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NORTHWEST TERRITORIES  
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Transport  
Canada

Transports  
Canada

Air

Air

PROPOSED DOMESTIC AIR CARRIER POLICY  
(UNIT TOLL SERVICES)

For discussion purposes only

Ottawa  
August 1981

Dave,

Note: Wrote to Pepin  
on Sept. 15/81 as well  
- virtually same letter.  
Lis.

Tabled Document No. 26-82(1)  
Tabled Mar 2. 82

Yellowknife, N.W.T.,  
X1A 1L9.

FEB 10 1992

Mr. Maurice A. Dionne, M.P.,  
Chairman,  
Standing Committee on Transport,  
House of Commons,  
Ottawa, Ontario,  
K1A 0A5.

Dear Mr. Dionne,

Your letter of January 26, addressed to Commissioner Parker, has been referred to me for a response.

This Government was aware of the proposed policy in August of 1981, and we did apprise the Minister of Transport of the following concerns.

Paragraph 11

It is distressing to notice in the proposal that the Northwest Territories will never have the opportunity of being served by national carriers. I can envision a future where communities located adjacent to the Beaufort Sea will have large populations. Community interest could lie with Eastern Canada or centers adjacent to the east coast off-shore resources. Surely if traffic densities were sufficient it would not be in the public interest to deny the operation of direct trans-continental flights with the lower fare structures offered by the national carriers.

Paragraph 44

Recognition of longer stage lengths associated with northern flights in excess of 300 miles is appreciated. The elimination of unnecessary enroute stops to our more remote locations will be welcomed by travelers to those destinations.

Paragraph 49

I am somewhat at odds with the idea that local carriers may never become a regional carrier. The Northwest Territories comprises

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approximately one third the area of Canada. While the north-south orientation of traffic exists today, the future may be entirely different. Given the difficulty in changing policy, I would prefer that we be given the opportunity to have a northern carrier become a regional carrier.

Paragraph 50

Although the differentiation of markets by type of equipment may be desirable in the more densely populated areas of Canada, I believe that case is not relevant in the Northwest Territories. Indeed, the proposed policy states that local carriers may be permitted to operate some jet equipment. I would prefer that the entire section be re-written to guarantee carriers operating long routes the right to upgrade turbo prop equipment to pure jet equipment. A specific example would be the Yellowknife - Frobisher Bay route presently operated with an Electra aircraft.

Paragraph 53

Again, I am pleased that your department has addressed some of our concerns. This Government has petitioned the Air Transport Committee to make regional carriers, that abandon routes, accept or maintain some social accountability to the people they no longer wish to serve. This section defining the role of the regional vis-a-vis local carriers that assume their routes will go a long way to preserving the level of service our residents have enjoyed in the past.

Paragraph 54

The barring of "local carriers" from the ABC, group charter, etc., market forever should only apply to the more densely populated areas of Canada where some degree of competition exists. In my opinion, the Air Transport Committee should be allowed to determine if the public interest would be served by local operators entering this market. For example, I understand that a Yellowknife carrier is considering application to the committee for such a service to Edmonton. Under the proposed policy this initiative would not be allowed.

It is hoped that the Committee will recognize the expectations of the peoples of the Northwest Territories and ensure that many of the restrictive sections of the policy will not apply to Canada's largest geographical region.

Yours sincerely,

**Original Signed By**  
**KANE TOLOGANAK**  
Kane Tologanak,  
Minister.

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PROPOSED DOMESTIC AIR CARRIER POLICY  
(UNIT TOLL SERVICES)

For discussion purposes only

Ottawa  
August 1981

## CONTENTS

	Page
NEED FOR POLICY REVIEW	1
OBJECT	2
BACKGROUND	2
The Relationship between Economic Regulation and Government Policy	3
Role of the National Carriers	3
Role of the Regional Carriers	5
Role of the Local Carriers	7
Relative Importance of Domestic Unit Toll Services	8
1977 Policy Proposal	8
Events in the Industry Since 1978	10
Conclusion	13
POLICY OBJECTIVES	14
ASSUMPTIONS	14
POLICY PROPOSAL	16
RECAPITULATION	23

DOMESTIC AIR CARRIER POLICY  
(UNIT TOLL SERVICES)<sup>1</sup>

NEED FOR POLICY REVIEW

1. Since the mid-1970s, the evolution of the domestic air carrier industry has created a growing need to re-examine the federal government's policies defining (explicitly and by implication) the kinds of domestic routes that should be served by the National, Regional and Local carriers.<sup>2</sup> The resulting uncertainty about the "roles" of the three main groups of carriers has created

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<sup>1</sup> Unit toll services are commonly referred to as "scheduled" or "regular" services. They are services provided on the basis of a charge per unit for passengers and cargo, as distinct from charter services, which are sold by the carrier generally on the basis of the entire capacity of the aircraft. This Discussion Paper assumes that charter services would continue to be provided and regulated as at present.

The paper does not concern the unit toll carriers' charter (Class 4) services, nor does it define the role of pure charter operators (e.g., Wardair). The government's policy on the proper relationship between unit toll and charter services has only recently been established, following extensive study and debate before the CTC, in a policy statement in September 1978 and in Orders-in-Council in January 1978 and February 1980. There appears to be no need to revise the policy at this time.

In addition, this paper is not concerned with transborder and international unit toll services. Work is currently underway on a separate policy review of this subject.

