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## The Van Horne Institute

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**The Van Horne Institute** has been established to address important **transportation** and related **regulatory** issues confronting industry and government, in North America and internationally, through education and research. The **Institute** was incorporated federally in 1991 as not-for-profit organization, and was granted affiliation with the University of Calgary in January 1992, the University of Alberta in 1998, and with SAIT in January 2000.

## AIRLINES COMPETITION CONFERENCE A SUCCESS

The Van Horne Institute sponsored a major Conference on Airline Competition, Regulation and Government Policy in Canada on May 30<sup>th</sup>. The aviation industry has undergone massive restructuring in the last few months in Canada, resulting in the creation of a dominant carrier holding over 80% of the domestic marketplace. The Government of Canada, which has been saddled with developing policy as events unfolded in the marketplace, has determined that it will give "Made in Canada" competition an opportunity to develop before considering other options.

Valerie Dufour, Director General, Air Policy with Transport Canada, provided the government perspective that WestJet and other entrepreneurs wishing to develop air services in Canada, should be given a period of time in which to do so. The government policy was vigorously challenged by Professor Fred Lazar from York University and Dr. Bill Stanbury, Professor at the University of British Columbia's Faculty of Management, who argued that foreign carriers, particularly from the United States, should be given an opportunity now to compete in the Canadian domestic marketplace, suggesting that the government policy was more oriented towards the carriers than consumers.

The keynote speaker, Dr. David Gillen, provided an analysis of how the air industry had developed over the years, resulting in the current state of near monopoly. Dr. Gillen is a Research Economist at the Institute for Transportation Studies at the University of California, Berkeley, with an appointment at Wilfrid Laurier University in Waterloo.

A very challenging series of presentations was made by a panel representing the private sector aviation industry. Questions were posed as to whether the new Air Canada could itself survive in competition against the giant operators in the international aviation marketplace. What will be the role of the current charter and all cargo carriers should Air Canada decide that it wishes to enter those markets and compete? Airline competition was voiced as a threat to some and an opportunity to others.

Dr. Gillen has been commissioned by the Centre for Regulatory Affairs to prepare a monograph on airline competition, regulation and government policy in Canada which will be completed in the late Fall 2000 and will be published by the Institute.

## AVIATION FUEL TAX

The Institute was requested to prepare a position paper on the net social benefit of eliminating the aviation fuel tax in Alberta by the Calgary and Edmonton Airport Authorities as well as the aviation industry. The Report was delivered to the Alberta Economic Development Aviation Strategy Steering Committee on May 31 and supplemented by a verbal presentation on June 22, 2000. The report was researched and developed jointly by Dr. David Gillen, School of Business and Economics, Wilfrid Laurier University, and Dr. Jean-François Wen, Department of Economics, University of Calgary.

While the Alberta government generates modest revenues from a tax levy of 1.5 cents per litre on aviation fuel, this tax represents a cost to the carriers which they attempt to pass on to their customers in the form of higher ticket prices. The researchers indicate there is ample evidence that a significant

proportion of air travel passengers are relatively sensitive to ticket prices and therefore, there is reason to believe that fuel tax causes a loss of potential benefits to society by deterring journeys that would occur in the absence of the tax. The report uses an economic model of the Canadian airline industry to estimate the size of the net social welfare effects on consumers, producers, government and society as a whole, that would result from the elimination of the Alberta aviation fuel tax. The researchers estimate that the net gains to Alberta from the elimination of the tax may be as high as \$20 million per year reflecting the pre-existing distortion in the Canadian airline industry caused by the market power of Air Canada. The researchers also estimate however, that even in a scenario of strong domestic competition, the net gains from eliminating the tax would exceed \$5 million per year.

In summary, the principle factor driving the results of the study is strong empirical evidence that air travel is relatively more sensitive to airfare increases than most other important tax economic activities.

## INTERPROVINCIAL TRADE BARRIERS

Professors Beaulieu and Gaisford of the Department of Economics at the University of Calgary, have been commissioned by the Institute to provide a research paper on interprovincial trade barriers.

Federal and provincial policies that affect interprovincial trade and labour markets have evolved considerably since the early 1980s. However, there has been no examination of the impact of the policy changes on interprovincial trade and there is no comprehensive understanding of the current situation. The aim of the research is to systematically measure and analyze interprovincial barriers to trade and labour mobility in Canada. The project will provide a comprehensive overview of the types of trade barriers that currently exist between Canadian provinces. The analysis will provide an historical perspective of interprovincial trade barriers will examine the effectiveness of the 1995 Agreement on Internal Trade and the priorities to further reduce interprovincial barriers. To this end, Van Horne member companies have been asked to make their expertise and experience available to the researchers in order that the study can address the fundamental realities of interprovincial trade barriers as experienced by them. We want to thank those companies who have assisted the research efforts of Jim Higginson.

Ultimately the project will contribute to our understanding of the regional consequences of evolving federal and provincial industrial strategies and public policies in this geographically large country, as business becomes increasingly integrated in the North American and world economy.

## A SYMPOSIUM ON COMPETITION & ACCESS IN THE RAIL INDUSTRY

On July 1, 2000 Transport Minister, David Collenette initiated a comprehensive review of the Canada Transportation Act which must be completed by July 1, 2001. The review will encompass the operation of the Canada Transportation Act as well as any other Act of Parliament for which the Minister of Transport is responsible. It pertains to the economic regulation of a mode of transportation and transportation activities under the legislative authority of Parliament. The Minister has appointed a review panel to consider amongst other things, proposals for increasing competition in the railway sector including enhanced running rights, regional railways and other access concepts.

