

ownership in Canada extends to all the major airports whilst in the U.S.A. there is considerable local government involvement.

Adding to these external forces were the problems being encountered by the Canadian carriers as a result of macroeconomic conditions within the country and changes in factor costs.

Central to the situation was the fact that the Canadian economy, like most others, went into recession in the early 1980s. Economic growth slowed in 1981 and real Gross Domestic Product fell in 1982 (see Figure 2) before recovery was initiated. This put pressure on Canadian airlines as demand for air travel declined; the revenue passenger kilometres of level-1 Canadian carriers fell from 36.1 billion in 1980, to 35.4 billion in 1981, to 32.1 billion in 1982 and bottomed out at 31.3 billion in 1983. The corresponding passenger figures were (in terms of emplaned passengers), 55.1 million (1980), 55.0 million (1981), 49.4 million (1982), and 47.8 million (1983).

The impact of depressed demand was compounded by the fact that from 1979 there had been a dramatic rise in fuel prices which hit the aviation industry particularly severely. The price of aviation fuel rose by nearly 240% between November 1978 and March 1981.

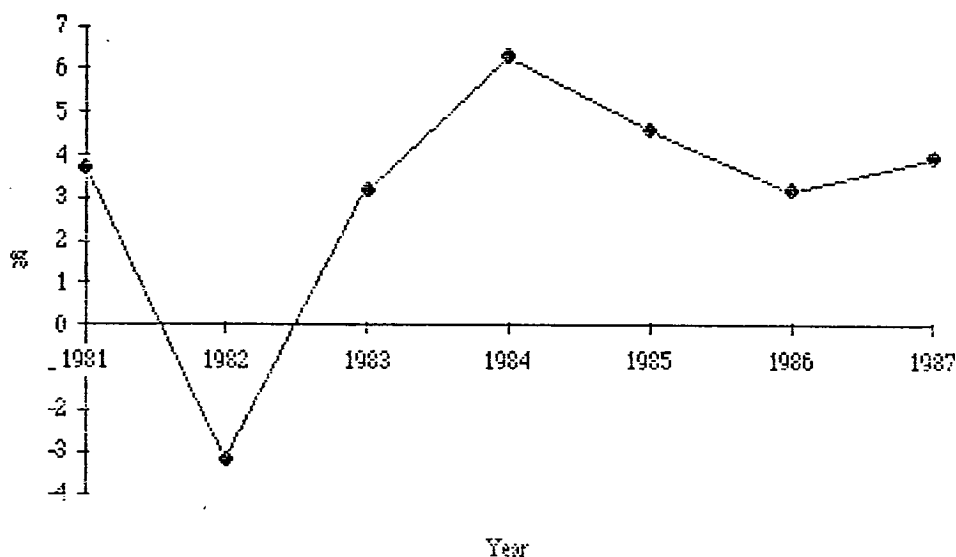


FIGURE 2

Annual Percentage Growth in Real Canadian Gross Domestic Product, 1981-1987.

The profits of the major airlines declined dramatically, see Figure 3. The smaller carriers encountered similar problems as was clear from the financial difficulties experienced by