

CABOTAGE - ARE WE READY? HOW IS IT DEALT WITH IN VARIOUS SECTORS OF TRANSPORTATION IN CANADA?

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Introduction

Cabotage has always been one of the most controversial issues between nations around the globe and continues to evoke passionate emotions. Yet, despite the move towards free trade between developing nations, we have not completely shed our mercantilist philosophy in transportation. This is a philosophy that is increasingly growing out of sync with a move towards freer trade and open competition.

This paper examines how cabotage is dealt with in various transportation modes in Canada. Part I reviews the meaning of cabotage and the laws affecting cabotage in various transportation modes. Part II examines the economic rationale for cabotage. Part III briefly reviews the significance of maintaining cabotage rights in those transportation modes where rights still exist. Part IV examines the EU and US approaches to cabotage. Part V examines whether cabotage rights should be eliminated to permit competition. Part VI proposes changes to cabotage in various of its modes. Finally, a few concluding remarks are made.

I. The Meaning of Cabotage and the Laws Affecting Cabotage in Canadian Transportation

a) Cabotage - The origins of the word 'cabotage' can be traced to medieval law in maritime transport which restricted the coasting trade to ships owned (and crewed) by citizens of that nation. The Oxford Dictionary defines it as 'coasting-trade; reservation to a country of ground and surface and air traffic within its territory'. Its etymology can be traced to the French word 'caboter' meaning 'to

* The views expressed here are those of the authors and are not purported to be those of the Commissioner or the Competition Bureau, Industry Canada.

coast'. Over time, the word has taken a more general connotation. For example, the National Transportation Act Review Commission defined it as 'transport between two or more points in the same country, usually reserved for carriers of that country'.^[1] The term is sometimes used in a much more specific or restricted sense for example, route specific cabotage, country specific cabotage, etc. since general cabotage rights in transportation are rarely provided.

b) Laws Affecting Cabotage

Water Transportation: The *Coasting Trade Act* restricts to Canadian ships the transport of cargo and passengers, along all commercial marine-related activities in Canadian waters.^[2] It also extends this restriction to the Canadian continental shelf for activities related to exploration and exploitation of non-living natural resources.^[3] This restriction, however, has waivers as the *Coasting Trade Act* provides for the temporary importation of foreign and non-duty-paid Canadian flag vessels in specified circumstances and eliminates the uncertainties associated with the operation in Canadian waters.^[4] The specified circumstances for foreign ships include the non suitability or availability of Canadian or non-paid duty ships to provide service or perform the activity, the unavailability of an identical or similar adequate service in the case of carriage of passengers by Canadian ships, the payment of duties and taxes by the applicant for the licensed service, the validity of certificates and documents pursuant to a shipping convention to which Canada is a party, and the satisfaction of safety and pollution prevention requirements.^[5] Further, terms and conditions can be imposed on the licence relating to service or activity and place or places to which it relates ^[6] and the effective period of a licence is limited to twelve months.^[7] Furthermore, nationality requirements apply to officers and crews in the domestic trade. However, no special ownership requirements apply to shipping companies in Canada and it has to meet the same incorporation requirements as any other company. Similarly, there are also no ownership requirements for vessels operating in Canada's international trade. It is also worthwhile noting that cabotage also applies to the use of foreign marine containers. The use of these international marine containers is permitted upto 30 duty free days in Canada with one incidental move (inward or outward) for domestic carriage following international traffic.

Air Transportation: Canada was a signatory to the Convention on International Civil Aviation formulated in Chicago and signed on December 7, 1944. Article 1 of this convention states 'every State has complete and exclusive sovereignty