<sup>2</sup> The "National" carriers are Air Canada and CP Air, while the "Regionals" are Pacific Western Airlines (PWA), Nordair, Quebecair and Eastern Provincial Airways (EPA). "Local" carriers refer here to all commercial air carriers, except the Nationals and Regionals, which provide Class 1, 2 and 3 domestic unit toll services. (scheduled, regular specific point and specific point commercial air services on a unit toll basis)

difficulties for the Canadian Transport Commission (CTC) in the exercise of its licensing responsibilities, and has handicapped the carriers themselves in their planning by creating uncertainty about the sorts of routes for which they and others might reasonably expect to be licensed.

#### OBJECT

2. The object of this paper is to describe and evaluate a proposal for a new policy defining the domestic unit toll roles of the National, Regional and Local commercial air carriers. The proposed policy is intended for discussion with the industry, the provinces and other interested parties before it is submitted to Cabinet, with revisions as appropriate, for a final decision.
3. The term "role" refers to those unit toll services which each of the three groups of carriers may undertake--what is permissible rather than what is required. The carriers' "domestic unit toll" roles refer to those services which the carriers may be licensed by the CTC to provide involving the transportation within Canada of persons or goods at a price per unit.
4. It is also the object of this paper to develop a new policy based on roles formulated in a pragmatic way, bearing in mind the service expectations of the public, the reasonable growth aspirations of the carriers and the desirability of a measure of specialization of function between the three groups of carriers.

#### BACKGROUND

5. The purpose of this section is to describe (a) the relationship between economic regulation and government policy relating to the domestic air carrier industry, (b) existing policy defining the carriers' roles and (c) the scope of the carriers' domestic unit toll services. This section also demonstrates the need for a new domestic air carrier policy by outlining the effort to develop a new policy in 1977, the outcome of that effort and the major events in the industry since that time which have affected, directly or indirectly, the carriers' roles.



The Relationship between Economic Regulation  
and Government Policy

6. The economic regulation of commercial air carriers in Canada is governed by the National Transportation Act, the Aeronautics Act, and the Air Carrier Regulations and General Rules under the National Transportation Act of the Canadian Transport Commission.
7. The Air Transport Committee (ATC), acting on behalf of the CTC, regulates the airline industry under the Aeronautics Act with respect to entry, exit, prices, terms and conditions of service, and mergers and acquisitions. In the critical function of entry control (licensing), the Committee is required to satisfy itself that a proposed service "is and will be required by the present and future public convenience and necessity".
8. Neither the National Transportation Act nor the Aeronautics Act makes any provision for policy directives or statements by the government concerning the exercise of the CTC's regulatory authority. The CTC is therefore under no legal obligation to give effect to government policy. Under the National Transportation Act, however, the government may "vary or rescind", upon petition or of its own motion, anything done by the CTC. As well, this Act gives the Minister of Transport the power, on appeal, to overrule any licensing decision of the CTC. In practice, the Air Transport Committee has been responsive to relevant government policy statements, making reference to them in many decisions.

Role of the National Carriers

9. Government policy concerning the National carriers first focussed on the role of Air Canada as the Crown-owned instrument of government policy and, subsequently, on the competitive relationship between Air Canada and CP Air. A 1943 statement by the Prime Minister made clear that Air Canada (then Trans-Canada Air Lines) was intended to operate all transcontinental routes and such other services of a mainline nature as the government might from time to time designate. Competition between air services over the same route would not be permitted.
10. The first shift from a policy concerned with the definition of one National carrier to a policy

leading to two National carriers and defining their competitive relationship occurred in 1958, when the gradual introduction of some measure of competition "where economic conditions warrant" was allowed. As a result, CP Air was authorized by the regulatory agency to provide one daily return transcontinental flight serving Vancouver, Winnipeg, Toronto and Montreal, without any turnaround rights at points between Vancouver and Montreal.

11. In 1967, CP Air was allowed by government policy to add Calgary, Edmonton and Ottawa to its daily transcontinental flight, without turnaround rights, and to provide by 1970 25 per cent of the available transcontinental seats. In 1977, the capacity and turnaround restrictions defining Air Canada's and CP Air's competitive relationship were further loosened, and in March 1979 they were completely removed, leaving CP Air free to operate without capacity restrictions and to apply to the ATC for authority to serve additional points anywhere in the country.
12. Although the role of the National carriers within the domestic air transportation system has not been explicitly defined by government policy, the policies described above, plus the practical development and evolution of both carriers, have produced an omnibus role for the National carriers. In this omnibus role, the Nationals operate services essentially in southern Canada, on all types of routes: short-, medium- and long-haul, low-, medium- and high-density, and intra- and inter-regional. "Transcontinental" and "mainline" routes (the latter never defined in policy) have been the domain of the National carriers.
13. Air Canada's route structure includes all the large and many of the medium-size centres across southern Canada. In contrast, CP Air's domestic network is based on the largest Canadian cities between Vancouver and Montreal, with the recent addition of Halifax, plus communities of various sizes in British Columbia, Alberta and the Yukon. Although there has been no explicit policy prohibition against the Nationals serving northern Canada (i.e., north of 60° N. latitude), CP Air's services to Whitehorse and Watson Lake are the Nationals' only northern services.
14. In line with their varied route structure, the Nationals operate jet equipment ranging from DC-9s

(Air Canada) and B-737s (CP Air) with about 100-115 seats respectively, to the largest jets--B-747s with about 420-450 seats.

