Despite CAIL's rejection of limited cabotage, we believe that this proposal of the application of limited cabotage as a commercial safeguard has merit. It may be one way of reducing the current revenue imbalance. However, as we have already said, we would encourage our negotiating team to only explore the feasibility of obtaining exclusive cabotage rights for our Canadian carriers.

iii. Fifth Freedom Rights

Fifth freedom rights are the privilege to take on passengers, mail and cargo in one foreign country for carriage to another foreign country. For example, CAIL could fly Vancouver—Los Angeles—Mexico City with the right to pick up domestic U.S traffic in Los Angeles. Some witnesses suggested that the award of fifth freedom rights to Canadian carriers might help to redress the competitive imbalance by making a range of new international air services possible. It was thought that Canadian carriers would gain from such an arrangement because it does not appear that fifth freedom rights beyond Canada are of much value to U.S. carriers.

Consequently, we think it is possible that fifth freedom rights could be of some advantage to Canadian carriers. Therefore, we recommend:

12. That the negotiation of fifth freedom rights for our carriers deserves serious consideration as a commercial safeguard to ensure our fair share of benefits under a new agreement.

iv. Computer Reservation Systems (CRS)

A few witnesses indicated that probably the most powerful marketing tool is the CRS. These have become very sophisticated, displaying numerous airline schedules, fares, and other product information such as car rentals and hotel reservations, all of which can be sold by the travel agents. There is only one CRS in Canada; it is owned and controlled by Air Canada and CAIL. Similarly, there are a few in the United States owned and controlled by the mega carriers. Because of the high cost of establishing a CRS and selling it to travel agents, it is next to impossible for a new entrant to create its own system. This means that any new entrant must pay for access to an existing CRS and pay a fee for each of its flights booked through the system. In addition, travel agents tend to favor the owner carrier in booking flights and services. This is known in the trade as the "halo" effect.

Initially, a major problem was the possibility of the owner carrier discrimating against "hosted" carriers who were paying for access to the system. As a result, the U.S. government put in place rules to protect against bias by the CRS vendor or discrimination exercised by the vendor against a hosted carrier. These rules were due to expire at the end of 1990; the U.S. Department of Transportation is currently considering revisions to them. It was emphasized that, in order to ensure no discrimination against Canadian carriers in the transborder market occurs, these rules must be maintained. We agree, and therefore recommend: