HOUSE OF COMMONS
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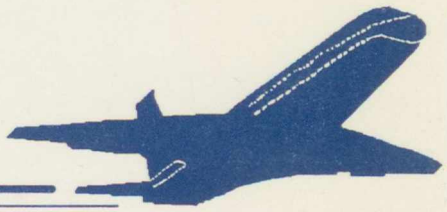

Report of the Special Committee on
Canada-United States Air Transport Services

Robert Corbett, M.P.
Chairman

January 1991

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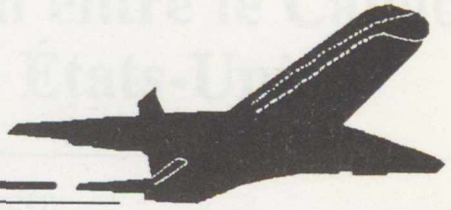

Report of the Special Committee on Canada-United States Air Transport Services

Robert Corbett, M.P.
Chairman

January 1991

HOUSE OF COMMONS

Issue No. 15

Tuesday, December 18, 1990
Wednesday, December 19, 1990
Thursday, December 20, 1990

Chairman: Robert Corbett

CHAMBRE DES COMMUNES

Fascicule nº 15

Le mardi 18 décembre 1990
Le mercredi 19 décembre 1990
Le jeudi 20 décembre 1990

Président: Robert Corbett

Minutes of Proceedings and Evidence of the Special Committee on

Canada-United States Air Transport Services

Procès-verbaux et témoignages du Comité spécial sur les

Services de transport aérien entre le Canada et les États-Unis

RESPECTING:

Order of Reference relating to Canada-United States Air Transport Services

INCLUDING:

Report to the House

CONCERNANT:

Ordre de renvoi relativement aux services de transport aérien entre le Canada et les États-Unis

Y COMPRIS:

Rapport à la Chambre

Second Session of the Thirty-fourth Parliament, 1989-90-91

Deuxième session de la trente-quatrième législature, 1989-1990-1991

SPECIAL COMMITTEE ON CANADA-UNITED STATES AIR TRANSPORT SERVICES

Chairman: Robert Corbett

Vice-Chairman: Ken Atkinson

Members

Iain Angus
Ross Belsher
Joe Comuzzi
Sergio Marchi
Denis Pronovost
Larry Schneider—(8)

(Quorum 5)

Tranquillo Marrocco

Clerk of the Committee

Pursuant to Standing Order 114(3):

Thursday, December 20, 1990:

Ken Monteith replaced Denis Pronovost;

Beth Phinney replaced Joe Comuzzi;

Denis Pronovost replaced Ken Monteith;

Joe Comuzzi replaced Beth Phinney.

Other Members who participated at meetings:

Les Benjamin
Coline Campbell
Harry Chadwick
Howard Crosby
Robert Kaplan
Stan Keyes
Ken Monteith
Rey Pagtakhan
Beth Phinney
George Proud
Joe Volpe
David Walker
Geoff Wilson

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COMITÉ SPÉCIAL SUR LES SERVICES DE TRANSPORT AÉRIEN ENTRE LE CANADA ET LES ÉTATS-UNIS

Président: Robert Corbett

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Membres

Iain Angus
Ross Belsher
Joe Comuzzi
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Denis Pronovost
Larry Schneider—(8)

(Quorum 5)

Le greffier du Comité

Tranquillo Marrocco

Conformément à l'article 114(3) du Règlement :

Le jeudi 20 décembre 1990 :

Ken Monteith remplace Denis Pronovost;

Beth Phinney remplace Joe Comuzzi;

Denis Pronovost remplace Ken Monteith;

Joe Comuzzi remplace Beth Phinney.

Autres députés qui ont participé aux réunions:

Les Benjamin
Coline Campbell
Harry Chadwick
Howard Crosby
Robert Kaplan
Stan Keyes
Ken Monteith
Rey Pagtakhan
Beth Phinney
George Proud
Joe Volpe
David Walker
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ORDERS OF REFERENCE

Extract from the Votes & Proceedings of the House of Commons of Monday, October 29, 1990:

IT WAS ORDERED, -- That the subject-matter of the proposed Canada-United States Air Transport Agreement negotiations be referred to a Special Committee of this House of Commons for the purpose of public consultation;

That the Special Committee be asked to conduct a series of public hearings in cities across Canada and in Washington, D.C., in order to canvass the views of communities, provinces, the aviation industry, labour groups, the business community, the tourist industry and the shipping and travelling public;

That the Special Committee be granted the powers of a Standing Committee of this House; and

That the Special Committee report back to the House no later than January 15, 1991; provided that, if the House is not then sitting, the report shall be deemed submitted on the day it is deposited with the Clerk of the House.

Extract from the Votes & Proceedings of the House of Commons of Friday, November 2, 1990:

IT WAS ORDERED, -- That, further to the Order adopted on Monday, October 29, 1990, a Special Committee of the House of Commons on Canada-United States Air Transport Services be appointed;

That the Committee have all the powers of a Standing Committee;

That the Committee have the power to travel and adjourn from place to place within Canada and to travel to Washington and that the necessary staff do accompany the Committee; and

That the Committee submit its report no later than January 15, 1991, provided that, if the House is not sitting, the report will be deemed submitted on the day it is deposited with the Clerk of the House of Commons.

ATTEST

ROBERT MARLEAU

Clerk of the House

ORDRES DE RENVOI

Extrait des Procès-verbaux de la Chambre des communes du lundi 29 octobre 1990 :

IL EST ORDONNÉ, -- Que la question des négociations projetées concernant l'entente Canada-États-Unis sur le transport aérien soit déférée à un comité spécial de la Chambre en vue de consulter le public;

Que le comité spécial tienne des audiences publiques dans diverses villes du Canada et à Washington, D.C., afin de sonder l'opinion des collectivités, des provinces, de l'industrie aéronautique, des groupes de travailleurs, du monde des affaires, de l'industrie touristique, des expéditeurs et des voyageurs du grand public;

Que le comité spécial ait les pouvoirs d'un comité permanent de la Chambre; et

Que le comité spécial fasse rapport à la Chambre au plus tard le 15 janvier 1991; si la Chambre ne siège pas à cette date, le rapport sera réputé avoir été présenté le jour où il sera déposé auprès du Greffier de la Chambre.

Extrait des Procès-verbaux de la Chambre des communes du vendredi 2 novembre 1990 :

IL EST ORDONNÉ, -- Que, comme suite à l'ordre adopté le lundi 29 octobre 1990, un Comité spécial de la Chambre des communes sur les services de transport aérien entre le Canada et les États-Unis soit institué;

Que le comité ait les même pouvoirs qu'un comité permanent;

Que le comité ait le pouvoir de se déplacer ou de siéger au Canada et de se déplacer à Washington et que le personnel nécessaire l'accompagne; et

Que le comité présente son rapport au plus tard le 15 janvier 1991, pourvu que, si la Chambre ne siège pas, le rapport sera réputé avoir été présenté le jour où il sera déposé auprès du Greffier de la Chambre des communes.

ATTESTÉ

Le Greffier de la Chambre des communes

ROBERT MARLEAU

ACKNOWLEDGEMENTS

The Special Committee could not have completed its study without the co-operation and support of numerous people. The Chairman and Members of the Committee extend their thanks to all the witnesses who shared with them their insights and to the organizations and individuals who submitted briefs.