Role of the Regional Carriers

15. During the 1950s and early 1960s, five regionally-oriented carriers grew into relatively large airlines: EPA in Atlantic Canada, Nordair and Quebecair based in Quebec, Transair based in Winnipeg and PWA operating in Alberta, British Columbia and the Territories. The government defined their role in 1966 and 1969 in policy statements, the main features of which were as follows:
  - 1) The role of the five Regionals was "to operate local or regional routes to supplement the domestic mainline operations of Air Canada and CP Air and to provide regular and scheduled service into the North", using any type of equipment;
  - 2) The Regionals would operate on routes which did not fit the mainline operations of the Nationals because of volume of traffic, size of airports and related facilities, or suitable type of aircraft, with the Air Transport Committee to determine these routes. Some routes operated by the Nationals would possibly be transferred to the Regionals;
  - 3) The Regionals would not be authorized to expand as potential transcontinental carriers; rather, their main operations would be carried on in one region, as follows: PWA in B.C. and Western Alberta; Transair in the Prairie provinces and northwestern Ontario, with access to Toronto; Nordair in the remainder of Ontario and northwestern Quebec; Quebecair in Quebec from Montreal east, and EPA in the Atlantic provinces, with access to Montreal. In addition, "there might well be circumstances where other operations of a Regional carrier in its own area ought to extend into an adjacent area of another Regional carrier" (i.e., aside from Transair to Toronto, and EPA to Montreal). Such circumstances would be decided by the ATC on their merits;
  - 4) The Regionals were not to "become directly competitive on any substantial scale with the

two mainline carriers", but where the "economic and efficient operation of a regional route pattern" involved competition with Air Canada or CP Air on a mainline route segment, the Regionals could be authorized by the ATC to operate as well. In these cases, the National carrier would be expected to limit its competitive efforts, with the ATC to exercise appropriate control if necessary;

- 5) The Regionals could operate domestic and international charters but such work should not "overshadow" their domestic scheduled operations; and
  - 6) New types of service which had emerged or might emerge on route segments served by the National carriers--no-reservations airbus or all-cargo services, for example--could be provided by the Regionals, despite the possibility of competition with a National carrier.
16. In sum, the Regional air carrier policy defined both the role of the Regionals within the domestic air carrier industry and their competitive relationship with the National carriers.
  17. Under this policy, the Regionals grew more rapidly than the Nationals in traffic and revenues, developing their northern scheduled and international charter services and expanding their southern route networks through being given some rights to compete directly or indirectly with the Nationals or, in some cases, by having smaller points turned over to them. They also abandoned service at many points with low traffic and gradually disposed of their small propeller-driven aircraft.
  18. The Regionals now operate mainly short-haul services in southern Canada between major and smaller population centres with jet flying times of one hour or less. Nordair and PWA also serve points in the North, where stage lengths are often much longer. Until recently, all the Regionals operated turbo-prop equipment, B-737s and a few large, long-range jets for international charters (e.g., B-707, DC-8). They have now disposed of the long-range equipment and operate B-737s on both domestic services and charter flights to sun-spot locations. PWA has ordered four new B-767s, which have about 220 seats and a

transcontinental non-stop flying ability, for delivery in 1983 and 1984. In addition, EPA, Nordair and Quebecair operate some medium-size turbo-prop equipment (e.g., HS-748s with up to 50 seats).

#### Role of the Local Carriers

19. The role of the Local carriers has not been defined by government policy. In practice, their role has been to operate the residual services-- those which the Nationals and Regionals do not operate. This situation has led the Locals to feel insecure and, in particular, to be concerned that traffic growth on their routes might interest the larger carriers in taking over such routes. Consequently, the Air Transport Association of Canada (ATAC) called for a Local air carrier policy in both 1974 and 1978.
20. The Locals (as defined here) include all those carriers except the Nationals and Regionals which provide domestic unit toll services. At present, this group consists of approximately 75 carriers, which vary greatly in size, the extent of their unit toll services and the complexity of their operations. These carriers are frequently also heavily involved in providing charter and specialty services (aerial photography, flying training, etc.).
21. The Locals operate short-haul, low-density routes and a few higher density routes in southern and northern Canada, some of which they took over from the Regionals as the latter acquired jet equipment. The equipment operated by the Locals ranges from small propeller-driven aircraft seating only a few passengers (e.g., the six-seat DHC-2 (Beaver)) to 50-passenger turbo-props plus a few larger turbo-props.<sup>1</sup>

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<sup>1</sup> In addition, a small number of Local carriers operate jet equipment, ranging from small business jets to the DC-8 in one case, to provide unit toll services restricted to cargo or small packages only, in connection with overnight regional and transcontinental delivery services.

Relative Importance of Domestic Unit Toll Services

22. The relative importance of domestic unit toll services to the air carrier industry is apparent from the following figures, showing domestic unit toll revenues from passengers and goods for the National and Regional carriers<sup>1</sup> as a percentage of their gross revenues from flying and non-flying operations, both domestic and international, in 1978:<sup>2</sup>

Air Canada	58%	Quebecair	45%
CP Air	40%	Nordair	50%
EPA	90%	PWA	67%

23. The importance of domestic unit toll services for the airlines may also be illustrated by contrasting their domestic unit toll and domestic charter activity on the basis of revenue ton miles (RTMs). In the case of Air Canada and CP Air, about 99 per cent of their total domestic output in 1978 was performed on a unit toll basis. This may be compared with about 82 per cent for the Regionals, as a group.<sup>3</sup>

24. As between the carriage of passengers and cargo, passengers accounted for about 81 percent of the unit toll revenue ton miles performed by Air Canada and CP Air in 1978, versus about 65 percent for the Regionals.<sup>4</sup>

1977 Policy Proposal

25. In early 1977, Transport Canada began a major policy review of the structure of the domestic air carrier industry. This review was undertaken for several reasons, including the carriers' unsatisfactory financial performance during the mid-1970s, increasing ambiguity over the carriers' roles, and competing and mutually incompatible

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<sup>1</sup> In 1978, the National and Regional carriers earned 81 percent of the industry's operating revenues.

