

1994-11

*State
of air
transportation
within
Canada*

By :

The Chambers of Commerce of :

Sept-Îles, Baie-Comeau
Gaspé, Rimouski
Mont-Joli, Jonquière
Chicoutimi, Ville de La Baie
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Memoir on the State of Air Transportation within Canada

Submitted to the Federal Minister of Transport
by a Québec group of Chambers of Commerce

November 1994

Outline

The bringing into law of the 1988 National Transportation Act instituted a system of free competition between airlines replacing the governmental system of regulation that had prevailed for many years. These legislative provisions were based on the premise that a sufficient number of air carriers would compete for the favours of service users, not only Canadian-based but cross-border and intercontinental also, thereby maintaining costs and prices at a minimum and the quality of service (frequency, comfort, friendly staff, etc.) at a maximum. On top of that, the Act has re-affirmed the prime importance of the air transport industry to the realm of regional development by insisting that those organizations providing the services be profitable through the decision to eliminate all government subsidies to the industry.

The aims of the Act, however, have not been achieved. The Federal government has, of course, succeeded in reducing its subsidies to zero, but the hoped-for free competition between carriers remains a mirage.

Since deregulation the Canadian airline industry has been virtually routed by buy-outs, take-overs, closures or bankruptcies of smaller or financially weaker carriers, all of which have allowed Air Canada and Canadian Airlines free rein to dominate the regular service industry as a whole. This duopoly is now characterized by systematically similar timetables, simultaneous and exorbitant fixing of fare structures and a monopoly status in their computerized reservation network. Canada's domestic market thus serves as a basis upon which the two companies can uphold a competitive stance on cross-border and overseas routes. "Without this basis of support, the carrier would find it difficult to maintain the competition in intercontinental long-haul markets." (Aviation in Canada, Statistics Canada, Catalogue 51-501, 1993).

Furthermore, this study has revealed considerable weaknesses in the management of Air Canada and Canadian Airlines resulting in a remarkable decline in the number of passengers willing to use the two national airlines. Albeit described by the government as perfectly "normal given the context of economic recession", this radical downgrading in passenger levels has encouraged a further downward spiral in the privatization/closure/service reduction in regional airports already announced by Transport Canada.

Within this perspective, regional airline transportation has become a tool in economic development, at a prohibitive cost. Regional economic growth, long dependent on a transportation system both reliable and economical, has now been severely constrained without any hope of revival under normal market conditions. The actions of the two principal carriers have virtually blocked off the emergence of any viable regionally-based air carriers -- a form

of ransom being paid by the regional market for the benefit of foreign users.

Summed up, an analysis of these actions reveals the following :

- An increase in regional air transportation costs of 81,22% (GST and PST included, but not airport taxes);
- An increase in regional air transportation costs that is 400% greater than Canada's recorded inflation rate;
- An increase in the available number of seats per kilometer in converse relation to the increase in demand thus causing a waste of resources, costs of which must be borne by the regional passenger public;
- A radical drop in the number of passengers passing through regional airports, throughout Québec and Canada, ever since deregulation;
- Inconsistent management of the national airlines;
- Twice the level of increase in internal airfares compared with international fares, producing a situation wherein a passenger travelling between Baie-Comeau and Montreal pays one and a half times the fare of a passenger travelling between Montreal and Paris;
- Fares, calculated as seat per kilometer, three times greater within Canada than for flights into the United States, and twice as great as on flights to Europe.

Therefore we submit the following recommendations to the Federal Minister of transport :

1. That the status Charter carrier be abolished so that henceforth any holder of such a permit be allowed to provide regular airline service wherever the need arises inside Canada;
2. That the National Transportation Act (Article 72) be amended to apply conventional rules of competition to Canada's domestic airline industry so that no one single carrier or group of carriers dominate its regional markets;
3. That Transport Canada's policies of privatization/closure/service reduction at regional airports be submitted to regional public consultations, thereby creating a just equilibrium between the voice of the citizens and the needs of the airlines, with regard to regional economic development;

4. That a detailed study be undertaken of the airlines reservation networks so that in Canada only those systems designated as "neutral" be used, thus avoiding the possibility of unfair advantage to one or other of the carriers;
5. That the Minister of transport take all immediate steps necessary to re-establish a balance between the requisites of regional economic growth and the profitability of airline transport; failing any re-establishment of fare equity that the Canadian government grant licences to foreign air carriers willing to provide services within Canada;
6. That an enquiry be called for by the Minister of transport, to be conducted by RCMP in order to investigate evidence of price fixing on the part of Air Canada, Canadian Airlines and their affiliates and to determine if these activities contravene Canadian anti-trust laws;
7. That the National Transportation Agency order an immediate reduction in Canada's internal air fares (Articles 4 and 80) and that it requires that Canada's Airlines create a fund to compensate those passengers victims of excessive airline fare charges, until such as the findings of the above enquiry be made public.

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Introduction

The Mulroney government's National Transportation Act received Royal assent on August 28th 1987 and came into force January 1st 1988 since which date it has had disastrous effects on Canada's outlying regions causing air transport costs to rise as much as 81% and causing regional airport traffic to drop as much as 35%. Thus economic growth in the outlying regions of Québec and Canada has been dealt a crippling blow.

This memoir which describes the above-mentioned situation in detail is hereby addressed directly to the Federal Minister of Transport in his role as representative of the people of Canada and in his role as guarantor of National transportation policy in accordance with powers conferred on him by Article 3, paragraph 2 of the Act enjoining him to intervene directly at any time in the activities of the Canadian airline industry.

Three themes are developed in the following document. Firstly, it will be necessary to remind everyone of both the general aims and particular details on the NTA with regard to air transport thereby bypassing unnecessary research by our readers, while at the same time focusing more clearly on the features most pertinent to our study.

A second theme concentrates on the results of deregulating Canada's internal airline transport system while exposing the enormous transportation problems being visited upon those members of the Canadian public who live far from the larger population centres, but upon whom so much of Québec's and Canada's economic strength depends. (Note here that over 75% of Canada's exports originate in these outlying regions.) It is necessary to point out that the deregulation of the airline industry, in economic terms, has quite degenerated into an airline duopoly whose interests are essentially concentrated on international markets to the detriment of their customers in the regions. Among other things, our analysis reveals an in-Canada fare structure three times as great (in passenger/kilometers) as that for trans-border flights and twice as great as intercontinental services.

The third theme deals with certain practices that have led us to conclude that there has been serious evidence of collusion on the part of our two national airlines that has effectively blocked the emergence of regional air transport companies who would have been better placed to answer the needs and requirements of regional markets at half the price actually imposed by the existing regional feeder lines who remain the property of one or other of the partners in the Canadian duopoly.

The conclusions drawn and recommendations made in this memoir aim to achieve a due respect for the law as it now stands, a law that was put into effect to encourage free competition, in the context

of Canadian economic policies of the day. We recommend also that airline transport policies applicable within Québec and Canada as a whole be truly adapted to the needs of the public. In the words of the National Transportation Act Review Commission (in Competition in Transportation, "Policy and Legislation in Review", volume 1, Supply and Services Canada, 1993, page 1), "In effect, transportation decisions (will) be more governed by the needs and wants of shippers and travellers instead of by government officials and politicians."

By means of this memoir, the people living in the outlying areas of Québec, particularly those of the St. Lawrence North Shore, Abitibi/Témiscamingue, the Saguenay, the Lower St. Lawrence and the Gaspé peninsula wish to express their outright dissatisfaction with the type of practices undertaken by Canada's domestic air carriers (i.e. Air Canada and its associates and Canadian Airlines and its partners) and wish thereby to recommend that measures be taken to ensure that a National transportation policy be fully applied that guarantees, amongst other things, genuine competition between carriers.

We believe, contrary to remarks made by the Minister himself, Mr Doug Young (New Directions in Transportation, an address given at a dinner to mark National Transportation Day in Thunder Bay, Ontario, June 3rd 1994), that we aren't making "emotional and narrow claims in favour of any particular region." The group of business people we represent is certainly regional in its make-up, but it is unanimous in making clear that the damage caused by the actual improper application of the National Transportation Act is manifest in every outlying part of Canada.¹ Our interests are such that we fundamentally desire to be able to continue to contribute to the economic well-being and prosperity of Québec, and Canada as a whole, insofar as the principle of free competition be allowed to flourish without being perverted by certain economic operators who have decided to profit from an equivocal reading of the law as it stands.

Dr. Serge Le Brun, specialist in Transportation economics at the Centre d'Etudes et de Recherche d'Economie des Transports of the University of Aix/Marseilles 2 and an international consultant in the air transport field is the primary compiler of this text. In addition to the Baie-Comeau Chamber of Commerce (Mr Gaston Bélanger) and the Baie-Comeau Industrial Commissariat, a number of Québec-based Chambers of Commerce have made important contributions and endorsed its proposals. Thus we make special note of the Chambers of Commerce of Sept-Iles (Mr Marc Brouillette), Mont-Joli (Mr Claude Morel), Gaspé (Mr Serge Lepage), Val d'Or (Mr Daniel Deschambeaux), Rouyn-Noranda (Mr Claude Poulin) and the Association

¹ On that aspect our observations meet those of more than half the Canadian citizens.

of Saguenay Chambers of Commerce bringing together those of Chicoutimi, Jonqui re and Ville de la Baie (Mr Eric Dufour) as well as the Rimouski Chamber of Commerce (Mr. Camille Leblanc). Each of these bodies has already made amply clear its dissatisfaction with the situation prevailing in the regional airline transport industry by way of a resolution forwarded to the Minister of transport.

