

agreement calls for the equality of economic benefits and opportunities for the carriers. Several witnesses recognized that such equality was crucial, not only to redress the current imbalance in airline revenues, but also to achieve a more balanced new agreement. We think that this must be another essential objective and therefore recommend:

- 2. That any new agreement must redress the current revenue imbalance for Canadian carriers and provide for a fair and balanced exchange of economic benefits and opportunities for the carriers of both countries.**

Many witnesses expressed concern, in varying degrees, about the ability of our Canadian airline industry to compete and survive in a more pro-competitive transborder environment. They indicated that both national carriers provide good, safe, efficient service across the country and want it maintained. Moreover, it was emphasized that, if the national system was in jeopardy, it could mean that regional, local, northern and remote services could be adversely affected. The Committee heard enough evidence to convince it that it was absolutely vital that any new agreement must ensure the protection and preservation of Canada's domestic aviation system and industry. Therefore, we recommend:

- 3. That a third overriding objective of the negotiations must be to ensure the continued viability of our two national carriers and our domestic airline system and industry.**

The Committee believes these should be the three broad objectives of the government. However, we wish to emphasize that none of these should take precedence or be pursued in isolation from the others. All three must be achieved in any successful negotiations. Nevertheless, we recognize that there are competing interests at work and, obviously, a balance will have to be struck, which we acknowledge will be no mean feat.

2. The Negotiating Options

In order to achieve these objectives the Committee believes there are really only three realistic negotiating options. These are liberalization, open skies, and open skies plus cabotage. Throughout the hearings there was considerable confusion surrounding these terms. Indeed, Members of the Committee struggled with these concepts and believe that it is important to define them.

In the Committee's view, liberalization means the negotiation of a revised, updated air agreement which would be more pro-competitive, flexible and expansive. It would have to focus on the exchange of various routes between city pairs and might well include some continued regulation, as well as a formal process by which the two countries would designate carriers to operate on specific routes. Simply put, liberalization means the negotiation of a route-specific regime.

"Open skies", as the Committee sees it, is the opportunity for any Canadian or U.S. airline found to be fit to perform air transportation by their respective aeronautical authorities to offer service on any transborder route at any time. In other words, this would mean the virtual deregulation of the transborder market, thus allowing for a market-driven regime.