<sup>2</sup> Transport Canada, Economic Regulation and Competition in the Domestic Air Carrier Industry, February 1981, p.6.

<sup>3</sup> Ibid., p. 119.

<sup>4</sup> Ibid.

demands from all sectors of the industry for a policy decision defining or redefining their respective roles in a way that would maximize their individual growth prospects and financial well-being.

26. In a September 1977 Discussion Paper released to the industry, the provinces and others, Transport Canada examined three policy options. These options assigned roles to the National, Regional and Local carriers, and differed mainly in the types of routes that each group of carriers would be allowed to serve. Routes were distinguished in terms of traffic density (low, medium and high) and stage length (short, medium and long).
27. In May 1978, the Air Transport Association of Canada (ATAC) formally advised Transport Canada that, in its view, the proposals, including the preferred option, did not provide "policy principles and guidelines". Rather, they would impose too rigid a structure on the industry, leaving the industry and the Air Transport Committee with too little discretion. ATAC also indicated that further policy work should take into consideration the outcome of several major applications before the ATC and certain other industry-related activities under way at that time.<sup>1</sup> Finally, ATAC recommended that a

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<sup>1</sup> The major applications before the ATC which ATAC wished to see resolved before further policy work was done were the acquisition of Transair by PWA, applications to replace Transair between Toronto-Winnipeg, the acquisition of Nordair by Air Canada, and "supplementary impact considerations such as route protection and domestic Advance Booking Charter operations".

Other industry-related activities which ATAC considered to have a bearing on a new policy were "the developing review of air service needs on the West coast to be undertaken by the Provincial Government of B.C.; the possibility of intra-Ontario services being developed further by the Ontario Government; discussions between Air Canada and Eastern Provincial Airways to adjust services in the Atlantic provinces; the technical problems surrounding the Malton airport under study by joint ATAC/Ministry committees; the multi-modal passenger transportation study being undertaken for the four western provinces; the recently announced study of general aviation which will include many commercial air services".

statement of principles governing the Local carriers should be developed.

28. In the light of these comments, Transport Canada concluded that further consultation and work should await the outcome of the major applications before the ATC, all of which have since been decided.

#### Events in the Industry Since 1978

29. This part describes the major events since 1978 which have affected the roles of the National, Regional and Local carriers, either directly or indirectly.
30. Regional air carrier policy - This policy has been affected by the following events:
  - 1) In April 1978, the ATC allowed PWA's application to acquire Transair through purchase of Transair's common shares, after determining that the advantage of the acquisition as a solution to the difficulties posed by Transair's financial weakness outweighed the potential disadvantages.<sup>1</sup> The ATC also allowed the route systems of the two carriers to be connected via Edmonton and Calgary, by licensing Transair to serve those points, as well as Regina and Saskatoon.
  - 2) In July 1978, the ATC determined, in response to Transair's application to suspend its scheduled services to Dryden, Thunder Bay, Sault Ste. Marie and Toronto, that its licence authority should be cancelled, in part because the Committee found it "to be more in the public interest to have another air carrier or carriers operating between Winnipeg and Toronto, than to have some combination of PWA and Transair, controlled by the Province of Alberta, operating from Victoria to Toronto".<sup>2</sup>

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<sup>1</sup> Air Transport Committee, Decision No. 5450, April 7, 1978, p. 12.

<sup>2</sup> Air Transport Committee, Decision No. 5537, July 28, 1978, p. 7.



- 3) At the same time, the Committee decided that Nordair should be granted licence authority to serve Toronto, Sault Ste. Marie, Thunder Bay, Dryden and Winnipeg, in accordance with the Regional air carrier policy provision allowing the ATC to determine the circumstances in which a Regional's operations might extend into an adjacent area.<sup>1</sup> In addition, the Committee allowed Nordair to operate Montreal-Toronto as part of its service to Winnipeg, thereby introducing competition by a Regional on a route which had been considered to be a mainline route.
- 4) In mid-1978, the ATC allowed Air Canada to acquire majority ownership in Nordair. Although the Governor in Council upheld this decision on appeal, he also decided that Air Canada's shares in Nordair should be resold to private interests within twelve months, in a way that would promote a significant restructuring and rationalization of the operations of the eastern Regional air carriers. While this objective had not been realized by July 1981 because no potential purchaser had come forward with a satisfactory proposal, it has been anticipated that the resale of Nordair could result in a further de facto change in the designated carriers or regions set out in the Regional air carrier policy.
- 5) In August 1979, the ATC allowed PWA and Transair to merge, thereby eliminating one of the carriers designated as a Regional and merging most of two of the regions identified in the Regional air carrier policy, although the licences remained separate.
- 6) In January 1980, PWA applied to the ATC for licence authority to serve Calgary-Brandon-Toronto. In January 1981, the ATC authorized PWA to serve Calgary-Brandon-Toronto for an experimental two-year period, on condition that it make a mandatory stop at Brandon on all flights.