The Committee also wishes to acknowledge the valued assistance of those who arranged its meetings and travels and who prepared its Report:

Clerk of the Committee:	Tranquillo Marrocco
Research Officer:	John Christopher
Consultant:	David Cuthbertson
Committee Clerks:	Carmen DePape Monique Hamilton Eugene Morawski
Office Staff:	Diane Harper Sophie Montsion Louise Rousseau Lise Tierney

Our thanks go, as well, to: Laurette Glasgow, First Secretary (Economic), Canadian Embassy in Washington; the officials from the Department of Transport (headquarters and regional offices), and in particular Bayla Kolk, Policy Advisor (Aviation) and Margaret Penniston, Parliamentary Liaison Officer, for their assistance during the public hearings; The Humphreys Public Affairs Group Inc.; Georges Royer, Text Editor; the Secretary of State translators and interpreters; Carol MacDonald from The Rider Travel Group; and the various support services of the House of Commons that provided logistical and administrative support to the Committee.

Finally, the Chairman wishes to thank the Members of the Special Committee for the many hours they dedicated to the study of this issue and the preparation of this report.

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SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

In relation to the government's proposed negotiations for a new bilateral air transport services agreement between Canada and the United States, the Committee's mandate was to assist the government in developing its negotiating strategy by providing broad objectives and guiding principles to ensure that the interests of Canada are best served. Consequently, the Committee has made the following observations and recommendations:

OBSERVATIONS:

1. We can only conclude that, not only have the Americans got the best of the current deal, but our two national carriers have faced very tough competition under the existing agreement and will certainly face a formidable challenge under a new, more pro-competitive agreement. *(page 8)*

2. We agree that, for all the reasons stated by the witnesses, the status quo is not acceptable and endorse the government's decision to initiate negotiations to establish a more liberalized bilateral air transport agreement. *(page 9)*

3. We have reached the conclusion that we are not in a position to recommend a specific negotiating option to the government. *(page 11)*

4. We would encourage our negotiating team to explore the feasibility of obtaining exclusive cabotage rights for our Canadian carriers. *(page 12)*

5. We strongly endorse a phased-in approach and consider it to be a vital and necessary safeguard for our airline industry. *(page 12)*

RECOMMENDATIONS:

1. That a primary objective of these negotiations is to improve and expand transborder air services; *(page 9)*

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; *(page 10)*

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; *(page 10)*

4. That consideration be given, during the negotiations, for the provision of an annual review to determine the impact of the agreement on services and carriers; *(page 13)*

5. That consideration be given, during the negotiations, to the inclusion of a sunset clause in the agreement; *(page 13)*

6. That consideration be given, during the negotiations, to the establishment of a mechanism to respond quickly to new and expanding service opportunities in the transborder markets; *(page 13)*

7. That consideration be given, during the negotiations, to a phase-in mechanism based upon a market share formula or some sort of capacity regime; *(page 13)*

8. That a new air agreement must guarantee equal and competitive access for Canadian carriers to essential airport facilities in the United States; *(page 14)*

9. That the government ensure that the appropriate and necessary airport infrastructure be provided in Canada to accommodate the increase in traffic flowing from a new transborder regime; *(page 14)*

10. That Canada explore whether to retain preclearance and, if retained, that the benefits derived by American carriers be paid for in some other way; *(page 14)*

11. That the government give consideration to the establishment of Canadian preclearance services at some major U.S. airports, such as New York, Chicago and Los Angeles, and that the government examine in cooperation with the United States the introduction of the red door/green door concept; *(page 15)*

12. That the negotiation of fifth freedom rights for our carriers deserves serious consideration as a commercial safeguard to ensure our fair share of benefits under a new agreement; *(page 16)*

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; *(page 17)*

14. That, in negotiating a new air agreement, a mechanism be established to provide adequate protection for our carriers against predatory pricing; *(page 17)*

15. That the government must give the highest priority to achieving a level playing field for doing business for Canadian air carriers; *(page 18)*

16. That the government give consideration to separating the negotiation of an all cargo/courier services agreement from the main negotiations and put it on a fast track; *(page 19)*

17. That the government give consideration, during the negotiation of a new bilateral agreement, to a regime which would allow for the unrestricted movement of Canadian and American private business aircraft within each other's country; *(page 21)*

18. That the government grant observer status to a representative of The Association of Canadian Airport Communities for the upcoming Canada-U.S. air negotiations; *(page 23)*

19. That the government grant observer status to one labour representative, to be designated by the labour organizations involved, for the upcoming Canada-U.S. air negotiations; *(page 23)*

20. That the government continue its consultative process with the provinces as the Canada-U.S. negotiations evolve; *(page 24)*

21. That our high safety standards should not be compromised; *(page 24)*

22. That the government ensure that the necessary air navigation infrastructure is provided to accommodate the increases in traffic resulting from a new Canada-U.S. air transport agreement; *(page 24)*

23. That Air Canada and Canadian Airlines International make every reasonable effort to develop a uniform position on the major negotiating issues in order to facilitate the government's development of a comprehensive negotiating strategy. *(page 25)*

I. INTRODUCTION

Most nations, including Canada and the United States, are signatories to the *Convention on International Civil Aviation* (signed in Chicago in 1944 and commonly referred to as the Chicago Convention) and its various supplementary, multilateral documents. From this base has emerged a network of bilateral aviation agreements, beginning with the signing in 1946 of the U.S.-U.K. Air Services Agreement. These are commercial agreements in which clear recognition is given to the primacy of interests of any two states in regard to decisions about air traffic between their territories. Third country participation is not excluded necessarily but is clearly subordinate to the prime role and right of decision of the two states initially involved. These commercial agreements cover all aspects of the aviation relationship between two countries, including routes, fares, frequencies, capacity and ground services.

The first Canada-U.S. commercial air agreement was signed in 1949 and provided for an exchange of routes between cities near the border and for equitable access to the transborder traffic by the carriers of the two countries. In 1966, a new agreement was signed which expanded scheduled air services between the two countries, and an Exchange of Notes to this agreement provided for all cargo air services by airlines of both countries. At the same time, the two countries also agreed, through another Exchange of Notes, to give favourable consideration, "as appropriate", to applications to the respective regulatory authorities to operate new services of a "regional and local nature". The Notes envisaged approval of such services without prior negotiations. At that time, there were two basic principles underpinning the negotiating strategies of both sides: equality of opportunities for carriers of both countries and equality of economic benefits.

In 1974, the 1966 agreement was amended by an Exchange of Notes, which further expanded scheduled services between the two countries. The agreement specifies point-to-point routes available to Canadian and U.S. carriers subject to the approval of both governments which designate the carriers. Concurrently, a non-scheduled air services agreement covering charter services was negotiated, as well as a third agreement which provided for the establishment of preclearance facilities at certain airports in both countries. Under this arrangement, transborder passengers in Canada can be cleared by U.S. immigration and customs officials before departure. To date, southbound preclearance facilities have been established at Montreal, Toronto, Winnipeg, Edmonton, Calgary, and Vancouver. No northbound facilities have been set up at U.S. airports.

It should be noted that these three agreements were negotiated as a package, each being considered as a *sine qua non* of the other two. This was particularly the case with the Preclearance Agreement and was demonstrated by the fact that the U.S. thought it necessary to record, in writing, its understanding that abrogation of the Preclearance Agreement would be "reasonable cause" for terminating the Air Transport Agreement as well.

In 1984, two more air agreements were concluded between Canada and the U.S. One provided for the establishment of a new, more competitive and permissive regime to encourage more regional, local and commuter transborder services (the RLCS Agreement). In addition, an Experimental Transborder Air Services Agreement (ETAS) was also negotiated. Its objective was to encourage more transborder traffic at an under-utilized airport in Canada and the United States and to experiment with the concept of an unrestricted "market-driven" service. The point chosen in Canada was Mirabel and the point in the United States was San Jose. The Mirabel program was not successful and has expired, while the San Jose to Vancouver service continues.

This package of air agreements between Canada and the United States comprises the most lucrative, complex and comprehensive bilateral air relationship in the world. However, by the early 1980's, driven to a degree by the deregulation of the American airline industry, it was recognized that this relationship needed to be changed to reflect a more competitive, flexible environment. Indeed, throughout the last decade there were sporadic and inconclusive attempts to negotiate a new agreement. With the deregulation of the Canadian airline industry and the conclusion of the Free Trade Agreement, there has been increasing interest in both countries to reopen negotiations. As a result, the two governments announced in early October that negotiations to establish a new bilateral air transport agreement would begin in early 1991.

