

V. The Characteristics of Modern Post-Deregulation Air Transport

When evaluating public policy toward an industry, it is important to have an understanding of the basic characteristics, economics and practices of that industry. This section provides this by describing briefly the underlying economic principles of the modern post-deregulation airline industry. The emphasis on the *post-deregulation* industry is important, as the methods of doing business have changed radically since the first tentative steps toward deregulation were taken by the U.S. in 1976.²⁷ The characteristics of the industry described in this section include the underlying economics of the industry, including both cost and demand elements, the construction of airline route systems, marketing practices in the area of product distribution and brand loyalty, pricing practices and methods, the role of public infrastructure (airports and airways), and airline finance. These are conveyed in point form in order, and they are organized by major area.²⁸

A. Competing Air Transport Systems for Moving Goods and People: Gateway Competition

One of the strategic decisions of any business is defining the product it will produce and sell. In the case of air transport, perhaps the key decision an air carrier

²⁷ Formal deregulation of the U.S. airline industry did not occur until October, 1978. However, in 1976, carriers were given initial freedoms in the area of pricing. Canada's first steps toward deregulation began in 1979. Additional steps were taken in the 1980s. Formal deregulation of domestic services (except in the North) took place on 1 January 1988 with the enactment of the *National Transportation Act, 1987*.

²⁸ A more detailed discussion of the characteristics of air transport is found in M. Tretheway, *The Characteristics of Modern Post-Deregulation Air Transport*, 1990.