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<sup>1</sup> Air Transport Committee, Decision No. 5538, July 28, 1978, p. 20.

- 7) In June 1980, the Governor in Council allowed EPA rather than CP Air to provide non-stop Halifax-Toronto service, thereby overturning a contrary decision by the ATC. EPA had argued that it required this service to generate funds for some of its intra-regional services and to finance the replacement of its aircraft in the future, and was awarded the route on that basis. Toronto is neither in EPA's region nor in the adjacent region, as defined by the Regional Air Carrier policy.
31. As a result of the events described above, the Regional air carrier policy has become obsolete. Moreover, the increasing lack of congruence between the policy and the present position of the Regional carriers has led to growing debate within and among the industry, the regulatory body and provincial governments as to what the policy now is and to some recent demands for its clarification.
32. Air Canada and CP Air's competitive relationship  
As noted earlier, since March 1979 CP Air has been allowed to operate on an equal competitive footing with Air Canada. This event marked the final outcome of several policies spanning almost thirty years, which defined the competitive relationship between Air Canada and CP Air but did not explicitly define the Nationals' role within the industry. It would seem appropriate now to define the Nationals' role in order to clarify the government's views regarding their future domestic services.
33. Local Carriers - A number of Local carriers have been expanding the range of services performed by this sector of the industry. Examples of such new activities include the operation of small business jets for unit toll (Class 3) services limited to cargo or parcels and envelopes, in support of courier operators;<sup>1</sup> the provision by Northwest Territorial Airways of the first unit toll service across the Northwest Territories, from Yellowknife to Frobisher Bay, using large, turbo-prop aircraft (Lockheed Electra); and applications by several Local airlines for a licence to start a STOL service between Toronto, Ottawa and Montreal.

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<sup>1</sup> One new Local carrier (Swiftair Cargo) was licensed in March 1980 to operate a nightly transcontinental all-cargo unit toll service in each direction, using DC-8 aircraft.

34. The increasing range of the Local carriers' activities plus the Locals' long-standing desire to have their role defined in policy suggest the desirability of proceeding now with such a definition of their role, in order to clarify the government's views on the services the Locals could provide.
35. Growth Aspirations - In recent years, all carriers have been faced with lower rates of growth than in the previous decade and with rapidly rising costs, particularly as a result of fuel price increases. At the same time, some carriers have had perennial financial difficulties. EPA and Quebecair have been concerned by an apparent lack of opportunity within their regions for new services to help increase aircraft utilization. Air Canada has also expressed concern about its ability to maintain continued growth. These factors have created constant pressures to allow the major carriers to expand their roles, typically at the expense of other carriers in an environment where overall market growth has diminished.
36. In contrast, relatively good opportunities for expansion are likely to be available for Local carriers operating unit toll services. As in the past, these carriers are likely to benefit from the efforts of the larger carriers to combat cost increases by raising productivity, typically by abandoning their lower density routes and smaller types of equipment. On such routes, Local carriers can often provide a higher frequency of service at lower cost per unit of output sold.

#### Conclusion

37. Recent events have resulted in an obsolete Regional air carrier policy; in the continued evolution of the policies defining Air Canada's and CP Air's competitive relationship to the point at which their role within the industry is undefined by policy; in new activities for the Locals while their long-standing desire for a Local carrier policy has remained unanswered; and in continuing demands for opportunities to expand from all types of carriers. These circumstances suggest that it would be useful to have a new policy embracing the domestic unit toll services of the National, Regional and Local carriers, to clarify the government's views on their appropriate roles for the guidance of the Canadian Transport Commission, the carriers, the provinces and other interested parties.

POLICY OBJECTIVES

38. A new policy defining the roles of the domestic unit toll air carriers should:
- 1) provide an environment that promotes:
    - a) adequate, stable air service to all parts of Canada where unit toll services are warranted by travel demand, with little need for direct operating subsidies;
    - b) air carrier innovation and efficiency;
    - c) industry financial stability; and
    - d) reasonable opportunities for access to additional points for all carriers;
  - 2) respect existing carrier rights and licence authorities to the greatest possible extent;
  - 3) provide guidance to the Canadian Transport Commission without imposing a rigid structure on its consideration of whether a proposed service "is and will be required by the present and future public convenience and necessity".

ASSUMPTIONS

39. In considering the need for a policy defining the roles of the domestic unit toll air carriers and in considering possible policy options, the following assumptions were made:
- 1) Evolutionary Development - It was assumed that an evolutionary development of the industry is desirable and that a statement of the carriers' roles at this time would contribute to such development, by allowing the carriers to plan better by knowing the parameters of their potential operations within a regulated environment. Conversely, it was assumed that abolishing the concept of roles for different groups of carriers at this time would be unduly disruptive.
- In line with the assumed desirability of the evolutionary development of the industry, it

was also assumed that any definition of roles should be related to the existing defined or de facto roles of the carriers.

- 2) Economic Regulation and Competition in the Domestic Air Carrier Industry - An interdepartmental study on this subject, a draft of which was completed in February 1981, estimates the implications of possible steps to reduce regulation and increase competition in the air carrier industry. Policy recommendations on regulation and competition in the industry are intended to be formulated after the industry and others have commented on the study. These policy recommendations would also take into account the views of the Economic Council of Canada on airline regulation, contained in a report entitled Reforming Regulation (1981).

