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The Canadian Aviation Charter Market: Opening New Transport Gateways or Niche Market Pricing?

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Introduction

In referring to his first overseas air charters in 1962, Max Ward said “We were pioneering...”. In examining the Canadian carrier charter market over the past two decades, what has been the pattern? Has the experience been one of market development and pioneering to open new transport gateways, to expand aviation markets, or have the charter carriers been focused on offering a lower priced product for the leisure traveller in already established markets? The paper will examine the Canadian experience in domestic, transborder (Canada-United States) and international charters.

The Different Roles of Charter Activity

There are different reasons why charter activity is used in different markets. There are charter carriers who perform solely or primarily charter service. Examples would include carriers such as Wardair, Nationair, Odyssey, Worldways and Air Transat. They are in the charter market to focus “upon sunspot leisure activities...”¹ [Nationair]. They exist as “a producer of value-added product for primarily an inclusive tour clientele”² [Air Transat].

Scheduled carriers also use charter activity to generate income and reduce downtime for aircraft on weekends and during nights. The aircraft are used for scheduled activity during peak hours and additional revenue is generated during the off-peak hours from charter activity. While there are additional costs, only the marginal costs need be covered.³

Carriers also use charter activity where bilateral agreements may not allow scheduled service or where the carrier has not been designated as a carrier in the market. This was particularly evident with the Canada-United States charter activity prior to the 1995 bilateral exchange agreement. Canadian Airlines International Ltd. [CAIL] compensated for the very few routes where they were

the Canadian designated scheduled carrier between Canada and the United States by operating charter flights. In 1994, CAIL flew over 250,000 seats on charters in each of the Canada-Florida and Canada-Nevada markets.⁴

Opening New Transport Gateways: Market Development

During a conference in 1988, Max Ward indicated that he felt that Wardair had no choice but to try to enter scheduled services since scheduled carriers moved into the leisure markets developed by the charter carriers.⁵ Have charter carriers pioneered and opened and developed new markets, new transport gateways, into which scheduled carriers later moved? Table 1 shows the thirty-seven city-pair markets for international charters which had a passenger volume of 10,000 or greater in 1974; nineteen of the markets [51%] had scheduled carrier direct flight service (although two other markets had close service with Air Jamaica service out of Detroit rather than Windsor). For the remaining 49% of the city-pairs, there was no direct scheduled service linking the two cities but it would have been possible to travel on scheduled services with a transfer at a third city. If the development hypothesis is correct, one would expect to see more scheduled services on these routes over time. This does appear to have been the case. By 1995, scheduled carrier service had been added in nine of the markets (and it was dropped in one of the markets). This meant that the number of large 1974 charter markets with direct scheduled service had increased to 73% in 1995 compared to 51% in 1974. Scheduled services were introduced to fully one half of the markets which had only charter service in 1974. Not only did the number of markets linked with direct scheduled flights increase but the number of carriers involved also increased. The proportion of routes with a choice of carrier for scheduled direct services increased from 37% to 55%.⁶

Flying between city-pairs that are not flown by the scheduled carriers may not always be an attempt at developing markets. It may also be a method of avoiding direct competition with the scheduled carriers. The charter carrier Air Transat acknowledged that "during the summer, Air Transat serves 12 regional airports in the United Kingdom and seven in France, thereby avoiding direct competition with scheduled carriers on their main routes..."⁷

