1995-7

Baie-Comeau Chamber of Commerce

For the Standing Committee on Transport

A Brief Concerning Bill C-101

Prepared by the Baie-Comeau
Chamber of Commerce and the
Regroupement des
chambres de commerce
régionales du Québec

Ottawa, October 18, 1995

TABLE OF CONTENTS

List of tables

Introduction

This brief on the status of domestic air transportation in Canada is submitted by an association of chambers of commerce in Quebec cities that have regional airports, the Regroupement des chambres de commerce du Québec. The chambers of commerce are:

- the Baie-Comeau Chamber of Commerce;
- the Gaspé Chamber of Commerce;
- the Mont-Joli Chamber of Commerce;
- the Rouyn-Noranda Chamber of Commerce;
- the Sept-Iles Chamber of Commerce; and
- the Val-d'Or Chamber of Commerce.

The brief is also submitted by the Conférence des chambres de commerce du Saguenay, which includes Chicoutimi, Jonquière and Ville de La Baie.

This brief is submitted to the House of Commons Standing Committee on Transport as part of the hearings on Bill C-101. It seeks to show that, by protecting the national carriers, the Canadian legislation has created a perverse situation that discourages competition, acts as a disincentive to performance, aggravates price hikes and, finally, induces clients to flee this mode of transportation.

The first chapter describes the problems that have been experienced as domestic transportation has evolved over the last seven years. The second chapter shows the negative effect on Canada's economy of protectionist policies that favour Canadian carriers. Chapter 3 reviews those clauses of Bill C-101 that, in the authors' opinion, require amendment because of their negative implications for consumers.

In closing, the brief proposes recommendations for the improvement of domestic air transportation in Canada.

1. The problem

1.1 The evolution of domestic transportation in Quebec

The following graph illustrates variations, by percentages, for several indicators between 1988 and 1995:

Table 1 [See Tableau 1, French version]

Variation, by percentages, of fares, CPI and number of passengers using Quebec's regional airports, 1988-1995

Econ. fares + tax
Econ. fares
CPI
Var. no. passengers
Vacation rates

Source: Transport Canada, Airports Authority Group, 1994

The fares are calculated in terms of the miles travelled, and the basis for the calculation is the same throughout Canada. The two major Canadian carriers have identical pricing policies. It should be noted that the lowest rate (the discount or "vacation" rate) is 65% lower than the "economy" fare.

This graph shows a significant correlation between successive fare hikes and the decline in the use of regional airports. Since 1988, when fares were deregulated, user costs for domestic air transportation increased by 91%. This increase is due to a fare increase of nearly 64%, coupled with the imposition of new taxes on domestic air transportation in Canada. At the same time, this sharp rise in prices has an inversely proportional effect on the clientele of the regional airports,[1] which declined by 38% during the same period. We wish to draw the committee's attention to the fact that, in the last half of this period, discount fares experienced no increases. As will be seen below, this helps explain Canada's growing tourist deficit, on the one hand, and the inflationary thrust of domestic fares, on the other.

1.2 Infrastructure problems

A transfer policy for regional airports was announced in 1994 by the federal Minister of Transport. This policy consists of returning unprofitable transportation infrastructures to the provinces. This bottom-line approach, where it is based solely on commercial criteria, places the regional airports in an extremely precarious situation and does not resolve the problem. What is worse is that it transfers a problem to the regions that they are not equipped to solve.

Profitability is basically a function of use. However, use has been in free fall since 1988 because of excessive fare increases on domestic flights. Since regional airports are no longer "profitable", the government is handing them back to the regions. But, unlike the government, the regions have no power over the carriers' rate-setting policies. How can they succeed where the federal government has failed? If there is no change in the game rules, the answer is obvious and is completely unacceptable for the regions, which feel doubly harassed by the federal government's proposed reform:

---

[1]The regional airports referred to are those in operation on the territories represented by the chambers of commerce that have prepared this brief. This decline in use of the regional airports has repercussions for the hub airports, such as the Montreal airport.

(1) On the one hand, inhabitants of the regions must pay increasingly higher costs for their domestic flights; and

(2) on the other hand, the reduction in use resulting from these pricing policies means that the infrastructures supported by the regions are increasingly less profitable and their survival is threatened accordingly.