The author wishes to thank those participating Chambers of commerce and expresses thanks also to Mr Pierre Breton, Vice-chair of the Baie-Comeau Chamber of Commerce whose active cooperation is highly appreciated.

1. Aims and objectives of the National Transportation Act (NTA)

For the purposes of this memoir, we shall refer only to those articles of the National Transportation act that deal directly with the subject at hand. Nevertheless this decision has been the object of rigorous examination to remove all evidence of bias : nothing in the Act has been found to contradict or restrict those articles, paragraphs or sub-paragraphs quoted therefrom.

1.1 Role of the Minister

Article 3, paragraph 2 of the Act defines the role of the Minister of Transport as follows ² :

The Minister may with approval of the Governor in Council and in accordance with stipulations thereby, establish agreements for the drawing up of a National Transportation policy as laid down in paragraph 1, or those agreements pertaining to matters of transport which the Minister shall deem necessary.

Article 4 of the Act defines the public interest in the following terms ¹: "That feature which is compatible with the National Transportation policy as laid out in paragraph 3 (1) with the general ordinances rendered explicit by way of Article 23 and, as related in Part II, with the ordinances of the Minister by way of Article 86." By this reference to paragraph 3 (1), the Act establishes that National Transportation policy shall be in the public interest and that it is incumbent upon the Minister to apply whatever is in the public interest and ensure that it be respected. Reference to Article 23 ensures that the Governor in Council may issue ordinances to the National Transportation Agency with regard to the Act, while the reference to Article 86, part II, affirms the powers of the Minister to issue ordinances to the Agency with regard to international transport.

These provisions of the Act designate the Federal Minister of transport as the person responsible to the will and interest of the people of Canada, including such transport as is carried out within the boundaries of Canada. With such in mind, and in the public interest so defined above, the Minister must be made aware of the concerns expressed in this memoir.

² This is an ad hoc translation of the French version of the Act as the English version was not in the hands of the translator at time of printing. Consequently those willing to peruse the exact wording are invited to refer to the pristine French text attached hereto as an Annexe.

As most other modes of transport (exception made for intercontinental sea transport) air transport is answerable to Canadian laws applicable to transportation. Article 2, paragraph 2, sub-paragraph (b) of the Act stipulates that, "This Act shall apply, without exception, to the following modes of transport :... (b) air transport as defined in Part II."

1.2 National Transportation policy

National Transportation policy is integrated in its expository form into the wording of the Act and is defined in Article 3, paragraph 1 as follows³ :

It is hereby declared, on the one hand, that a reliable, profitable and well-adapted network of transport services that are viable and efficient and usable at the least cost, is essential to answer the needs of both carriers and passengers alike, the better to contribute to the prosperity and economic growth of Canada and its regions, and on the other hand, that for these objectives to be the most readily fulfilled within a situation of free competition between the various modes of transportation, between all carriers, on condition that, taking into account both national policy and judicial and constitutional contexts :

a) the national transportation network conform to maximum norms of safety practically possible;

b) competition and free-market forces be as much as possible applicable to a viable and efficient transportation system;

c) the economic regulation of carriers be limited to such services and regions to which it should be imposed in the interests of carriers and passengers, without unduly hindering free competition between carriers and modes of transport;

d) transport be recognized as a prime factor in regional economic development and that there be maintained a reasonable balance between the objectives of transport profitability on the one hand and of regional economic development on the other, with the view to a full realization of each regions's economic potential;

e) each transport carrier, or mode of transport, shall support as much as is possible, a reasonable part of the actual cost of resources, installations and services rendered available through the public purse;

f) each transport carrier, or mode of transport, shall be compensated as much as is possible, in a just and reasonable manner for the cost of resources, installations and services which it is called upon to place at the public's disposal;

g) journeys scheduled to or from any point in Canada by each transport carrier, or mode of transport, shall be undertaken, as much as is possible, at prices and in ways that do not impose:

- (i) an unjust disadvantage upon other transport connections made in the same manner, exception made for disadvantages inherent to the points being serviced, to the importance of the traffic concerned, to the extent of activities related or to the nature of the traffic concerned, or the service provided;

- (ii) an improper hindrance upon the free movement of the public, disabled persons included;

- (iii) an improper hindrance upon the free movement of goods and services within Canada;

- (iv) an obstacle to the growth of Canada's primary or secondary sectors, to Canada's exports or those of its regions, or to the movement of goods and services through Canada's ports.

It is furthermore declared that the present Act shall aim to achieve those of its objectives pertaining to questions arising from the legislative powers of Parliament regarding matters of transportation. (National Transportation Act, Chapter 28(3rd supplement))

Detailed examination of Article 3 of the Act reveals that safety, profitability, viability, efficiency and minimum cost constitute the fundamental objectives of Canadian transportation policy. The Parliament of Canada has declared that the achievement of these is essential to satisfying the needs of both transport carriers and passengers while at the same time contributing to the greater prosperity of Canada and its regions.

The method favoured by the Parliament of Canada for the better attainment of these objectives is that of free competition between modes of transport and within each mode; i.e., between carriers of

the same mode. Such competition shall, however, be in accordance with the following principles :

- Passenger safety;
- Carrier viability and service efficiency;
- Limited government economic regulation without restraint to fair competition;
- A balance between the profitability of transport routes and regional economic development;
- Non-abusive transportation fares and schedules within Canada.

Canadian Transportation Policy, as an integral part of an Act of the Parliament of Canada, clearly lays down that economic prosperity and transportation are closely and profoundly linked, which confirms, should proof be needed, that transport has always been the catalyst necessary to the economic growth and prosperity of nations. Furthermore, Parliament has paid particular attention to the well-being of Canada's regions, specifying on three different occasions in the text that their economic growth must in no way be compromised by the actions of transport carriers whose regional services remain profitable.

The logic, in economic terms, of these parliamentary assertions rests upon the extremely fragile base of a regional travelling public which has relatively few means of transport at its disposal, and, no doubt, upon the results of U.S. deregulation which has merely served to confirm the predatory attitude of air carriers towards their regional service users. At this juncture, it is perhaps salutary to recall that the godfather of U.S. transport deregulation, Mr Herman Kahn, recently stated publicly that a collusion existed between the country's domestic airlines and that considerable harm had been visited upon regional economies and service users by the damaging effects of brutal and un-managed deregulation.

Let us note, however, that the NTA requires that where there is "transport profitability", the objectives of "full realization of each region's economic potential" must be respected and that transportation fares and schedules within Canada must neither place an improper hindrance on the free movement of goods and people, nor constitute an obstacle to the growth of Canada's primary or secondary sectors, nor to the exports of Canada and its regions.

Two other provisions of this policy deserve closer scrutiny. These policy provisions establish an essential link between the licence fees that transport carriers must pay to the State for the use of public assets(resources, installations and services) and the recompenses that transport carriers receive from passengers and

freight dispatchers in return for using the resources, installations and services that are placed at the public's disposal.

Cases where air transport companies are obliged to place certain resources at the public's disposal are not strictly relevant to the situation here under review. No obligation exists that forces an air carrier to provide services to the regions of the St. Lawrence North Shore, Abitibi-Témiscamingue, Saguenay-Lac St-Jean, the Lower St Lawrence or to the Gaspé peninsula. There is, however, an obligation that forces airlines to pay licence fees to the State for the use of public assets. Moreover, both passengers and freight dispatchers consider it normal that a portion of their transport costs should be forwarded on to the State for the purpose of fee payments for the use of public assets by the transport carriers.

2. In-Canada airline transport since the Act

At the end of the eighties, Canada accounted for 11 different airlines. Internationally, Air Canada predominated as flag-carrier while Canadian Pacific Airlines concentrated on the Canada-East Asia market. Wardair ruled in the charter field, while 8 other airlines competed for the carriage of passengers and freight within central and eastern Canada. Come deregulation and the privatization of Air Canada, all the regional carriers found themselves ingested into one or other of the two new all-Canada companies : Air Canada and Canadian International Airlines.

2.1 Concentration of in-Canada airline traffic

This concentration of internal air carrier services has produced de facto internal trade barriers (the impossibility of joining with acceptable conditions, one sole computerized reservation network for the exclusive use of the two principal companies, blockage of any inter-company commercial agreement, the need to amass the financial resources necessary to sustain an inter-company price war upon inaugurating new routes, and more) against all or any carrier wishing to offer regular services on routes already covered by the two principal companies. One has only to look at the sad fate of Nationair, City Express and Air Madeleine, if one should need any proof. No carrier now is willing to confront either national carrier except through charter flights on a very limited route structure.

This calculated arrangement between the two national carriers places the supply of air services solely in their control and does not respect the National Transportation policy which craves a system of free competition, whereby the best possible in-Canada services may be provided at the best possible price. The setting-up and sharing of the "Gemini" reservation network effectively renders the Canadian airline duopoly an unquestioned reality. A research paper published 1992 at the University of Québec in Montreal, by Jacques Roy and Serge Le Brun draws its own conclusions concerning this convenient arrangement on the part of the two carriers. The situation has also been clearly described by the National Transportation Act Review Commission, "Given the market power that frequent-flier programs and computer reservation systems provide the current carriers and their dominance of major markets, the prospect of new entrants establishing themselves in the system is questionable."(1)

A private survey undertaken of certain Québec-based travel agencies reveals that Air Canada and Canadian Airlines have changed the prices of their tickets on internal routes, at exactly the same dates and at exactly the same rates ever since the date of the deregulation of Canada's airline industry. This practice, seems contrary to Canadian laws protecting competition.

