



STATEMENTS AND SPEECHES

INFORMATION DIVISION
DEPARTMENT OF EXTERNAL AFFAIRS
OTTAWA - CANADA

No. 52/40

RECENT CIVIL AVIATION GROWTH AND POLICY IN CANADA AND THE UNITED STATES.

An address by J.R. Baldwin, Chairman of the Air Transport Board, to the International Northwest Aviation Council, at Great Falls, Montana, October 10, 1952.

Pre-War and Wartime Growth

Both Canada and the United States made considerable progress in civil aviation during the 1930's but along rather different lines. The United States achieved a considerable network of scheduled services and the passage of federal legislation designed to achieve this objective. In Canada, while a number of scheduled services came into existence, much of the activity related to the discovery and development of natural resources in the far-flung North and other sparsely settled or unsettled areas. It was not until 1936 that civil aviation in Canada was separated from military control and that the first steps were taken towards trans-continental air services, with the establishment thereafter of the government-owned Trans-Canada Air Lines; and it was only after the outbreak of war that full trans-continental operations came into being.

Because of this, the wartime pattern differed considerably. It was possible for the U.S. scheduled operators not only to continue but to improve their route patterns and to provide military air transport services as well. In Canada, TCA was able to build up its trans-continental operations but it was not possible for it to embark upon military air transport operations. Moreover, with one sizeable exception, virtually all the private services, scheduled or non-scheduled, passed out of existence during the War and the personnel involved were absorbed into the military effort.

The United States emerged from the War with a broad pattern of civil operations for a sizeable number of carriers and with much experience with new types of aircraft and new routes. Canadian aviation emerged from the War in a less fortunate position. A trans-continental operation by TCA had been started and one private company, Canadian Pacific Air Lines, possessed a number of small disconnected regional services. Apart from that, most civil aviation was in a state of static potential. Moreover, the United States had twin-engine and four-engine transport aircraft readily available as war surplus. Such war-surplus aircraft as existed in Canada were generally of smaller and less suitable types.

Post-War Licensing Jurisdiction

When the War ended, civil aviation had gained greater recognition in both countries. Canadian legislation relating to aeronautics was brought up to date rapidly and it was at this time that the Air Transport Board came into existence. This Board, together with the Air Services Branch (and more particularly the Civil Aviation Division) of the Department of Transport, gave Canada Federal machinery similar to the Civil Aeronautics Administration in

the United States but with several major differences which affected subsequent development. It is often the practice in the United States to legislate in great detail to meet a wide variety of conceivable situations, and in consequence limiting the discretionary authority of the administrative body; usual Canadian practice is to legislate in broader terms, leaving the administrative body considerable flexibility to vary policies and procedures so long as the basic framework established by Parliament is maintained. Aeronautics legislation in the United States and Canada is an excellent example of this difference. I believe the U.S. approach may provide a greater degree of protection for the administrative body in difficult situations, since the rules are laid down for it in considerable detail. On the other hand, the Canadian approach allows the administrative body to adjust its position more rapidly to take account of changing circumstances.

A further legal difference arose out of the existence of the government-owned company Trans-Canada Air Lines in Canada. The U.S. Civil Aeronautics Board has full independence with regard to matters of domestic licensing and regulation. In Canada, the Government found it necessary to define in general terms respective fields for development by TCA and by private airlines in order to prevent undesirable conflict. For this reason, while the Canadian Air Transport Board is a licensing authority, its issuance of licences is subject to Ministerial approval and its negative decisions may be appealed to the Minister. Thus the Canadian Board's jurisdiction must be exercised within the limits of the policy laid down by the Government, although of course the Board may recommend a change in government policy and the Government from time to time does modify its policy.

This has not proven to be a limitation on development in Canada and in any case is more than offset by another difference. The Canadian operator may have recourse to the courts against a decision of the Air Transport Board, but only on matters of law or jurisdiction, not on questions of fact. Determination of fact is solely within the Canadian Board's competence. On the other hand, the U.S. operator appears to have wide leeway to use the U.S. courts to change decisions of the U.S. Board or impede their implementation.

