VI. The Cost Competitiveness of Canadian Carriers

In considering the opportunities for Canadian air carriers in international markets, it is important to gain some appreciation of their costs in relation to their competitors. This chapter of the report presents comparisons between Canadian and foreign airlines. It should be emphasized that these comparisons are indicative only, as there is no single measure of cost which is universally recognized as decisive, and as information for some important comparisons is not available.

A. Measuring Carrier Cost Competitiveness

A simple, common approach to assessing a carrier's cost is to sum up its total expenditures and divide this by the number of passengers or passenger kilometres of service provided.[34] This average cost measure is then compared between carriers. However, while easy to calculate and often used, it can be misleading.

Among the items which are most significant in accounting for differences in airline costs are those listed in **Table V**. A comparison between carriers on any one of these items might be made, but it would not necessarily be meaningful. For example, one carrier might be found to have higher wage costs than another carrier. Does this mean

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[34] In the airline industry, simply measuring the number of passengers who are served by a carrier is generally considered an insufficient measure of the service provided. This is because some airlines carry passengers for short distances while others carry them for very long distances. Instead, the industry uses the *passenger kilometre*, which sums up the number of kilometres each passenger is carried. Thus, a flight with 100 passengers for a distance of 600 kilometres is measured as having produced 60,000 passenger kilometres. Since some passengers on a flight will not have paid a fare for the service (for example, airline employees, frequent flyer award users, etc.), the industry distinguishes between total passenger kilometres and revenue passenger kilometres. The latter is generally the measure of service which is used.