over the airspace above its territory'. It also provides that carriers specified in bilaterals be 'substantially owned and effectively controlled' by the designating State or its nationals. As a consequence, the grant of access to a country's airspace or international air travel markets and more specifically the grant of cabotage rights by a nation was a matter subject to bilateral agreements, though it has been suggested that there is a basic systemic incompatibility between the Chicago idea of zero sum diplomatic exchanges and a free market system. In the event that the grant of access to international air travel markets is provided pursuant to a bilateral agreement, the licencing requirements pursuant to sections 69 to 75 of the *Canada Transportation Act* have to be met. In addition, the Minister of Transport is also empowered under section 76 of the above Act to issue directions with regard to international service. Regarding foreign ownership, it is limited to 25% under the *Canada Transportation Act*. This is a result of a specific provision in the Act which restricts an application for a domestic licence to a Canadian, and a Canadian is defined in the Interpretation and Application as a permanent resident within the meaning of the *Immigration Act*. In the case of a company as an entity that is controlled by Canadians with at least 75% of the voting shares controlled by Canadians or such lesser percentage as the Governor-in-council may by regulation specify.

Highway Transportation: The provincial motor carrier acts and the *Motor Vehicle Transport Act* formerly regulated intra provincial and interprovincial trucking since the 1920s. Access to US and Canadian markets was paved by the deregulation of the trucking industry in the US and the signing of the Brock-Gotlieb Agreement in the 1980s. This process of liberalizing trade between Canada, Mexico and the United States, continued with the signing of the North American Free Trade Agreement (NAFTA). It provided for graduated access by certain dates and access to 'all' Mexican states by US and Canadian carriers and provides for access to Canada and US by Mexican carriers in 2000.[8] It also provided for ownership and investment in Mexican trucking companies providing international service up to 51 percent by the year 2001 and 100 percent by the year 2004. As a result, there are no ownership requirements in trucking. In other words, ownership and provision of international services are open, creating new market opportunities for Canadian, US and Mexican motor carriers. However, cabotage and the prohibitions against drivers operating in the domestic market of either country remain unchanged as deregulation only applied to trucks and trailer equipment.[9] Further, U.S. law effectively precludes cabotage and Canadian customs and immigration laws create similar restrictions on American truckers

who wish to carry loads with an origin and destination in Canada.[10]

Rail Transportation: All railways which cross provincial or international boundaries or are declared to be a general advantage to Canada fall under federal jurisdiction. Under section 89 of the *Canada Transportation Act*, Part III of the Act applies to a company operating a railway from the United States into Canada. There does not appear anything in the Act which prevents a railway from granting running rights with or without solicitation privileges to a US carrier nor does there appear anything in the Act which prevents a US carrier from owning Canadian short lines.

II. Economic Rationales for Cabotage

Ross and Stanbury (1999) argue that the primary goal of the federal government should be an airline industry that is as economically efficient as possible, and that such efficiencies can also lead to the accomplishment of larger goals, such as economic growth. Three areas in which cabotage can generate efficiency benefits are hub-and-spoke networks, economies of density, and “triangulation”. The first two areas will be discussed in the context of the airline industry, while the third will be discussed in the context of the trucking industry. However, these arguments can also apply to other modes of transport.

a) Hub-and-Spoke Networks

First, suppose that consumers can travel between any two points on the border of the circle shown in Figure 1, but cannot travel to Point H. In other words, a passenger can travel from Point A to Point B, Point B to Point D, Point E to Point

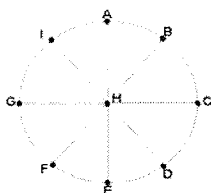


Figure 1

A, etc, as long as it is not through Point H. This is known as a point-to-point (PP) network.

Now suppose that passengers can also travel through Point H to get to their destinations. This system is known as a hub-and-spoke (HS) network, where Point H is the hub, and the lines connecting this hub to the other eight points are the spokes.

A potential consequence of a HS network is that passengers that would travel from Points F to G on a PP network (for example) must instead make a connection at Point H, thus prolonging their total travel times. On the other hand, passengers that want to travel from one side of the wheel to the other, such as Points F to B, might now be permitted to reach their destinations more directly by travelling through Point H. Thus, despite the inconvenience faced by some travellers, Brueckner and Pels (2007) argue that the *overall* cost of transporting passengers is likely lower than under the PP network. This suggests that the HS network is more cost-efficient.