Let us remember that seven of the leading U.S. airlines were obliged to negotiate an out-of-court settlement amounting to US\$ 500 million in order to avoid a formal legal challenge by the U.S. government for the illegal fixing of fares. Meanwhile in Canada, no one has bothered to question the behaviour of our two national carriers. Nonetheless air fares have risen remarkably -- examples of fares between Baie-Comeau and Montreal alone will suffice (Table 1)

| TABLE 1: Air fares Baie Comeau/Montreal (Basic fare : one-way) | | | |
|--|-----------------|--------------|------------------------|
| | Cost (\$Can) | Var'n (%) | Cumul. var'n (%) |
| 1988 | 176 | | |
| 1989 | 197 | 11.93 | 11.93 |
| 1990 | 202 | 2.54 | 14.77 |
| 1990 | 207 | 2.48 | 17.61 |
| 1990 | 213 | 2.90 | 21.02 |
| 1990 | 226 | 6.10 | 28.41 |
| 1990 | 242 | 7.08 | 37.50 |
| 1992 | 252 | 4.13 | 43.18 |
| 1992 | 265 | 5.16 | 50.57 |
| 1993 | 276 | 4.15 | 56.82 |
| Source: Air Alliance; compiled by author | | | |

The concentration of air traffic services has also been the cause of certain harmful practices. In addition to being the captive markets which Canada's outlying regions have become, being deprived of any real competition between the leading carriers travelling to the larger population centres, this public has now also been assailed by so-called "marketing devices" (frequent-flier programs, seasonal rebates, group rebates, reductions for groups with more than 30 persons if one of them belongs to a Golden Age Club, etc.). It appears to us that the sole purpose of these come-ons is to distract the public mind from the excessive increases in transport costs by granting favours to those who are not really obliged to take the plane while leaving the burden of full fares squarely on the backs of business travellers.

Regionally, these consumers have no choice in fares or schedules between the two carriers, and little or no other means of travel when fulfilling their professional obligations.

Air Canada and Canadian Airlines have each increased the number of their route services while simultaneously maintaining an almost perfect synchronization of fares and timetables. One example alone: for the same fare, at five-minute intervals, 28 times per day, passengers from the Lower St. Lawrence and the North Shore are able to leave from or return to their starting place.

Some might say that such is proof of high-quality service. However it is more a question of predatory operations aimed above all at eliminating the possibility of there appearing upon the scene genuinely regional carriers. It is also contrary to the needs of a clientele that is forced to travel long distances without any real choice as to means of travel, varying schedules or fare structures. When questioned about this over-capacity and profusion of services, spokespersons for the carriers invariably reply that they have "aircraft that have to fly and employees that have to work, no matter how many seats remain empty."

That kind of banter seems typical of the acts and attitude of Canada's air carriers towards their regional public. Over-capacity is therefore a deliberate imposition on the part of the carriers. Thus the public has "nothing to complain of." What is more, airline executives have taken to blaming Canada's regional public for not using the airline services enough -- as if it were one's patriotic duty to take the plane never mind how extortionate the fare.

In reality, this over-capacity is an example of carrier policy and it serves them well. With so many synchronized arrivals and departures, at identical cost to the passenger, no other carrier could hope to compete on an equal footing. Over-capacity also allows the two carriers to show the Government that they provide a public service of irreproachable quality, despite the fact that the public doesn't ask that much. Why then not listen to the public directly concerned and understand that the need exists for numbers of flights and aircraft and fare structures that are adapted to the public's actual requirements ?

This characteristic over-capacity on airline routes to the regions has most certainly had its impact on regional air fares. Table 2 describes those fare increases, part of which serve to defray the cost of empty seats on regional flights throughout Canada. It is not hard to notice that internal air fares are not only higher per seat-mile, but also afford a greater return for carriers and have increased at a greater rate than international fares.

Table 2: Average regular fares on regular services
by Canadian air carriers

| | (\$Can) Domestic | (\$Can) Int'l | % Variation | |
|--------------------|---------------------|------------------|---------------|---------------|
| | | | Domestic | Int'l |
| 1983 | 121.10 | 252.60 | | |
| 1984 | 121.80 | 257.90 | 0.58% | 2.10% |
| 1985 | 127.80 | 272.30 | 4.93% | 5.58% |
| 1986 | 133.60 | 284.20 | 4.54% | 4.37% |
| 1987 | 146.80 | 305.20 | 9.88% | 7.39% |
| 1988 | 149.30 | 314.60 | 1.70% | 3.08% |
| 1989 | 174.40 | 327.90 | 16.81% | 4.23% |
| 1990 | 190.20 | 337.80 | 9.06% | 3.02% |
| 1991 | 180.80 | 340.50 | -4.94% | 0.80% |
| 1992 | 178.70 | 347.60 | -1.16% | 2.09% |
| 1993 | 186.12 | 355.07 | 4.15% | 2.15% |
| Increase 1983-1993 | | | 53.69% | 40.57% |
| Increase 1987-1992 | | | <u>26.78%</u> | <u>16.34%</u> |

Source: Statistics Canada: catalogue 51-501

The public in the regions are thus obliged to bear the weight of the higher costs imposed by the air carriers. Data shown in Tables 2 and 3 (following page) confirm that Air Canada and Canadian Airlines have endeavoured to extract the maximum possible return from their in-Canada routes, imposing fare increases twice as great as those levied on international routes and drawing there from revenues twice, if not three times as great as those yielded by cross-border and overseas traffic.

2.2 Over-pricing, over-taxation, and subsidization of international routes,

2.2.1 Subsidies to international operations

As shown in Table 3, the national airlines financial returns emanating from their in-Canada services are noticeably higher than those emanating from their international routes. For example, in 1991, Canadian Airlines received revenues of 0.11 \$ per passenger/kilometer flown on their international flights compared with 0.309 \$ per passenger/kilometer flown within Canada. Virtually triple.

Table 3: Return on regular airline passenger services
(Revenue/passenger/km \$Can.)

| | 1988 | 1989 | 1990 | 1991 | 1992 |
|-----------------------------|-------|-------|-------|-------|-------|
| Air Canada (int'l) | 0.103 | 0.107 | 0.109 | 0.112 | 0.105 |
| AC Connector (domestic) | 0.246 | 0.264 | 0.263 | 0.280 | 0.287 |
| Canadian (internat.) | 0.096 | 0.096 | 0.098 | 0.110 | 0.104 |
| Can. partners (domestic) | 0.238 | 0.273 | 0.266 | 0.309 | 0.257 |

Source: Statistics Canada: catalogue 51-501

Table 4 compares the two companies revenues emanating from domestic routes as being never less than twice the revenues accruing from international services. Statistics of this nature merely serve to confirm that both carriers are imposing their predatory policies on the Canadian public : in Canada fares and revenues are from two to three times the level of those received on cross-border or overseas services. These data openly contradict, the statements of the

National Transportation Act Review Commission ⁴ when they say, "Consequently, there is a natural tendency to price with increasing competitiveness to ensure a full aircraft, but it is not easy to isolate the impact of such pricing to the empty seats. Instead, the price cutting affects the overall market." (2)

Table 4: Compared returns on regular airline passenger services

| | <u>Passenger revenues domestic routes</u> | | | | |
|-------------------------|--|------|------|------|------|
| | <u>Passenger revenues international routes</u> | | | | |
| | 1988 | 1989 | 1990 | 1991 | 1992 |
| Air Canada & Connectors | 2.39 | 2.47 | 2.41 | 2.50 | 2.73 |
| Canadian & Partners | 2.48 | 2.84 | 2.71 | 2.81 | 2.47 |

Source: Statistics Canada, catalogue 51-501; author's compiling

It is not possible to measure the impact of unoccupied passenger seats on Canadian airline profits. Occasionally such low rates of seat occupancy can reach disastrous proportions. During a recent Radio Canada interview, a spokesperson for Inter-Canadian admitted that seat occupancy was sometimes as low as 12%. Under these conditions the cost of maintaining aircraft in service with so much wasted capacity has doubtless contributed to an immeasurable upward pressure on fares, in order to maximize revenue accruing from domestic operations -- all this without achieving profitability in the international market where Canadian carriers productivity is markedly lower than that of their competitors.

⁴ The National Transportation Act Review Commission was set up in accordance with Article 266 of the Act to provide for a review of the various repercussions of the Act five years after its passage.

Mr Doug Young, Minister of Transport publicly made it clear that he welcomes improvements in Canadian airline productivity, when commenting on Air Canada's Spring 1994 financial statement. This under-productivity was also a cause for comment by the NTA Review Commission, "Until the unit costs of jet carriers in Canada are closer to U.S. jet carrier costs, it is likely that the major Canada carriers will not be competitive on transborder routes and many international routes and will be forced to cross-subsidize these routes from high domestic fares."(3)

It is not possible to make a valid comparison between total transportation costs and the fare structures necessary. Such data, it seems, are secret; Statistics Canada provide none and give no approximations that would allow us to make estimates. Nevertheless, both sources quoted above do have access to the data and they indicate that international services are being subsidized by domestic travellers, for reasons (among others) of low Canadian airline productivity.

Notwithstanding the high rate of unused seating capacity, the increase in flight frequency on regional domestic routes seems well and truly to have benefited the domestic carriers. They have thus wrapped up the domestic market of passengers travelling to points outside the major population centres, and by the same token closed off all other carriers from access to a potential market.