It was assumed here that any policy decision to move toward controlled deregulation would preserve a considerable role for the CTC for the foreseeable future, as well as a continued need for government policy defining the roles of the several sectors of the airline industry. Such a policy would only be redundant in a totally deregulated environment, implying no controls on entry and exit.

It was also assumed that a policy defining carriers' roles should provide a general and flexible framework for the regulatory agency's decisions. Within that framework of carriers' roles, any future policy on competition and regulation would provide guidance on the extent to which competition should be allowed among the National, Regional and Local carriers in particular circumstances. In other words, while a policy on the carriers' roles will define relationships among the three groups of carriers in terms of the areas and kinds of routes where they may compete, it will not limit the permissible amount of competition among carriers within potentially competitive markets. The latter would be decided by the CTC in light of particular circumstances, including any future policy on competition.

- 3) Role of the Federal Government in Helping to Provide Air Services - It was assumed that the government will continue to rely primarily on the market and on private initiative to provide air services. The role of the federal government would continue to be to assist

indirectly by providing the necessary airport and air navigation facilities and services where justified. Provincial governments would continue to subsidize local air services to the extent that they considered such subsidies appropriate.

- 4) Mergers - It was assumed that mergers between air carriers, such as a possible merger between Nordair and another carrier or carriers, should be evaluated on a case by case basis, but within the framework of a new domestic air carrier policy.

#### POLICY PROPOSAL

40. The development of a new domestic air carrier policy is aimed at presenting a framework for the evolution of the existing defined or de facto roles of the carriers in providing unit toll services. The proposal and several partial alternatives to it are described below and evaluated against the policy objectives. The proposal describes the roles of the three groups of carriers, or those unit toll services that each group may offer. Applications to provide new services would remain subject to the CTC's approval in accordance with the requirements of public convenience and necessity.
41. Under the proposed approach, the National carriers would retain their present omnibus role, being allowed to provide unit toll services on any route in southern Canada (i.e., south of 60° N. latitude) suitable for the use of large aircraft (Group F and up)<sup>1</sup>. In exceptional cases, if circumstances warranted it, the CTC might also allow a National carrier to operate smaller equipment. They would not be allowed to operate unit toll services in northern Canada (i.e., north of 60° N. latitude). Because CP Air is licensed to serve two northern communities (Whitehorse and Watson Lake, Yukon), it would be granted grandfather rights to these two points.
42. Only the National carriers would be allowed to operate inter-regional services and non-stop scheduled jet services in southern Canada between

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<sup>1</sup> Maximum authorized take-off weight on wheels greater than 75,000 pounds (Air Carrier Regulations, Section 4).

city-pairs more than 800 great circle miles (1,300 km.) apart. The number of National carriers would not be permitted to increase.

43. The Regional carriers would retain their regional orientation, based on two new regions: EPA, Nordair and Quebecair would be allowed to operate up to and east of a dividing line running through Winnipeg and Resolute Bay; PWA would be allowed to operate up to and west of that line.<sup>1</sup>
44. In southern Canada, the role of the Regionals would allow them to operate non-stop scheduled jet services between city-pairs up to 800 great circle miles (1,300 km.) apart within their respective regions. In northern Canada and on flights between southern and northern Canada, the 800 mile non-stop limit would not apply. Examples of intra-regional city-pairs between which the Regionals would be allowed to operate non-stop (i.e., less than 800 miles) and would not be allowed to operate non-stop (i.e., more than 800 miles) are shown below:

Less than 800 Miles

Victoria-Edmonton (535)  
Calgary-Winnipeg (741)  
Thunder Bay-Montreal (760)  
Toronto-Quebec (454)  
Toronto-Halifax (799)

More than 800 Miles

Vancouver-Winnipeg (1157)  
Toronto-St. John's (1318)  
Montreal-St. John's (1005)

The CTC would decide marginal cases--that is, those only slightly more than 800 miles apart, such as Regina-Vancouver at 827 miles--on the basis of public convenience and necessity.

45. Between intra-regional city-pairs more than 800 miles apart, the Regionals would be allowed to operate flights only with one or more intermediate stops. Examples of routes which the Regionals could operate with one or more stops are Vancouver-Winnipeg (via Calgary, Regina, etc.) and Toronto-St. John's (via Quebec, Halifax, etc.).

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<sup>1</sup> PWA is licensed to serve one point to the east of that line (Rankin Inlet, NWT), although its licence to serve this point is suspended until January 31, 1982 and will be cancelled on February 1, 1982 unless PWA indicates before that time that it will provide service. PWA would be granted grandfather rights to Rankin Inlet at least until January 31, 1982.

46. In order to retain their regional orientation, the Regionals would not be allowed to operate east-west inter-regional unit toll services, with or without intermediate stops. Examples of inter-regional routes which the Regionals could not operate are Vancouver-Toronto, Edmonton-Montreal and Regina-Thunder Bay.
47. An exception to the prohibitions on inter-regional operations and non-stop service over 800 miles could be made in instances in which a Regional carrier is willing to provide a jet service that a National carrier is not willing to operate.<sup>1</sup> In order to limit any such exceptional authority to the specific inter-regional service applied for to the maximum possible extent, the licence authority for such exceptions would, at a minimum, be issued on a separate licence and would require that the points applied for be served on all flights.
48. The Regionals' role would allow them to use any size of equipment they chose to operate, with the proviso that they should not contemplate the purchase of equipment with long-haul, non-stop capabilities unless fully justified for services within their role.
49. The number of Regional carriers would not be permitted to increase by raising Local carriers to the status of new Regional carriers. Mergers involving Regional carriers would, as for other carriers, remain subject to authorization by the CTC.
50. The role of the Local carriers would allow them to provide unit toll passenger and cargo services on any route in southern or northern Canada, using any size of non-jet equipment. For all-cargo services, they would also be allowed to use jet

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<sup>1</sup> In this connection, PWA could continue to serve the route Calgary-Brandon-Toronto, as it was granted a two-year licence authority by the CTC in January 1981 to serve Brandon and Toronto after both National carriers indicated that they were not interested in providing this service.