The Minister has noted that the review must be undertaken within the context of a North American competitive environment and the need to ensure the provision of efficient and cost-effective services for shippers over the long term. The Minister has asked the review panel to submit an interim report on access issues to him by December 31, 2000.

The Van Horne Institute is collaborating with the University of Saskatchewan to sponsor a timely symposium on this issue, to be held in Saskatoon at the Bessborough Hotel, beginning the evening of September 15, with a reception and the symposium commencing at 8:30 am on September 16, 2000. This symposium will stimulate the dialogue and debate on the issue of competitive access in rail. Several noteworthy speakers have agreed to present a variety of perspectives on the issue of competitive access in rail, drawing on practical and theoretical models of access in a variety of network industries. Confirmed speakers at press time are: Norman Bonsor, Lakehead University who will address "Competitive Provisions in Canadian Rail"; and Salvatore Massa, Department of Justice—Antitrust Division. The keynote speaker is William Tye, an expert on transportation and law from Cambridge, Mass. Representatives from Canadian National and Canadian Pacific Railways as well as representatives of shippers have been invited to provide their perspective on this issue.

Dr. James Nolan, Professor in the Department of Agriculture at the University of Saskatchewan, has agreed to partner with the Institute to produce this important symposium. Dr. Nolan's expertise focuses on regulatory competition productivity analysis with an emphasis on grain handling and transportation systems.

We believe that the timing of this symposium in mid-September and the quality of the speakers confirmed and invited, will greatly assist the review panel appointed by the Minister of Transport to formulate their recommendations to be submitted to the Government by the end of the year.

Because we are confident of a large turnout for this event, we urge you to register as soon as possible. Please call the Van Horne office at (403) 220-8455 for more information. The cost for members is \$200 including GST; and for non-members is \$220 including GST.

## RESIDENT FELLOWSHIP AWARD 2000-2001

The Education and Research Committee is pleased to announce that Dr. Anthony Perl has been awarded the Resident Fellowship award for 2000-2001. Dr. Perl's research proposal will significantly enhance the analysis of Canadian rail passenger policy in a forthcoming book entitled "*New Departures: 21<sup>st</sup> Century Options for Effective Rail Passenger Policy in North America*". The Fellowship will support the development of a specific analysis of Canadian passenger train policy options, which will be published separately as a Van Horne working paper.

Dr. Perl's proposal was selected after a very long and difficult review of several worthy research proposals. The Committee was encouraged by the high caliber of proposals for the Resident Fellowship that it received.

## DISTINGUISHED SPEAKER Dr. Norman Wagner

The Van Horne Institute and the Calgary Chamber of Commerce have collaborated to present a number of distinguished speakers to the Van Horne membership and the Calgary Business Community. We are pleased that Dr. Norman Wagner will address a luncheon at the Chamber of Commerce on September 27, 2000. Dr. Wagner is a member of the Board of Directors of the Institute as well as a President Emeritus of the University of Calgary.

He is the President of the Corporate-Higher Education Forum and Chairman and CEO of knowledge@work, a virtual organization of individuals interested in exploring the full implications of life and work in the digital economy.

Every technology in history has brought about new power structures and new ways of doing business. The profound changes emerging with universal connectivity of the Web and related technologies present us with immense challenges and opportunities. Dr. Wagner will provide a unique view of these challenges.

The Institute invites you to come and participate in a discussion of how our generation must grapple with a technology which is revolutionizing our lives. Cost for members is \$30.00; non-members is \$45.00. Registration for this event should be made directly with the Chamber of Commerce at (403) 750-0400, Fax: (403) 266-3413.

## PERSONALITY PROFILE

**Jeffrey Church**, Academic Director of the Centre for Regulatory Affairs, has a Ph.D. in economics from the University of California at Berkeley. An undergraduate at the University of Calgary, he has been a faculty member there in the Department of Economics since 1989. His research interests include the economics of networks, the interface between intellectual property rights and competition policy, regulation of natural gas pipelines, and restructuring of electricity. He has acted as an economics expert in telecommunications, natural gas liquids, pipelines, electricity, consumer products, pharmaceuticals, and transportation on a wide range on antitrust and regulatory matters. In the last five years, Jeffrey has received four teaching awards at the University of Calgary from the Faculty of Social Science (Distinguished), the Department of Economics (Superior), and the Students' Union (Excellence).

As Director, Jeff's objective continues to be establishing the CRA as a vehicle for research and education into regulatory policy issues, especially those relevant to Western Canada. With the support of member companies, especially Telus and TransAlta, this dream is becoming a reality. The Centre has recently sponsored a number of topical conferences including Airline Competition, Regulation and Government Policy in Canada; Competition for Natural Gas Liquids: the Law and Economics of Introducing Competition through Access to a Common Gas Stream; and the New World in Gas Transmission. Research projects underway include the determination of efficient tolls on a multiproduct common carrier oil pipeline; evaluation of power purchase agreements and alternative regulatory options applicable to electric power generation in Alberta; and an examination of aviation policy and a discussion of future options. The Centre regularly offers a three day course in the economics of regulation and regulatory restructuring, that has been very well received. This summer, it initiated a summer internship programme, placing four students with a background in industrial organization and regulatory economics at Enbridge, the Power Pool, Foothills Pipelines, and Enmax. More information on the Centre's activities, including a comprehensive set of links to regulators and related sites is available at its website: [cra.ucalgary.ca/default.htm](http://cra.ucalgary.ca/default.htm).

## ANNOUNCEMENTS

### Good Luck Carla!

Carla and Michael Frede are expecting their first child in mid-September. Carla will be taking maternity leave from the Institute as of August 31<sup>st</sup>. Our best wishes to Carla and Michael with their extended family.

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