Brueckner and Pels (2007) also argue that the high traffic volumes on the spoke routes allow for higher flight frequencies over the PP system, which can also benefit travellers. For example, passenger demand for PP flights from Points F to G might be insufficient to justify many frequencies; a passenger might be only able to take direct flights at 8:00AM and 4:00PM, for example. However, with a HS network, this passenger might also be permitted to take an indirect flight via Point H at either 10:00AM, noon, or 2:00PM. While the passenger's travel time will likely be longer with the indirect flight, they will also be able to more closely coordinate their first-best departure time with their actual departure time; therefore, welfare improvements can be realized.

For these reasons, Brueckner and Pels (2007) argue that nationalism leads to too much circuitousness, since airlines must find ways of taking passengers across international borders that do not violate federal laws. An implication of this argument is that if airlines (or firms operating other modes of transport) are allowed to practice cabotage, then they might find more efficient routes, thus benefiting domestic consumers. The potential for firms to find more efficient routes due to cabotage will be further discussed below in the context of "triangulation".

Finally, HS networks might lead to welfare improvements via greater competition. Brueckner and Spiller (1994) argue that by adding a hub-and-spoke network, competition can increase due to the ability of an airline to just add a

spoke onto its existing hub. For example, if foreign carriers are permitted to operate domestic routes in Canada, then they could make Pearson Airport a hub and add spokes across the Canadian domestic market, thus benefiting Canadian travellers.

b) Economies of Density

Cabotage can also generate economic benefits for Canadians by allowing airlines to take advantage of economies of density. Caves, Christensen, and Tretheway (1984) estimate these economies by analysing the relationship between airline total costs, route structure and total passenger traffic. They find that, holding an airline's route structure constant, total costs increase only 80% as rapidly as total traffic, indicating significant economies of traffic density.

According to Brueckner, Dyer, and Spiller (1992), these economies arise, in part because the higher traffic density on a route allows the airline to use larger, more efficient aircraft, and also to operate its equipment more intensively (at higher load factors). Their hypothesis is that any force that increases traffic volume on the spokes of the network will reduce fares in the markets it serves. However, this also suggests that air fares at the hubs will rise due to higher concentration levels. Therefore, the benefits to the consumer need to be compared to these higher prices to make a determination regarding whether the consumer is better off overall.

c) "Triangulation"

Contrary to passenger transport markets, in cargo markets, what goes in one direction will likely not come back again. For example, while transport demand might be high from Point H to Point F in Figure 1 ("fronthaul"), it might be negligible in the return ("backhaul") direction. Nonetheless, a firm must return its equipment to Point H, and in the process incur all expenses of such travel, including gasoline and labour costs. If this company cannot use an indirect return route due to prohibitions against cabotage, then it might operate less efficiently than if cabotage is permitted.

This argument can be clarified with an example, which is adapted from one provided by Beilock and Prentice (2007) in the context of cross-border trucking. Suppose, for simplicity, that all points on and above line segment GHC in Figure 1 represent origins/destinations in Canada (i.e., the border between Canada and the U.S.), while all points below this line represent U.S. origins/destinations. If

cabotage is illegal, then the expenses incurred in the backhaul will be (at least partly) reflected in the rates charged for the fronthaul. Thus, customers on the fronthaul will pay supra-competitive rates. On the other hand, if cabotage is legal, then the trucking company might take a more efficient “triangular” route, whereby it transports goods from H to F, then from F to E, and finally from E to H. As a result, the rates charged to customers on each leg might be closer to competitive rates, which implies these markets will operate more efficiently.

III. The significance of the Domestic Water, Air Transportation and Highway Modes

The purpose of this section is to review the magnitude of the domestic markets in water, air and trucking - the modes which for practical purposes are closed to foreign carriers. If the markets are large then granting cabotage rights to foreign countries may deserve more consideration.

Water Transportation: Marine statistics on traffic flows are collected by Statistics Canada and categorized into domestic, transborder and overseas. Domestic water traffic accounted for 69.5 m. tonnes of the total of 394.7 m. tonnes in 2005 or 17.6% of the waterborne traffic flow.

