



FIGURE 8

Before Tax Profits (as % of Operating Revenue) of CP Air and Eastern Provincial, Pre and Post Acquisition<sup>63</sup>

In operational terms the mergers have resulted in a duopoly situation on most major routes with Wardair gradually building up as a third force. The evidence from the U.S.A. is that the existence of actual competition on a route tends to be preferable to the weaker forces of the existence of only potential competition. These findings suggest, however, that competition limited to two carriers (or three where Wardair is active) is still not a strong force for low fares<sup>64</sup>. The duopoly in this case, however, has been reinforced by the actions of the airlines involved and this may well reduce the benefits of actual 'competition' compared with the U.S. experience.

Airport capacity problems in Canada, with the marginal exception of Toronto's L.B. Pearson Airport, are not severe. There are, however, peaks in demand and slot allocation can be important at these times. In all cases there are Schedule Co-ordinating Committees consisting of representatives of the main users and these allocate slots. Normally, either Air Canada or Canadian Airlines International take a "strong leadership" position in these Committees<sup>65</sup>. There is thus scope for incumbents to limit the availability of prime take-off/landing slots to potential entrants.

<sup>63</sup> Derived from data in Jordan, 1988, *op cit*.

<sup>64</sup> S. Morrison and C. Winston, ('Empirical implications and tests of the contestability hypothesis', *Journal of Law and Economics*, 30, pp.53-56, 1987), for instance found that the existence of an actual competitor was three time more powerful in influencing a carriers behaviour than cases where free entry was possible but not being exercised. T.G. Moore, ('Airline deregulation: its effects on passengers, capital and labor', *Journal of Law and Economics*, 29, pp.1-28, 1986) found that markets with five or more carriers enjoyed lower coach fares than those with fewer while Bailey, Graham and Kaplan, 1985, *op cit* found that there was a 5% fare differential between routes with two equal sized carriers and those with four.

<sup>65</sup> Gillen, Oum and Tretheway, 1988, *op cit* p.38.