Airport infrastructures and domestic air transportation are rightly viewed as indispensable tools for development for the regional economies. A sense of realism, therefore, dictates that we be cautious with respect to solutions involving "local takeovers of airports so more can be done with less". The root of the problem appears to us to be something completely different from the inefficiencies of over-management. Our analysis should focus instead on the real causes for the decline in domestic flights.

Table 2

TABLE

Number of passengers using Quebec's regional airports since deregulation

CITY	1988	1989	1990	1991	1992	1993	1994	VARIATIONS 1994/1988
Bagotville	105,100	121,950	118,664	90,400	79,968	67,114	65,500	-37.7%
Rouyn	114,800	107,235	118,664	86,600	76,911	77,040	63,300	-44.9%
Sept-Iles	150,600	141,370	141,132	141,024	115,972	105,326	99,800	-33.8%
Val d'Or	110,600	115,314	112,775	94,928	86,879	70,863	70,000	-36.8%
Baie-Comeau	58,600	66,900	65,000	61,700	54,700	46,300	43,400	-36.0%
Gaspé	14,600	22,300	16,600	18,990	20,248	20,097	19,700	+34.9%
Mont-Joli	79,400	64,650	63,300	46,400	41,900	41,495	32,700	-58.9%
TOTAL	633,700	639,809	617,471	540,042	476,578	428,235	394,400	-37.8%

Source: Statistics Canada, Catalogue 51-005; compiled by author.

1.3 Price discrimination as a function of final destination

In 1992, the National Transportation Act Review Commission (NTARC) noted that business travellers were dissatisfied with airfares for domestic destinations. Airfares are divided into three classes: economy class fare (or basic fare), business class fares and discount fares. Attention will be focused in particular on basic and discount fares.

Discount fares are often as much as 80% lower than the basic fare. Although offered on nearly all routes, discount fares often have restrictions on the number of seats available and are subject to various constraints, including advance purchase, length of stay, final destination.

Because of this fare structure, two travellers sitting side by side on the same flight between two airports may have paid two totally different fares. It has been noted that the lowest fare is always that paid by the vacationing traveller who is on his way to an off-shore destination where he must remain for the prescribed length of time in order to benefit from the maximum fare reductions. On the other hand, the highest fare is always that paid by a passenger who must fly to a domestic destination on short notice. He must pay the basic fare (the so-called "economy" fare). For comparison, a passenger from Baie-Comeau who wants to spend a day in Montreal will pay $721. On the plane, he may be sitting next to someone who, like him, will get off at Montreal but will then change planes and take a charter flight to Cuba. Such a passenger will pay $252 return from Baie-Comeau to Montreal.[2]

Whether the reasons are social, family, health-related (consultation of specialists), trade or professional, residents

---

[2]These prices include taxes.

in outlying regions must occasionally travel to the major urban centres. Such trips cannot always be planned to take advantage of carrier rebates. In addition, restrictions regarding the length of stay, or the period covered (weekends) often cancel out any savings on fares through additional expenses for food and shelter. Passengers are thus generally forced to use the basic rate, which is quite a bit higher. **Those who need to travel for imperative reasons pay more than those who travel for vacation reasons.** The only alternative for people living in the regions is to travel by car. For example, even given ideal road conditions, people living in the Gaspé or the North Shore must resign themselves to 20 hours on the road to reach their destination.

Table 3: Travelling times

Route	**Time***	**Additional costs**
Sept-Iles - Montreal	20 hours	food and lodging
Baie-Comeau - Montreal	15 hours	food and lodging
Gaspé - Montreal	18 hours	food and lodging

* In good weather conditions and on dry surfaces

1.4 A failed attempt at deregulation

The National Transportation Act (NTA, 1987) replaced the previous regulatory system with a policy mandating "free competition" among the air carriers. It also confirmed the Canadian government's desire to end subsidies to air carriers. The goal of free competition presupposes a sufficient number of air carriers competing for Canadian, cross-border and intercontinental clients to maintain prices at their lowest possible level and services at their highest level.