This Special Committee was struck in November 1990 to hold public hearings across Canada and to travel to Washington, D.C., in order to canvass the views of communities, provinces, the aviation industry, labour groups, the business community, the tourism industry, and the shipping and travelling public on the proposed Canada-U.S. air transport services negotiations. In the past, the major players in bilateral air negotiations have been government officials and the airlines. This is the first time that the government has provided for a formal public consultative process through which other stakeholders can make a contribution to the development of Canada's negotiating position.

The Committee's mandate was to assist the government in developing its negotiating strategy by providing broad objectives and guiding principles to ensure that the interests of Canada are best served. In fulfilling this mandate we travelled to Vancouver, Calgary, Edmonton, Regina, Winnipeg, Moncton, Halifax, Montreal, and Toronto and heard testimony from over 70 witnesses in those cities as well as in Ottawa. Among those witnesses were representatives from Churchill, Yarmouth and Quebec City. In addition, the Committee travelled to Washington to obtain the U.S. perspective on this matter.

II. THE CURRENT SITUATION

At present, under the current scheduled air services agreement and the RLCS agreement, transborder services are provided on 83 city pairs. Canadian carriers operate exclusively on 26 of these routes while U.S. carriers have exclusivity on 39. Carriers from both countries are designated to operate on 18 of these city pairs. Currently, there are more than 13 million passenger trips annually between the two countries, generating approximately $2.3 billion in revenue. American carriers handle over 60% of the transborder traffic and earn approximately $500 million more annually than do Canadian carriers from this market. Furthermore, U.S. carriers have direct access to 90% of Canada's population while Canadian carriers can only reach 30% of the U.S. market.

Obviously, one of the reasons for the current imbalance in market shares is the imbalance in the number of bilateral routes awarded to the airlines of each country. Apart from this, certain structural competitive advantages have enabled American carriers to maintain their dominance and improve their market share. This has occurred through the development, since deregulation, of the "hub-and-spoke" system in the United States and preclearance of transborder passengers in Canada.

Because of the size of the U.S. population and its relatively even distribution, large U.S. carriers have been able to establish major hubs. These airlines channel their traffic into these hubs, consolidate it and then distribute it to numerous points within their networks. As a result of consolidation and competition, several "mega" American carriers have emerged. Through their shear size, their computer reservation systems, control of feeder airlines, control of gates and slots, and frequent flyer programs, they have managed to create "fortress hubs" which can effectively block the entry of potential competitors.

Some of these major hubs, such as Chicago, are designated gateways for transborder traffic originating in Canada. Once the traffic has arrived in Chicago, it is consolidated with domestic American traffic and then distributed by the American carrier to all of its domestic and international destinations "behind/beyond" the gateway hub. For example, this enables an American carrier in the Toronto—Chicago market to mount more daily frequencies because a substantial portion of the traffic is not destined to Chicago but beyond to the many points within its extensive network. Another form this phenomenon takes is through the creation of "fictitious" hubs. On the Toronto—Rochester route, for example, although only a small segment of the traffic is actually destined for Rochester, the American carrier mounts several frequencies a day because the vast majority of the traffic is dispersed to other destinations. In contrast, a Canadian carrier can only carry traffic to Chicago or Rochester and not beyond. This can only be done by interlining or connecting with a U.S. carrier at the hub. Therefore, there is a strong incentive for the behind-the-gateway traffic to use a U.S. carrier to avoid interlining with the attendant delays, greater risk of baggage loss, etc.

When this structural advantage is coupled with preclearance in Canada, which means U.S. airlines can treat the passenger as a U.S. domestic traveller, the incentive to use U.S. carriers becomes overwhelming. This allows them to offer same-plane or timely connecting service to and from cities behind the U.S. gateways, to markets from which Canadian carriers are excluded. These inherent competitive advantages enable U.S. carriers to capture a substantial amount of the traffic on many bilateral routes. This greater traffic volume permits a higher frequency of service (which is the key element along with price in competing for markets), which further enhances the attractiveness of U.S. carrier service. However, where these structural competitive advantages are absent, that is, where most of the traffic has its true origin or destination at the U.S. gateway (e.g., Toronto—Los Angeles) and/or a good proportion originates behind the Canadian gateway (e.g., Toronto) the Canadian carrier has been able to compete effectively against the much larger U.S. carrier.

In contrast, Canada, with the bulk of its small population spread in an east-west strip within 200 kilometres of the border, has a much smaller domestic base with only a few hub/gateway points. Moreover, our two national carriers combined would not be as large as the seventh largest U.S. competitor in the transborder market.

The Committee believes that, as a result of the bilateral route exchange imbalance, the significant differences in population densities, and the U.S. hub-and-spoke/gateway system combined with preclearance, the U.S. carriers have a significant competitive edge in most transborder markets as well as to third countries.

Under these circumstances, we can only conclude that, not only have the Americans got the best of the current deal, but our two national carriers have faced very tough competition under the existing agreement and will certainly face a formidable challenge under a new, more pro-competitive agreement.

III. A NEW CANADA – UNITED STATES AIR RELATIONSHIP

A. SCHEDULED AIR SERVICES

The heart and soul of the Canada-U.S. air bilateral relationship is the agreement on scheduled air services between the two countries. In 1989, scheduled services represented 82% of the total transborder traffic. Clearly, it is by far the largest element in the relationship and will be the main focus of the negotiations. This is what the Committee will concentrate on; other elements, such as cargo and charters, will be considered separately.

A substantial number of witnesses indicated that the current relationship is too restrictive and outdated. They said that a new arrangement was required to expand and improve air links with the United States which would be beneficial to the travelling public, enhance economic development and investment opportunities, and stimulate convention and tourist traffic, and that the status quo was simply not acceptable particularly in light of the Free Trade Agreement. In addition, others emphasized that there was little choice but to pursue a more liberalized agreement in order to meet the challenge of globalization in the aviation industry and the impact of a united Europe in 1992.

We agree that, for all of the reasons stated by the witnesses, the status quo is not acceptable and endorse the government's decision to initiate negotiations to establish a more liberalized bilateral air transport agreement.

1. The Negotiating Objectives

Several witnesses pointed out that one of the major objectives of transportation is to serve the needs of the travelling public and improve the level and quality of services. We were told that there was a perception that Canada's transborder air policy has historically been driven more by the interests of our major airlines than those of the travelling public and communities — that when it came to the crunch in negotiations, the public interest was usually subordinated to that of the airlines. Whatever the case, we are, in light of all the evidence on the need for better transborder services, convinced that a major aim of these negotiations must be to try to satisfy the expectations and needs of the travelling public and communities. We therefore recommend:

1. **That a primary objective of these negotiations is to improve and expand transborder air services.**

These are going to be major commercial negotiations: traffic rights are valuable and rights to serve each other's markets must be paid for. The preamble to the 1966 air

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.

The third scenario is open skies with cabotage. Cabotage, sometimes known as the seventh freedom of the air, is the freedom of an airline to carry domestic traffic within a foreign country. For example, a "right-of-cabotage" would exist if Air Canada flies to Chicago and then on to Los Angeles and had the privilege of picking up passengers in Chicago and carrying them to Los Angeles. This would mean unrestricted, integrated competition for the carriers of both countries, in both countries.

On the basis of these definitions, some witnesses appeared to be in favour of route specific / liberalization negotiations, albeit with an interesting array of nuances and approaches, while others cautiously endorsed open skies or enthusiastically embraced it. Although a few witnesses were prepared to accept open skies plus cabotage, a large number of those who addressed the issue of cabotage saw it as a potentially major threat to the viability of our industry and rejected it. Others thought it might be a good idea but not at the present time and certainly not if it was a "deal breaker". Then there were a few who thought cabotage was a "red herring" in these negotiations.

