

# Editorial

## CAUSE FOR ARGUMENT

The recent ruling by the Department of National Revenue that guided missiles are not aircraft and therefore are dutiable as ammunition at 22½%, is likely to meet with considerable disagreement stemming from the same arguments which have motivated the contradictory claims of the individual services in the U.S. to exclusive jurisdiction over missile development. A strong case can be made to show that guided missiles in general are aircraft. Canadian Air Regulations define an aircraft as being "any machine capable of deriving support in the atmosphere from the reactions of the air." A guided missile is one that can and does alter its course as dictated by the changing position of its target, and there is no doubt that this ability depends solely on the "reactions of the air", since the direction of thrust is customarily fixed. It is difficult to see how the Department of National Revenue's ruling could be applied to such weapons as, for example, the Northrop Snark, the Boeing Bomarc and the Martin Matador, which, while classed as guided missiles are clearly nothing more nor less than unmanned aircraft.

## THE WHEATCROFT REPORT (Cont.)

In all the 79 pages of the Wheatcroft Report on Airline Competition in Canada, there is no section of greater significance to the future of Canada's Air Transport Industry than that where Mr. Wheatcroft discusses "Social Obligation and Subsidy Policy."

In Mr. Wheatcroft's discussion he refers frequently to "social" routes and "internal cross-subsidization". By way of clarification, a "social" route might be defined as one providing service to "points which need air service but which are not self-sustaining", while "internal cross-subsidization" is the practice whereby a carrier uses some of the earnings from its profitable routes to carry its unprofitable social routes. One consequence of this practice is that the carrier must charge excessively high fares on profitable routes in order to realize a margin of profit sufficiently large to subsidize the unprofitable route and still have a little something left over.

**Prime Example:** In this line, Mr. Wheatcroft points out that "TCA operates a group of services which may be regarded as a social obligation and which involve an annual loss not far short of \$3 million. The existence of this burden makes more difficult the introduction of unrestricted competition on transcontinental routes, even in the long run, because this deficit must be permanently financed by profits from the major routes."

Mr. Wheatcroft goes on to say: "The great danger of policies of internal cross-subsidization is that they may discourage expansion in the direction of lowest costs and the greatest potential demand, and encourage it beyond the most economic level in places where costs are inherently high . . . to achieve this subsidization by requiring profitable routes to carry socially desirable unprofitable routes is a policy which, in my opinion, is bad social accounting and involves the danger that the country's resources may be deployed in uneconomic ways.

"If it were agreed in Canada, as it is in the U.S., that routes of social value which cannot stand on their own financial feet should be directly subsidized, this would make possible a radical change in the development of the whole air transport system.

" . . . Very serious consideration should be given to the transfer of [the] social services, on a subsidized basis, to regional airlines who are already in this sort of secondary route operations. In many cases this might result in the services being provided at a lower subsidy than would be necessary for TCA.

**Logical Policy:** "It is my view that the direct subsidy of smaller companies would . . . be a very logical policy for the Government to adopt. As a matter of fact it is difficult to see how many of the smaller companies can survive without such a policy. [The table below] shows the domestic financial and statistical results of the Class 1 carriers other than TCA for 1957. It can be seen that all of them, except MCA, were operating either at a loss or at a very small margin. In view of the national importance of the services provided by these airlines it would be a very serious matter if they were to discontinue operations."

	CPA	MCA	PWA	Quebecair	TransAir
Operating Revenues	\$11,369,174	7,782,454	6,828,741	2,110,912	2,774,400
Operating Expenses	\$12,060,197	6,611,910	6,745,078	2,260,871	3,092,983
Profit (+) or Loss (-)	\$-691,023	+1,170,544	+83,663	-149,959	-318,983
Operating Ratio	106	85	99	107	112

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