However, deregulation and the return to the laws of the marketplace have not produced the success hoped-for. The first consequence of deregulation was the absorption by the two national carriers of nearly every Canadian regional carrier, thus giving rise to the apparently collusive duopoly that we see today. These massive acquisitions through fire-sale pricing policies to eliminate competition have apparently plunged both Canadian carriers into financial difficulties.

Over the years, the situation has worsened to the point that the Canadian government has intervened with increasing frequency in this sector, primarily to preserve jobs. This sector of the economy numbers some 35,000 employees. Hoping to protect those jobs and aware of the role played by air transportation in economic development, the Canadian government has begun once again to intervene, particularly at the financial level, in support of the air carriers.

To protect these jobs, the government has progressively made itself the air carriers' protector and guarantor that they will face no competition. A number of actions have been taken in this regard, including Bill C-32, which was prepared at the request of the air carriers. It increased taxes on long-distance routes and decreased them on short-distance routes where air carriers have difficulty competing with other modes of transportation. By doing this, they enhanced the attractiveness of air transportation for short distances compared with other modes of transportation and attracted an additional share of the market. On the other hand, residents of remote regions were penalized by increases in tax costs and hence in the cost of their tickets.

Since there are few alternative means of rapid transport, this was a captive clientele that could be exploited without, it was thought, incurring market sanctions. This was a mistake, since the reaction of this clientele has been to travel by car wherever possible, except in cases of absolute necessity, and to limit trips to major centres.

Worse, this contributed to a significant decrease in business travel between the centres and the outlying regions as business men and women drastically curtailed their business gatherings and meetings in Montreal/Quebec City in order to avoid the excessive airfares. The rise in taxes has thus accentuated the decline in use.

1.5 Domestic pseudo-competition

In its 1993 Annual Review, the National Transportation Agency (NTA) of Canada stated:

> After almost 10 years of regulatory freedom in domestic services, active competition between carriers continues to be observed in all regions of the country.[3]

By 1992 it was clear, however, that this analysis was more the result of an act of faith than a dispassionate reading of

---

[3] National Transportation Agency Annual Review, 1993, p. 221.

reality. In its paper on competition in transportation (1992), the National Transportation Act Review Commission (NTARC) wrote:

> 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.
>
> 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.[4]

It is deplorable that Transport Canada did not follow up on that recommendation and that it in fact appears to refuse to acknowledge the truth.

Since we know that, in the regions, the two carriers offer the same number of flights and follow identical schedules, 15 minutes apart, using planes that are 3/4 empty most of the time, we cannot help but be bemused when we hear the federal Competition Tribunal characterize such behaviour as a "meeting of the minds" (conscious parallelism) and states that it cannot be curbed because it breaks no law.

It can also be noted that when a new carrier offers flights on routes served by the domestic carrier duopoly, the latter tacitly organize (a "meeting of the minds" perhaps?) to get rid of the competition as soon as it shows any signs of becoming successful. They simultaneously institute fire-sale prices just

---

[4]NTARC, Vol. I, p. 120.

on the routes served by the new carrier in order to get rid of it as fast as possible. Since they are supported by protectionist government policies, the duopoly can let these routes temporarily show a loss. Air Madeleine and Nationair, among others, have had this painful experience. A number of other regional carriers, dissuaded by these predatory practices, have had to give up their plans to offer connections with the hub airports.

Even though it is clearly the government's intervention that provides the "predator's premium", through its protectionist subsidies and policies, the Competition Tribunal seems incapable of proving or acknowledging the duopoly's predatory pricing policies. But people should not be fooled by this any more.

1.6 National carriers and the international tourist industry

The slump in the domestic system is exacerbated by the close ties developed by the air transportation industry with the international tourist industry (ITI). Air Canada has its own international tourist network thanks to its subsidiary, Touram, and its links with the country's travel agencies. Canadian does the same and also exploits its ties with American carriers to develop its tourist market.

As we saw in section 1.3, the cost of air transportation varies enormously as a function of the traveller's final destination and clearly favours those travellers who are leaving the country for vacations.

