

Much of the empirical evidence on the costs structure of the Canadian industry conforms to that of the U.S.A.⁵⁸. It is found that there are very few economies of scale in terms of the size of network served, but that there are marked economies of density up to quite large traffic volumes. There are indications that Air Canada was at about the minimum efficient traffic density prior to the mergers in the mid-1980s but that CP Air still had scope for expansion of traffic density - its subsequent mergers effectively enabled it to achieve them on this scenario.

Air Canada		Canadian Airlines International	
Affiliates	Relationship	Affiliates	Relationship
Air Ontario	75% Ownership	Inter-Canadian	35% Ownership
Air BC	100% Ownership	(includes: <i>Quebecair</i>	
Air Nova	49% Ownership	<i>Quebecair Inter</i>	
Air Alliance	75% Ownership	<i>Nordair Metro</i>)	
Northwest Territorial	90% Ownership	Ontario Express	49% Ownership
Air Toronto		Time Air	46% Ownership
(<i>Commuter Express</i>)	codesharing	(includes: <i>Norcanair</i>)	
		Air Atlantic	45% Ownership
		Calm Air International	5% Ownership
		Air St Pierre	codesharing

TABLE 2
Major Airline Affiliations (1988)⁵⁹

Whether the mergers have proved successful is a difficult question to answer given both the ongoing process of change which is taking place and the comparatively recent incidents of the unions. The evidence from the U.S. is that many of the mergers which have occurred there, albeit after deregulation rather than in an intervening period of gradual liberalization, have been misguided⁶⁰. Basically, the argument is that there are few economies associated with diversification and that the successful mergers have involved combining airlines with similar operation features, and even here short term problems arise and a high degree of rationalization is often required to reduce operating costs to pre-merger levels⁶¹. Many of the demand side

⁵⁸ See D.W. Gillen, T.H. Oum and M.W. Tretheway, *Airline and Performance Implications for Public and Industrial Policies* (Centre for Transportation Studies, University of British Columbia: Vancouver) 1986.

⁵⁹ From Table 3 of *Airline Industry Review: Second Quarter 1988* (Air Statistics and Forecasting Branch, Economic Analysis Directorate, Policy and Co-ordination Group, Transport Canada, Ontario) 1988.

⁶⁰ For example, Jordan, 1989, *op cit*, and W.A. Jordan, *Comparative Analysis of Airline Performance in Canada and the United States*, Report for Transport Canada Submitted to the Standing Committee on Transport, House of Commons, March 1987.

⁶¹ This is also very much in line with the recent findings relating to the economic rent enjoyed by U.S. carriers (see E.E. Bailey and J.R. Williams, 'Sources of economic rent in the deregulated airline industry', *Journal of Law and Economics*, 31, pp.173-202, 1988) although the conclusions stem from a different starting position.