If such routes would be more economically served with non-jet aircraft, the proposed policy envisages that a Local carrier should serve them.



equipment of any size. In exceptional cases, if circumstances warranted it, the CTC might also allow a Local carrier to operate jet equipment on unit toll passenger services.

51. The Local carriers would thus normally be expected to serve passenger routes on which the density of traffic, the stage length and/or the nature of airport facilities are not appropriate for the operation of jet equipment. They would also be allowed to operate supplementary services on routes already served by the National and/or Regional carriers, if the addition of services using non-jet aircraft would be of benefit to the public.
52. Whenever a National or Regional carrier applies to serve a route developed and already served by a Local carrier, the CTC would be requested to continue its present practice of considering the effects of such competition on the Local carrier's ability to continue to provide service on the route in question, and on its other routes, if any.
53. In instances in which a Local carrier takes over service on a route previously operated by a National or Regional carrier, the latter carrier(s) would be expected to cooperate with the local carrier by means of interline or inter-airline agreements, as appropriate, in the areas of scheduling, reservations, and establishment of joint fares and rates and, if requested by the Local carrier, in the areas of technical and ground services arrangements, and corporate facilities, in order to help maintain and improve the quality of service. The National and Regional carriers would also be encouraged to cooperate with the Local carriers in such ways in other instances.
54. Operation of Domestic Charter Services - At present, any carrier holding a Class 4 (Charter Commercial Air Service) licence can apply to operate any type of domestic charter service (Advance Booking, Inclusive Tour, Common Purpose and Entity charters). Only the Regionals are able to operate regional ABCs, while all unit toll carriers and, since 1979, Wardair are able to operate transcontinental or other inter-regional charter services. All have done so, to a varying extent.

55. The proposed policy would not change this arrangement, which has been useful in serving peaks in leisure travel demand, in promoting lower domestic air fares, and in providing the carriers with valuable opportunities to improve aircraft utilization. This approach is dependent, however, on the maintenance of regulations that preserve a real distinction between conventional unit toll services and specialized services catering primarily to the leisure traveller. Without such a distinction, part of the proposed policy would obviously be ineffective, inasmuch as some of the larger carriers could then do on a charter or other basis what they could not do on a scheduled (unit toll) basis. Accordingly, the proposed policy presumes that the CTC would maintain such a distinction.
56. Potential Effects - It is considered that the proposed approach would provide an environment in which the policy objectives described in paragraph 38 could be met. The extent to which they might be achieved would depend heavily, though, on factors external to the policy, such as how the CTC exercised its responsibility, general economic conditions, etc.<sup>1</sup>
57. The proposed approach provides the potential for the Regional carriers, in particular, to use their existing equipment more intensively, which could contribute to efficiency improvements and thus to improvements in their financial viability. Such improvements should help to reduce any potential need for direct operating subsidies.
58. The proposal also provides the potential for greater competition between the Regional and National carriers, with the benefits that could result therefrom, because of the new provision allowing the Regionals to operate intra-regionally up to 800 miles non-stop. This provision could also result in productivity improvements for the Regionals because of the new possibilities for operating some longer route segments and for increasing equipment utilization.

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<sup>1</sup> The proposed policy would have a neutral effect on the sale of Nordair to the private sector; that is, it would provide a framework within which the sale of Nordair could be achieved under a potentially wide variety of selling options.

59. The proposed approach would provide all carriers, and in particular the Regionals and Locals, with opportunities for expansion, where warranted by demand. This potential should help to satisfy these carriers' desires to grow and could provide possibilities for improved efficiency and financial stability.
60. Finally, the proposal would provide a general outline of the government's views on how it wishes to see the air carrier industry develop. As such, it should be of assistance to the CTC in exercising its responsibilities.
61. For these reasons, the proposed approach appears to promote the policy objectives outlined in paragraph 38. A number of alternatives to this proposal were considered but rejected, for reasons explained below.
62. Three or Four Regions - An alternative approach would be to create three or four new regions, perhaps by dividing one or both of the two proposed regions in half.
63. Assuming a prohibition in the proposed policy against the Regionals' operating inter-regionally, dividing the eastern or western region into two or three parts would eliminate certain potential non-stop services allowed under the two-region approach. The scope for achieving the objective of improving airline productivity and increasing operating efficiency would thus be reduced, as would the potential for competition between the National and Regional carriers. Without the assumed inter-regional prohibition, the two-region approach better meets the objective of providing clear policy guidance to the regulatory body and to the industry, since it does not raise the need to determine what inter-regional services, if any, would be allowed east or west of the line Winnipeg/Resolute Bay.
64. Different Non-Stop Limits - A second alternative would be to retain the proposed two regions and the prohibition on inter-regional operations but to opt for a longer or shorter limit on non-stop flights. A determination of the "correct" distance involves making a trade-off between the routes available only to the Nationals on a non-stop basis, both intra- and inter-regionally, and those actually and potentially available on a non-stop basis to the Regionals as well. This trade-off should satisfy

the growth aspirations of both groups, yet not encourage the Regionals to acquire equipment capable of long-range, non-stop flights, which would ultimately create new pressures for further policy changes. On this basis, it was concluded that an 800-mile non-stop limit would be the most reasonable.