The ITI has orchestrated an effective vertical integration structure. Thanks to the close partnership between the airlines and the travel agencies, the tourist market in airports is flourishing and highly competitive. Unlike the domestic market, the cost of tickets is very low and the planes are filled to capacity. But what is this magic trick, this miracle recipe that the domestic market does not have?

For every tourist ticket sold, it seems that the carrier receives, from the tourist industry, a discount calculated as a percentage of the total amount of the package (plane-hotel-rental) purchased by the tourist. Because it has contributed to filling the hotel in Cancun or Fort Lauderdale and, ironically, because it makes it possible to export Canadians' vacation dollars, Air Canada or Canadian receives from the tourist industry a fairly significant premium. This is because it is based, as a percentage, on the total amount of the package rather than only on the return ticket portion of the trip. The price of the package is obviously several times higher than the price of the plane ticket portion.

This integrated structure is a masterpiece of organization for a competitive environment and is well suited to the United States where some carriers choose to compete for the business travel market while others concentrate on the vacation market.

In Canada, such competition unfortunately does not exist. Worse still, government intervention in favour of the carriers directly serves the ITI since, concretely, it favours discount fares for those travelling to destinations outside Canada. What is more, the GST and QST do not apply if the ultimate destination is outside the country,[5] not even on the fare between two intermediate points within Canada. This additional Canadian government incentive is aimed at the Canadian carrier duopoly, but its primary beneficiary is obviously the ITI. Our taxes are thus contributing to the flight of capital abroad.

---

[5]With the exception of flights having a U.S. destination.

In this context, the carriers have every reason to give preference to this type of clientele and to offer them significant advantages and discounts to attract their custom. Conversely, by their fare-pricing policies, the carriers discourage domestic travel, particularly for business people. And indeed, the purpose of customer loyalty policies is to induce frequent fliers to fly free and spend their vacation budget outside the country. This works solely for the benefit of the ITI and is detrimental to our own economy.

2. Impact on the Canadian economy

2.1 Tourist deficit and capital flight

In view of the vertical integration of the ITI, it appears that the air carriers, the travel agencies and the governments have become partners in the growth of this industry. More than ever, this growth is detrimental to Canada's economy. Thanks to these practices, which favour the ITI, Canada's tourist deficit is steadily increasing, particularly since deregulation. The figures are eloquent in this regard. According to Statistics Canada, this deficit has gone from $2.9 billion in 1988 to $7.8 billion in 1993. The WTO's projections even put it at $14 billion in 2016.[6]

By maintaining the Canadian carrier duopoly and by continuing the advantageous fare-pricing policies for vacationers leaving the country, the Canadian government is encouraging the escalating export of Canadian tourist dollars. By maintaining the duopoly, the Canadian government contributes to weakening its trade balance and its tourist industry balance.

---

[6]Projections of the World Tourism Organization (WTO), quoted in The Economist, p. 54, September 23, 1995.

At the same time, passengers on domestic lines and, in particular, business passengers from remote areas are forced to pay exorbitant fares because there is no alternative or competition worthy of the name that can exert a disciplinary force on the carriers' duopoly.

The high prices paid by the captive passengers on the domestic lines indirectly subsidize the duopoly and the development of the ITI. A high price is paid in the regions so that the tourist industry can offer low prices on "sunbelt destinations".

With Bill C-101 and the plan to transfer the airports to the regions, this nonsense is going one step further. It is not just the passengers now, it is the regions that are called on to inject millions of dollars so they may take back and maintain the airport infrastructures necessary for serving the carriers' duopoly. Following in the footsteps of the Canadian government and the passengers on the domestic lines, it is now up to the regions to top up the subsidies destined for the carriers' duopoly. Hasn't enough been given already, and for what exactly?

It is high time that the Canadian government examine the consequences of this vicious circle for the Canadian economy and that it draw the proper conclusions. Fare and tax increases since 1988 have caused the "economy fare" ticket to rise in price by more than 90%, even though this was during a time when the rate of inflation was one of the lowest since the postwar period. These successive hikes have had disastrous effects on patronage: a 38% loss for regional airports and a drastic decline in business domestic air travel. This steep decline has had an effect on the national airports: Dorval airport lost 1 million domestic passengers ~~between 1988 and~~ in 1994. compared with the year of deregulation in 1988.