Table 1 - Marine Sectors: Canadian Traffic Flows by Region (tonnes million)

Year	Domestic (%)	Transborder (%)	Overseas (%)	Total
1986	60.5 (22.6)	68.2 (25.5)	138.4 (51.8)	267.1
1990	60.4 (20.6)	76.2 (26.0)	156.1 (53.3)	292.7
1995	50.4 (16.2)	85.2 (27.5)	174.5 (56.3)	310.1
2005	69.5 (17.6)	127.4 (32.3)	197.8 (50.1)	394.7

Source: Shipping in Canada, Statistics Canada, Catalogue No. 54-205.

It is worthwhile noting that US and foreign carriers can obtain a licence to transport domestic traffic. However, the volume transported by them is quite small. In 2005, US and foreign carriers transported 1.9 million tonnes or 2.7% of the 69.5 million tonnes.[11]

Air Transportation: Air transportation statistics are also collected by Statistics Canada and categorized into domestic, transborder and overseas. Domestic

Table 2 - Air Sectors: Canadian Passenger Traffic by Region (million)

Year	Domestic (%)	Transborder (%)	International (%)	Total (%)
1995	20.9 (45.2)	14.8 (32.0)	10.5 (22.7)	46.2 (100)
2000	26.2 (43.3)	20.5 (33.9)	13.8 (22.8)	60.5 (100)
2005	29.1(45.3)	19.9 (31.0)	15.8 (24.6)	64.2 (100)

Source: Transportation in Canada 2006, 2007, p. 91.

passenger traffic accounted for 29.1 million of a total of 64.2 million passengers carried in 2005.

In terms of revenue, for example, in 2006 Air Canada's revenue in the domestic passenger market was \$3,680 million (i.e., 41.4% of the total passenger revenue) and in the domestic cargo market it was 119 million (i.e., 18.9% of the total cargo revenue). WestJet's revenue in 2006 from passenger service was \$1,760 million. (It includes revenue from transborder and international markets. This is not expected to be a substantial portion of the total as it entered the two markets in September 2004 and 2006, respectively). All domestic passenger traffic is carried by Canadian flag carriers.

Highway Transportation: For hire trucking statistics are also collected by Statistics Canada and categorized into: intra provincial, interprovincial and international. Domestic traffic (intra provincial, interprovincial) accounted for 48.1% of the entire traffic or 89 billion tonne-kilometres in 2003.

Table 3 - For-Hire Sectors: For-Hire Truck traffic (billion tonne-kilometres)

Year	Intra provincial (%)	Interprovincial (%)	International (%)	Total
1990	23.85 (30.7)	30.85 (39.7)	23.07 (29.7)	77.77
1995	27.22 (24.7)	38.59 (35.1)	44.21 (40.2)	101.87
2000	33.11 (20.1)	51.63 (31.3)	80.23 (48.6)	164.97
2003	34.2 (18.5)	54.04 (29.3)	96.00 (51.9)	184.96

Source: Transportation in Canada 2004, 2005, Appendix Table A7-9.

The value of Canada's total exports and imports by truck in 2003 were \$173b and \$162b or a total of \$335b.

In sum, the above statistics indicate the size of the intra and interprovincial markets in comparison to transborder and international markets. At an aggregate level, in the cargo market of the 745 million tonnes shipped in the domestic

sector (intra and inter provincial) in 2004, 68.2%, 22.5% 9.2% and 0.1% were moved by for-hire trucking, rail, marine and air. In terms of value, the estimated value of goods traded at the domestic level (intraprovincial (\$477b) and interprovincial (\$143b)) by all modes accounted for \$619.7billion in 2003. In the passenger market (i.e., basically air transportation), the domestic market in terms of value is estimated to be \$5440 million. While the size of these magnitudes appear to be fair, they do not appear to be large enough to be of special concern in relation to the international sectors in these modes and especially in relation to the size of the US market that would be open to Canadian carriers if Canada was granted rights in their domestic market.

