Canada's not-so-open skies

VANCOUVER

AIR CANADA'S pilots should have known that their threat of a Labour Day strike was a non-starter. It was never going to win support from the travelling public, seething at the rotten service provided lately by Canada's dominant carrier. Nor was the government going to sit back: it stood ready to use back-to-work legislation to prevent the country (the world's second-largest and heavily dependent on air travel) being brought to a standstill. So there was relief, but no surprise, on August 28th, when the pilots and management reached a tentative agreement. But everyone knows the deal will not solve the biggest problem facing Canada's airline business: lack of competition.

In the shake-out that followed deregulation in the 1980s, the industry has become highly concentrated. Last December, Air Canada emerged as the big winner when it absorbed its main (and bankrupt) rival, Canadian Airlines International (CAI), and gained near-monopoly dominance. The Air Canada family, which includes various regional carriers as well as CAI, sells about 80% of domestic airline tickets and takes in about 90% of ticket revenues. Of the top 200 domestic routes, over half have no carrier other than Air Canada or one of its subsidiaries.

No surprise, then, that the airline stands accused of corporate arrogance and customer neglect. Since spring, travellers have complained widely about cancelled or delayed flights, long check-in delays, lost baggage, overbooking and high prices. A recent study commissioned by the provincial government of British Columbia, which is worried for its tourism industry, found that Air Canada has reduced the number of domestic flights by a quarter during the past year, and has boosted average fares, mostly by cutting discounts. Air Canada's boss, Robert Milton, recently conceded that the airline had done "an unacceptable job" at a time of buoyant profits. He has promised to hire 2,000 new employees to improve customer service over the next six months.

To some, this situation cries out for draconian measures to inject more competition. Not so the federal government, which hopes that more modest measures will do. Of its conditions for approving the merger with CAI, the biggest was that Air Canada should sell one of its subsidiaries, Canadian Regional Airlines, which has 56 aircraft. But this sale failed to spark interest from potential buyers. The government also gave some new powers to the Canadian Transportation Agency to monitor prices and address complaints.

Although analysts doubt this will have much effect, it has at least encouraged smaller operators to nibble at Air Canada's toes. Fastest off the mark is WestJet, a Calgary-based discount carrier that has added flights to three eastern cities and is buying up aircraft. Three charter carriers (Canada 3000, Air Transat and Royal) have announced new scheduled services, and two newcomers (CanJet and RootsAir) are gearing up.

These developments will perk up competition between big cities, but they are hardly enough to shake Air Canada's dominance. WestJet, the charter carriers and other small fry together account for less than a quarter of seat capacity. Even if they all follow through on expansion plans, their combined fleet will grow only from 75 to 137 aircraft by 2005, compared with Air Canada's projected fleet of 462.

To his credit, the federal transport minister, David Collenette, has given warning that, if his government fails to encourage enough competition, he will consider inviting foreign airlines—which are currently barred from owning more than 25% of a Canadian airline—to compete freely on Canadian routes. Not so long ago, that idea was unthinkable. Now, more and more disgruntled travellers, politicians included, think its time has come.

very difficult, question is how to charge market prices for energy to those who can afford them, while protecting the really poor from freezing in winter. Another concerns planning for long-term results, rather than short-term survival and prestige. After a recent visit to the glitzy headquarters of Itera, a mysterious Russian company that handles most gas exports, one western oilman remarked that "our own boardroom seems like a barn in comparison".

Changing all this requires a huge and almost unimaginable shift in the way Russian managers and officials think. Yet without it, not only the energy industry, but also domestic aviation, railways, public buildings and other legacies of the Soviet Union's industrialisation will decay with increasing speed, putting the bits of Russian industry that are trying to modernise at even more of a competitive disadvantage than the one that they face already.

Deregulation in Singapore

The other half

SINGAPORE

NO COMPANY is an island, even if it is based on one. That has long been clear to Singapore's export-oriented firms, which continue to excel in electronics, pharmaceuticals and entrepôt trade. The combination of wide-open product markets, world-class infrastructure and squeaky clean commercial courts have put Singapore at or near the top of most international competitiveness rankings. And by scraping through Asia's downturn in good shape, its companies have earned bragging rights throughout the region. But what is more impressive is that only half of Singapore's corporate sector has been doing most of the heavy lifting. How far could the country go if its government manages—as it is now attempting—to motivate the other half?

Like most East Asian governments, Singapore's has in effect fostered a dual economy: it has consistently exposed its manufacturers to the forces of globalisation, but has shielded its service firms from many of those same forces. The first part of this policy has worked wonders throughout the region, fostering the ferocious export-led growth for which Asia's tigers are known. The results of the second part have been less impressive, even to Singapore's self-confident government. It may have produced companies that turned good profits at home, but with a few exceptions, such as Singapore Airlines (SIA), not many of international stature.

Before the regional downturn struck, the government had begun to realise that sectors such as telecoms and finance needed to improve. In the past year it has redoubled those efforts, exposing many services firms to more competition and encouraging them to venture abroad. The companies in the news