Table 1: Large 1974 Charter Markets and Direct Scheduled Services

Canadian City	Foreign City	1974 Charter Passengers (000's)	1974 Direct Scheduled Service	1995 Direct Scheduled Service
Calgary	London, England	14	AC	AC
Edmonton	London, England	13	AC	AC CP
Edmonton	Honolulu, Hawaii	23		
Montreal	London, England	12	AC	AC BA
Montreal	Paris, France	26	AC AF	AC AF VD
Montreal	Acapulco, Mexico	12		
Montreal	Bridgetown, Barbados	17	AC	AC
Montreal	Freeport, Bahamas	31		AC
Montreal	Montego Bay, Jamaica	11		AC
Montreal	Nassau, Bahamas	26		AC
Montreal	West End, Bahamas	21		
Montreal	Miami, Florida	27	AC DL	AA AC DL US
Montreal	West Palm Beach, Florida	10		
Toronto	Frankfurt, Germany	25	AC LH	AC LH CP*
Toronto	Glasgow, Scotland	53	AC BA	AC
Toronto	London, England	248	AC BA	AC AI BA CP
Toronto	Manchester, England	38		AC
Toronto	Acapulco, Mexico	53	CP	
Toronto	Aruba	26		
Toronto	Bridgetown, Barbados	63	AC BW	AC BW
Toronto	Freeport, Bahamas	33	AC	AC
Toronto	Montego Bay, Jamaica	13	AC JM	AC JM*
Toronto	Nassau, Bahamas	54	AC	AC
Toronto	Port of Spain, Trinidad & Tobago	12	BW	AC BW
Toronto	Saint Lucia	11		AC
Toronto	West End, Bahamas	34		
Toronto	Fort Lauderdale, Florida	15		AC CP
Toronto	Honolulu, Hawaii	20		CP QF* NZ*
Toronto	Las Vegas, Nevada	18		AA AC
Toronto	Miami, Florida	11	AC	AA AC US CP*
Toronto	Tampa/St. Petersburg, Florida	38		AA AC CP
Toronto	San Juan, Puerto Rico	12		
Vancouver	Amsterdam, Netherlands	13	CP	KL
Vancouver	Honolulu, Hawaii	26	CP	AC CP QF* NZ*
Windsor	Montego Bay, Jamaica	11	[JM at DTW] ⁸	
Windsor	Nassau, Bahamas	19	[JM at DTW]	
Winnipeg	London, England	12	AC	AC

* Indicates a code-share flight arrangement

While Table 1 gives an indication of overall changes in the large charter markets, an examination of three specific markets will highlight some of the aspects of the relationship between charter activity and scheduled activity.

Opening New Transport Gateways: Canada-Cuba

Canada-Cuba city-pairs do not appear in Table 1 which showed the largest charter markets in 1974. This is because although there were 66 charter flights between Canada and Cuba carrying a total of 12,526 passengers⁹, these were split between the three markets of Toronto-Havana, Montreal-Havana and Ottawa-Havana. The Canada-Cuba market has been selected for examination since it appears to have witnessed the impact of charter stimulation resulting in scheduled carrier entry on two occasions.

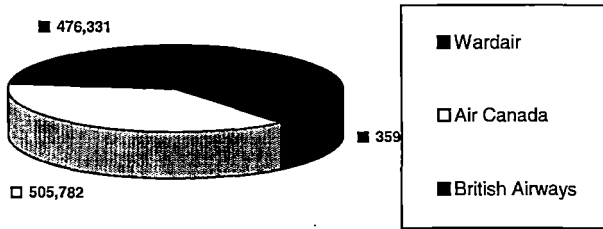
Air Canada carried 99% of the charter passengers between these two countries in 1974. The charter market grew to 50,000 the following year and a bilateral agreement was signed between the two countries which led to the commencement of scheduled services by both Air Canada and Cubana in 1976. The 1976 charter passenger total hit 53,000 of which Air Canada carried 49%, Nordair 19% and Québecair 19% and the remainder was carried by Eastern Provincial Airways, Pacific Western Airlines and Transair¹⁰.

With both Air Canada and Cubana operating scheduled flights in the Canada-Cuba market, the market size for charters declined to only 19,000 passengers¹¹ in 1984. Over the next decade, however, this grew to 221,000 in 1994.¹² This was achieved by expanding the market to include new Cuban cities such as Santiago, Manzanillo, Cayo Largo Del Sur, Ciego de Avila and Cienfuegos in addition to the previously served cities of Havana, Varadero, Holguin and Camegüey. Air Transat was so successful in this market that they obtained the designation of a Canadian scheduled carrier for Montreal and Toronto-Varadero service and commenced scheduled flights in November 1995.

Opening New Transport Gateways: Canada-United Kingdom

As the Canada-Cuba market has shown, opening a new transportation gateway might not only be restricted to starting up service where there was none before. Another example is Canada-United Kingdom. While this is one of the oldest international major scheduled services routes, in operation since the 1940's, Wardair showed that a charter carrier could have a significant impact in such a long established market.

