

# STATEMENTS AND SPEECHES

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## GOVERNMENT POLICY IN ECONOMIC MATTERS RELATING TO AVIATION

An address by the Minister of Transport, Mr. Lionel Chevrier, made at the Annual Meeting of the Air Industries and Transport Association of Canada, at the Seignory Club, Montebello, P.Q., November 10, 1952.

### The Record of Growth

When I talked to you two years ago, I described the probable role of commercial aviation in the event of war, and the construction and extension of the airports and airways system. There have been no major changes in policy since that time in those fields; and today it is more appropriate, in view of the current position of civil aviation, to deal with Government policy in economic matters relating to aviation.

The record of growth to which I referred in 1950 is even more impressive today. I was able then to state that domestic aviation revenues in 1949 were 225 per cent greater than those in 1945; for 1951 they were 325 per cent greater than those in 1945. I believe that the total revenues of our commercial carriers this year should exceed \$80 millions, a figure five times greater than that at the end of the war. Revenues have been increasing steadily, between 17 per cent and 20 per cent annually, for the last few years.

I have picked out two examples to highlight the position. Trans-Canada Air Lines will, I expect, have total revenues from its domestic and international services this year which should about equal those of the whole of Canadian commercial aviation, including TCA, in 1949. Canadian Pacific Airlines, the second largest carrier, will, I expect, have total revenues from all its services this year which will be as large as, and possibly slightly larger than, the total revenues from the whole of Canadian commercial aviation in 1945, including TCA.

Two years ago I also noted signs of a more profitable position for commercial air-services in Canada. Since then the industry has emerged into a good profit position - perhaps not as great as you would like but at least enough to make it difficult for you to claim that it is impossible to make money in commercial aviation.

### Possibilities of Further Growth

In making plans for the future it is essential to know whether these favourable conditions will continue. I am satisfied that commercial aviation will continue to

expand but whether the extremely high rate of growth will be maintained depends in part on the economy at large but even more on the foresight and initiative of the individual operator.

The fundamental strength of the Canadian economy will lend itself to Canadian aviation. Difficulties in international economic fields and in foreign areas could have some repercussions on Canada which might affect all fields of transportation. Yet there are plenty of grounds for optimism, given initiative on the part of the operator. Aviation is not just growing at the same tempo as the Canadian economy. It is taking over new and additional fields of activity and has by no means reached the maximum degree of penetration of new markets. For example, the percentage of air traffic in Canada in relation to first-class rail traffic is still considerably lower than it is in the United States. In addition, in the air-coach and air-cargo markets there are great new sources of traffic.

Moreover, new development and construction projects will from time to time be initiated in Canada that will continue to offer a special role for air transportation, although the demand may shift from region to region, creating some difficulties in fluctuation of demand for regional operators.

#### Financial Responsibility of Operators

Those operators who are at present showing a higher-than-average rate of growth because of a two or three year development or construction programme in the North, should be using current favourable conditions to lay plans for the type of business they must later rely on; this should be tied to a continuing normal demand to offset the extreme fluctuation of short-term development projects. Judging the matter as a whole, grounds for optimism are greater than grounds for pessimism; unless we have an extreme shift in world economic conditions, there should be a continuing high rate of growth in Canadian aviation.

A temptation confronts regional operators to continue to expand just as rapidly as possible, regardless of financial backing, volume of debt, or relation between current liabilities and assets. This, during the years when growth was rapid but balance sheets were lean, was understandable but the economic conditions that have existed in the industry more recently provide an opportunity for consolidation of financial position. There must continue to be a reasonable degree of expansion and of new expenditures to acquire better equipment, but the resources of the operator should not be devoted entirely to this objective. The favourable position that exists should also be used to eliminate debt, particularly the current debt which is evident in so many balance sheets; to try and bring in new equity capital; and at the same time to establish working reserves to take care of fluctuations in business.

These remarks are intended to apply particularly to the regional private operators who have emerged as an important factor in our aviation economy. Some companies have already embarked on this course but there are still many cases where success is going to be based upon attention

to the requirements I have outlined. I believe that, with few exceptions, the Canadian airline which at the end of 1953 still has a poor balance sheet, excessive current liabilities and a shortage of invested capital is a company which has failed to achieve the objectives which have now become possible and has weakened its own position in the long run.

However, these suggestions on my part are not enough. I can indicate to you that the Federal Government has done much more than offer you free advice; it has recognized the importance of civil aviation to this country and has taken important steps recently to provide a better framework for operations.

#### Avoidance of Direct Subsidies

The Government has deliberately avoided a policy of direct subsidy to commercial aviation, even though this may have created certain difficulties for operators during their initial period of development. I believe the policy has been more than justified by results. We have proven, sooner than any other country in the world, that commercial aviation can stand on its own feet. We have encouraged a healthy attitude of independence on the part of the commercial operators and we have been able to avoid the unfavourable consequences of direct subsidy - primarily, an excessive degree of government control.

#### Recent Fiscal Assistance by Government

Nevertheless we have been fully aware that we must create a favourable atmosphere for commercial aviation, and we have used a number of fiscal devices for this purpose. The first of these to become effective was the change made at the last session of Parliament when we eliminated for a period of years the tariff on aircraft imports of a type and size not made in Canada. This makes a substantial difference to Canadian operators wishing to acquire better or newer types of aircraft, particularly from U.S. sources.

