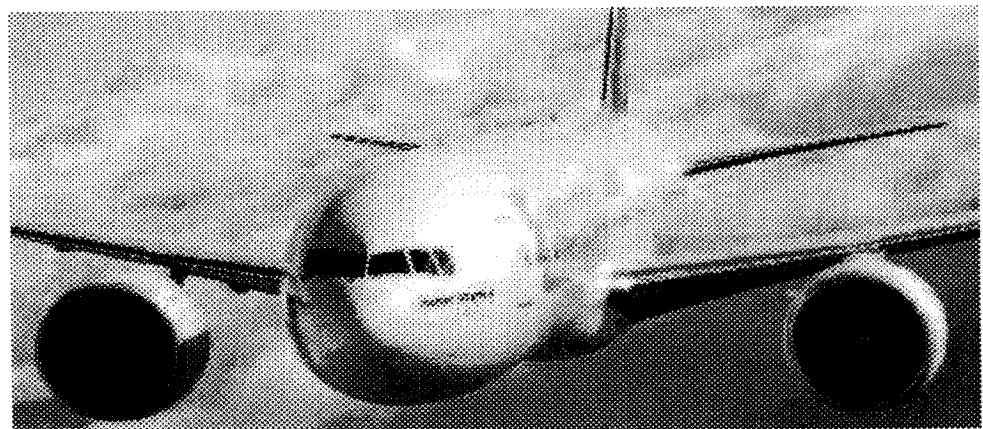
- Emirates has been experiencing a robust cargo demand on the Dubai-Toronto flights as well.
- Emirates is, therefore, seeking an entitlement of at least seven (7) weekly flight frequencies to Canada which would allow Emirates to operate daily flights on the Dubai-Toronto route.

Canada's international air policy

- Emirates' request for a daily flight frequency on the Dubai-Toronto route would be, in Emirates' view, consistent with Canada's new international air policy as well as with the ongoing liberalisation of Canada's international air services.
- As a pro-liberalisation stakeholder and a free-market advocate, Emirates welcomed the issuance of the 'Blue Sky: Canada's New International Air Policy' which espouses a more liberalised approach to bilateral air transportation negotiations for scheduled passenger and all-cargo services.
- Canada has demonstrated an increasingly liberal approach in its recent bilateral negotiations with other countries having concluded several 'Open Skies' - type or liberalised air transport agreements.
- In keeping with its 'Open Skies' policy, the UAE always aims to conclude 'Open Skies' - type air transport agreements with other countries. Emirates would welcome Canada and the UAE entering into such an agreement, covering all the essential elements envisaged for this type of an agreement in Canada's 'Blue Sky' policy.

Canada and the UAE: A growing bilateral relationship

- Canada and the UAE enjoy an excellent and growing bilateral relationship. The UAE is Canada's largest merchandise export partner in the Middle East and the North Africa region.
- Bilateral trade between Canada and the UAE has grown strongly in recent years, reaching over CAD 1.15 billion in 2007 - an increase of 32% over 2006.
- Canadian exports to the UAE reached CAD 1.12 billion in 2007, an increase of 43% over 2006.



- ➔ The balance of trade is in Canada's favour with Canadian exports to the UAE amounting to 97% of the bilateral trade in 2007.
- ➔ Canadian exports to the UAE are expected to double over the next five years.
- ➔ Around 115 Canadian companies are active in the UAE in the fields of construction, oil and gas, education, health, aerospace and retail. Emirates itself has a flight training joint venture with CAE Inc., supplier of current Emirates' flight training equipment, from which Emirates has purchased products and services worth approximately CAD 221 million since the start of the co-operation in 1992.
- ➔ Supporting and facilitating Canada's international trade objectives, an Emirates' daily non-stop service to Toronto would clearly be consistent with the 'Blue Sky' policy objectives and would be a catalyst to enhance the Canada - UAE relations to an even higher level.