In the international field there is not a great deal of difference in effective jurisdiction although there are variations in procedure. However, it is specifically provided in the Aeronautics Act in Canada that the Air Transport Board shall grant licences to conform with international air agreements. This leads to more rapid and speedy procedures in Canada in the implementation of bilateral air agreements than in the United States, where these agreements have the status of executive agreements and implementation involves the rather lengthy procedures also applied in domestic route-licensing.

Post-War Rate of Growth of Commercial Aviation

With this background I propose to refer to relative rates of growth and relative position, using the annual review of U.S. air transportation prepared by the Air Transport Association and Canadian information prepared by our Bureau of Transportation Economics. While the figures used were not calculated on an exactly comparable basis, they do permit a broad comparison.

In Canada, one company, Trans-Canada Air Lines, accounts for two-thirds of our total revenues, domestic and international, while one other company, Canadian Pacific, with total revenues about 30 per cent of those of TCA, accounts for much of the rest. The remainder, however - major carriers other than TCA and CPA - were completely non-existent some six years ago. In the United States

a more even balance exists between a larger number of operators.

U.S. domestic revenues from commercial aviation were more than doubled in the period from 1946 to 1951; 1951 revenues were some 225 per cent of 1946 revenue volume. During the same period Canadian domestic revenues from commercial aviation increased even more rapidly and were last year about 250 per cent of what they were in 1946.

In the international field, comparison of growth over the same period, 1946 to 1951, would be misleading, since Canadian international services were of small account in 1946. Therefore I use the period 1948 to 1951 since in that period Canadian international air services were well established. U.S. revenues from international services in 1951 represented about 114 per cent of 1948 revenue. In Canada, 1951 international revenues represented 175 per cent of those three years earlier, a more rapid rate of growth because of a later start.

Profit levels are a sound criterion in assessing economic efficiency and stability. Between 1946 and 1951 Canadian commercial aviation converted a deficit in domestic net operating-revenues of close to \$1 million to a profit of around \$ 5½ million, while a U.S. domestic deficit of \$5 million was converted to a net operating income of around \$106 million. Measured against gross revenues, this deficit position in 1946 was much more serious in Canada than in the United States and it deteriorated even further in 1947; but Canada has since pulled up close to the U.S. level. In Canada, domestic net operating-revenues now represent roughly 10 per cent of gross revenues, and in the United States they represent around 15 per cent. On international services Canada's net represents a little over 9 per cent of gross while the comparable figure for the U.S. is not quite 7 per cent. The overall average for Canada is 10 per cent for the U.S. 12 per cent.

In the domestic-passenger field, Canadian passenger miles flown in 1951 were 280 per cent of those flown in 1946. The rate of increase in the United States was less rapid, with domestic passenger-miles in 1951 being some 175 per cent of those in 1946. In the international field passenger-miles for Canada in 1951 were about 156 per cent of those provided three years earlier, while in the United States we estimate that they were about 140 per cent of the 1948 figure.

Number of passengers transported is worth considering as well. In the international field the total number of U.S. passengers carried in 1951 represents about 150 per cent of the figure three years earlier. For Canada, the figure in 1951 represented about 163 per cent of the figure of three years ago. In the domestic field the U.S., we estimate, carried some 180 per cent more passengers in 1951 than in 1946, a figure close to the rate of increase in domestic passenger-miles. In Canada the total number of passengers in 1951 was close to 250 per cent of those carried in 1946, a little less than the increase in domestic-passenger miles.

In the mail field the United States provided 55 million ton miles in 1951, compared with 5½ million in 1946; but domestic air-mail in Canada increased from 1½ million to 4½ million ton miles during the same period. The Canadian increase was primarily due to the introduction of all-up mail; first-class Canadian mail is now moved by air within Canada without requiring any special postage surcharge wherever air transportation will accelerate delivery.

In the cargo field, the more rapid rate of growth in Canada that has occurred in the passenger and mail field is not apparent. U.S. domestic air-cargo, on the basis of incomplete

figures which do not appear to include certain irregular operations, increased its ton mileage in 1951 to 360 per cent of what it was in 1946, while Canadian domestic air-cargo increased in 1951 to a little less than 400 per cent of what it was in 1946. If complete figures were used the rate of growth in the two countries would probably be to the advantage of the United States.

