

advantages of mergers (e.g. common identity, economies of information dissemination, etc) can be obtained in scheduled aviation where there is diversity in the services provided by means of the use of shared designation codes, linked frequent flyer programmes, integrated timetabling, etc without actual merger. (Indeed, there is evidence of this already happening in Table 2 above.) Hence the merger between Pacific Western and Transair - two regional carriers with similar types of operation - in 1979 only saw a slight and temporary fall in profits ~~and~~ other carriers (see Figure 7). However, the resultant network of the points served by the combined airlines had, by 1980 been reduced by eleven points compared to the 1977 figure. Similarly, and here the time covered is much shorter, the acquisition of Eastern Provincial by Canadian Pacific and their subsequent merger has done little to improve the latter's financial position (see Figure 8) which declined from a small profit in 1986 to losses immediately after the acquisition.

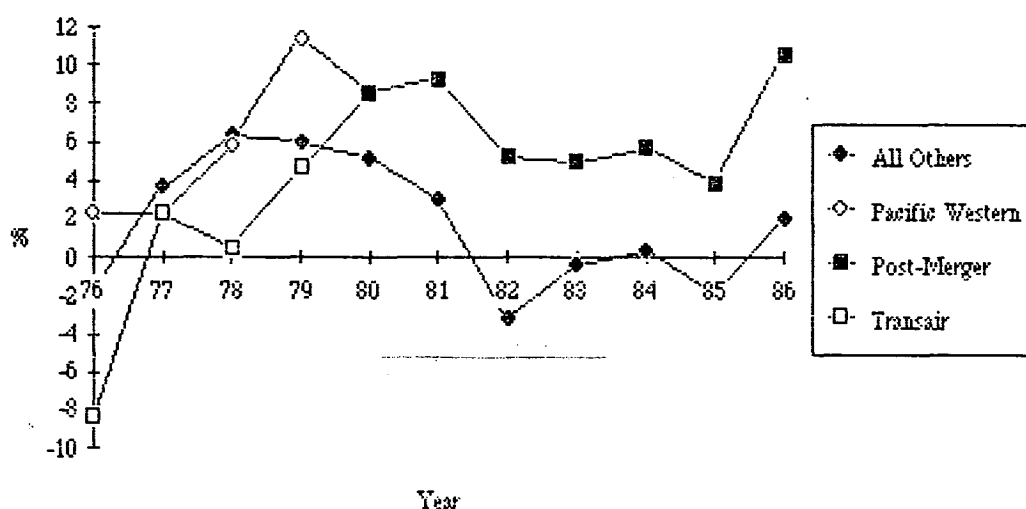


FIGURE 7

Before Tax Profits (as % of Operating Revenue) of Pacific Western and Transair, Pre and Post Merger⁶²

An interesting question arising from this phenomena is whether the gradualism of the deregulation in Canada has permitted necessary rationalizations after mergers to be completed with less disruption. In the U.S.A. case the mergers occurred after deregulation when the shelter enjoyed by airlines had been removed. The Canadian situation is different in that the major mergers took place during the transitional phase and, while rationalizations have resulted, the subsequent period has not seen the financial difficulties emerge some merged U.S. carriers experienced. There has been time for errors and mistakes to be at least partly rectified.

They essentially, using the competitive-spectrum approach, break down a seemingly oligopolistic market and consider the possibility of earning local monopoly rents by exercising, for example, regional monopoly power. In the case of airlines, product differentiation permits limit pricing and is akin to local monopoly power in special markets. Diversification, therefore, is unlikely to generate additional profits.

⁶² Derived from data in W.A. Jordan, 'Problems stemming from airline mergers and acquisitions', *Transportation Journal* 27, pp. 9-30, 1983.