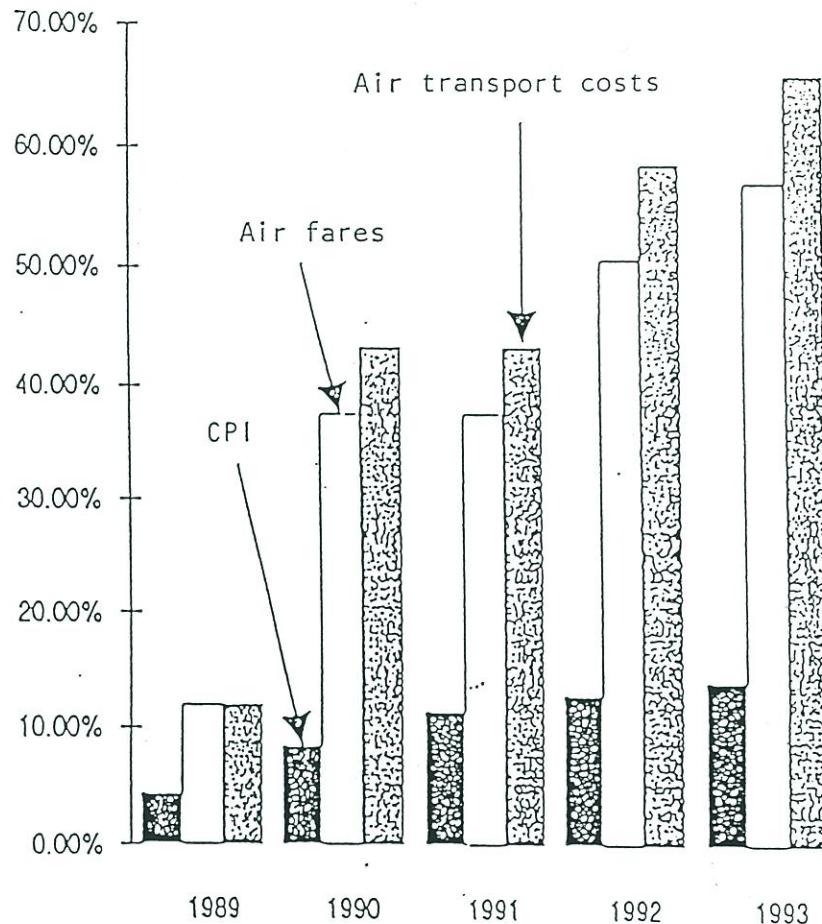
2.2.2 Over-pricing of fares

The overpricing of fares on domestic routes is easy for all to experience. At first appearance, it comes as quite a shock to learn that air travel between Montreal and Paris (flighttime : 7 hours) costs less than air travel between Montreal and Baie-Comeau (flighttime :90 minutes). To test the validity of this nonsensical situation, all it takes is a short visit to a travel agency to compare the fare cost for similar flight times, regular economy class, on domestic, cross-border and overseas routes. An atlas is all it takes to verify distances between points of departure and arrival : then divide fare quoted by the distances measured.

Result : Canadian domestic fares are twice as high as intercontinental fares and three times as high as cross-border fares.

To complete the analysis of the rise in fares and in air transport costs, it is advisable to compare such increases with the rise in the Consumer Price Index (CPI). Graph 1 shows this. Note that the rise in regional domestic air transport costs exceeds the rise in the CPI by 400 %.

Graph 1: Rises in CPI, domestic air transport costs and fares



2.2.3 Over-taxation

When invited by Mr Pierre Breton, Vice-chair of The Baie-Comeau Chamber of Commerce to comment upon these increases in fares and costs, Mr Gilles Dagenais, Managing-director of Inter-Canadian managed to reply in a letter dated December 23rd 1993 that such increases were a direct result of tax increases, "Mr Breton, the increase that you denote as excessive is due above all to the imposition of an additional tax burden that at present is paralysing the entire Canadian economy."

Mr Dagenais goes on, "Your complaint is justified, for at this time, taxes on air transport (GST plus PST) have risen much more than fares. No doubt you would agree that in Canada we suffer so much taxation that almost 30% of ticket cost is in the form of taxes, whereas in the United States, only 12 to 14 % goes in taxation."

Albeit that such an interpretation of fare increases hardly stands up to examination, the difference in the fiscal burden borne by American and Canadian airlines should be noted. In a document submitted to the Canadian Transport Association (Ottawa, 1993), Mr. John Hartman estimates also that the taxation burden assumed by Canadian carriers is notably greater than that incumbent upon their American counterparts (and competitors). In Canada 6.3 % of carrier revenues are payable as taxes, against 3.2 % in the U.S..

Taken as given, it seems that such a fiscal burden also places upward pressure on domestic transport costs in Canada. However, carriers find themselves unable to compensate for higher State-imposed charges by way of productivity increases. Instead they up their fares, blaming this, in part, on a fiscal burden that is skewed to their disadvantage.

Although fare increases cannot solely be attributable to airline tax burdens, it nonetheless seems clear that the tax system as a government-imposed measure, has sharpened the cost load for users of the airline network. Thus the question asks itself : has air travel become another means of exacting indirect taxation from the Canadian consumer ?

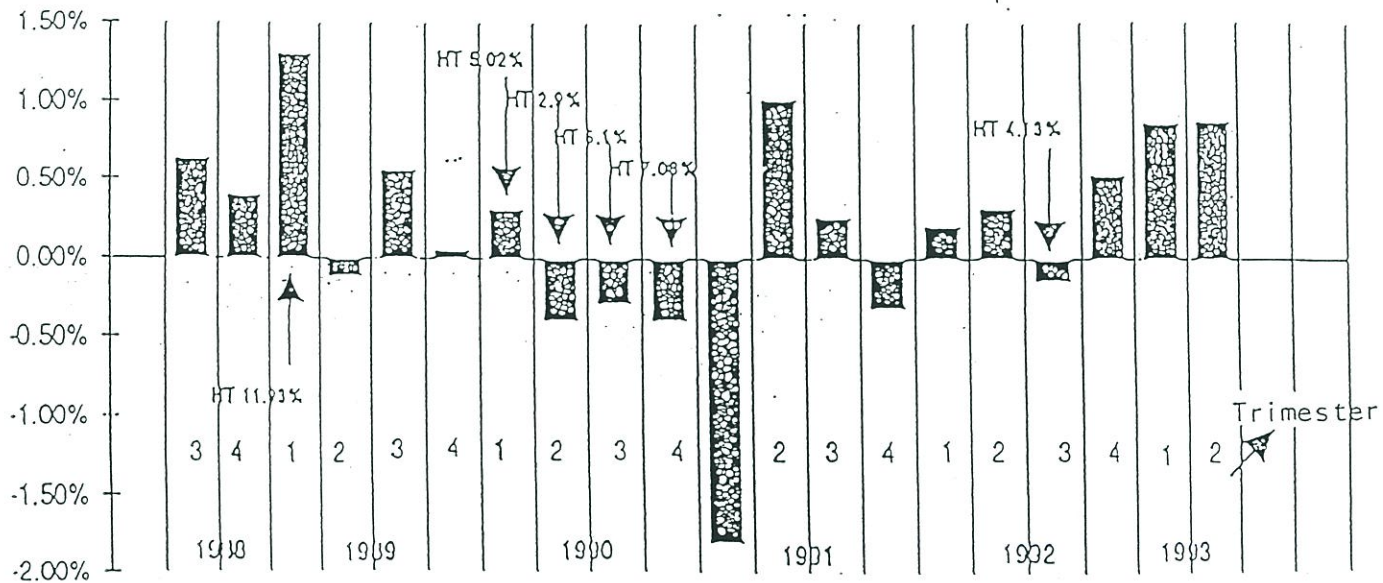
2.3 Fare increases

Since deregulation, air fares have gone up more than 52 %. For a regional domestic traveller, air fares have risen 81,22 %, taxes included. Over the same period, the Consumer price index has risen less than 14 % -- all this without counting that the travelling consumer has also had to pay airport taxes not included in the above transport costs.

Time appears eminently ripe for us to seriously question the relevance of National Transportation policy to the licence fees that are directly incumbent upon transport users of the infrastructure in place. It becomes evident that for a number of years Transport Canada has imposed fees not only upon the airlines but upon the travelling public and freight expeditors as well. Evidence shows that travellers and expeditors alike have paid double the fees required : airport tax, directly, and increased fares, indirectly.

Graph no. 1 indicates that airline transport costs bear no relation to cost of living increases. Graph no. 2 below indicates that there appears to be an inverse relation between air transport costs and Canada's economic situation. The facts are that during a period of recession and economic hardship, our airlines have noticeably bumped up their domestic fares (HT indicates a fare increase, percentage of each of which being specified therein).