IV. European Union and United States Approach to Cabotage?

European Union: *Water Transportation* - Any EU flag ship that is eligible to engage in its own coasting trade is able to engage in coasting trade activities in any other EU State. Article 1 of Council Regulation 3577/92 states: "As from January 1, 1993, freedom to provide maritime transport services within a Member State (maritime cabotage) shall apply to Community shipowners who have their ships registered in, and flying the flag of, a Member State, provided that these ships comply with all conditions for carrying out cabotage in that Member State" Monitoring of its implementation by the Commission indicates that it has been successful. The EU has also implemented other measures such as fiscal and State aid to even the competitive field between the domestic and international sectors.

Air Transportation - In April 1997, the right for an airline of one Member State to operate a route within another Member State took effect in the EU, though its genesis can be traced to the third package of reforms introduced on January 1, 1993. Article 15 of a newly proposed regulation states: "Community carriers shall be entitled to exercise traffic rights on routes within the Community." [12] An impact study indicates that due to competition, intra-community cabotage has engendered liberalization, has brought benefits to consumers with an increase of promotional fares and has resulted in the emergence of new companies specializing in low budget fares.

Highway Transportation - Road cabotage in the movement of freight was fully liberalised on July 1, 1998. This means that from that date a hauler from a Member State who holds a Community licence, can transport goods, on a temporary basis, between two points within another Member State. Article 1 of Council Regulation 3118/93 states: "Any road haulage carrier for hire or reward who is a holder of the Community authorization provided for in Regulation (EEC) No 881/92 shall be entitled, under the conditions laid down in this Regulation, to operate on a temporary basis national road haulage services for hire and reward in another Member State, hereinafter referred to respectively as 'cabotage' and as the 'host Member State', without

having a registered office or other establishment therein." A recent study on road cabotage indicates that it accounts for a small share of the market in EU States.

Rail Transportation - Rail reforms have to date allowed for competition in the international and domestic freight market (the latter by 2008). With regard to passenger service, the Commission made a proposal to opening competition to international passenger services in 2004. In its proposal it stated "The extended impact assessment revealed that the proposal to allow railway undertakings free access to the network of the Member States to carry out international passenger services, including cabotage services, will be beneficial." It now appears to be a matter of time before cabotage on international services occurs, as cabotage access to domestic passenger flows is essential to sustain a commercially viable international rail service. As was expected, on December 3, 2007, Directive 2007/58/EC was introduced opening access rights for international rail passenger service including cabotage by 2010.

United States: Water Transportation - The US *Merchant Marine Act of 1920* (commonly referred to as the *Jones Act*) reserves all transportation of cargo between US ports to vessels built and registered in the US, owned by its citizens and manned by its crew. Despite the belief that cabotage rights are considered sacrosanct, the development in short sea shipping has led to interest in removing or rationalizing cabotage within the NAFTA area.

Air Transportation - The US-Canada Open Skies Agreement does not provide cabotage rights or foreign ownership of carriers. The most recent amendments to the Agreement go as far as providing for cargo co-terminalization and 5th Freedom rights. It also allows carriers to operate stand-alone all-cargo services between the other partner's territory and a third country.

Highway Transportation - In 1982, US deregulated interstate and international trucking as a result Canadian carriers have access to US markets.[13] In addition, NAFTA also provides for 100 percent ownership and investment in U.S. and Mexican trucking companies providing international service. Cabotage is forbidden.

Rail Transportation - Cabotage is permitted in rail for example Canadian Pacific Railway carries domestic US traffic between points in the US - Minneapolis to Chicago. Canadian and US carriers can also own US and Canadian carriers. For example, RailAmerica owns some shortlines in Canada and CP owns 100 of SOO lines in the US and recently it acquired Dakota, Minnesota & Eastern Railroad Corporation.

In sum, EU has eliminated all cabotage restrictions among its member states. The phasing out of cabotage restrictions to Member States within the European Union provides an interesting example how liberalization was achieved on this controversial matter. This surprisingly contrasts the approach in the US where the domestic market is reserved for US carriers.