65. No Regions - A third option would be to abandon the regions but retain a non-stop mileage constraint on the Regionals' operations. Under this arrangement, EPA could potentially serve Victoria and PWA could serve Halifax, with several intermediate stops.
66. Under the no-region option, if a non-stop mileage constraint of 800 miles were adopted for the Regionals' operations, as is proposed for their non-stop operations within the two regions, the Regional carriers might shift their attention to national rather than intra-regional services. The role of the Regional carriers would then be eliminated and the number of National carriers would be potentially tripled. As indicated earlier, it has been assumed that the elimination of carriers' roles at this time would be unduly disruptive, making it more difficult to achieve the objective of adequate, stable service.
67. Alternatively, a non-stop mileage constraint of (say) 500 miles could be adopted. In this case, the likelihood that the Regionals would turn their attention to national services would be lessened. However, the Regionals already offer several non-stop services over distances greater than 500 miles, including the following:
- |                            |         |           |
|----------------------------|---------|-----------|
| Churchill Falls - Montreal | EPA     | 706 miles |
| Halifax - St. John's       | EPA     | 547       |
| Quebec - Fort Chimo        | Nordair | 790       |
| Toronto - Thunder Bay      | Nordair | 565       |
68. In addition, with a 500-mile constraint, the Regionals would not be allowed to provide non-stop service between several city pairs which they would be allowed to provide under the two-region, 800-mile approach, including, among others, Vancouver-Saskatoon (748 miles), Calgary-Winnipeg (741), Toronto-Moncton (749), Montreal-La Grande (591) and Montreal-Sydney (661). It seemed unnecessary to create policy obstacles to licensing the Regional carriers for such services.
69. Regional Dividing Line at Toronto - Instead of a regional dividing line through Winnipeg and

Resolute Bay, a division through Toronto and Resolute (or some other northern point) was also briefly considered. Nordair's services to Sault Ste. Marie, Thunder Bay, Dryden and Winnipeg could then continue on the basis of grandfather rights.

70. But this approach would give PWA an opportunity to apply for routes historically defined as transcontinental, thereby reducing considerably the number of mainline routes available only to the National carriers (although PWA could be required to serve them with stops). This approach could also give PWA access to a larger number of major routes than the eastern Regionals, and would thus provide unequal growth opportunities. This outcome did not seem acceptable.
71. Local Carriers' Equipment Restrictions - Instead of restricting the Locals to non-jet equipment for passenger or mixed passenger/cargo services, they could be allowed to operate any type of equipment.
72. This arrangement would make the Locals, as a group, indistinguishable from the National or Regional carriers, since they could then potentially compete on any route. This approach would thus fail to clarify the role of the Local carriers, and would fail to encourage them to improve the availability and quality of service on routes that do not lend themselves to the economic operation of jet aircraft or on which non-jet aircraft can compete with jet aircraft. In contrast, the proposed policy would concentrate the attention of the Locals on such routes, thereby enhancing the potential for an adequate level of service. This advantage would be lost if the Locals could aspire to achieving Regional carrier status.
73. It was concluded that the policy proposal outlined in paragraphs 40 - 55 would better meet the policy objectives than any of the alternatives examined above.

#### RECAPITULATION

74. Recent events have resulted in an obsolete Regional air carrier policy; in the continued evolution of the policies defining Air Canada's and CP Air's competitive relationship to the point at which their role within the industry is undefined by policy; in new activities for the Locals while

their long-standing desire for a Local carrier policy has remained unanswered; and in continuing demands for opportunities to expand from all types of carriers. These circumstances suggest that it would be useful to have a new policy embracing the domestic unit toll services of the National, Regional and Local carriers, to clarify the government's views on their appropriate roles for the guidance of the Canadian Transport Commission, the carriers, the provinces and other interested parties.

75. The policy proposal made herein concerning the domestic unit toll roles of the National, Regional and Local carriers appears to be consistent with the policy objectives outlined in paragraph 38. Under this proposal, the Nationals would retain their de facto omnibus role, which would allow them to provide unit toll services on any route in southern Canada suitable for the use of large aircraft (Group F and up)<sup>1</sup>. In exceptional cases, if circumstances warranted it, the CTC might also allow a National carrier to operate smaller equipment.
76. The role of the Regional carriers would allow them to provide scheduled services within one of two new regions, demarcated by a line running through Winnipeg and Resolute Bay, and to provide non-stop services of up to 800 miles within their respective regions. They would not be allowed to provide any inter-regional services, which would be reserved for the National carriers (in the case of jet services) and for the Local carriers (in the case of non-jet services or all-cargo jet services), except where a Regional carrier is willing to provide an inter-regional jet service that a National carrier is not willing to operate.
77. The role of the Local carriers would allow them to provide unit toll passenger and cargo services on any route in southern or northern Canada, using any size of non-jet equipment. For all-cargo services, they would also be allowed to use any size of jet equipment. In exceptional cases, if circumstances warranted it, the CTC might also allow a Local carrier to operate jet equipment on unit toll passenger services.

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<sup>1</sup> Maximum authorized take-off weight on wheels greater than 75,000 pounds. (Air Carrier Regulations, Section 4).