Graph 2: Variations in Canada's GDP in comparison with the preceding trimester

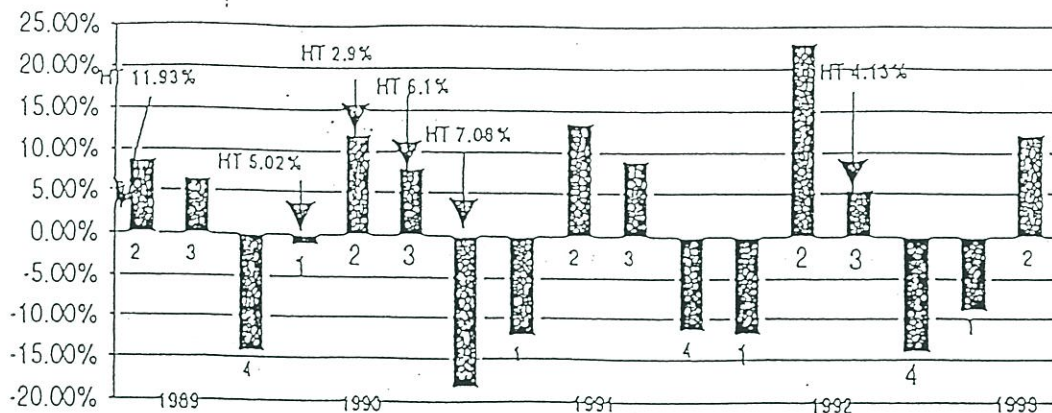


Source:

2.4 Passenger decline and the Recession

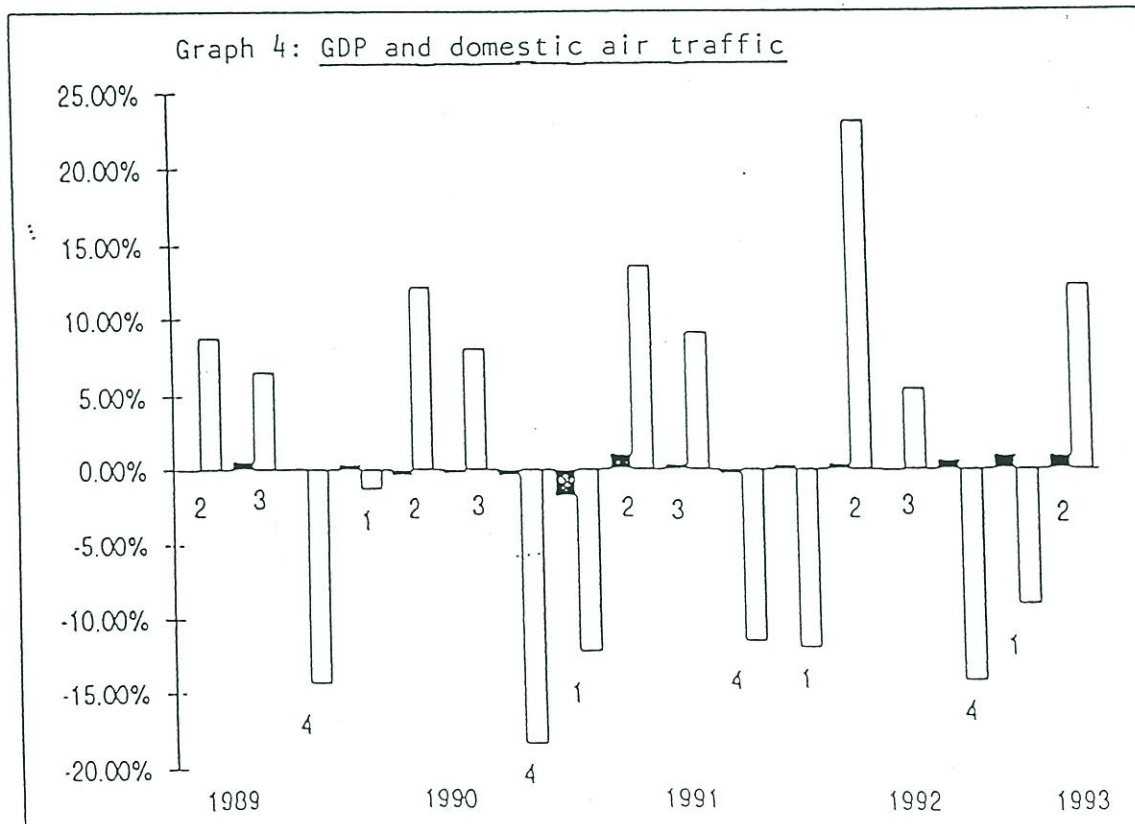
One explanation extant proposes that the drop in regional domestic airline use is due to the recession. This notion suggests that the recession is the cause of a noteworthy reduction in business activities thereby causing a noticeable reduction in air travel within Canada. Without going into the obviously damaging effects of a recession, we firmly believe that the reduced number of airline passengers is directly the result of successive increases in air fares and airline transport costs. Graph 3 states this quite clearly.

Graph 3: Variations in numbers of domestic passengers compared with the previous trimester

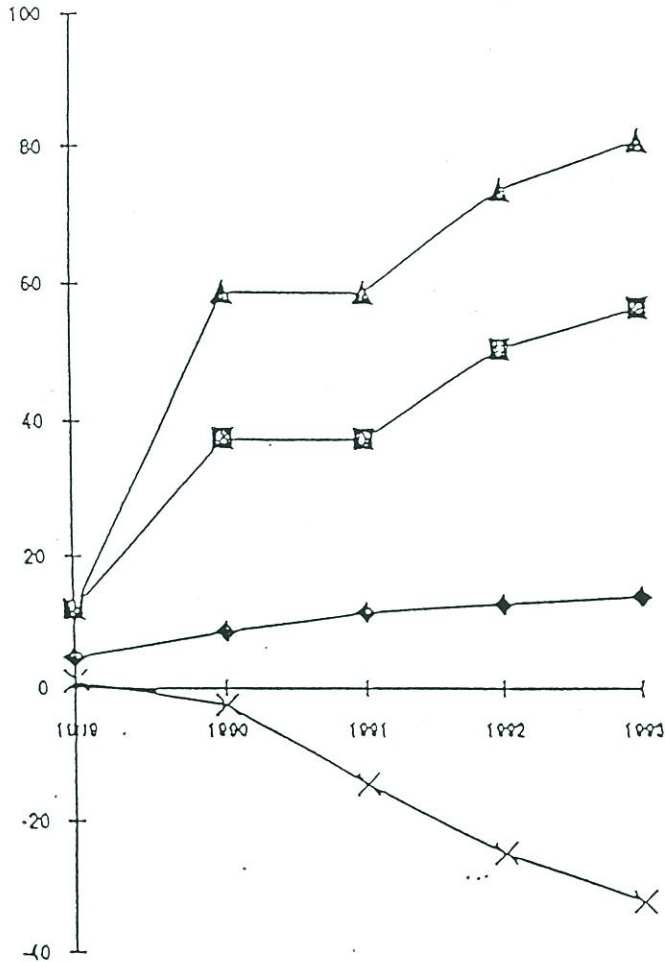


Source: Statistics Canada, catalogue 51-501, author, compiled.

The comparison made here (Graph 4 is compiled by the author) clearly states that the relation recession/domestic passenger decline is neither apparent nor provable. The black rectangles show trimestrial changes in the GDP whereas the white rectangles show changes in the numbers of domestic airline passengers. Thus we see that the changes in the volume of domestic airline passenger traffic are considerably more striking than the changes in the GDP, to such an extent that increases in one are not necessarily precursors of changes in the other, and vice-versa. It becomes obvious then that the recession cannot be considered to be a determining factor in the loss of passenger traffic.



Graph 5: Variables-CPI, fare costs & regional domestic passenger aggregates in Québec



Triangles indicate increase in total domestic airline costs, for users; rectangles indicate domestic fare increases; diamonds, CPI rises, and X's, the reduction in the totals of Québec domestic passengers

Graph no. 5 indicates that the reduction in domestic passenger totals, particularly in Québec, is directly linked to successive passenger fare increases. Since the coming into law of the NTA in 1988 (year-base equals zero) passenger cost increases (over 80 %) due to fare increases (nearly 57 %) plus the levying of new taxes must all be noted. It is hardly surprising, therefore, that these increases should correspond contemporaneously with a 32,42 % reduction in airline use !

It would appear that the present economic downturn is not the only cause of the rise in domestic air fares. Like most Canadians, we understand the setbacks experienced by our national airlines. The causes of these setbacks have,

nevertheless, been adequately publicized. The national Transportation Act Review Commission takes note of them quite thoroughly :

- "Excessive capacity and tough competition"(4)
- "But perhaps it was aircraft purchasing decisions in the late 1980s that proved most crucial. By the end of 1989, Air Canada was committed to a \$ 3.8 billion fleet renewal-expansion program, with 47 aircraft to be delivered in 1990-94. (Air Canada's total operating revenues were \$ 3.1 billion in 1989). Canadian Airlines International's commitments in 1988 for aircraft deliveries in 1989-94 were \$ 1.6 billion, while lease and option contracts covered a further 52 aircraft."(5);
- "The 1989 purchase of Wardair was the most ambitious merger and came at enormous cost to PWA shareholders."(6);
- "There is a huge overcapacity in the Canadian industry, as is demonstrated by the example in Figure 4.6."(7);
- "Since airlines services are a very perishable product, the impact of excess capacity is very serious."(8);
- "The behaviour of the duopoly has caused inefficiencies in the form of excess capacity and higher prices for domestic travel. The future of the carriers is in jeopardy and, with it, domestic competition. We believe that the government should focus its efforts on maintaining competition and consumer choice."(9)

The National Transportation Agency's 1993 survey points up another reason for the financial difficulties being experienced by our national airlines, and, thereby, another reason for excessive fare increases on domestic routes : namely choice of aircraft ill-adapted to the needs of the market, just one example being the short-haul use of jet aircraft between Montreal and Val d'Or. (There seems to be an innate difficulty in acquiring aircraft that are at once comfortable and economical !) Most observers would agree that the chronic losses to which Québecair was prone were brought about by the use of aircraft too expensive and too large for the regional market. After ten years the same problems seem to plague the two national carriers.