Relative Position Today

Rate of growth is not a complete basis for comparison, unless we also know where we stand today. A measuring rod for comparison of relative size is difficult and I have selected a rather arbitrary one. The population ratio between Canada and the United States at the moment is 1 to 10.8, while the ratio of gross national production is 1 to 15. Averaging these, I have taken a ratio of 13 to 1 in determining whether commercial aviation in Canada at the end of 1951 had reached a position comparable to that in the United States. Where the ratio is less than 13 to 1, I have assumed that Canada was, relatively speaking, farther ahead; and where the ratio was greater, that the U.S. was farther ahead.

By the end of 1951, we estimated the ratio as regards total domestic revenues at about 12 to 1. In the international field, the ratio of revenues is 17 to 1. The overall ratio, both domestic and international, is 13 to 1, or a virtually equal position for the two countries.

In the passenger field, in spite of more rapid Canadian increases, the ratio stands at roughly 15 to 1 for number of domestic passengers carried, so that the United States is somewhat ahead of Canada. In international services it is better than 35 to 1, with the United States far ahead of Canada. In terms of domestic-passenger miles the ratio is 19 to 1, and, on international services, 15 to 1. The fact that the domestic-passenger mile-ratio favours the U.S. even more than the passenger ratio is related to a slightly longer average journey in the U.S. The United States is in a more advanced position than Canada on both counts, but it is interesting that the relative United States advantage in international passenger miles is less than in the domestic field. This, I think, can be attributed to our somewhat more conservative policy in international trunk-route extensions under which Canadian international services have on the whole achieved a higher passenger-load factor than U.S. international services.

As far as mail is concerned the ratio measured in terms of ton-miles is in the neighbourhood of 12 to 1. In the cargo field the relative position achieved shows a substantial advantage for the United States. The domestic ratio is running better than 20 to 1 as present - possibly closer to 25 to 1.

To sum up, in terms of rate of growth since the War, Canadian commercial aviation has in every field other than cargo grown more rapidly than U.S. aviation. This is true in the passenger field, in the mail field and in terms of gross revenues and net operating revenues. In terms of the relative position achieved by the end of 1951, the United States was still in a more advanced position than Canada, with a great difference appearing in air cargo and a considerably lesser advantage in passenger fields. In the mail field and in respective position of gross domestic revenues, Canada could claim a slight advantage, with the two countries about in balance in terms of total revenues. One reason for the slightly better gross domestic-revenue position in Canada, in spite of a slightly poorer relative position in volume of business, appears to be a somewhat higher average-rate structure in Canada. The U.S. average is 5 $\frac{1}{2}$ ¢ a mile as compared with 6 $\frac{3}{4}$ ¢ in Canada.

If rates of growth which have existed over the last three years continue in both countries, and this appears to be what is happening, the faster rate of growth in Canada may mean that, in virtually all fields, with a possible exception of cargo, Canada will not only be in an equal relative position but may pull ahead of the United States; although, knowing the energy and initiative of U.S. operators and normal economic balances between our countries, we are not likely to differ greatly.

Time permits only a brief reference to certain other fields of civil aviation.

Aviation Training

Both Governments have assisted the civilian training of pilots and while details have varied, the objective has been the same. In Canada, initial training is performed either by commercial schools established as private enterprises or by flying clubs which are non-profit agencies forming part of the Royal Canadian Flying Clubs Association. Both played a major role in training during World War II and both have a fine record in promotion of flying training since. It is particularly gratifying to see the existence of Canadian flying clubs formed with the voluntary support of the members of the community to assist in the training of pilots. The Government for its part helps by the payment of a subsidy both to the pilot and to the club or the school as the case may be for each pilot trained (\$100.00 to the individual and \$100.00 to the training agency). The results have been excellent.

More recently, to raise standards of training and to provide assistance in more advanced training, the Canadian Government has provided funds for instructor training. So far this programme has taken the form of two special schools run for a short period each year in co-operation with the flying clubs and schools. Initial results have been extremely satisfactory.