Air links between Canada and the UAE

- ➔ Currently, there are only six weekly services between Canada and the UAE - consisting of three weekly non-stop services between Abu Dhabi and Toronto operated by Etihad Airways and three weekly non-stop services between Dubai and Toronto operated by Emirates.
- ➔ Based on Market Intelligence Data Tapes (MIDT), origin and destination passenger traffic between the UAE and Canada (i.e. 3rd/4th freedom traffic) has been growing strongly, reaching over 188,000 passengers in 2007, or 258 passengers in each direction per day - by far the single largest market between Canada and any country in the Middle East region. The large majority (74% in 2007) of this origin and destination passenger traffic has been travelling between Canada and Dubai - even before any direct services on this route.
- ➔ It is recognised that non-stop services are a vital stimulant to market demand. The origin and destination passenger traffic between Canada and the UAE had been strong and growing fast even before the introduction of the first non-stop services between the two countries, on the Abu Dhabi-Toronto route, in June 2007, followed by the Dubai-Toronto route in October 2007.
- ➔ The origin and destination passenger traffic between Canada and the UAE has naturally grown to a level which, in its own right, would fully support at least seven weekly Emirates' non-stop flights to Canada from Dubai.
- ➔ Given its large size and fast growth, the origin and destination traffic between the UAE and Canada is and will continue to be a major component of the overall traffic mix carried by Emirates on the Dubai-Toronto route.

Air Links between Canada and the Middle East, Africa and South Asian Subcontinent

- ➔ Currently, there are no scheduled air services between Canada and Africa and only few direct air services between Canada and the Middle East (excluding the UAE) and the South Asian Subcontinent. This is despite the existing large traffic volume between Canada and these regions (estimated to have reached a total of more than 1.6 million passengers in 2007 and growing to 2.1 million passengers in 2010) and the high growth potential between these markets.
- ➔ Emirates has an extensive, high flight frequency network in the above regions, served from its strategically located and highly efficient Dubai hub. In increasing the frequency of its flights on the Dubai-Toronto route to seven weekly flights, Emirates would provide a better access between Canada and these unserved or under-served regions - helping to satisfy the existing and new traffic demand.
- ➔ Traffic to and from the above regions carried on Emirates' flights between Dubai and Toronto would be complementary to the Canada-UAE origin and destination traffic carried on such flights.

Emirates' traffic projections for the Dubai-Toronto route

- ➔ Emirates' below traffic projections on the Dubai-Toronto route show Emirates' daily passenger traffic and required daily flight frequencies in case Emirates was allowed to operate an unconstrained number of flight frequencies on this route:

	Year 2008	Year 2009	Year 2010
Number of passengers per direction per day	359	398	436
Number of required daily flight frequencies	1.4	1.5	1.6

Note: Assuming Boeing 777-300ER (354 seats) aircraft with a 75% load factor.

- ➔ The above projections show that a minimum of seven weekly Emirates' flight frequencies would be required immediately and indicate a potential for a further growth in Emirates' flight frequencies on the Dubai-Toronto route in the very near future.
- ➔ Going forward, Emirates sees potential for its double daily flights to Toronto and services to other Canadian cities in the medium term.

Emirates award-winning service



Impact on Air Canada

- Emirates believes that its operations to Toronto, whether with the current three or the sought seven, or more, weekly flight frequencies, will not be at the expense of Air Canada.
- There might be a concern about Emirates' carriage of connecting passengers between Canada and other points on its network via Dubai – referred to in this document as "connected points".
- Such carriage is perceived by some quarters as affecting traffic which Air Canada carries in co-operation with its code share and interline partners – principally Star Alliance members, via its partners' hubs.

In this regard, it should be noted that:

- There is no direct competitive overlap between Emirates and Air Canada in the Middle East, Africa or the South Asian Subcontinent since Air Canada does not currently operate its own aircraft services to any point in these regions.
- Emirates' connecting traffic is only complementary to the substantial and fast growing Canada-UAE origin and destination traffic on Emirates' Dubai-Toronto flights. Moreover, in carrying this connecting traffic, Emirates provides enhanced access between Canada and various regions of the world which are underserved or not served at all from Canada.
- Connecting passengers today represent an inherent component of the overall traffic mix for all network carriers, including Air Canada, its Star Alliance partners and Emirates.
- MIDT data for 2007 suggest that a large majority of carriage of main European airlines, including Air Canada's Star Alliance partners, to and from Canada was connecting traffic that did not originate from or was not destined to the home countries of such airlines.