Statistics Canada's Catalogue 51-501, Aviation in Canada, points to the ruinous effects of the heavy debt load incumbent upon Canada's two leading airlines.

Thus a 1988 debt ratio of 0.75 indicated that 75 cents of every dollar of assets was owed as debt. An industry with a debt load of that nature is efficient during periods of

expansion when revenues serve to pay debt costs plus. However by 1991, the industry's debt ratio had reached 0.83 at a time when difficulties were being encountered in getting financial backing. Airlines obliged to suffer that kind of financial leverage are likely to face substantial losses during a recession..."(p.82)

The preceding observations can be summed up in two words : bad management. Further examples of doubtful management techniques are already well known : the creation of an exclusively Canadian computerized reservation system at high cost, forcing travel agencies to access two separate networks, "Gemini" for Canada and another for the rest of the world : the adoption, without preliminary discussion of an American-model "hub-and-spoke" service network -- all well and good for the U.S. but totally incongruous in a Canadian environment. Is it necessary for Canada's air passenger public to have to pay for such purely administrative errors ?

Since the economic deregulation of Canadian air transport, Air Canada and Canadian Airlines have locked up the domestic market by each creating a network of affiliated feeder lines. Therefore they ensured their control of airline coverage over most of Canada, allowing only a handful of carriers the freedom to exploit the less attractive markets, while keeping a jealous eye on high-density routes where charter services can, on occasion, be permitted entry.

Once this control was firmly in hand, it was not difficult for the principal airlines to impose repetitive fare increases on domestic routes with no risk of reprisals from possible competitors. Three well-documented examples suffice to discourage any potential competition : namely City express, Nationair and Air Madeleine. All three had to quit the fray unable to compete with Air Canada's and Canadian's affiliates after fare wars that they were unable to withstand. Domestic services remain concentrated also because of frequent-flier programs that weaker carriers do not have the means to offer and because of an over-capacity that leaves competitors no possibility of redress. Thus a free demand for services is choked off at its source. Ownership and exclusive use of a reservation network has also contributed to impede competitors from having access to potential clients.

Such absolute control of service supply and fare structures has allowed the two principal carriers to subsidize their international services by way of arbitrary profits gained from their domestic services.

Yet we still hear that the real responsibility for high fares rests with the low number of passengers or else with the economic slump.

The depressed state of the Canadian economy certainly has contributed to the reduction in passenger levels, but these negative forces are not as prevalent as one may be led to believe. It appears that the public has turned its back on regional air service because of prohibitive fares.

As far as the meager passenger levels on domestic routes are concerned, levels are nowhere near the numbers necessary to adequately fill the seats available. It has been proven that passenger numbers are in inverse proportion to fare hikes. Put one up and the other goes down : in fact fare rises came first notably during the 1990 recession, before any significant decrease in passenger traffic.

The regional carriers themselves attribute fare rises to low passenger numbers. Aircraft with excessive seat capacity have been left in service on routes with excessive flight frequency, thus creating a waste of resources for which the passengers themselves can hardly be held responsible, but for which they are obliged to pay, and because of which regional economic development remains stymied.

The National Transportation Act as well as Federal economic policies insist that free competition is the best guarantee of both efficient management and high-quality services to the consumer. So would it not perhaps be advisable to eliminate this domestic duopoly to re-create a field of genuine competition, or failing that, would it not be advisable to open Canadian skies to all interested carriers, both national and foreign ?

3. Impact of national airline policies within the regions of Canada and Québec

The two-company concentration of airline services is a direct result of the economic deregulation of the Canadian air transport market, and has taken no more than a few years to come about. This duopoly has created a number of negative effects which the Canadian public, particularly in the outlying regions, has good reasons to regret.

3.1 An obstacle to regional development

First and foremost, the disappearance of the State's regulatory presence has left the field wide open to all shapes and forms of initiative by the principal airlines. The consequence for the regions : an unnecessarily high number of under-used flights accompanied by an unacceptable increase in fares. To counteract these damaging effects, no redress is available to regional consumers. Even legal complaints about fare scales must be submitted to the National Transportation Agency in Ottawa and cannot be contested in the courts. Therefore it appears to us that it must be incumbent upon the Minister of Transport to ensure that both the regulations and the legislative framework as presented to the Agency, not constitute a hindrance to the freedom of public expression concerning transportation problems, or regional development, whichever the case may be. How, in other words, can the National Transportation Agency be expected to gauge the relative importance, albeit necessary according to the Act, of regional growth in terms of airline profitability? Regional economic realities are outside the Agency's scope.

A spokesperson for Canadian Airlines recently confirmed that fully 75 % of airline passengers travelling between the main population centres and the Lower St. Lawrence were either employees of state corporations or else civil servants. And what is used to pay these passengers fares? Answer : our taxes and the cost of those goods and services sold to us by the same state corporations. In outlying regions, increases in fares effectively reduce the moneys normally allocated for encouragement of regional growth. Hence a budgetary item labelled "Transport costs" becomes artificially blown up to the detriment of moneys usable for direct investment.

Canada being the world's second largest country and one of the least densely populated finds itself essentially fragmented when it comes to population distribution, between highly concentrated urban centres and far distant outlying regions whose population is spread over urban centres of much lower density. These far-flung regions contain more than half of Canada's people, however.

The regions relative isolation and their economic prosperity, and of the country itself, require that there be in place a reliable

and economical system of transport connecting with the large population centres of Canada and abroad. Access to economic areas, regionally, nationally and internationally is an inevitable precondition to prosperity and economic growth.

It is hardly necessary to insist on the prime importance of transport and communications to economic growth. No transport, no movement of goods and services and thus no trade worthy of the name. Moreover, without efficient and competitive systems of transport, economic growth remains an impossibility.

Table 5: Per capita GNP
of landlocked developing
countries (1990-\$US)

| | |
|-----------------|-----|
| Malawi | 151 |
| Bhutan | 165 |
| Chad | 168 |
| Zaire | 172 |
| Nepal | 180 |
| Laos | 184 |
| Afghanistan | 218 |
| Mali | 221 |
| Burundi | 229 |
| Burkina-Faso | 248 |
| Uganda | 271 |
| Rwanda | 274 |
| Zambia | 274 |
| Niger | 292 |
| Cent. Afr. Rep. | 390 |
| Bolivia | 625 |

Source: PC Globe, v.4.0

Table 5 illustrates in a converse way, the dependence of economic growth upon transport. Sixteen of the 25 poorest countries in the world are landlocked; i.e., without access to a seaborne transport system. To achieve some form of economic growth, these countries are obliged to invest massively in air transport.

Without such investments, they are condemned to remain poor with heavily stunted economic growth; whenever such investments become a reality and both business enterprises and domestic airline services are efficient, the handicap of being landlocked then becomes a key to national growth. The example of Switzerland is the exception that proves the rule : a landlocked country and one of the richest in the world with massive investments in transport and logistics and a strict regulation of transport systems. All of this has contributed greatly to Swiss prosperity despite being landlocked.

The situation extant in the regions of Québec and Canada is certainly different from that of developing countries; however, the link between efficient air transport and economic growth is undeniable. Air routes allow access to all the great commercial centres of the globe, including, of course, the great commercial centres of Canada. Without such access, industry and commerce are repressed.

Throughout Canada's outlying regions, no one can now travel except at prohibitive cost. The development costs that, of necessity, precede all new investment have become excessively high, adding unnecessary fragility to each private commercial or industrial

initiative, reducing thereby the number and value of regional development projects.

The necessity of having dependable and efficient transportation systems, of which, ever since Confederation, Canada has been the living proof, is a universal truth impossible to refute. The NTA Review Commission places this in doubt through the voice of questionable studies that have "suggested a reduced emphasis on the transportation and regional development linkage." (10)

Charged with analysing the impact of the economic deregulation of transportation in Canada, The Review Commission allows itself, in spite of general knowledge to the contrary, to recommend excluding "reference to regional development as an element of transportation policy" and that it be removed from Section 3 of the Act (Recommendation no. 33).

Fortunately the Federal government has not seen fit to act upon this recommendation, but should such recommendation be acted upon, it is clear that such would provoke a severe weakening of the links that bind the regions of Canada together, a weakening damaging to the economy as a whole.

3.2 History repeats itself

It is important to remember that the United States government, which long served as a precious model to the Mulroney government of free enterprise behaviour, remains the sole owner of a national railway system (Amtrak) which it was obliged to put into operation so that the American public would be assured of a genuine choice between travel modes within its own frontiers. History shows that the government to the south had already ventured into the railway-owning business, in 1919, because of the long-standing abuse of the system by the old-style "railroad robber barons" who through monopoly arrangements virtually held both industries and the travelling public to ransom, by way of prohibitively high fares. It was evidence of such abuses that brought about the strict economic regulation of transportation systems throughout North America, because Canada very soon introduced legislation similar to the American.

The economies of other world nations seem to illustrate very well the difficulties being experienced within Canada's regions, particularly the regions of Québec, in terms of travel and essential contacts with population centres, with other regions and with the world outside. The economic deregulation of the airline industry has been marked by systematic abuse of Canada's regional travelling public and Canada's entire economic growth is in danger of being compromised by the radical upsurge in domestic airline transport costs.

Since deregulation, genuine competition between Canadian domestic airlines has ceased to exist. The Canadian public has no voice that can be heard on appropriate matters, or in a just manner, under the stipulations of the National Transportation Act. Transport management in Canada amounts to nothing more than an abdication of responsibility towards Canada's regions. No other airline has the means to compete with either of the two principal national carriers. Should any company try, the outcome is no less than suicidal.