One field, the training of air engineers, is still a source of concern. Canadian officials recognize that this too is of great importance and are hopeful a solution will be found.

We have thus a government programme for the elementary training of pilots, for the advanced training of instructor pilots and I am hopeful that we may in due course find a method of increasing the availability of air engineers as well. Those of you who are familiar with U.S. policy will recognize that the objectives of the two countries have been virtually identical.

Aerial Spraying

In one field greater strides have been made in the United States, namely, aerial dusting and spraying. Progress in Canada has been entirely due to the initiative of a few private operators with little in the way of an overall government approach designed to achieve a much larger aerial-spraying industry. In part I attribute this position in the United States to a more substantial degree of interest on the part of government agricultural officials.

Eventually there should be better integration between the Canadian and U.S. aerial crop-spraying but this will be difficult to work out until there has been better growth in Canada. Since spraying is highly dependent upon fluctuating crop seasons it obviously makes sense also that in the long run aerial crop-spraying should be approached on a continental and not on a national basis. The individual resources of both countries could best meet seasonal requirements if the industry moved north from area to area along with the annual advance of the crop year. This ideal solution, however, needs a more substantial aerial spraying industry in Canada

to co-operate with its U.S. counterpart.

In another field, aerial survey and mapping, we have, I believe, kept fully abreast and in fact may be ahead of the United States in volume of civil work performed as well as in specialized experience and techniques. That Canada is relatively much more active in this field is understandable, with the vast resources of the Canadian north which are being opened up. Basic mapping of natural resources and mapping for specialized purposes have proved of untold value in this rapid postwar development.

Private Flying

As far as private flying is concerned, i.e. the personal aircraft or the company executive type aircraft, Canada is well behind the United States, although the last few years have shown a rapid increase in Canada in the number of company-owned executive type aircraft. In the light personal aircraft field the number in use in the United States is likely to remain relatively ahead of Canada for some time to come.

Air Coach Service

We have been watching the development of air-coach service in the United States and feel that we can learn from it. Something similar should before long develop in Canada, although it may not take exactly the same form. While in complete agreement with high density seating and lower fares, I am not sure it is desirable to designate this as second class travel. This traffic is likely to develop as the main field of passenger travel and should be considered as standard air travel, with any more luxurious form designated as a luxury or surcharge service. This is not just a matter of terminology but a matter of basic approach as well.

With this review of the facts I revert to note that, where certain differences existed, one country or the other has in the light of experience modified its policy bringing it closer to policy already adopted in the other country. This has been a two-way street.

Government Financial Support

U.S. legislation and policy have provided direct financial support in order to develop civil airlines. Canadian policy has not taken the same course; while legal authority for subsidy exists, the Canadian policy has been to try and develop aviation on a self-supporting basis from the outset. The Canadian industry has been able to develop without subsidy by the Government and, while, to some extent, carriers have had a more difficult time financially in development, it has created a healthy attitude both as regards the tax-payer and the carriers themselves. In spite of occasional grumbling, I am sure the carriers feel that they have greater freedom from the possible dangers of bureaucratic control if they are not reliant upon Federal subsidies - particularly since they have demonstrated that Canadian aviation can stand on its own feet.

It is true that the Canadian Government has underwritten TCA deficits and this can be a form of subsidy. However, I would also point out that while TCA encountered deficits for a short period immediately after the War, the company's domestic operations are now, and have been for some time, in a completely self-supporting position.

At the same time it is a tribute to the U.S. administrative authorities and U.S. airlines that they have of recent years found it possible to reduce the subsidy element as aviation developed. Many people thought this would never happen and experience in other

countries and other industries has shown that all too frequently an industry initially based on direct government financial assistance relies too heavily on the public purse. In this regard, I suggest the U.S. pattern is moving closer to the Canadian pattern.

I add in explanation of air-mail payments in Canada that the Post Office itself establishes the rate of payment for service; and the Post Office pays what is necessary in order to get the service it wants.

