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response, therefore, was to relax charter licensing while at the same time protecting scheduled services which were dependent on captive travellers paying high fares. Subsequent reforms, in the 1970s, began to reflect an attempt to develop a more liberal regime, with the aim of improving efficiency and reducing costs, while at the same time still offering some protection to scheduled carriers. Domestic charters (Charter Class Canada Fares), for example, were started in 1977. (In fact the first one had been initiated by Sun Tours the previous year but their service between Vancouver and Toronto operate via U.S. airports with connections to Canada being by a bus service!) Subsequently, after 1979, restricted (e.g. by advanced booking requirements, minimum stay conditions, rebooking fees for changes of flight, etc.) charter class fares designed to attract discretionary travellers were permitted on scheduled flights. Even here, however, fares had to be shown to cover variable costs.

At the regional level, the policy of balkanization, which had reached its zenith in the late-1960s with key Ministerial statements in 1965, 1966 and 1969 dividing the market between designated carriers, began to breakdown¹³. The official policy was to divide the country into five regional markets each with a single, regulated regional carrier - the 'preferred vehicle' - to supplement the national networks of Air Canada and CP Air. British Columbia and western Alberta was to be the domain of Pacific Western Airlines; Saskatchewan, Manitoba and northwest Ontario that of Transair; the remainder of Ontario and Quebec that of Nordair; all of the Province of Quebec east of Montreal that of Quebecair; and the Atlantic provinces and Montreal that of Eastern Provincial Airlines.

In an effort to ensure that the system which developed would not require federal subsidies, the policy involved the transfer of some Air Canada and CP Air routes to the regionals and protection for their services¹⁴. The problem with such a policy was that it encouraged the regional airlines to purchase jet aircraft. These proved uneconomical in the absence of the ability both, because of the size of markets, to exploit economies of density on the designated routes and, because of legal constraints, to extend networks beyond the regional domain¹⁵. The merger of the financially ailing Transair with Pacific Western in 1977 effectively meant the beginning of the end of this policy¹⁶.

¹³ These being the 'Statement on Civil Aviation Policy', 'Statement of Principles for Regional Air Carrier Policy' and 'Regional Air Carrier Policy', respectively (all published by the Ministry of Transport, Ottawa). This overall approach became known as the Regional Air Carrier Policy.

¹⁴ See W. T. Stanbury and G.B. Reschenthaler, 'Oligopoly and conscious parallelism: theory, policy and the Canadian cases', *Canadian AIR Law Journal* 15, pp.617-700, 1977.

¹⁵ D.W. Gillen, W.T. Stanbury and M.W. Tretheway, 'Duopoly in Canada's airline industry: consequences and policy issues', *Canadian Public Policy* 16, pp.15-31, 1988.

¹⁶ S.S. Barone, M. Javidan, G.B. Reschenthaler and D.J.H. Kraft, 'Deregulation in the Canadian airline industry: is there room for a large regional carrier?', *Logistics and Transportation Review* 22, pp.421-448, 1986.