Chart 1: Carrier Market Share, Passengers, Canada-United Kingdom, 1985, Scheduled and Charter Services



Source: Statistics Canada catalogue # 51-207, Air Charter Statistics 1985
ICAO, Traffic By Flight Stage 1985

Wardair “represented 2 per cent of the trans-Atlantic and non-scheduled traffic in 1962”.¹³ By 1985, as is shown in Chart 1, Wardair had become a key player in terms of passenger volume between Canada and the United Kingdom. They carried 27% of the passengers in the market to Air Canada’s 38% and British Airways’ 35%. In May 1985, Wardair was designated as a scheduled carrier for Canada-United Kingdom service and their scheduled service started a year later.¹⁴

Opening New Transport Gateways: Canada-United States

The transborder charter market appears to have been a way for the Canadian scheduled carriers to get around the restriction of the limited number of routes provided for in the bilateral aeronautical agreements prior to 1995. Canadian carriers did not have route access to much of the fast growing sun belt. In 1994, 91% of Air Canada’s 395,000 charter passengers were carried in the Canada-United States market. Canadian Airlines International Ltd had 584,000 Canada-United States charter passengers, 73% of their total charter passengers. With the signing of the new bilateral agreement in February 1995, the services are now being converted to scheduled services. The Air Canada press release announcing the changes for Florida made the following statement:

‘ “Under Open Skies, charters are out and daily scheduled service is in” said Robert Milton, Senior Vice President, Marketing and In-Flight Service. “Independent travellers who just want a good fare on a reliable airline are being liberated from the rigid rules, irregular schedules and cramped seating of charters.”’¹⁵

This conversion from charter to scheduled was not restricted to the two largest Canadian air carriers. Both Canada 3000 and Royal Airlines also started converting their Canada-United States charter services to scheduled services in November 1995.

It was primarily to the sunspot leisure destinations of Florida, Hawaii and Nevada that the charter traffic occurred. Table 2 shows that 89% of the traffic was to these three states in 1994. A large apparent decline in charter traffic to these states can be expected in 1996 but this will actually be due to the conversion of the services to scheduled operations.

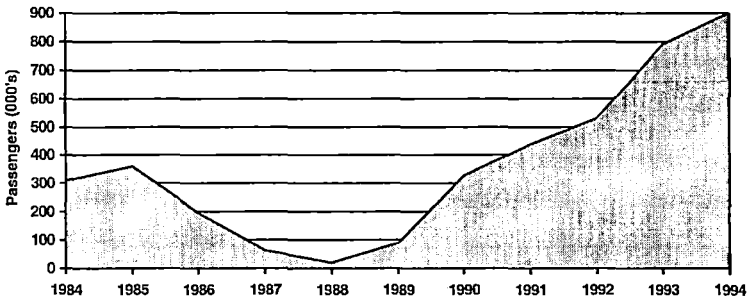
Table 2: Canada-United States Charter Passenger Traffic, 1994

Market	Passengers (000's)	% of Canada-United States Charter Market
Florida	1,088	52
Nevada	592	29
Hawaii	169	8
California	88	4
Other	147	7
Total	2,084	100

Source: Statistics Canada catalogue 51-207, Air Charter Statistics 1994

Domestic Charters

While the focus of this paper has been primarily on international charter activity, domestic charters also exist in Canada. In the international scheduled market, there does appear to have been a relationship between using charter services to establish a market until volumes are such the scheduled services and carrier designation are possible. Since 1988, Canadian air carriers have been free to fly between any city-pairs in Southern Canada (and effectively anywhere in Canada). It was not necessary to establish a presence to obtain designated carrier status and permission to operate scheduled services. Carriers could choose the type of service and the routes where they felt the service was viable. They also have had complete freedom in the setting of domestic fares. The prediction was made in 1988 that "A laissez-faire approach toward restrictive discount fares should diminish the demand for charter flights...".¹⁶ The year of the prediction was the low point in domestic charters in Canada. They have shown strong growth since as is shown in Chart 2.

Chart 2: Domestic Charter Passengers, 1984-1994

Source: Statistics Canada catalogue # 51-207

Where has this great growth in domestic charter activity occurred? The largest domestic charter markets of 1994 are shown in Table 3 which shows the following:

- Of the ten largest city-pairs in terms of passenger volumes, seven are also in the top ten city-pairs for scheduled service traffic.
- Seven of the largest city-pairs in terms of charter volumes in 1994 were also in the top ten for 1978.
- Five of the seven largest charter markets in 1978 were also in the top ten for scheduled services that same year (and were also in the top ten for both charter and scheduled services in 1994).