The loss, of course, was to some extent compensated for by an increase of 700,000 vacationing passengers between 1988 and 1991. But is this really development or is it rather a deviant growth which we have been given in compensation? If there are fewer trips in Canada but more vacation trips abroad, this is not a "plus", but a "minus" for the Canadian economy.

2.2 Grim prospects for the future

Because they operate in a sheltered environment, Canadian carriers have never been subjected to international competition and have never been "forced" to streamline their expenses. In fact, the average weekly pay of their employees has continued to increase since deregulation in 1988 whereas in the US, where competition reigns,[7] wages have stabilized at a unquestionably lower level. Today, Canadian carriers must look forward to massive layoffs following the "open skies" agreement that will expose them to a genuinely competitive environment on the international market.

Unless there is a major change of direction to improve their competitiveness, this new economic situation is going to set a chain of events in motion for the Canadian carriers that will directly result in a decline and in an even greater absence of competitiveness:

Non-competitiveness → High fares → Decreased use

↑ ↓

Protectionist government Interventions ← Layoffs ← Loss of Profitability

[7]See the comparative tables on average weekly earnings in the NTA Annual Review, p. 201, 1993.

This situation threatens once again to cause increases in fares within Canada to compensate for the carriers' difficulties in coping with international competition. Furthermore, since the "open skies" agreement was signed, the carriers have imposed two successive increases of 3% (June and September 1995), both on Canadian domestic fares.

The authors are not alone in making this sombre prognosis. In 1992, NTARC had already anticipated these "compensatory" increases:

> Until the unit costs of jet carriers in Canada are closer to U.S. jet carrier costs, it is likely that the major Canadian 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.[8]

The "cross-subsidization" referred to by NTARC in 1992 is approximately $700 M annually, an amount that is given, with great unwillingness, by domestic passengers to the ITI.[9]

Without changing the "game rules" that currently operate in favour of the ITI, this cross-subsidization is bound to increase, taking into account, on the one hand, the growing gap between "vacation" fares and domestic fares,[10] and, on the other hand, the sustained growth of the ITI.

---

[8]NTARC, p. 76, 1992.

[9]Domestic passengers defined as Canadian passengers on flights terminating in Canada (CPFTCs).

[10]The domestic rates referred to are those applying to Canadian passengers on flights terminating in Canada (CPFTCs).

3. Bill C-101

An environment that is more stable for the air carriers, but more "unstable" for domestic passengers

Bill C-101 comes with a set of legislative measures to reshape air transportation in Canada. In theory, the purpose of these measures is to liberalize air transportation and to eliminate the barriers that prevent full and free competition among international air carriers. Moreover, the recently signed "open skies" agreement obliges Canada, in any event, to come to terms with these new rules for international competition.

However, in stating Canada's new international air policy, federal minister, Doug Young, noted on November 14, 1994:

> [TRANSLATION] The policy must do what it can to create a stable environment for the domestic air carriers. This is essential for the economic health of Canada and its competitiveness on the international scale.

From our reading of Bill C-101, we fear that the duopoly, which is already in a non-competitive situation, may use this "stable environment" concept to adhere to its selective rate-setting policy for domestic flights in Canada.

The greater the competition, the more pressure Canadian carriers will exert on our elected representatives to "protect their preserves" on Canada's domestic market. Bill C-101 has clauses that lend themselves to this temptation to return to protectionist policies.

3.1 Clause 48: "Survival insurance" for Canadian carriers

In terms of Canadian air transportation, this clause ensures "eternal life", as it were, to the two national carriers. It gives the Minister the right to intervene in competition legislation to protect Canadian carriers from foreign competitors. Clause 48 authorizes the government to suspend the application of the Competition Act and to order measures to "stabilize" the national transportation system in the event of "extraordinary disruptions". This last concept is not, however, defined in the Bill. By avoiding a definition, the government is clearly leaving some room for manoeuvre so that it can assess the gravity of the said disruptions, but it is also opening the door to lobbying by carriers to whip up fears of a crisis whenever they wish. It must be realized that such disruptions will not fail to arise, since new financial difficulties are anticipated for air carriers as a result of the "open skies" agreement.

