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SB/ MGMT 1030
Business History

Air Canada: Merger with Canadian Airlines

This essay examines the merger between two major Canadian aviation companies: Air Canada and Canadian Airlines and attempts to decipher it's effects. First, the historical environment is examined followed by the impact of the merger on Air Canada and the Canadian aviation industry. Alternatives to the merger are also described. It is concluded that the merger was not only beneficial but also necessary for Air Canada and the Canadian aviation industry.

Setting the Stage

- Air Canada was created as a subsidiary of the Canadian National Railways in 1937 and was privatized in 1989 as it continuously suffered financial losses.
- It's biggest competitor was Canadian Airlines.
- Due to the global financial difficulties in the aviation industry, Canadian Airlines reported potential closure in a year in summer of 1998.
- Canadian Airlines reluctantly merged with Air Canada in 1999.

A promotional poster for Air Canada, formerly known as TCA. (Vintage Airline Posters.net, n.d.)

Monopoly

- After the merger of Air Canada and Canadian Airlines, the Canadian aviation industry was effectively transformed from a duopoly to a monopoly.
- Bill C-26 was put into the effect to protect the public interest. One key amendment was "increase the authority of the Canadian Transportation Agency to review passenger fares and cargo rates on monopoly routes; to roll back any unreasonable fare, fare increase, cargo rate or cargo rate increase; and to order refunds if feasible".
- This allowed Air Canada to earn a profit while protecting the public and setting precedent.

Alternatives

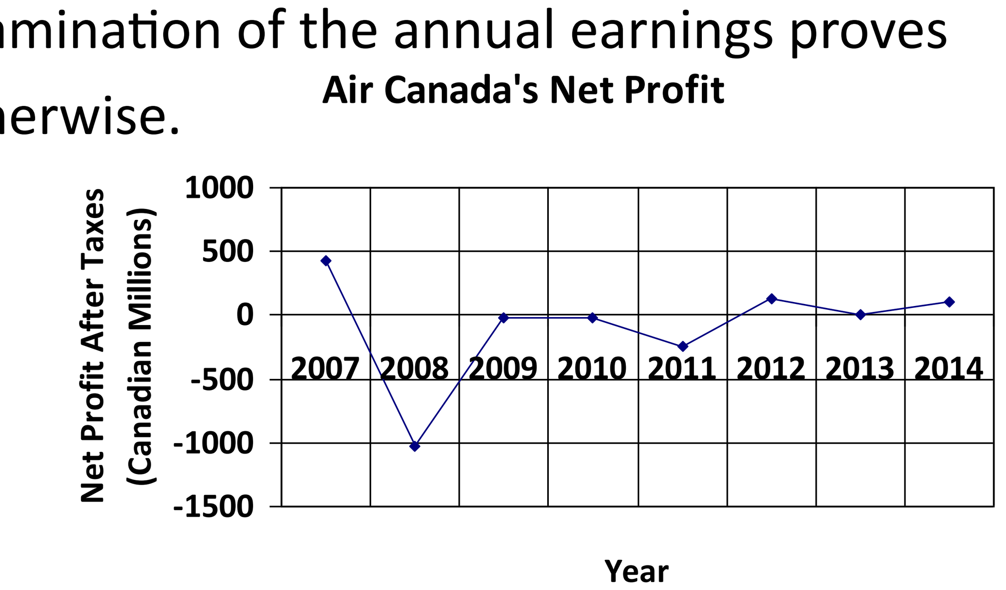
- Two alternatives: No merger and a merger through Onex funded by American Airlines.
- No merger would have resulted in the loss 16 000 jobs and possibly more due to the failing health of Air Canada. As well, Air Canada would have become a monopoly with little to no legislation to protect the public.
- Merger through Onex and AMR would have resulted in a foreign duopoly which could have led to a worse economy, conflicts of interest, tension, and a dwindled sense of nationalism.

ONEX

Onex Corporation Logo (Wikipedia, n.d.)

Salvation

- The economy is better off due to the merger. The merger ensured that two of the largest aviation companies in Canada survived in some form and had they both continued on as they were, it would have led to certain annihilation of the aviation industry.
- While some have argued that the merger caused financial difficulties for Air Canada, an examination of the annual earnings proves otherwise.



The merger was largely beneficial and necessary for the betterment of Air Canada and the Canadian airline industry. This is primarily because the merger allowed Air Canada to become a monopoly within Canada with virtually no competitors while still protecting the public interest. As well, the alternatives to the merger, including no merger and the merger through Onex funded by American Airlines, were no better than the Air Canada merger. Last, the merger saved the aviation industry and Canadian Airlines.