Regarding the last two options, many witnesses expressed concern about the ability of our two national carriers to compete against the mega American carriers and, indeed, survive in an environment of unbridled competition. Some witnesses thought that, at the very least, our two carriers would either have to merge and/or become "regional" feeder airlines for the large American carriers. Canada would be treated by them as just another regional market; a few more spokes for the hub. Others were convinced that more apocalyptic consequences would occur, such as the disappearance of both our national carriers, the destruction of our national domestic system including regional, local, northern and remote services, and the end of our unique aviation culture and tradition. However, no matter what negotiating option witnesses advocated, all were in agreement that no new regime should be put in place without a real and substantial safety net for our airline industry.

The Committee has grappled with what was bound to be the fundamental question raised by these hearings, that is, whether it should choose a negotiating option. Needless to say, we had considerable difficulty arriving at a position, not only because of the confusion regarding the negotiating options, but also because of the complexities surrounding them. In the final analysis, we have reached the conclusion that we are not in a position to recommend a specific negotiating option to the government. This is based on three reasons. The first is that any new agreement will involve the exchange of valuable traffic rights and complex commercial trade-offs. To begin with, the data and information necessary to be able to assess, analyze or evaluate the commercial elements and the impact of a new agreement on Canada's aviation industry was not available to us, nor was it provided by the witnesses. Secondly, the government must have the utmost flexibility in the development of its negotiating strategy. For us to recommend a negotiating option would, we feel, reduce the government's scope and, indeed, possibly preempt a necessary and worthwhile strategy. Finally, we do not think it makes any sense to reveal any fundamental element that might or might not be central to the government's negotiating position.

Obviously, there will be a considerable amount of confidentiality surrounding the government's final negotiating strategy and we do not want to recommend anything at the present time that might adversely affect this.

Having said this, we want to reflect the strong views that many witnesses had against the inclusion of cabotage as part of the negotiating strategy. They were convinced that, if the mega American carriers were given cabotage rights, it would devastate our airline industry. While we want to give the government as much latitude as possible in these negotiations, we do not think that American carriers should be given cabotage rights under a new agreement. However, we would encourage our negotiating team to explore the feasibility of obtaining exclusive cabotage rights for our Canadian carriers.

Whatever the case, we firmly believe that, no matter what negotiating strategy is finally developed, a central feature must be, as most of the witnesses stated, a significant safety net containing a bundle of essential safeguards.

3. Safeguards

a. Phase-In

In the Minister of Transport's statement announcing negotiations he said that they would include the development of a phased approach for the implementation of a new regime. Most of the witnesses said this was an essential safeguard, but few offered the Committee any concrete suggestions about how this might be done or how long a phase-in period was required. What they recognized was that our carriers were going to need a period of time to adjust to the new environment and that the whole process should be evolutionary rather than revolutionary in order to minimize the potential adverse impact on our national carriers.

Obviously, we are not in a position to indicate to the government what type of phase-in mechanism or formula should be negotiated. One suggestion was that it be based on decreed market share quotas, while another proposed that it be based on a division of the total number of seats that could be offered in the transborder market at any one time. Whatever the case, we strongly endorse a phased-in approach and consider it to be a vital and necessary safeguard for our airline industry.

In support of this approach, some witnesses suggested that there be provision in the agreement for periodic reviews to assess its impact on services and carriers. Others proposed some type of sunset clause which would require a complete review of the agreement, say after five years. It was also pointed out that one of the serious problems with the existing agreement was its rigidity and inability to respond to changing transborder markets and demands. Some witnesses suggested that the new agreement should contain a mechanism which would ensure flexibility and timely response to rapidly changing airline

markets and demand for new services. A few witnesses also proposed that the current RLCS regime, with its automatic approval process, could serve as a model for such a mechanism.

We believe that all of these suggestions are worthy of serious consideration for inclusion in a new agreement. Moreover, we would note that there is provision in the *National Transportation Act, 1987* for annual reviews of its operation and impact to be conducted by the National Transportation Agency. A report is published each year and we think a similar approach should be adopted here as well. Therefore, the Committee recommends:

4. **That consideration be given, during the negotiations, for the provision of an annual review to determine the impact of the agreement on services and carriers;**

5. **That consideration be given, during the negotiations, to the inclusion of a sunset clause in the agreement;**

6. **That consideration be given, during the negotiations, to the establishment of a mechanism to respond quickly to new and expanding service opportunities in the transborder markets; and**

7. **That consideration be given, during the negotiations, to a phase-in mechanism based upon a market share formula or some sort of capacity regime.**

b. Operational Safeguards

Several witnesses, including all of the airlines, expressed great concern about access at major American airports. In order to establish a competitive service in a new market, a Canadian airline will require access to essential airport facilities such as landing and take-off slots, passenger gates, ticket counters and baggage handling. At most major American airports the dominant carriers serving that airport own and/or control the terminal facilities. It was pointed out by one witness that a recent report of the U.S. General Accounting Office (GAO) indicated that 88% of the gates at the 66 largest American airports are leased to airlines, most of which are for their exclusive use. Moreover, 87% of the leased gates at large and medium sized U.S. airports are leased on a long term basis.

As far as slots are concerned, again, the dominant carriers control most of the peak period slots. Generally speaking, additional slots can only be obtained through a lottery process with a starting price of more than $1 million U.S. or traded among incumbents as opposed to new entrants. Furthermore, as a result of a High Density Rule there are slot restrictions at four U.S. airports: LaGuardia, Kennedy, Chicago (O'Hare) and Washington National.

The witnesses emphasized that these operational constraints would severally restrict our carriers in their ability to introduce, add or expand service. They insisted that one of the major preconditions of a new agreement must be equal and fair access to major American airports. The Committee agrees, and sees this as another essential safeguard that must be part of any new agreement. Therefore, we recommend:

8. That a new air agreement must guarantee equal and competitive access for Canadian carriers to essential airport facilities in the United States.

The Committee appreciates that there has to be reciprocity regarding access to essential airport facilities and realizes that we have a serious congestion problem at Pearson and a growing one at Vancouver and Dorval. Several witnesses expressed concern about this and emphasized that the airport infrastructure must be put in place to cope with the inevitable increase in transborder traffic that would occur under a new agreement. We acknowledge that the government is taking action at Pearson and Vancouver to alleviate these problems. Nevertheless, we feel it is such a key issue that we wish to recommend:

9. That the government ensure that the appropriate and necessary airport infrastructure be provided in Canada to accommodate the increase in traffic flowing from a new transborder regime.

c. Commercial Safeguards

i. Preclearance

Many witnesses acknowledged that preclearance provides American carriers with a significant competitive advantage. However, even the airlines were loath to recommend that preclearance be abolished. Everyone recognized how convenient it is because of postclearance congestion at U.S. airports and how popular it is with the Canadian public.

We appreciate that this is a very difficult issue for Canada. We understand how popular and convenient preclearance is for the travelling public. Nevertheless, there are significant marketing and commercial benefits for American carriers from preclearance which have undoubtedly contributed to the current revenue imbalance. Consequently, we believe that, in developing a negotiating strategy, the government must reexamine the question of whether to retain preclearance or eliminate it. Therefore, we recommend:

10. That Canada explore whether to retain preclearance and, if retained, that the benefits derived by American carriers be paid for in some other way.

Several witnesses suggested that, as an alternative to eliminating preclearance, Canada should establish Canadian preclearance facilities at major U.S. airports. Others advocated an improvement and streamlining of postclearance facilities in both countries, including the consideration of the European red door/green door system for customs

clearance. Under this system, the traveller is given a choice: if he has nothing to declare he goes through the green door; if he has something to declare he goes through the red door where he is inspected by customs officials. A few witnesses even went so far as to recommend consideration of continental clearance which would, in effect, mean a customs union for Canada and the United States.