The second step was the amendment of the Industrial Development Bank Act at the last session to make it possible for that agency to make direct loans to the operators of commercial air-services - especially to assist them in the acquisition of additional and better aircraft. In taking this step we had in mind the apparent reluctance of at least some of the private financial institutions in Canada to enter this field, although I am delighted to learn that there have been signs over recent months of a change in the thinking of some of the private financial institutions in this regard. In part this is due to the present healthy position of commercial aviation but in part also it may be related to the Government's action regarding the Industrial Development Bank.

Finally, in the course of the summer, arrangements regarding depreciation of aircraft were changed and the 30 per cent sliding scale replaced by a 40 per cent sliding scale. Now an aircraft operator may, if he desires, depreciate up to 64 per cent of the value of an aircraft in two years and 78 per cent in three years. With the

present healthy economic climate of the industry, this change in depreciation arrangements should make it possible to build up larger reserves for aircraft acquisition.

All this should, in the course of coming months, do much to help the position of commercial aviation in this country. I am glad to say that they coincided with a much-needed increase in the number of larger-type transport aircraft in Canada. We now have considerably more twin-engine or larger transport aircraft in the hands of the commercial operators of this country than we had two years ago. The importance of this, both from the economic and military point of view, cannot be underestimated.

I am not unmindful of the fact that these steps can be directly related to the representations made by your Association over recent years and the lengthy consultations which you have had with the Air Transport Board on this subject since I last spoke to you. Other matters, such as the development of a government-owned pool of aircraft for civil use, may, in due course, represent a desirable line of development as well but would raise important considerations of policy which cannot easily be resolved. It is my opinion that the steps I have described should meet the immediate needs of our operators.

#### Government Policy in Regulation of Competition

In addition, the Government has also kept its policy in the regulation of commercial air-services up to date as the industry has grown, - particularly as regards regulation of competition. It was necessary that, in the immediate postwar period, competition should be virtually eliminated to allow the various operators a reasonable chance to build up business without direct financial assistance from the Government. Therefore the Government laid down a policy which was designed to allow each operator to establish himself unhampered by the chaotic competitive arrangements which had flourished during the 'Thirties. As the industry developed, however, this has gradually evolved to meet changing circumstances. It may be useful for me to restate for you now the general policy which we have laid down for the Air Transport Board to follow.

#### International Routes

In the international field, particularly as regards inter-continental routes, we are concentrating on the firm establishment of good Canadian scheduled services. In the Atlantic area generally these will be provided by Trans-Canada Air Lines and within the Pacific area generally they will be provided by Canadian Pacific Airlines. TCA has just extended its Atlantic operations to serve Germany in addition to France and the United Kingdom. This by no means represents the end of TCA expansion abroad although further growth will continue to be gradual and based on sound economic considerations. In the Pacific area, CPA, already serving Hawaii, New Zealand, Australia, Japan and Hong Kong, is considering expansion to provide a service between Western Canada and South America.

In the establishment of new international routes, progress must of necessity be slow because of the difficulties involved in making satisfactory bilateral air-agreements

with other countries. In some cases our plans for extension of Canadian routes may well be seriously delayed if not actually prevented by inability to make reasonable arrangements with other governments.

As regards trans-border service to the United States, the major scheduled services will continue to be provided by TCA generally, although we would be glad to see more Canadian operations of a secondary type, particularly in the non-scheduled field, and even semi-regular operations which are not of a mainline character, developed by other Canadian operators.

#### Domestic Routes

In the domestic field, trans-continental air-services of the type presently provided by TCA will continue to be reserved for TCA. Canada does not enjoy the extremely high volume of trans-continental traffic that exists in the United States and the Government's policy is soundly based on present economic considerations.

However, with the substantial growth of traffic within Canada it is no longer necessary to insist on monopoly conditions with regard to regional scheduled-services and Government policy will not forbid the gradual development on a regional basis of a reasonable amount of competition between scheduled air-services. Any such development must be based upon findings of public convenience and necessity as required by the Aeronautics Act and any changes made by the Air Transport Board in this direction will be very gradual and related to maintenance of conditions which will establish a sound economic position for the operators, while ensuring the services that the public require.

In addition, Government policy will continue to support the development of non-scheduled services, particularly in the development of the North, although non-scheduled services will not be permitted to develop in a manner that would endanger the economic well-being of scheduled services. The Air Transport Board has already laid down a policy which has controlled this situation in a satisfactory fashion and while no immediate changes are contemplated it may be modified from time to time if circumstances require.

In carrying out the foregoing policy, the Air Transport Board will continue to deal with matters of licensing and economic regulation for all carriers and will apply a basis of common procedures and policies for all.

I trust this statement will be of use to you. The policy I have described does not represent any change in basic objectives but rather an adjustment to ensure that, as conditions change, we are providing a policy that will assist in achieving those objectives. We intend to provide the best conditions for favourable development of Canadian commercial aviation. For example, Canada has been somewhat behind the United States in the development of regular all-cargo air-routes, but certain applications now before the Air Transport Board mean that we will have an opportunity for full review of the policy we should follow in this matter. Our policy will continue to be adjusted where necessary to meet new situations as they arise and with the rapid changes in aviation we will always have new problems to deal with...

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