

essentially adopted proactive strategies in an effort to gain the best position when the market became fully deregulated.

There was increased concern from the established scheduled carriers over the effects of the expanding competition on the high-density routes being offered by Wardair. The spate of mergers which also occurred during the mid-1980s (see below) added to this competitive environment. As a result, and in an effort to maintain market share, an increasing amount of traffic began to be carried on discount fares. In 1978 less than 15% of the two major carriers' revenue came from discount fares but by 1985 this had risen to 60%. Figure 6 provides some indication of the recent trends, allowing for seasonal variations but note that the above trend increase in discount travel in the third quarter of 1986 is mainly due to EXPO in Vancouver rather than any dramatic shift in the airlines's strategies at that time.

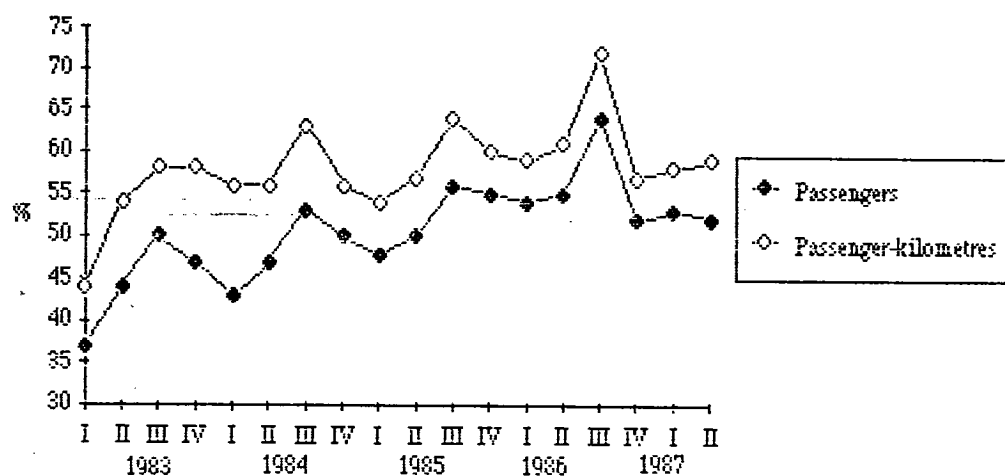


FIGURE 6

Trends in Percentage of Traffic using Discount Fares (1983-1987)⁵⁶

One of the important features of the longer term effects of U.S. deregulation has been the large number of mergers and acquisitions which have taken place. This trend only emerged some time after the market liberalization - the initial response being more in terms of the creation of new airlines and the expansion of existing (especially intra-state) carriers. Mergers in Canada have a somewhat longer tradition than in the U.S. and were employed as a means of handling problems when airlines encountered financial difficulties under the regulatory system but could not exit from loss making routes. Since 1984, however, there have been major changes in the nature of these mergers, with the market share of the two largest carriers considerably enhanced (see Table

⁵⁶ Taken from Statistics Canada, *Airline Statistics Centre - Service Bulletin* 2(8), p. 11, 1988.