The recent example of Air Madeleine demonstrates this. This exclusively regional carrier was obliged to give up services to the Lower St. Lawrence, the Gaspé and Magdalen Islands because from the outset the partners in Canada's duopoly coincidentally lowered their fares by 40 % on those runs offered by the new regional air carrier.

Can it be normal that the price of an air ticket between Canada's regions and main urban centres should be 2 to 3 times greater, for the same distances, than the price of a ticket between the largest cities in Canada, the USA or Europe?

The NTA Review Commission states, "... while...fares for international flights and for flights in general have fallen, since 1988 the prices of domestic flights have gone up." (11) We have already noted that the aforementioned Commission states that our airlines use their domestic route structure to subsidize their international services. This inter-financing scheme is imposed to the detriment of the public in the regions without that same public being able to be effectively heard.

Such a mishandling of National Transportation policy has perverted the normal relations expected between transport service users and providers : henceforward the consumer is quite simply at the mercy of those that sell the service; i.e., carriers. To analogize; such an intolerable absurdity for consumers becomes clearer if we try to imagine that every farm in Canada were the property of only two companies who together decided on the costs of their products, on the quantities and on the variety of those products.

3.3 The double-standard

As is everyone in Canada, we are conscious of the enormous influence on our economy of the giant to the south. We suspect, however much to our disappointment, that the Federal government, and in particular the Minister of Transport, is fully supportive of Canada's airlines in their competitive status vis-à-vis US carriers, all to the painful cost of those Canadians living in regions far from the big cities.

Why not, then, let the competitive market function freely, as seems to be the view of most of Canada's leaders? Is it normal to leave Canada's regional public to subsidize trans-border services and at the same time to pretend that National Transportation policy is being applied equally and fairly to all? Is this the just equilibrium called for in Section 3 of the Act? How can Canada's regional public really be made to believe that their transportation services are really and truly the best that can be provided at the best price and in accordance with a system of free competition? Daily evidence systematically demonstrates that the principal airlines of Canada do not respect the wording and meaning of National Transportation policy, and, above all, that the Federal government endorses the acts of these carriers both financially and politically.

The Government's prejudicial behaviour on behalf of these carriers is easily perceived, extending from loan guarantees totalling \$ 290 million (Canadian) to the purchases of aircraft at very high prices, by way of Bill C-32 by which, at the airlines request, the Federal government willingly adds yet another burden to the load borne by regional travellers. This legislation effectively transfers the tax load from the purchaser of short-haul tickets (where different transportation modes are

competing) and places it on the purchasers of long-haul tickets (inhabitants of outlying regions). The cost : between 44 and 100 million dollars a year extra in taxes payable by Canada's regional public.

To understand the meaning of "public interest", a reference to the NTA Review Commission is an eye-opener. "The argument seems to imply that a "major" air carrier must be of a certain character and size and that it is the market which must adjust to support it." (12) (Our highlighting). We now find ourselves at a state of total denial of free competition; the market must adapt to the airlines, and not the other way around.

Federal government inaction vis-à-vis Canada's airlines now poses the dilemma facing Canada's airline industry in the following ways: Canadians living in the outlying regions have to pay exorbitant costs to permit their air carriers to develop international competitiveness, notwithstanding their poor-quality management; over-capacity; predatory fare structures; massive debt load; use of aircraft ill-adapted to needs; carbon-copy schedules, etc...

The question arises : is the Canadian airline industry important enough to justify this order of wrongdoing, to which the Federal government turns a blind eye under the guise of deregulation ? Competition under a duopoly is no competition and it is the duopoly that makes the rules and decides how they work. Canada's regional public has little manoeuvring room; it has to live with these abuses without redress, all in the name of a national interest, from which "nation" they are effectively excluded, its interests being so important to "others"; or else, should they complain, they are castigated as being irrational or "emotional" ! To quote the Minister, "Reasonable people agree with the ideas of more efficiency and lower prices. In practice, though, these ideas often lay themselves open to decidedly emotional demands on behalf of the regions, of industry, the cities and job protection. It's normal and understandable." (13)

We recommend that the Minister of Transport take note of the real difficulties imposed upon regional travellers by the actions of our domestic air carriers and that he take a stand on behalf of the people of Canada, instead of supporting these private companies who according to actual government policy are supposed to be subject to the forces of genuine competition so that their productivity levels be improved.

3.4 Passenger decline and regional economic problems

Table 6: Passenger totals at Québec's regional airports

| | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | Variation 88/93 |
|-------------|---------|---------|---------|---------|---------|---------|-----------------|
| Bagotville | 105 100 | 121 950 | 118 664 | 90 400 | 79 968 | 67 114 | -36.14% |
| Rouyn | 114 800 | 107 235 | 98 500 | 86 600 | 76 911 | 77 040 | -32.89% |
| Sept-Îles | 150 600 | 141 370 | 141 132 | 141 024 | 115 972 | 105 326 | -30.06% |
| Val d'Or | 110 600 | 115 314 | 112 775 | 94 928 | 86 879 | 70 863 | -35.93% |
| Baie-Comeau | 58 600 | 66 900 | 65 000 | 61 700 | 54 700 | 46 300 | -20.99% |
| Gaspé | 14 600 | 22 300 | 16 600 | 18 990 | 20 248 | 20 097 | 37.65% |
| Mont-Joli | 79 400 | 64 650 | 63 300 | 46 400 | 41 900 | 41 495 | -47.74% |
| Total | 633 700 | 639 809 | 617 471 | 540 042 | 476 578 | 428 235 | -32.42% |

Source: Statistics Canada, catalogue 51-005, author compiled

One final repercussion owed to the misapplication of the National Transportation Act must be noted: the reduction in the numbers of users of regional airports. Ever since economic deregulation of air transport, the carriers have significantly raised their fares leading to a reduction in the numbers of travellers coming from the regions. Table 6 illustrates this reduction in yearly passenger totals at Québec's regional airports. One, and one only increase has been recorded at Gaspé. This can be explained by the increase caused in air traffic (5 500 passengers opting for the plane) after a Federal government-induced reduction in Via-Rail services in and out of the region.

Statistics Canada has recorded similarly drastic reductions in traffic at almost all of Canada's regional airports over a similar length of time: in British Columbia; Kamloops, Kelowna, both of Nanaimo's airports, Campbell River, Castlegar, Comox, Cranbrook, Penticton, Port Hardy, Prince George, Prince Rupert, Sandspit, Smithers, Terrace, both of Victoria's airports and William Lake : in Alberta; Fort McMurray, Lethbridge, Medicine Hat, both Edmonton airports, Fort St. John, Dawson Creek, Peace River : in Ontario; Hamilton, Kingston, North Bay, Sault Ste-Marie, Timmins, Windsor,

Sarnia, Sudbury, Red Lake and all the regional airports in the Atlantic provinces and in the Northwest Territories.

Reduction in passenger use of airports in the regions brings about considerable loss of economic activity in the these regions : restaurants, hotels, car hires, investment capital, and more.

But this decrease, at the same time as the imposition of very heavy domestic air transport costs hardly seems limited to the so-called "normal" effects of a skewed National Transportation policy. Noting the drop in regional passenger traffic, the Federal government in place has decided to privatize or to reduce the levels of public services offered in the regions, all because they now cost the Treasury too much and because there are not enough people to use them.

The new Canadian airport policy seems to take advantage of the drop in numbers of regional travellers, in order to justify a reduction in services to air carriers, because of a lack of clients ! And not a word of warning beforehand ! Surely Canada's regions deserve a little more consideration from a Federal Minister of Transport who must understand the difficulties that his policies create. In his June 3rd 1994 address marking National Transportation Day, Mr Doug Young declared, "We must pay more attention to those who will be affected by these changes; those whom the travelling public has abandoned; the communities, villages, towns and cities who will suffer losses. It's not anybody's fault; it's everyone's interest that's at stake !" (14)

If this policy, as enunciated by the Minister of Transport, is ever put into practice, then Canada's domestic airline services are likely to disappear. Regional airports will have less and less passenger traffic, this upping the passenger-unit cost of maintaining the airports at present in place; thus producing more reductions in passenger traffic, until the service as a whole, evaporates. It is our belief that a return to genuine competition between the airlines, regionally speaking, would bring back into play a real demand for airline services and a greater use of airports. Services would be more adapted to demand and costs, consequently, lower.

It appears, however, that Canadian air carrier practices are an aping of U.S. railway practices at the end of the fifties when passenger traffic was deliberately discouraged, right up until services more or less were eliminated -- only to be reborn under Washington tutelage decades later. A profitable and efficient system is a prerequisite to the prosperity of all countries and so, a fortiori for the world's second largest country. It's a pipedream to believe that Canadians are all going to move to big cities, just to render profitable a national transport system concentrated around a few urban conglomerations.

Conclusion

The preceding data indicate unequivocally that free competition is quite unrelated to the actual domestic airline industry in Canada, despite legislative pronouncements to the contrary. Persuaded as we are that free competition constitutes the most effective method of ensuring the best service at the most economical cost, we therefore recommend that all necessary steps be taken to let it exist. Consequently, and in accordance with the National Transportation Act, we consider it the duty of the Government, and in particular its Minister of Transport, to do away with the political obstacles preventing the proper implementation of the National Transportation Act and of National Transportation policy. Our recommendations to that end are listed further on.