The issue of continental clearance is one that has far reaching implications. It may well be a topic for consideration in the future, but we do not feel that it should be dealt with in this report. Regarding northbound Canadian preclearance, there has not been much pressure to establish such facilities because of the large number of major U.S. airports originating Canadian traffic and the fact that most northbound air services terminate at the Canadian gateways with little or no beyond traffic. As a result, it does not appear that our Canadian carriers would derive much benefit, or competitive advantage, from the establishment of northbound preclearance at a few major American airports. Nevertheless, we think that northbound preclearance merits consideration, as well as ways and means of enhancing postclearance, including the red door/green door concept. Therefore, the Committee recommends:

11. That the government give consideration to the establishment of Canadian preclearance services at some major U.S. airports, such as New York, Chicago and Los Angeles, and that the government examine in cooperation with the United States the introduction of the red door/green door concept.

ii. Cabotage

As has been pointed out, cabotage was a contentious issue during the hearings. We have chosen not to accept or reject it as an element in the negotiations. However, the Committee was interested in those witnesses that suggested that one way of offsetting the competitive advantages of the U.S. carriers in the transborder market would be to give Canadian carriers limited cabotage rights. Limited cabotage is interpreted to mean that Canadian carriers can take on domestic U.S. passengers at an intermediate point on a transborder route. For example, Canadian Airlines International (CAIL) would be able to fly Vancouver—San Francisco—San Diego with "fill-up" rights at San Francisco. This is in contrast to "full" cabotage rights which would allow our two carriers to carry domestic U.S. traffic to and from any points within the United States.

The Committee wishes to note that our two national carriers were divided on this important issue. CAIL argued very forcefully that, no matter how cabotage in transborder markets was approached, it saw no way in which CAIL could benefit from it. In its view, the U.S. domestic market was simply too tightly controlled and dominated by the large American carriers. On the other hand, Air Canada is calling for, at a minimum, an examination of a limited cabotage exchange under a new air agreement.

Despite CAIL's rejection of limited cabotage, we believe that this proposal of the application of limited cabotage as a commercial safeguard has merit. It may be one way of reducing the current revenue imbalance. However, as we have already said, we would encourage our negotiating team to only explore the feasibility of obtaining exclusive cabotage rights for our Canadian carriers.

iii. Fifth Freedom Rights

Fifth freedom rights are the privilege to take on passengers, mail and cargo in one foreign country for carriage to another foreign country. For example, CAIL could fly Vancouver—Los Angeles—Mexico City with the right to pick up domestic U.S traffic in Los Angeles. Some witnesses suggested that the award of fifth freedom rights to Canadian carriers might help to redress the competitive imbalance by making a range of new international air services possible. It was thought that Canadian carriers would gain from such an arrangement because it does not appear that fifth freedom rights beyond Canada are of much value to U.S. carriers.

Consequently, we think it is possible that fifth freedom rights could be of some advantage to Canadian carriers. Therefore, we recommend:

12. That the negotiation of fifth freedom rights for our carriers deserves serious consideration as a commercial safeguard to ensure our fair share of benefits under a new agreement.

iv. Computer Reservation Systems (CRS)

A few witnesses indicated that probably the most powerful marketing tool is the CRS. These have become very sophisticated, displaying numerous airline schedules, fares, and other product information such as car rentals and hotel reservations, all of which can be sold by the travel agents. There is only one CRS in Canada; it is owned and controlled by Air Canada and CAIL. Similarly, there are a few in the United States owned and controlled by the mega carriers. Because of the high cost of establishing a CRS and selling it to travel agents, it is next to impossible for a new entrant to create its own system. This means that any new entrant must pay for access to an existing CRS and pay a fee for each of its flights booked through the system. In addition, travel agents tend to favor the owner carrier in booking flights and services. This is known in the trade as the "halo" effect.

Initially, a major problem was the possibility of the owner carrier discrimating against "hosted" carriers who were paying for access to the system. As a result, the U.S. government put in place rules to protect against bias by the CRS vendor or discrimination exercised by the vendor against a hosted carrier. These rules were due to expire at the end of 1990; the U.S. Department of Transportation is currently considering revisions to them. It was emphasized that, in order to ensure no discrimination against Canadian carriers in the transborder market occurs, these rules must be maintained. We agree, and therefore recommend:

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,

fuel and user costs, as well as on the tax burden because of depreciation rates. These witnesses were very firm in their opinion that these various cost factors must be addressed or our airlines will be at a singular disadvantage under a more liberalized regime.

We agree that these cost factors demand serious consideration. We also understand that this is a "made-in-Canada" problem which cannot be rectified through negotiations. Furthermore, most of these issues are outside the responsibility of the Minister of Transport and within the jurisdiction of the Minister of Finance. In addition, we recognize that special treatment of the transportation industry may be required and this will take time to resolve. Therefore, we agree with those witnesses who said an examination of these issues should not delay the start of negotiations but should certainly proceed in tandem with them. On that basis, we recommend:

15. That the government must give the highest priority to achieving a level playing field for doing business for Canadian air carriers.

e. Foreign Ownership

Several witnesses pointed out that, in order for our national carriers to compete and flourish under a new regime, there might be a need for substantial equity infusion and the formation of alliances with American carriers. They indicated that they were not sure if the 25% foreign ownership limit was sufficient and, consequently, suggested that the limit should be raised to as high as 49%, emphasizing that this could be seen as a safeguard because such capital infusions and alliances would help to ensure the viability of our two national carriers in continental and international markets.

We appreciate that the consideration of the foreign ownership limits is outside our mandate and, therefore, we do not intend to make any further comment on it. However, we do want to point out that the U.S. has the same limit and that this issue is one which will probably have to be addressed in the future — certainly, it is under review in the U.S. now.

B. NON-SCHEDULED SERVICES (CHARTERS)

As pointed out earlier, a separate bilateral agreement for non-scheduled air services was concluded in 1974. In 1989, charter services accounted for 18% of the total transborder traffic and the Canadian carriers carried 96% of that traffic. Little was said regarding transborder charter services except by the three Canadian charter companies which appeared before the Committee. Generally speaking, they favoured moving toward an open skies regime with some safeguards in place.

It is clear that, while the main focus of the negotiations will be on scheduled air services, it is inevitable that some, if not all, of the Canadian frequent charter services to favourite American sunspots will be included in these negotiations. Therefore, what we have said about negotiating options and safeguards for scheduled services applies equally to charters.

C. ALL CARGO/COURIER SERVICES

All cargo and courier services (letters and small packages) come under the 1966 Exchange of Notes which accompanied the scheduled air services agreement. It should be noted that there are three types of cargo/courier services offered by airlines. On scheduled services, cargo can be carried either exclusively in the belly holds of passenger airlines or in a "combi" configuration, which is a combination of cargo in the belly holds and in separate compartments on the passenger deck. The third way is on dedicated all cargo aircraft.

Of the witnesses who dealt with all cargo/courier services, most were not in favour of the status quo, which they all considered to be out of date and restrictive. Their views on a new regime ranged from some liberalization on a route-specific basis to a full all cargo open skies regime. Regarding cabotage, most expressed concerns about its impact in the Canadian market and, therefore, were not in favour of it. Furthermore, several witnesses emphasized that negotiation of an all cargo/courier services agreement should be separated from the main negotiations of a scheduled air services agreement and be put on a fast track.

All of these points were made enthusiastically and forcefully by all of the witnesses the Committee heard in Moncton; they believe that there is a great future for it as a major cargo hub with transborder links. This view was expressed in a most stimulating and interesting manner by the Honourable Sheldon Lee, Minister of Transportation for New Brunswick, and the Honourable James Lockyer, Minister of Justice, in their presentation to the Committee.