Emirates' detailed analysis of MIDT data has shown that:

- Emirates carried connecting passengers between Canada and 39 connected points via Dubai in the period November 2007 – March 2008. Such connected points are predominantly in the Middle East, Africa and South Asian Subcontinent.
- Air Canada's overall market share on Emirates' connected points was 10% - a very strong position, considering that Air Canada does not have direct services to any of these markets at this time. Moreover, Air Canada and its other Star Alliance partners are together a formidable force with 25% market share on such points.
- The combined market share of all other airlines (other than Emirates and Star Alliance members) carrying traffic between Canada and the 39 connected points was a substantial 69%. In contrast, Emirates' market share was a modest 6% only.
- Given that Air Canada does not operate its own aircraft services to Emirates' above connected points, any impact of Emirates' connecting traffic on Air Canada is indirect only and extremely limited, if at all.
- In carrying traffic between Canada and the above connected points, Emirates competes with Air Canada, and other carriers, on a level-playing field basis since such a carriage always involves stops en-route and transfers between different flights (as well as a change of an operating airline in case of Air Canada's carriage).
- Based on MIDT data analysis of bookings made worldwide, only approximately 14% of Emirates' total connecting traffic between Canada and Emirates' 39 connected points could conceivably have an impact, if at all, on Air Canada. This represents an average of only one (1) passenger per flight on each of Emirates' connected points (based on Emirates' current three weekly flights on the Dubai-Toronto route).
- Any such minimal impact of Emirates' connecting traffic has to be viewed as an inevitable result of healthy inter-carrier competition.
- According to the MIDT data, Air Canada's traffic to and from Emirates' connected points currently represents a mere 2% of Air Canada's international traffic system wide. Any competition which Air Canada may face from Emirates or other airlines on these points will thus have a comparatively marginal effect on Air Canada's total traffic or profitability levels.
- A detailed assessment of the connecting content in Emirates' passenger carriage on its services between Toronto and Dubai has re-affirmed that Emirates' operations on the Dubai-Toronto route, whether with the existing three or the sought seven, or more, weekly flight frequencies, will have no significant impact on Air Canada, if at all.
- Any impact, if at all, on Air Canada's traffic would be offset by the benefits accruing

to Air Canada from the significant amount of traffic brought in by Emirates' flights to Air Canada's domestic and North American network system – particularly with an increase in Emirates' flight frequency on the Dubai-Toronto route from the current three to seven, or more, weekly flights.

- ➔ Furthermore, Emirates lays particular emphasis on generating new demand, and not on redistributing the existing traffic. Similarly, it is not Emirates' policy to engage in capacity dumping or predatory pricing – Emirates prices its product competitively in all markets.
- ➔ Emirates would welcome an Air Canada on-line operation, alongside an Emirates' daily non-stop service to Toronto, between any point(s) in Canada and Dubai.

Emirates' contribution to Canada

- ➔ Emirates' existing operations on the Dubai-Toronto route provide a wide range of benefits and opportunities to Canada and its people. In increasing the frequency of its services on the Dubai-Toronto route from the current three to seven weekly flight frequencies, Emirates would be able to further enhance such benefits and opportunities by:
 - (a) Generating new tourism flows to Canada from the UAE, as well as from markets behind and beyond Dubai. According to the Canadian Tourism Commission (CTC), Canada's major competitors in international tourism markets are the United States, the UK, Australia, France and Germany. Emirates already operates a multitude of weekly flights to each of these markets from Dubai: 21 weekly (and increasing to 35 weekly by October 2008) to the United States, 98 weekly to the UK, 49 weekly to Australia, 17 weekly (and increasing to 19 weekly by December 2008) to France and 49 weekly to Germany;
 - (b) Growing Canada's tourism export revenues and strengthening Canada's competitive position in the global tourism sector. According to the CTC, Canada's total international tourism revenues fell by 2.3% in 2006 and its market share of global tourist arrivals has decreased by about 20% since 2000;
 - (c) Promoting Canada through Emirates' large spending on advertising and promotional activities across its network. Emirates has repeatedly proved that it has the ability to successfully promote and develop its destinations system-wide, for example Australia – Emirates carried over 1 million passengers between Dubai and Australia in 2007, up from the mere 16,000 passengers in 1996. During that period, the total size of Australia's international air services markets has increased – with the Qantas group experiencing growth in profits, number of employees, international passenger traffic and market share on its key international routes;