While avoiding subsidies, Canada has aided the aviation industry in other ways, some of which have parallels in U.S. experience. In the United States I understand that air carriers may obtain loans from private financial institutions or from the Reconstruction Finance Corporation. In Canada, for a long time, operators were handicapped by unwillingness on the part of many of the normal lending institutions to invest in aviation. There have been signs of some change in this situation recently and moreover the Canadian Parliament has now authorized the government-owned Industrial Development Bank to make loans to commercial air services.

I have noted recently proposals for accelerated depreciation on aircraft in the U.S. based on a five year write-off. In Canada, depreciation policy is based on the sliding scale principle; an industry is allowed to take a constant percentage of depreciation each year on the balance which remains outstanding following the previous year's depreciation. This sliding scale was recently changed from 30 per cent to 40 per cent for aircraft, which means that in Canada 64 per cent of an aircraft's value may be written off in two years and about 78 per cent in three years, as a means of encouraging aircraft replacement.

In addition Canada, unlike the U.S., has completely eliminated the tariff on aircraft imports, except those of a size and type made in Canada.

Control of Competition

So much for subsidies and fiscal policy. Degree of regulation and of competition also merit review. The U.S., with a well-established scheduled network and with a large number of surplus aircraft available decided after the War to give a fairly free field to all sorts of new non-scheduled ventures using small and large aircraft. I can recall a former Chairman of the CAB informally expressing to me the view that it was desirable to allow virtually unhampered growth to see what would happen; once it had sorted itself out and a pattern had emerged, it would then be appropriate to establish a policy for regulation of competition.

In Canada, because we were starting from very small beginnings, we took the opposite approach that all operations, regardless of size and type, should be closely controlled from the very outset and stringent limitations would be placed upon competition. Once it had been possible to grow we hoped to consider some relaxation of this regulation.

These differences in policy have narrowed considerably in the last two years. The period of rapid growth in the irregular field in the United States has now been followed by a period in which a pattern of regulation is being imposed and, as might be expected, vigorous opposition has resulted. In Canada, as the industry has grown, we have relaxed somewhat freeing smaller types of operations from regulatory processes originally imposed. We too have encountered difficulties, discovering that some operators have become so accustomed to government control that they feared its loss. Each country has, thus, moved towards the position of the other as regards degree of regulation.

The U.S. approach to controlled competition was in the first instance related to scheduled routes, that is, a pattern which would provide the benefits of competition while preventing the disadvantages of uneconomic or excessive competition. The Canadian approach as laid down in Government policy was based upon virtual elimination of competition in the early stages of post-war growth; a stronger company might emerge if the operator had a clear field to develop. This thinking was influenced by recollections of uneconomic cut-throat competition which almost ruined commercial aviation in Canada in the 'Thirties.

It was therefore decided to give any scheduled service in Canada absolute protection not only from other scheduled services but also from non-scheduled operators. As the industry has grown there has been a gradual moderation of this policy. A greater restriction of competition than in the United States remains but Canadian policy has been adjusted to permit the gradual emergence of some competition. Changes are likely to be gradual for Canada does not have the numerous high-density routes that exist in the United States and traffic growth in Canada has not justified rapid emergence of extensive directly competitive route operations. However, Canadian policy has moved in the direction of that followed in the United States.

International Policy

In the international field policies have been comparable. However, Canada has only two Canadian-flag carriers and they do not compete with each other in the international field, each having been given a separate area to develop. Both countries have recognized that the necessity of competing in the international field with airlines of foreign countries must of necessity limit the extent to which competition should be permitted between one's own international carriers.

International operations are hampered by narrow and chauvinistic feeling and detrimental national restrictions which do not apply, so far as I know, to any other form of transportation. We live in a world of hard bilateral bargaining and this has been particularly true in aviation. Unsuccessful attempts were made at and after the end of the War to find a multilateral solution. At that time both Canada and the United States were on the same side in seeking a multilateral approach although there were substantial differences in emphasis. The United States as a great and wealthy country was concerned with solution which would make sense for the long world-routes which a large country can afford to operate. Many small countries were more concerned with a solution which would give an excessive degree of protection to regional services and which would have hampered the international trunk-routes. Canada as a middle-sized country saw the necessity of satisfying both points of view. It is true that in the absence of a multilateral solution the United States, together with the United Kingdom, have done a very great deal to improve the principles of bilateral negotiation and the principles which they have evolved are now accepted by a great many governments, including Canada, as standards for bilateral agreements. Canadian support for a multilateral solution has not changed and I regret deeply the apathy which seems to have descended in the matter of any further attempts to achieve this. Elimination of a restrictive approach to international aviation will take a long time but this should not discourage any country from continued attempts at solution or continued support for such attempts.