In other words, this clause assures the carriers that, regardless of their level of efficiency, viability, adjustment to the market and, in particular, their fare-pricing policy, the Canadian government will support them against the competition. This is nothing other than "survival insurance" for Canadian carriers.

Historically, Canadian carriers have never had to face competition, and clause 48 looks like an acknowledgment that deregulating air transportation has failed.

However, in a recent speech the Minister did say that "protectionism engenders greater protectionism". Still, clause 48 offers encouragement to the underlying protectionist mentality in Canada's domestic market.

3.2 Clause 62 - Barriers to new entrants

We have noted the inability of the duopoly of Canadian air carriers to control costs, to be efficient in their operations, in short, to be competitive.

With clause 62, the Minister is weaving additional protections into the "protective net" from which they benefit. In seeking a more stable environment for the Canadian duopoly, the Minister makes provision for "prescribed financial requirements" in order, it is safe to assume, to create an additional barrier to new entrants. Like clause 48, clause 62 sins by its protectionist thrust and goes against the main recommendations of the two commissions that studied the problems of air transportation:

> "[TRANSLATION] passenger carriers should be exposed to competition and market pressures to force them to respond to consumer preferences and to reduce costs, to improve their efficiency and to pass on the resulting savings to those passengers."[11]

The Commission also suggests that in order to let market discipline operate:

> "[TRANSLATION] the authorities should ease market access for new competitors by eliminating or relaxing restrictions. Any one who is "ready, willing and able" will have the opportunity to offer passenger transportation services ..."[12]

---

[11] p. 16, "Directions", summary.

[12] Ibid.

The argument that the prescribed financial requirements are necessary to avoid having new carriers who were unable to meet their obligations and guarantee the return of passengers (witness the Nationair saga) could be resolved by another kind of solution. The chance that Canadians might be poorly served by failing carriers could be countered by the carriers' making mandatory contributions to an insurance fund for repatriating Canadians in the event of problems abroad.

3.3 Bill C-101

What benefits does the Bill offer? Canada's new international air policy contains nothing to reassure the citizens of this country and those living in the regions, in particular. No provision is made for hearing from the passengers themselves. On the contrary, all that is proposed is to "protect" them and "inform" them.[13] What is proposed is reliable, affordable and practical air service, but there is no definition of what an affordable fare would be.

There is nothing in this policy that makes it possible to expect concrete benefits for Canadian citizens who have to travel on domestic flights. On the contrary, the policy is more likely to lead to the closing of regional airports, dramatic increases in Canada's tourist deficit, a weakening of the country's domestic economy and its regional economies, in particular. The only gainers, in our view, will be the ITI and the large multinational tourist corporations that serve that industry. It should be remembered, however, that these corporations rarely pay taxes to Canada.

---

[13]Minister's address, November 14, 1994, Toronto, p. 3.

3.4 Review Commission for the new NTA

Finally, clause 54 of the Bill provides that the Minister will appoint a new commission to carry out a review of the operations of the NTA. The two major commissions that examined, at great expense, the whole question of passenger transportation and the effects of the NTA, 1987 have both seen their basic recommendation for "the introduction of genuine competition" contradicted by subsequent government policies. It would undoubtedly be appropriate to ask questions about the advisability of spending millions of public dollars for this type of review, if the trend to ignore their recommendations continues.

4. Conclusion

Don't bite the hand that feeds you.
Canadian proverb

The air carrier duopoly forces Canadian passengers on flights whose final destination is within Canada to give some $1.3 billion to subsidize the costs of vacationers' airfare, whether they want to or not. This amount does not take into account the already high costs of airfares occasioned by the lack of competition and government protection, which Bill C-101 hopes to expand. Costs include frequent flyer policies (Air Mile bonus points), fare restriction costs, inefficiency costs, including high salaries, chronic over-capacity and so on.

To these direct costs must be added the indirect costs resulting from the phenomenal growth of the tourist deficit since carrier fares are no longer regulated. The growth of the $1 billion/per year Canadian tourist deficit is largely due to the duopoly's pro-tourist policies. We have seen the perverse effects of the lack of competition on the behaviour of domestic carriers: selective fares to the detriment of domestic passengers (CPFTCs), predatory fare policies, deliberate matching of fares and flight schedules, concentration of activities on the "feeder" function for the international tourist market and so on.