This close relationship between the big domestic charter markets and the big domestic scheduled markets suggests that rather than opening new markets domestically, the charter carriers are providing extra lift at the lower end of the pricing scale rather than offering alternative destinations.

The results shown in the Table 3 actually just confirm the findings of the Canadian Transport Commission's "A Review of Domestic Low-priced Air Fares--January-August 1978". Two of the conclusions of the study were:

"The large number of travellers who have taken advantage of domestic low-priced air fares would suggest a need for programs such as CCC's [Charter Class Canada fare], Nighthawks, Couriers and ABC's to facilitate travel by Canadians within their own country."¹⁷, and,

"The demand for low-priced air travel peaks in the summer period and is concentrated on a relatively small number of city-pairs. The challenge in the domestic marketplace is thus to provide sufficient capacity during the peak period in order to develop the low-priced air travel market, without having unutilized equipment in the off-peak."¹⁸

It appears that the conclusions from the early experiment in low fares in 1978 are still holding true 16 years later. The domestic charter offerings in Canada are still highly concentrated amongst a small number of city-pairs and concentrated during the summer months. To solve the problem of how to meet this seasonal capacity, the same aircraft are used for flights to the South rather than domestically during the non-summer months.

Table 3: Top Ten Domestic Charter Markets, 1994, Ranking for Scheduled and Charter Passengers in 1978 and 1994

	Charter Rank 1978	Scheduled Rank 1978	Charter Rank 1994	Scheduled Rank 1994	Charter Passengers 1994 (000's)	Scheduled Passengers 1994 (000's)
→ Toronto-Vancouver	1	4	1	3	272	559
→ Calgary-Toronto	3	8	2	5	93	328
→ Halifax-Toronto	7	10	3	8	85	240
Edmonton-Vancouver	..	6	4	9	57	238
Calgary-Vancouver	..	5	5	4	53	352
→ Edmonton-Toronto	6	9	6	10	54	199
Montreal-Vancouver	4	16	7	11	52	155
→ Toronto-Winnipeg	2	7	8	7	48	257
St. John's-Toronto	5	26	9	18	47	98
Vancouver-Winnipeg	..	12	10	15	45	121

→ Indicates that the market was in the top ten for scheduled and charter services in 1978 and 1994

Source: Statistics Canada catalogue 51-207
 Statistics Canada catalogue 51-204

Conclusion

An examination of what has happened in the large international charter markets over the period 1974 to 1995 suggests that charter carriers have indeed helped to establish new transport gateways. Of the thirty-seven largest international charter markets from 1974, 51% had scheduled direct services. By 1995 direct scheduled service had been introduced on fully one half of the markets which had only charter service in 1974. Markets such as Canada-Cuba showed that charters were used to establish markets to the point that scheduled services could be introduced and that the process then could repeat with other carriers and city-pairs. The same process of charters expanding a scheduled market was also seen with Canada-United Kingdom. The previously restrictive bilateral agreement governing Canada-United States air travel may have been an added inducement for charter growth which appears now to be switching to scheduled service under the 1995 bilateral agreement.

In the domestic market, with far fewer viable city-pair combinations possible, the charter traffic appears to be concentrated in the already large established scheduled service markets where the charter price is their principle appeal. This was the case in the 1970's and continues to be the situation today.

Note

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References and Notes

- 1 "Montreal's Nationair", Wings, Issue #5, 1991.
- 2 "Air Transat: A 'wait and see' approach", Wings, Issue # 5, 1992, p. 23.
- 3 Transport Canada, Economic Regulation and Competition in the Domestic Air Carrier Industry, TP2743E, February 1981, p.183.
- 4 Statistics Canada, catalogue 51-207, Air Charter Statistics, 1994, Table 2. They operated 385,000 seats and carried 325,616 passengers Canada-Florida and the Canada-Nevada market saw 220,989 passengers on flights with 250,782 seats.
- 5 Author's notes from question period at the Second Annual Canadian Airline Investment Conference, Toronto, September 13, 1988.
- 6 Where there was code-sharing on the market, this has been included in the count of carrier choice since the services are still being marketed as different carrier flights by the airlines.
- 7 Transat A.T. inc. Annual Report 1994, p. 11.
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