Trans-Border Services

As a result of the close co-operation which has existed between Ottawa and Washington in aviation matters, we have been

successful in providing for extensive growth of trans-border operations - possibly more complete than between any other two countries. We have achieved a working arrangement with regard to non-scheduled trans-border operations which has eliminated a great deal of the red tape which existed, although to date U.S. operators have shown a greater desire to take advantage of it than Canadian operators. This type of arrangement could well I think be applied between other countries. Scheduled routes between Canada and the United States are governed by a formal bilateral agreement and while we have over twenty such routes incorporated in the trans-border agreement, I believe that, in due course, we should go even farther in the direction of more trans-border routes and more opportunities for reciprocal operations.

It would take separate addresses to deal properly with the aircraft industry and with airports and aids to navigation. All I can do is make a passing reference.

To an even greater extent than in the commercial air-service field, the Canadian aircraft is a new thing. Canada cannot compete with the U.S. industry in terms of multiplicity of types or original designs, but Canada now has a substantial aircraft production industry. We have taken some steps forward in the way of original design, but to reach maturity in this field will take many years although we have been and remain world leaders in design of "bush" aircraft. Canadian Car and Foundry with the "Norseman", and more recently Canadian De Havilland with the "Beaver" and the "Otter", have produced original Canadian types of unequalled performance and capabilities. Canadair, a relative newcomer to the design field, has already proven its unusual ability in production both in matter of speed and cost. Production of civil "North Stars" and military "Sabres" "T33's" and "T36's" have and are proving their capabilities. Canadian Avro is concentrating on military work although it had earlier made extremely promising beginnings in the civil field. A number of both British and U.S. aircraft firms have entered or are entering Canada and establishing Canadian plants and Canada will shortly have a substantial aircraft engine industry as well.

In the field of airports and aid to navigation, Canada faces a serious handicap. With a larger area to cope with than the continental United States, we have a much smaller population to pay for the necessary facilities. In spite of this, wartime and postwar development has given Canada a good network of airports, airways and aids to navigation although far less extensive than that in the United States.

Integration of civil and military airport planning has helped Canada considerably in meeting this problem. Where an adjustment in plans for expenditure of military funds on airports or aids would help civil aviation, it is often possible, with RCAF co-operation, to make that adjustment. Similarly, civil agencies try to adjust civil plans to meet both immediate and long-term military needs. This has been helped by the Canadian system whereby the Civil Airport Construction Division of the Department of Transport does all airport construction in Canada not only for civil purposes but for the Department of National Defence as well. Improved overall planning as well as increased economy and efficiency have resulted. At the same time, we have been successful in a number of cases in making arrangements with the RCAF for joint use of certain airports and aviation facilities rather than costly duplication. Our work in these fields has been simplified because in Canada, unlike the U.S., all matters directly related to civil aviation are completely and solely within the Federal jurisdiction, so that the Federal Government possesses both full authority and full responsibility. The Canadian Government has itself constructed and own and operates most of the

major airports as well as the majority of secondary fields although some far-sighted municipalities operate their own municipal airports.

In conclusion I want to refer to the close co-operation which has existed between Ottawa and Washington in civil aviation matters, in particular as between the Canadian Air Transport Board and the U.S. Civil Aeronautics Board, between the Canadian Air Services Branch of the Department of Transport and its counterpart, the U.S. Civil Aeronautics Administration, and in matters of international aviation policy, between our Department of External Affairs and the U.S. State Department. We have on no occasion found Washington lacking in co-operation. Personal contacts at all levels are frequent and close and while occasional differences may arise, these have been far outnumbered by the instances in which co-operation has proved fruitful for both countries. In turn I believe the work of the International Northwest Aviation Council plays a major role in making our co-operation even more fruitful.

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