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People?s stake in Air Canada

by PETER BLACK

We Canadians, all 37.5 million of us, are now shareholders of Air Canada, thanks to the $6 billion financial support package the federal government negotiated with Canada's dominant airline last week.

Don't run out and demand free corporate tickets just yet. The package includes the requirement - and up to $1. 4 billion in loans - for the airline to refund ticket-holders grounded by the pandemic.

The equity deal the Canadian government gets for some $500 million in taxpayers' money is a bit complicated (at least to me), but it apparently works out to a minimum of six per cent and a maximum of just less than 20 per cent ownership if Ottawa exercises all its options.

For those who are either revolted or delighted by this development, it should be known this kind of government stake in a strategic national airline is pretty normal.

The French government, for example, last month took a 30 per cent stake in Air France-KLM and Germany acquired 25 per cent of Lufthansa last year. The pandemic, obviously, was the prime motivation for both these acquisitions. That said, partial, majority or full ownership of ?flagship? airlines by national governments is still very common, with Air India, Aeroflot and Alitalia ? just a few examples.

Folks with memories pre-dating the internet will recall it was not that long ago that Air Canada was wholly owned by the Canadian government, leading to it being sarcastically dubbed the Peoples' Airline, plagued as it was by the money-hemorrhaging inefficiencies of Soviet-style enterprises.

The Progressive Conservative government of Brian Mulroney sold off the country's remaining 57 per cent stake in Air Canada in July, 1989 - coincidentally only four months before the fall of the Berlin Wall. The shares were snapped up, netting the federal government $473 million in cash. Liberated from government control, Air Canada literally took off as an ambitious, competition-driven carrier in an industry then populated by multiple airlines.

One of its biggest moves as a fully private corporation was in 2000 when it swallowed its largest competitor, Canadian Airlines, which in turn had swallowed CP Air, Nordair and Wardair, among others, and had at the time 40 per cent of the domestic passenger market.

Twenty years later, Air Canada's main competitor is Westjet, which, though it says it is solvent, is still negotiating its own pandemic rescue deal with the Trudeau government, as are other smaller carriers, such as the truly troubled Transat, which Québecor boss Pierre-Karl Péladeau still may be interested in buying.

It is one of the ironies of this odd-ball country that what is now Air Canada was created by the federal government in 1937 through Canadian National Railway, a Crown corporation. Eventually, the post-war boom in air travel brought about the decline in rail passenger service. CN and Air Canada were corporately uncoupled in 1978, both remaining separate Crown corporations.

The feds would privatize CN in 1995 - current largest shareholder, Microsoft's Bill Gates - and it would go on to become a fabulously profitable colossus of freight traffic. Ottawa, meanwhile, was compelled to rescue and subsidize rail passenger service, through the creation of Via Rail in 1977. The new boss of Via, it may be worth noting, is Cynthia Garneau, whose background is in the aerospace industry.

In the dubiously bilingual spirit of Canada at the time, the national airline was called Trans-Canada Air Lines (TCA) in English, but

Air Canada in French. That bizarre situation was rectified in 1964 by then rookie Liberal MP Jean Chretien, who introduced a private members' bill to change the name to Air Canada.

Through clever manipulation of House of Commons procedure, Chretien managed to get the bill passed and the rest is aviation history, though Air Canada still consistently faces turbulence over the quality of its bilingual service.

How long the federal government and Canadian taxpayers will remain major shareholders of Air Canada 32 years after getting out of the airline business is anyone's guess. Market watchers say it's a win-win situation for Canadians, with airline revenues destined to soar once general passenger traffic is cleared for take-off when the pandemic releases its grip.