Because a great deal of cargo moves on scheduled passenger aircraft, the Committee does not believe it is possible to separate cargo/courier services from the total package of opportunities and economic benefits which will finally be negotiated. However, we do think it should be possible to separate the negotiation of all cargo/courier services from the main negotiations and give it priority, particularly if the main negotiations bog down. Therefore, the Committee recommends:

16. That the government give consideration to separating the negotiation of an all cargo/courier services agreement from the main negotiations and put it on a fast track.

D. REGIONAL, LOCAL AND COMMUTER SERVICES (RLCS)

A fourth air agreement concerning regional, local and commuter services was concluded between Canada and the U.S. in 1984. The essential element in this agreement was the establishment of a new regulatory regime to encourage more regional, local and commuter transborder services (the RLCS Agreement).

Under this program, services proposed by Canadian and U.S. carriers will qualify automatically for transborder routes if they meet the following criteria:

- serve cities not currently linked by negotiated routes;
- at least one of the cities must have a metropolitan population of fewer than 500,000 in Canada or one million in the United States;
- the distance between cities is no more than 400 statute miles in central Canada and the United States and 600 statute miles in other parts of the two countries (central Canada is defined as east of Thunder Bay and west of Quebec City); and
- use aircraft of 60 seats or less.

Both governments agreed to review annually services that do not meet the criteria and there is ministerial discretion to approve such services. However, airlines will be able to serve cities included in previous agreements as long as the services meet the above criteria and operate at a secondary airport in either the U.S. or Canada. For example, a carrier could fly from Toronto to a U.S. city with a population of less than one million if Toronto Island Airport were used.

Not much was said on the RLCS agreement during the hearings other than it seemed to be working well. Indeed, it was suggested to us by a few witnesses that it could serve as a model for a mechanism under a new regime to ensure carrier flexibility and response in a rapidly changing transborder market. However, some witnesses who addressed the operation of the RLCS agreement did suggest that some of the criteria should be relaxed or removed to enable carriers to expand and establish new services under the automatic approval process.

Again, it appears to us that this agreement will be subsumed by the negotiations on a new scheduled air services agreement. Certainly, the opportunities and benefits flowing from these services will become part of the overall package. Therefore, what the Committee said regarding scheduled air services generally applies here.

E. SPECIALTY AIR SERVICES

Specialty air services have not been covered by any formal transborder agreement. Generally speaking, Canadian or American carriers can only work in each other's market if there is no home carrier available which can do the work: this is known as the right of first refusal policy. These specialty services include air flight training, aerial inspection, aerial construction, aerial forest fire management, aerial spraying, aerial advertising, aerial fire-fighting, aerial sightseeing, aerial photography and survey, aerial weather altering, glider towing, helilogging, parachute jumping, and aerial transport of human organs.

The Committee heard from representatives of the aerial photography and survey sector. They were enthusiastic about an open skies regime. However, there was one major caveat. They said that it was more costly for Canadian operators to comply with the more onerous regulatory regime in Canada than for their U.S. counterparts in the United States. Most emphasized that they would only accept open skies if there was some harmonization of Canadian and American regulatory requirements. Moreover, they urged that negotiations on specialty services be separate from the main negotiations; some even suggested that they should be done on a specialty-by-specialty basis.

The Committee also heard from another specialty service — aerial firefighting. The witness favoured the status quo for two main reasons. The first was the higher costs involved in complying with Canadian regulations and the second was that American operators had access to cheap surplus military aircraft.

We would have liked to hear more representatives of the specialty services industry. It was brought to the Committee's attention that Transport Canada was in the process of completing an analysis and report on how this sector feels about an open skies regime for all specialty air services. Under these circumstances, we do not feel we can, at this time, reach any conclusion regarding negotiations concerning specialty services. However, what we can observe is that, if there are negotiations on specialty services, they will have to be separated from the main negotiations. Nevertheless, any new regime would certainly have to be part of the overall package of economic benefits.

F. BUSINESS AIRCRAFT

As with specialty services, the transborder movement of private business aircraft is not governed by any formal bilateral agreement. One representative of this sector told the Committee that Canadian business aircraft have complete cabotage rights in the United States while U.S. aircraft do not in Canada because of Canadian customs' regulations. It was urged upon the Committee that the negotiations should ensure that this anomaly be rectified and that any new agreement should provide for freedom of movement for each other's private business aircraft within each other's country.

The Committee was impressed with the argument of lack of reciprocity regarding transborder flights of business aircraft. We therefore recommend:

17. That the government give consideration, during the negotiation of a new bilateral agreement, to a regime which would allow for the unrestricted movement of Canadian and American private business aircraft within each other's country.

IV. OTHER ISSUES

A. OBSERVER STATUS AND CONSULTATIONS

To date, the major players in bilateral air negotiations have always been government officials and the airlines. It has been very much a closed shop without any formal consultative process or, indeed, much public participation. Furthermore, a perception has developed that, in the final analysis, carrier interests have taken priority over those of the travelling public and the communities.

A good number of witnesses who applauded the government's initiative to hold hearings said that, while this was a good start, there should be continuing involvement and participation. They suggested that this could be assured by giving observer status at the negotiations to appropriately nominated or designated persons. Some went so far as to urge that such person(s) should become a member of the negotiating team.

We recognize that the negotiating team cannot be too large and that too many observers would render it unwieldy and unmanageable. We understand that, in the past, our two national airlines have had observer status at all bilateral air negotiations. We would like to see this policy continued for these negotiations and believe that reasonable observer status accreditation should also be extended to other stakeholders. It should be noted that it has been a longstanding policy of the United States to grant observer status not only to airlines, but also to community and labour organizations.

It was brought to the attention of the Committee that major airport communities have formed an organization called The Association of Canadian Airport Communities. We think a representative of that association should have observer status at these negotiations. Therefore, we recommend:

18. That the government grant observer status to a representative of The Association of Canadian Airport Communities for the upcoming Canada-U.S. air negotiations.

Representatives from airline labour organizations urged the Committee to support observer status for a representative of their organizations. Although we recognized that there must be limitations on the size of the negotiating team, we feel that, because of the significance of these negotiations and the potential impact on the Canadian airline industry, labour should be represented at the negotiations. Therefore, we recommend:

19. That the government grant observer status to one labour representative, to be designated by the labour organizations involved, for the upcoming Canada-U.S. air negotiations.

The five provinces that presented briefs to the Committee emphasized the importance of continuing consultations on the negotiations as an essential means of ensuring that regional interests are taken into consideration. We support this and recommend:

20. That the government continue its consultative process with the provinces as the Canada-U.S. negotiations evolve.

B. THE EUROPEAN DIMENSION

In 1992, the member nations of the European Economic Community will create a customs union, after which time it will likely be the Community, rather than individual European nations, that will be negotiating bilateral air agreements with other countries. The Community will have substantial powers, and it is not clear whether the Community will treat intra-European air travel as a form of cabotage.

No doubt, the Europeans will be following closely the progress and outcome of the Canada-U.S. air negotiations. In the same way, our negotiators have to be aware of the European dimension as they proceed with negotiations. The Committee can only regret that it did not have the time, nor the opportunity, to explore this matter in greater detail. However, we urge the government to give some consideration to this issue as it is possible that a new Canada-U.S. air agreement will become a model for future agreements with other countries.

C. SAFETY

Safety is sacred. The Committee appreciates that the Canada-U.S. negotiations are about a commercial agreement and that safety is not part of these negotiations. However, we do want to point out that several witnesses did refer to the cost of compliance with our high safety standards. They suggested that, in certain areas, American regulatory requirements were not as stringent and that some harmonization should be considered. We understand this argument, but we do not think there should be any dimunition of our standards through harmonization. Therefore, we recommend:

21. That our high safety standards should not be compromised.

Another safety issue we think deserves comment is that raised by several witnesses concerning the need to ensure that air navigation systems surrounding busy Canadian airports keep pace with the inevitable growth flowing from a new transborder regime. Therefore, we recommend:

22. That the government ensure that the necessary air navigation infrastructure is provided to accommodate the increases in traffic resulting from a new Canada-U.S. air transport agreement.

