An amendment to the Air Canada Act in 1977 introduced further elements of liberalization to the national market by changing the status of, by then, Air Canada[17]. It was placed on a similar footing as the other schedule airlines by putting it under the regulatory control of the Canadian Transport Commission. Its remit was also changed to encourage it it operate in a commercial manner and to become more market oriented. Until this time there is evidence of the existence of considerable cross-subsidization from profitable international and transcontinental routes to support loss making, short haul services (e.g Toronto-Montreal) and cross-border routes[18].

In contrast to this, there was increasing public sector involvement in the control of the regional carriers[19]. While initially private concerns, the regional carriers were the subject of considerable changes in the 1970s and early 1980s. In most cases this involved a degree of either direct or indirect public sector ownership. Often this has been at the provincial level (e.g. Alberta's involvement with Pacific Western Airlines from 1974 and Quebec's control over Quebecair since 1981) but also saw Air Canada acquiring Nordair in 1978[20].

Overlapping the evolving regulatory structure of the Canadian domestic aviation market was the official policy with respect to Canada's international aviation industry. International aviation is extremely important in the Canadian context. Some 15% of scheduled and charter revenue ton-miles operated by Canadian jet carriers are cross-border services with the United States and a further 38% is generated by services to other countries[21]. Since this aspect of aviation policy is determined through multi and bilateral negotiations with other governments there are constraints over the power any one country can exercise. The key point about the Canadian stance is the attitude which has been adopted in awarding routes to individual national carriers once an agreement on a service has been reached. Essentially, since 1973 an official approach involving designated 'spheres of influence' had been favoured[22]. Air Canada, for example, had been awarded routes involving Northern Europe while CP Air had routes over the Pacific. There are even examples, such as when Air Canada was unable to obtain a Pacific route to Korea, when an airline is excluded from the other's sphere even if the latter does not operate the particular service. In terms of efficiency, this has the potential to limit the development of services in certain areas and would seem to offer shelter behind which prices are unlikely to be minimized[23].

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17 The *Estey Report* of 1975 was influential in bringing this change about.

18 J. Baldwin, *The Regulatory Agency and the Public Corporation* (Ballinger; Cambridge) 1975.

19 In addition to the national and regional carriers there are also a large number (over 70) third level carriers which provide a wide range of services to smaller communities often acting as feeders for the larger carriers.

20 A summary of changes in airline ownership is to be found in Figure 1 of Gillen, Stanbury and Tretheway, 1988 *op cit.*

21 See, W.A. Jordan, 1986 *op cit.*

22 Also in the same year international ABC charters were allowed (in place of the affinity rule) and this allowed for the growth of low costs international charter operations

23 See, M. Dresner and M.W. Tretheway, 'Policy Choices for Canada in International Air Transport', Working Paper No. 1220, Faculty of Commerce and Business Administration, University of British Columbia, 1987.