We observe that, contrary to National Transportation policy :

- Canadian air carriers are able to remain viable only when making extortionate claims upon their regional public and when their services are not efficient;
- Government intervention has distanced itself from the true intent of the Act in placing limits on free competition;
- Transport is a prime factor in regional economic progress but the natural balance between route profitability and regional economic development has essentially been upset to the benefit of the air carriers and to the detriment of the public;
- Fare structures and modes of domestic transport in Canada constitute obstacles that are destructive to the free movement of persons, as well as to the primary and secondary sectors of the economy, and to the export trade from Canada and from its regions.

Canada's domestic airlines are virtually holding the country's internal markets to ransom in maintaining predatory restrictions on free trading that systematically prevent the emergence of regional carriers whose operating costs would be considerably lower and who would provide for the long-term survival of domestic transport services as well as economic prosperity.

Whatever the NTA Review Commission may think, the harmful effects of a brutal deregulation of the transport system have undermined the foundations of the Canadian airline industry and rendered it extremely fragile, both in its global context and in its Canadian context. We consider it apt to regulate the deregulation, despite the apparent paradox which the Review Commission dares to ridicule. (15) Such is the path being followed in European countries -- and with success.

Furthermore, it is essential that the Federal government cease all interference in the airline industry and allow for free competition without any political constraints. Opening Canadian markets to foreign carriers will help guarantee better service at more reasonable cost on international routes. Such will also allow regional carriers to emerge, and in their turn, offer efficient and less costly services. Thus all Canadian consumers can gain from the advantages of free competition.

With regard to the role of the National Transportation Agency in overseeing the implementation of the Act, we conclude that it is appropriate that the Agency lose its right to arbitrate in matters concerning competition between air carriers. The judicial apparatus and laws in effect seem to us quite sufficient. Regarding arrangements concerning the public infrastructures of the airline industry, and in accordance with the principle of "user payer, user participant", public consultations, even regional referendums, should be undertaken before there be any changes made. In particular, regional airport matters should not be subject to political decision without prior public consultation. Not only must the public's wishes be made known but also private investors must be made aware. In this context, we would point out to the Minister of Transport that recent initiatives by Ports and Harbours Canada for consultations with Québec's regional service users appear to us to be valuable and well-adapted to a new form of partnership between the regions and government.

We consider that the Government of Canada is reaching a crossroads in its National Transportation policy, particularly with regard to air transport. The choice is plain : let the present situation continue to weaken an already weakened economy or else take action and apply the laws which it has itself placed on the Statute-book.

In our assessment, the situation in which Canada's domestic airline industry finds itself leads us to conclude that the actions of the airlines themselves, which bear little or no resemblance to real competitiveness, are markedly more accommodating to the U.S. and foreign economies than to the Canadian economy which is suffering. Airline fare policies alone force us to question the real motives of our air carriers as to Canada's economic well-being : low-price "Vacation" fares while business people have to pay heavy fares thus put a brake on business contacts within Canada, while at the same time encouraging foreign tourist industries.

"Protectionist" policies initiated by the government for the benefit of the airlines (e.g. Bill C-32, maintaining loan guarantees to air carriers, national airport policy, over-taxation, and lack of real examination of the after-effects of deregulation and lack of genuine competition) as well as no real means of representing consumer interests (as opposed to the

powerful transport lobbies existing since before deregulation), all this bears heavily on the Canadian public as part of cost and economic decline which this deficit-ridden country is ill-disposed to bear.

People in the regions suffer in differing ways from this situation: as well as being payers of Federal taxes that are being used to bolster the airlines incompetence, these same people must also pay exorbitant fares when travelling and must also try to maintain regional economic progress which in itself is being hampered by the airlines over which these same people have no control. The new national airports policy which aims to inflict upon the regions a good part of the Federal deficit occasioned by unprofitable transport infrastructures is another case in point.

We consider that a solution to transport problems cannot be reached by sloughing off the Federal deficit onto others simply because the creation of greater negative economic pressures affects, sooner or later, the entire economy of Canada. We do believe, however, that, in the public interest, the Minister of Transport ought to avail himself of his ministerial prerogatives to ensure that the National Transportation Act be assiduously applied. The Act establishes very clearly that competition between carriers shall be the norm. It also stipulates that regional development be a sine qua non to a sound transportation policy.

Recommendations

In consequence, we recommend to Canada's Minister of transport :

1. That the status of charter carrier be abolished and that henceforward any holder of such a licence be permitted to provide regular airline service wherever such licence holder sees fit inside Canada;
2. That the National Transportation Act be amended (Article 72) to restore normal rules of competition to Canada's domestic airline transport system preventing any one carrier or group of carriers from assuming a dominant posture vis-à-vis regional markets;
3. That Transport Canada's policy of privatization/closure/reduction of regional airport services be submitted to regional public consultation to re-establish a just equilibrium between the people's and the airlines needs, with regard to economic development;
4. That an in-depth analysis be undertaken of the air carriers reservation network so that in Canada there be only systems which can be termed "neutral"; i.e., not biased to the advantage of one carrier or another;
5. That the Minister of Transport take immediate steps to reinstate a just equilibrium between regional development and airline profitability; that failing the re-establishment of fare equity in the people's name, the Government of Canada allow foreign carriers immediate access to Canadian domestic transport markets through the granting of licences;
6. That an enquiry be set up by the Minister of Transport, to be conducted by RCMP in order to examine the price-fixing practices of Air Canada, Canadian Airlines and their regional affiliates, in order to ascertain whether or not such practices contravene the Canadian Competition Act and other laws appertaining;
7. That the National Transportation Agency call for an immediate reduction of domestic air fares in Canada (Articles 4 and 80) and that it require of Canada's air carriers the establishment of a fund for the compensation of those passengers already made the victims of excessive airline fare charges, until such time as the findings of the enquiry be rendered public.

References

- (1) National Transportation Act Review Commission, Competition in Transportation, "Policy and Legislation in Review", volume 1, Supply and Services Canada, 1993, page 120;
- (2) idem, p.73;
- (3) idem, p.76;
- (4) idem, p.68;
- (5) idem, p.70;
- (6) ibidem;
- (7) idem, p.72;
- (8) idem, p.73;
- (9) idem, p.120;
- (10) idem, p.146;
- (11) idem, p. 119;
- (12) idem, p. 74;
- (13) Address given by the Minister of Transport, Mr Doug Young at a dinner held to mark National Transportation Day, New Directions in Transportation, Thunder Bay, Ontario, Friday, June 3rd 1994, page 5;
- (14) idem, p.10;
- (15) National Transportation Act Review Commission, op.cit., p.195.

Annexe

The legally based French text cited herein as Section 3 of the National Transportation Act reads as follows :

(From page 9 of this document)

Le ministre peut, avec l'approbation du gouverneur en conseil et aux conditions précisées par celui-ci, conclure des accords de mise en oeuvre de la politique nationale des transports énoncée au paragraphe (1) ou des accords sur les matières de transport que le ministre estime indiquées.

(From pages 10 and 11 of this document)

Il est déclaré que, d'une part, la mise en place d'un réseau sûr, rentable et bien adapté de services de transport viables et efficaces, utilisant au mieux et aux moindres frais globaux tous les modes de transport existants, est essentielle à la satisfaction des besoins des expéditeurs et des voyageurs en matière de transports comme à la prospérité et à la croissance économique du Canada et de ses régions, d'autre part, ces objectifs ont le plus de chances de se réaliser en situation de concurrence, dans et parmi les divers modes de transport, entre tous les transporteurs, à condition que, compte dûment tenu de la politique nationale et du contexte juridique et constitutionnel :

a) le réseau national des transports soit conforme aux normes de sécurité les plus élevées possible dans la pratique;

b) la concurrence et les forces du marché soient, chaque fois que possible, les principaux facteurs en jeu dans la prestation de transport viables et efficaces;

c) la réglementation économique des transporteurs et des modes de transport se limite aux services et aux régions à propos desquels elle s'impose dans l'intérêt des expéditeurs et des voyageurs, sans pour autant restreindre abusivement la libre concurrence entre transporteurs ou modes de transport;

d) les transports soient reconnus comme un facteur primordial du développement économique régional et que soit maintenu un équilibre entre les objectifs de rentabilité des liaisons de transport et ceux de développement économique régional en vue de la réalisation du potentiel économique de chaque région;

e) chaque transporteur ou mode de transport supporte, dans la mesure du possible, une juste part du coût réel des ressources, installations et services mis à sa disposition sur les fonds publics;

f) chaque transporteur ou mode de transport soit, dans la mesure du possible, indemnisé de façon juste et raisonnable, du coût des ressources, installations et services qu'il est tenu de mettre à la disposition du public;

g) les liaisons assurées en provenance ou à destination d'un point au Canada par chaque transporteur ou mode de transport s'effectuent, dans la mesure du possible, à des prix et selon des modalités qui ne constituent pas :

i) un désavantage injuste pour les autres liaisons de ce genre, mis à part le désavantage inhérent aux lieux desservis, à l'importance du trafic, à l'ampleur des activités connexes ou à la nature du trafic ou du service en cause;

ii) un obstacle abusif à la circulation des personnes, y compris les personnes handicapées;

iii) un obstacle abusif à l'échange des marchandises à l'intérieur du Canada;

iv) une empêchement excessif au développement des secteurs primaire ou secondaire, aux exportations du Canada ou de ses régions, ou au mouvement des marchandises par les ports canadiens.

Il est en outre déclaré que la présente loi vise à la réalisation de ceux de ces objectifs qui portent sur les questions relevant de la compétence législative du Parlement en matières de transports. (Loi nationale concernant les transports, chapitre 28, 3e suppl.)