

stretching from the 55th parallel on the Pacific coast to the 50th parallel on the Atlantic coast - would remain regulated for social reasons. Finally, Air Canada was to relinquish Nordair (which it had acquired in 1978) and it was not to engage in deliberate competitive practices unless private carriers initiated such actions.

This period also saw changes in the regulation of trans-border aviation. As we have seen above this is a very important element of the Canadian industry. The trans-border aviation market is, like most international aviation in the world, regulated through a bilateral agreement with the U.S. The major agreement in this case was that signed in 1966<sup>43</sup>. This agreed route schedules for both nations' carriers with one carrier from each on most routes unless mutually agreed otherwise. Fares had to be agreed by both countries but the airlines were left to determine their own capacities on each route and the aircraft they would deploy. Charter operations came under a separate, later agreement<sup>44</sup>. This allowed considerable flexibility in the way charters operated (e.g. over fares, frequency, type of aircraft, etc) but reserved powers to call for negotiations should their actions interfere excessively with scheduled services or the charter operators from the other country. The stated policy was to have broad compatibility between the number of passengers carried by each country's charter air services and the level of traffic originating from that country. Since the majority of traffic was Canadian (i.e. trips for recreational purposes to the "Sun" destinations in the U.S.A.) this meant that the Canadian charter companies would enjoy the largest share of the market.

Rather perversely, the agreement also required the U.S.A. carriers to have between 25% and 40% of the market by 1978 - a figure which was never even approached and in the early 1980s the Canadian charter airlines accounted for something over 90% of all trans-border traffic. This contrasts to the 40% of scheduled trans-border traffic which, because of the power of the hubbed U.S. carriers, the Canadian airlines managed to capture<sup>45</sup>.

The changes to this regime in 1984 reflected the gradual liberalization policy which the U.S., in particular, had been pursuing in international aviation more generally. Two new agreements were signed. The first of these related to commuter and local services and allowed for the greater ease of obtaining approval to operate new services. Automatic procedures were agreed for most

<sup>43</sup> Department of External Affairs, 'Air agreement between Canada and the United States of America', *Canada Treaty Series, No.2*, (Department of External Affairs; Ottawa) 1966. For a review of the details of the earlier agreements see, P.P.C. Haanapel, 'Bilateral air transport agreements between Canada and the United States', *Annals of Air and Space Law* 5, pp.133-153, 1980.

<sup>44</sup> Department of External Affairs, 'Non-scheduled air service agreements between the Government of Canada and the Government of the United States of America', *Canada Treaty Series, No.16*, (Department of External Affairs; Ottawa) 1975.

<sup>45</sup> See, M. Dresner, C. Hadrovic and M.W. Tretheway, 'The Canadian-U.S. air transport bilateral: will it be freed?', paper presented to the Canadian Transportation Research Forum, Ottawa, 1988 and reproduced in a shorter form in *Air Transport Management*, March/April, pp.9-12, 1988.