D. CARRIER COOPERATION

Both our national carriers made substantial and useful presentations to the Committee. While we recognize they are competitors in the domestic and transborder markets, we were dismayed by the marked differences in their views. We don't think that this division of opinion will, if it continues, be very productive and positive for the negotiations. We think our major carriers should set aside their competitive instincts and try to develop a unified position. Therefore, we recommend:

23. That Air Canada and Canadian Airlines International make every reasonable effort to develop a uniform position on the major negotiating issues in order to facilitate the government's development of a comprehensive negotiating strategy.

V. CONCLUSION

Almost all of the witnesses said that the status quo was not acceptable. They recognized that change was necessary to improve and establish new transborder air links, stimulate investment and tourism, and take advantage of the opportunities presented by the Free Trade Agreement. In addition, some recognized the advent of airline globalization and the need for our national carriers to be able to respond to this phenomenon. Most thought that negotiation of a more liberal agreement was long overdue.

However, many of these same witnesses expressed concern about whether our two national carriers will be able to compete and, indeed, survive the transition to more open skies and the globalization of air markets. Frankly, we are not sure either. But we think we have struck a fair and reasonable balance between the public interest and the needs of the carriers through our proposed objectives and safeguards for the negotiations.

We had a particularly difficult time with the issue of cabotage. We agree with many of the witnesses that expressed the fear that giving cabotage rights to American carriers might well deal a devastating blow to our airline industry. Under these circumstances, we are not persuaded that cabotage is in Canada's best interests. However, we have recognized that the government must be given the maximum negotiating latitude and that limited cabotage exclusively for our carriers may be an advantage in the negotiations.

Given the circumstances, we believe we really have no choice but to go forward.The challenge for the government is to negotiate an agreement which achieves a balance between these competing interests. We appreciate that the final outcome of negotiations must be a total package containing a fair and reasonable balance of opportunities and benefits for both countries. We recognize that this will not be an easy task, but what is at stake may well be nothing less than the continued strength and stability of our airline industry.

APPENDIX 1

LIST OF WITNESSES

NAME	DATE	ISSUE
Air Canada	December 6, 1990	11
Air Charter Systems	December 6, 1990	11
Air Manitoba	November 30, 1990	8
Air Nova	December 5, 1990	10
Air Transat	December 6, 1990	11
Air Transport Association of Canada	December 11, 1990	13
Alberta Aviation Council	November 28, 1990	6
Alliance of Canadian Travel Associations	December 11, 1990	13
Atlantic Provinces Transportation Commission	December 4, 1990	9
British Columbia Aviation Council	November 26, 1990	4
Calgary Convention and Visitors Bureau	November 27, 1990	5
Calgary Transportation Authority	November 27, 1990	5
Calm Air	November 30, 1990	8
Canada 3000 Airlines	December 7, 1990	12
Canadian Air Line Pilots Association	December 7, 1990	12
Canadian Air Traffic Control Association	November 22, 1990	3
Canadian Airlines International	November 26, 1990	4
Canadian Association of Tour Operators	December 7, 1990	12

NAME	DATE	ISSUE
Canadian Brotherhood of Railway, Transport and General Workers	November 30, 1990	8
Canadian Business Aircraft Association	November 21, 1990	2
Canadian Hotel Marketing and Sales Executives	December 7, 1990	12
Canadian International Freight Forwarders Association	December 7, 1990	12
Canadian Union of Public Employees, Airline Division	December 11, 1990	13
CanAir Cargo	December 7, 1990	12
Chambre de commerce et d'industrie du Québec métropolitain	December 6, 1990	11
Churchill, Local Government District of	November 30, 1990	8
Commercial Travellers' Association of Canada	December 5, 1990	10
Conair Aviation	November 26, 1990	4
Conseil économique du Nouveau-Brunswick	December 4, 1990	9
Conseil régional des transports de l'est du Québec	December 6, 1990	11
Department of Transport (Canada)	November 20, 1990	1
Driedger, the Honourable Albert, Minister of Highways and Transportation, Province of Manitoba	November 30, 1990	8
Edmonton Air Services Authority	November 28, 1990	6
Edmonton Chamber of Commerce	November 28, 1990	6
Edmonton Convention Centre Authority	November 28, 1990	6
Edmonton Economic Development Authority	November 28, 1990	6
Edmonton Regional Airports Authority	November 28, 1990	6
Edmonton Tourism	November 28, 1990	6
Geomatics Industry Association of Canada	November 20, 1990	1

NAME	DATE	ISSUE
Greater Moncton Chamber of Commerce	December 4, 1990	9
Greater Moncton Economic Development Authority	December 4, 1990	9
Halifax, City of	December 5, 1990	10
Holm, John, Member of the Legislative Assembly of Nova Scotia	December 5, 1990	10
Hotel Association of Metropolitan Halifax	December 5, 1990	10
Intera Information Technologies	November 27, 1990	5
International Association of Machinists and Aerospace Workers	November 20, 1990	1
Jettall Holdings	December 7, 1990	12
Lang, Michael, Airline Pilot	December 7, 1990	12
Lee, The Honourable Sheldon, Minister of Transportation, Province of New Brunswick	December 4, 1990	9
Lewis, The Honourable Doug, Minister of Transport	November 20, 1990	1
Lockyer, the Honourable James, Minister of Justice, Province of New Brunswick	December 4, 1990	9
Manitoba Federation of Labour	November 30, 1990	8
McGuire Communications	December 5, 1990	10
McInnes, The Honourable Donald P., Minister of Transportation and Communications, Province of Nova Scotia	December 5, 1990	10
Moncton, City of	December 4, 1990	9
Moncton Airport Economic Development Board	December 4, 1990	9
Nationair	December 6, 1990	11
National Automobile, Aerospace, and Agricultural Implement Workers Union of Canada (CAW–Canada)	December 7, 1990	12
North West Geomatics	November 27, 1990	5
Nova Scotia Department of Transportation and Communications	December 5, 1990	10
Ottawa-Carleton Economic Development Corporation	November 21, 1990	2
Reid, Daryl, Member of the Legislative Assembly of Manitoba	November 30, 1990	8

NAME	DATE	ISSUE
Saskatchewan Aviation Council	November 29, 1990	7
Saskatchewan Department of Highways and Transportation	November 29, 1990	7
Saskatchewan Urban Municipalities Association	November 29, 1990	7
Société de promotion des Aéroports de Montréal (SOPRAM)	December 12, 1990	14
Tourism Industry Association of Nova Scotia	December 5, 1990	10
Tourism Regina	November 29, 1990	7
Trade Centre Ltd.	December 5, 1990	10
Transport 2000 Canada	December 7, 1990	12
Vancouver Board of Trade/World Trade Centre	November 26, 1990	4
Vancouver International Airport Authority	November 26, 1990	4
Winnipeg Chamber of Commerce	November 30, 1990	8
Yarmouth County Tourism Association	November 5, 1990	10

APPENDIX 2

LIST OF SUBMISSIONS

The following is a list of briefs, letters and submissions to the Committee from groups and individuals from whom the Committee could not receive personal testimony.

- Air BC
- Alberta Department of Transportation and Utilities
- Intair
- Norman Regional Development Corporation
- North West Saskatchewan Tourism Development Group
- Perimeter Airlines
- Transport 2000 Atlantic

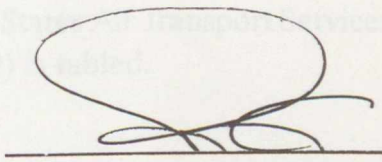
APPENDIX 3

DISCUSSIONS HELD IN WASHINGTON, D.C.