- (d) Injecting over CAD 60 million into the Canadian economy per annum by way of direct expenditure, for an Emirates' daily flight to Toronto; spending additional millions of dollars on promotions and advertising in Canada;
- (e) Helping to enhance bilateral trade as well as economic growth and investment in both countries. This would benefit Canadian companies that invest in Dubai as well as Canadian based companies that would benefit from increased inbound Dubai traffic;
- (f) Providing convenient air links, world-class product and competitive prices to Canadian customers - passengers and shippers;
- (g) Increasing traffic throughput and revenue generation at the Toronto Pearson International airport;
- (h) Helping to generate new jobs at the Toronto airport and the surrounding areas.



Emirates' business model

- ➔ Emirates applies a business model which it believes will secure it a sustainable future. An Emirates' daily operation to Toronto would fit well in its business model, in a win-win situation for both Emirates and Canada:
 - (a) Emirates' business model is based on a combination of tightly managed costs, well planned network growth, product innovations together with a modern and efficient aircraft fleet. As an airline that is not a member of any of the major airline alliances, Emirates is free to serve any commercially viable route in the world – traffic rights permitting.
 - (b) A key component of Emirates' business strategy is to deliver, even in challenging circumstances, high quality products and reliable services.
 - (c) The growth in Emirates' aircraft fleet has always been progressive and measured – based on detailed economic analysis of aircraft performance criteria, demand forecasts and market potential for all aircraft types and markets.
 - (d) Being itself a firm believer in liberal civil aviation policies, Emirates draws its resilience from the open-skies environment at its main operating base, Dubai International Airport, where Emirates does not benefit from any aeropolitical protection against competition and where it has to compete with approximately 122 other scheduled airlines.

Myths versus facts about Emirates

- ➔ Emirates wishes to avail this opportunity to set the record straight on some of the myths that are sometimes alleged about Emirates:
 - (a) Emirates is a business that must stand on its own two feet and has not received a cent of subsidy since day one of its existence. In 1985, USD 10 million in start up seed capital was given to the airline and later the Government of Dubai also invested USD 88 million in aviation infrastructure for the airline. Emirates has been profitable in all but one year, since its launch in 1985, and pays dividends to its owners – which have totalled USD 777.5 million to date.

- (b) Emirates pays commercial rates for fuel like any other airline, both at Dubai International Airport and at airports worldwide to which it operates. Emirates buys fuel from a total of 5 suppliers at Dubai International Airport. In line with recent increases in international fuel market prices, fuel costs accounted for 30.6% of Emirates' total expenditures in 2007-08 – up from 29.1% in the previous year.
- (c) Emirates sources capital from international markets and banks, and has successfully raised USD 13.4 billion from a wide range of regional and international sources during the last eleven years to finance new aircraft.
- (d) Emirates is liable for all applicable taxes in all countries on its network, including Canada. Emirates also incurs significant social costs as a result of the expatriate nature of most of its workforce which is recruited from around the world on expatriate terms and conditions.
- (e) Emirates is fully and independently audited to the highest international standards by external auditors PricewaterhouseCoopers, as well as by auditors from the Government of Dubai.
- (f) Emirates pays the full published landing charges at Dubai International Airport and does not benefit from any form of volume related discount at the airport.

Conclusion

- Emirates strongly believes that a minimum of seven weekly Emirates' flight frequencies from Dubai to Toronto are called for today. Emirates is, therefore, seeking an enhancement of its flight frequency entitlement for Canada to at least seven weekly flight frequencies which would allow it to initially increase its current operations to Toronto to a daily service.

Emirates looks forward to the support of the Canadian Government for increasing its flight frequency entitlement to Canada and is confident that Emirates' daily flights from Dubai to Toronto would provide a wide range of opportunities and benefits to all concerned Canadian stakeholders.