

It was against this background of embryonic private sector airlines and the desire to both ensure the orderly growth of the industry while at the same time protecting the national unifying rôle of the Crown corporation, that economic regulation was introduced. It should be noted, however, that for many years (until 1977) the Crown Corporation status of Trans Canada Airlines meant that was in the particularly favourable position that its route authorities were, through the Air Canada Contract, derived directly from Parliament rather than from any regulatory body.

From an very early stage, regulation of civil aviation at both the national and provincial level was seen as a federal responsibility<sup>10</sup>. Initially, control of aviation was a military responsibility and within the remit of the Ministry of Defense. (In fact it remained under that ministry until the formation of the Department of Transport in 1936). While the Air Transport Board Act of 1919 represented the first major piece of legislation, the basis for subsequent economic regulation was the Aeronautics Act of 1922 which, with subsequent amendments, gives the federal government power over rate setting, entry and route licensing, conditions of service, mergers and acquisitions and route abandonments. However, in the early years it was never generally exercised.

The 1938 Transport Act was important in establishing the Board of Transport Commissioners to oversee rail and air transport. The Board took responsibility for aviation licensing which was to be based on criteria of, "public convenience and necessity". The emphasis was on the co-ordination of activities and the stability of the industry. Within this broad framework, the centrality of the Crown carrier was emphasized with other, smaller airlines operating feeder services.

The Board was independent of the minister and on occasions exercised its independence. (In particular, on one occasion the board went against ministerial preference for the Vancouver-Victoria route to be awarded to Trans Canada Airlines and instead gave it to Canadian Pacific Airlines.) However, entities with such autonomy seldom endure. The Air Transport Board was established in 1944 to replace the Transport Commissioners. The new board was given the remit of advising the minister on matters relating to the issuing of licences and the approval of rates. This type of control was designed to meet the objectives of creating a large, reliable network of scheduled services across Canada. Monopoly positions were protected by licensing to ensure commercial viability of routes and create a system of cross-subsidization for others. Where any relaxation of entry control did take place it was generally very limited. Canadian Pacific Airlines, for example, was allowed to operate one transcontinental flight a day after 1959 (between Vancouver-Toronto/Montreal/Ottawa), and thus break Trans Canada Airlines's monopoly, but further liberalization came slowly with controls over Canadian Pacific's capacity gradually being

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<sup>10</sup> This differs from the situation in the U.S.A. where the 1938 Civil Aeronautics Act only applied to inter-state aviation.