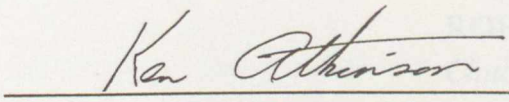
The Committee travelled to Washington from December 12–14, 1990, and held discussions with the following:

- His Excellency Derek H. Burney, Canadian Ambassador to the United States
- Air Line Pilots Association International
- Air Transport Association
- Airport Operators Council International
- General Accounting Office
- National Air Carrier Association
- Professional Staff of the Sub–Committee on Aviation of the United States Senate Committee on Commerce, Science and Transportation
- United States Department of Transportation
- United States State Department
- U.S. Airports for Better International Air Service (USA–BIAS)

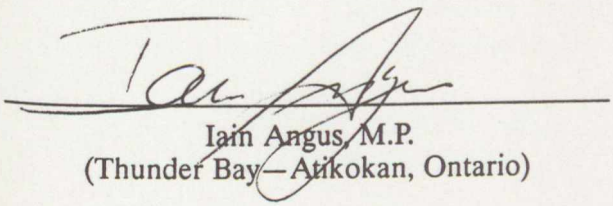
The Members of the Special Committee who have unanimously endorsed the Report are:



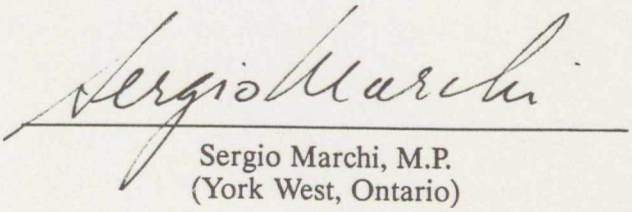
Robert Corbett, M.P.
(Fundy—Royal, New Brunswick)
Chairman



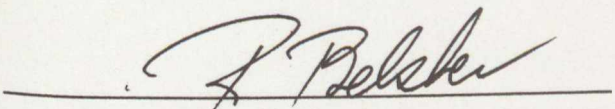
Ken Atkinson, M.P.
(St. Catharines, Ontario)
Vice-Chairman



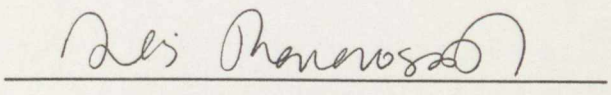
Iain Angus, M.P.
(Thunder Bay—Atikokan, Ontario)



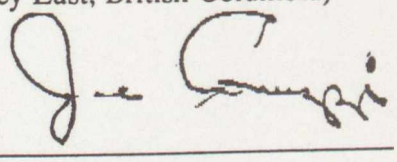
Sergio Marchi, M.P.
(York West, Ontario)



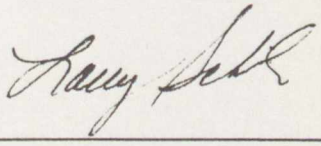
Ross Belsher, M.P.
(Fraser Valley East, British Columbia)



Denis Pronovost, M.P.
(Saint-Maurice, Québec)



Joe Comuzzi, M.P.
(Thunder Bay—Nipigon, Ontario)



Larry Schneider, M.P.
(Regina—Wascana, Saskatchewan)

A copy of the relevant Minutes of Proceedings and Evidence of the Special Committee on Canada-United States Air Transport Services (*Issues Nos. 1 to 14 and Issue No. 15, which includes this Report*) is tabled.

Respectfully submitted,

ROBERT CORBETT,
Chairman.

MINUTES OF PROCEEDINGS

TUESDAY, DECEMBER 18, 1990
(26)

[*Text*]

The Special Committee on Canada–United States Air Transport Services met *in camera* at 3:40 o'clock p.m. this day, in Room 253–D Centre Block, the Chairman, Robert Corbett, presiding.

Members of the Committee present: Iain Angus, Ken Atkinson, Ross Belsher, Joe Comuzzi, Robert Corbett, Sergio Marchi, Denis Pronovost, Larry Schneider.

In attendance: *From the Research Branch of the Library of Parliament*: John Christopher, Research Officer. David Cuthbertson, Consultant. *From Robert Corbett's Office*: Jean–Paul Bureaud. *From Sergio Marchi's Office*: Bruce Murdock. *From the Department of Transport*: Margaret Penniston, Parliamentary Liaison Officer.

The Committee resumed consideration of its Order of Reference dated October 29 and November 2, 1990 relating to Canada–United States Air Transport Services. (*See Minutes of Proceedings, Wednesday, November 7, 1990, Issue No. 1*)

It was agreed, — That the Committee members' research staff and Margaret Penniston be permitted to attend the Committee's *in camera* meetings.

The Committee proceeded to the consideration of its draft report.

At 4:57 o'clock p.m., the Committee adjourned until 3:15 o'clock p.m. Wednesday, December 19, 1990.

WEDNESDAY, DECEMBER 19, 1990
(27)

The Special Committee on Canada–United States Air Transport Services met *in camera* at 3:20 o'clock p.m. this day, in Room 253–D Centre Block, the Chairman, Robert Corbett, presiding.

Members of the Committee present: Iain Angus, Ken Atkinson, Ross Belsher, Joe Comuzzi, Robert Corbett, Sergio Marchi, Denis Pronovost, Larry Schneider.

In attendance: *From the Research Branch of the Library of Parliament*: John Christopher, Research Officer. David Cuthbertson, Consultant. *From Robert Corbett's Office*: Jean-Paul Bureaud. *From Sergio Marchi's Office*: Bruce Murdock. *From the Department of Transport*: Margaret Penniston, Parliamentary Liaison Officer.

The Committee resumed consideration of its Order of Reference dated October 29 and November 2, 1990 relating to Canada-United States Air Transport Services. (*See Minutes of Proceedings, Wednesday, November 7, 1990, Issue No. 1*)

It was agreed, — That, following the adoption of the Draft Report, the Chairman be authorized to make such typographical and editorial changes as may be necessary without changing the substance of the Draft Report.

The Committee resumed consideration of its draft report.

At 5:36 o'clock p.m., the Committee adjourned until 10:00 o'clock a.m. Thursday, December 20, 1990.

THURSDAY, DECEMBER 20, 1990
(28)

The Special Committee on Canada-United States Air Transport Services met *in camera* at 10:17 o'clock a.m. this day, in Room 253-D Centre Block, the Chairman, Robert Corbett, presiding.

Members of the Committee present: Iain Angus, Ken Atkinson, Ross Belsher, Robert Corbett, Sergio Marchi, Ken Monteith, Beth Phinney, Larry Schneider.

In attendance: *From the Research Branch of the Library of Parliament*: John Christopher, Research Officer. David Cuthbertson, Consultant. *From Robert Corbett's Office*: Jean-Paul Bureaud. *From Sergio Marchi's Office*: Bruce Murdock. *From Joe Comuzzi's Office*: Umberto De Pretto. *From the Department of Transport*: Margaret Penniston, Parliamentary Liaison Officer.

The Committee resumed consideration of its Order of Reference dated October 29 and November 2, 1990 relating to Canada-United States Air Transport Services. (*See Minutes of Proceedings, Wednesday, November 7, 1990, Issue No. 1*)

It was agreed, — That the Clerk of the Committee, in consultation with the Chairman, be authorized to hire the services of a French text editor during the period of December 19, 1990 to January 15, 1991, for a total amount not to exceed $3,000.00.

The Committee resumed consideration of its draft report.

It was agreed, by unanimous consent, — That the draft report, as amended, be adopted as the Committee's Report to the House and that the Chairman be instructed to present it to the House on Thursday, January 10, 1991.

It was agreed, — That the Committee print 2000 copies of its Report to the House.

At 3:40 o'clock p.m., the Committee adjourned to the call of the Chair.

Tranquillo Marrocco
Clerk of the Committee