

13. **That, in negotiating a new bilateral air agreement, provision must be made to ensure that the existing rules for computer reservation systems against bias and discrimination be maintained.**

v. *Predatory Pricing*

Some witnesses, while calling for greater pricing flexibility under a new air agreement, expressed the concern that American competitors would, because of their size and huge revenue base, be able to indulge in predatory pricing in order to drive a Canadian carrier out of the transborder market. Most agreed that this was a real threat and should be addressed in the negotiations. Others suggested that the approach to be taken to pricing should be to adopt a "double disapproval" tariff regime. This would mean that a tariff would go into effect unless the appropriate agencies of both countries disapproved of it. The current regime allows for single disapproval, which means that either country can veto a tariff.

We agree that carriers in the transborder market should have the utmost pricing freedom. Nevertheless, although we share the same concerns about the possibility of predatory pricing, we are not convinced that a double disapproval regime will necessarily provide adequate protection for our carriers. We believe that some other mechanism is required and like the suggestion of a "zone of flexibility" which would allow for automatic approval of any fares within that zone. That is to say, high-low base fares would be determined by the appropriate agencies in each country and the carriers would automatically be allowed to price according to the market within that high-low range. Therefore, we recommend:

14. **That, in negotiating a new air agreement, a mechanism be established to provide adequate protection for our carriers against predatory pricing.**

d. **The Cost of Doing Business**

A recurring theme throughout the hearings was that the cost of doing business for our carriers in Canada is higher than for the large American carriers in the United States. This means that, apart from the structural competitive advantages that American carriers have, they also have a substantially lower cost base, giving them a significant advantage over Canadian carriers when competing in the transborder market.

Witnesses pointed out that these extra costs of doing business included higher fuel taxes, higher leasing charges, higher user fees, higher telecommunications costs, greater tax burden due to lower depreciation rates, higher labour costs, and interest rates and exchange rate disadvantages with regard to the acquisition of U.S. built equipment. Some of these costs, such as interest and exchange rates, are clearly beyond the scope of this Committee's study. This was recognized by many of the witnesses who focused on financing,