

3. The Pressures for More Rapid Liberalization.

The liberalizing measures of the 1970s improved the economic efficiency of the Canadian aviation industry and there is evidence that by the end of the decade the degree of cross-subsidization had been substantially reduced²⁴. The situation was not static, however, and new pressures were building for further change²⁵. Some of these pressures were domestic but there were also the important ripple effects emanating from the deregulation of fares and market entry into the U.S. domestic industry from 1978.

The effects of U.S. deregulation were, in the short term, to offer indirect competition on many routes served by Canadian carriers and in the long term to offer a demonstration effect that, with certain caveats, there are major benefits to be derived from liberalization.

The majority of Canadian air traffic is along a narrow strip of land bordering the United States. Consequently, the fare elasticity of demand for much of the domestic Canadian market is influenced by the possibility of using surface transport across the border and adopting a U.S. carrier for the trunk haul of a journey. The U.S. airports of Buffalo, Burlington and Seattle are viable alternatives to Canadian airports at Toronto, Montreal and Vancouver. They also offer access to the U.S. international aviation networks which are an alternative to Canadian international services. The effects of deregulation in the United States, and in particular the entry of new, low cost carriers such as People Express into the market, was to attract Canadian travellers across the border. Air Canada was particularly adversely affected by this action. Some indication of the dramatic effects on emplanements at Burlington International Airport, for instance, after the initiation of a People Express service to Newark at the end of 1982 are seen in Figure 1. The Canadian airlines were not always passive in the face of the threat of losing traffic across the border and there were periodic sales of seats at up to 75% discount on the economy fares. The reaction was sufficient to cause some U.S. carriers register complaints to their Civil Aeronautics Board.

²⁴ Evidence given in 1982 indicates that all the major airlines were recovering at least the variable costs of each individual routes operated, see, *Minutes of Proceedings and Evidence of the Standing Committee on Transport Regarding the Government Entitled Proposed Domestic Air Carrier Policy (Unit Toll Services), August 1982*, Parliamentary Session 32, 1st Session, 1982.

²⁵ T.H. Oum and M.W. Tretheway, 'Reforming Canadian airline regulation', *Logistics and Transportation Review* 20, pp.261-284, 1984.