To preserve jobs with these carriers, temporarily, the Canadian government protects them unconditionally. In judging the benefits of short-term employment for the rest of the economy, has the Canadian government taken into account the costs of this rescue operation for the Canadian economy: excessive fares, forced subsidies, growing tourist deficit, negative effects on regional development and so on?

If the laws of the market place had been applied at the time of deregulation, they would long since have replaced the current duopoly with dynamic young businesses whose main concern would be the "client", the person who feeds ~~us.~~ them We would then undoubtedly have seen a significant increase in the use of air transportation and growth for Canada and its regions. And what is more--we would not now have to be wondering about the very existence of the regional airport network.

For the Regroupement des chambres de commerce régionales, the conclusion is clear and unequivocal: the Canadian government must stop ~~supporting the~~ his protectionist behaviour of Canadian carriers and it must reestablish conditions favourable to real competition.

5. Recommendations

Although this brief is intended to serve as a contribution to the discussions on Bill C-101, the recommendations that follow are broader in scope. Their overall thrust is to introduce real competition in the field of air transportation, just as NTARC and the Royal Commission on National Passenger Transportation requested previously.

Our members believe that the concerns that caused the Standing Committee on Transport to allow only for "managed competition" have no basis in reality. In our opinion, Bill C-101 enshrines the actual protectionist philosophy of the government towards the national carrier duopoly and accordingly requires major amendments.

Recommendation No. 1

Bill C-101 should be amended to provide rules for normal competition in the field of domestic air transportation, thus ruling out the possibility that a carrier or a restricted number of carriers could take a dominant position in regional markets.

If the USA has anti-monopoly rules, we do not see why our rules could not be harmonized with theirs, given the current climate of international competition.

Recommendation No. 2

If fair practices in rate-setting are not re-introduced for Canadians, the Canadian government should immediately invite foreign carriers to hold and operate domestic transportation licences in Canada.

Recommendation No. 3

In view of the problems generally of domestic air transportation in Canada and their negative impact on the patronage and profitability of airports, we recommend that the airport transfer process be suspended until a complete investigation has been carried out concerning airfares and their effect on patronage of domestic airports.

Recommendation No. 4

That the NTA order an immediate reduction in domestic airfares in Canada and that, pending an investigation, it require Canadian air carriers to set up a compensation fund for passengers who have suffered from the exorbitant fares of Canada's airlines.

Recommendation No. 5

That the Minister set up a mechanism so that the views of the Canadians who use Canada's air carriers can be heard. The committee should include representatives of big business and small and medium-sized firms who are the chief users of domestic air transportation. There should be representatives from regions in Canada served by the "spoke" airports.

The work of this committee could complete the vision of Canadian air transportation that was created by the National Transportation Agency in accordance with information that for the most part was gathered from the Canadian carrier duopoly but not from the system's users.

Recommendation No. 6

That the national carriers be required to submit separate financial results for their domestic operations and their international operations.

As we saw in section 1.6, there are close ties between the duopoly of Canadian carriers and the ITI. Since the Canadian government wants to promote "managed competition" should there be any financial difficulties for the international carriers, it becomes crucial for it to distinguish the measures it intends to take in terms of the operations of that sector of the carriers that is in fact experiencing the difficulties.

Only with an in-depth analysis of domestic air transportation in Canada can actual financial results be ascertained without their being masked by overlapping financing in the international domain. Such an analysis would also let the government determine the real scope of the deficit in domestic transportation.

Recommendation No. 7

Clause 48 of Bill C-101 concerning the emergency measures to be taken by the Governor in Council in the event of major disruptions should be struck out.

In our opinion, this clause poses an obstacle to competition in air transportation. It leaves too much latitude with respect to the type of intervention the government may exercise in the matter and with respect to the circumstances that would justify an intervention.

Recommendation No. 8

That paragraph 62(4) be replaced by the following:

"(iv) that carriers be required to contribute to a national insurance fund for the repatriation of stranded travellers."