

The third scenario is open skies with cabotage. Cabotage, sometimes known as the seventh freedom of the air, is the freedom of an airline to carry domestic traffic within a foreign country. For example, a "right-of-cabotage" would exist if Air Canada flies to Chicago and then on to Los Angeles and had the privilege of picking up passengers in Chicago and carrying them to Los Angeles. This would mean unrestricted, integrated competition for the carriers of both countries, in both countries.

On the basis of these definitions, some witnesses appeared to be in favour of route specific / liberalization negotiations, albeit with an interesting array of nuances and approaches, while others cautiously endorsed open skies or enthusiastically embraced it. Although a few witnesses were prepared to accept open skies plus cabotage, a large number of those who addressed the issue of cabotage saw it as a potentially major threat to the viability of our industry and rejected it. Others thought it might be a good idea but not at the present time and certainly not if it was a "deal breaker". Then there were a few who thought cabotage was a "red herring" in these negotiations.

Regarding the last two options, many witnesses expressed concern about the ability of our two national carriers to compete against the mega American carriers and, indeed, survive in an environment of unbridled competition. Some witnesses thought that, at the very least, our two carriers would either have to merge and/or become "regional" feeder airlines for the large American carriers. Canada would be treated by them as just another regional market; a few more spokes for the hub. Others were convinced that more apocalyptic consequences would occur, such as the disappearance of both our national carriers, the destruction of our national domestic system including regional, local, northern and remote services, and the end of our unique aviation culture and tradition. However, no matter what negotiating option witnesses advocated, all were in agreement that no new regime should be put in place without a real and substantial safety net for our airline industry.

The Committee has grappled with what was bound to be the fundamental question raised by these hearings, that is, whether it should choose a negotiating option. Needless to say, we had considerable difficulty arriving at a position, not only because of the confusion regarding the negotiating options, but also because of the complexities surrounding them. In the final analysis, we have reached the conclusion that we are not in a position to recommend a specific negotiating option to the government. This is based on three reasons. The first is that any new agreement will involve the exchange of valuable traffic rights and complex commercial trade-offs. To begin with, the data and information necessary to be able to assess, analyze or evaluate the commercial elements and the impact of a new agreement on Canada's aviation industry was not available to us, nor was it provided by the witnesses. Secondly, the government must have the utmost flexibility in the development of its negotiating strategy. For us to recommend a negotiating option would, we feel, reduce the government's scope and, indeed, possibly preempt a necessary and worthwhile strategy. Finally, we do not think it makes any sense to reveal any fundamental element that might or might not be central to the government's negotiating position.