V. Cabotage Rights Should it be Removed?

A few arguments why it should be removed will be briefly presented.

1. *Inconsistent Approach to Cabotage in Various Transportation Modes:* The approach to cabotage rights in various modes of transportation in Canada is not consistent. Cabotage rights are granted for cargo transportation in rail and water either directly or indirectly through foreign ownership but not granted in air and trucking. This can affect domestic intermodal competition eg. between truck and rail.
2. *Need for Equitable Treatment with Other Sectors of the Economy:* Most corporations in other sectors in the economy are not protected by cabotage, they have to compete with foreign products and foreign companies. There does not appear to be any reason any longer why transportation companies should be sheltered. While they may have been compelling reasons in the past such as infant industry, sovereignty, security and safety, these reasons appear less convincing today. Equitable treatment with the rest of the sectors of the economy calls for removal of protection for the transportation sector.
3. *Economic Rationale:* The economic rationale is often the most convincing as removing barriers increases efficiency through better utilization of transportation carriers (network, route expansion and density) and elimination of unnecessary waste and inefficiency (empty backhauls, inefficient use of equipment, downtime, etc.). Further, recent studies indicate that providing cabotage rights to foreign companies would be beneficial.
4. *Need to Stimulate Competition and Trade:* During the last couple of decades most countries have attempted to liberalize trade by removing barriers. Removing such barriers will encourage entry by foreign companies and likely enhance competition. It is also likely to stimulate trade. For example, a foreign airline may be in a better position to market its travel services in its domestic country if it is permitted to provide airline services within the foreign country, especially as it has a better understanding of the needs of its clients. Increased competition and trade will not only result in more products and better services

but also lower prices.

5. International Developments: Transportation is an international industry and in an era of globalization attempts should be made to facilitate this trend. It would undoubtedly also have a beneficial effect on international comity. A study by Transport Canada states “Literature surveyed indicates that the majority of nations are liberalizing cabotage policy for a variety of reasons. China, Korea, and India have relaxed cabotage laws to allow foreign carriers in domestic carriage to accommodate growth in exports, Brazil and Malaysia are developing industries in remote regions by allowing foreign carriers into cabotage trades. The European Union (EU) will relax rail cabotage completely by 2008 and is considering short-sea alternatives as well to increase system capacity. The Community of Andean Nations (CAN) are recognizing each other’s flagged vessels to develop a competitive regional merchant fleet. New Zealand has had unrestricted cabotage since 1994 while Australia has allowed cabotage since 2001 under a permit system. ... The exceptions to the examples presented are Indonesia and the United States.”[14]

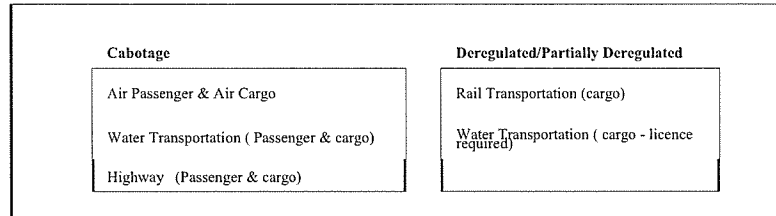
In sum, the weight of the arguments suggest that barriers that protect the domestic market from competition should be removed. This does not mean that it should be unilaterally removed but that negotiations should begin till it is achieved.

VI. Proposed Changes to Cabotage Rights

The present scenario to cabotage rights in Canada can be shown in the schematic presentation in Figure 2. It does not indicate a consistent approach in all modes. This means that all modes are not treated equally.

Notwithstanding the opposition to providing cabotage rights by various Ministers of Transportation in past, we believe that current developments require a reconsideration of this matter. We could do this by adopting a phased approach, first by negotiating cabotage rights with respect to transportation of cargo with the US and Mexico. This would initially result in the treatment of all modes of transport equally. Second, we should negotiate cabotage rights with other countries with respect to cargo and third we could negotiate cabotage rights with

Figure 2 - Schematic Presentation on Present Cabotage Scenario



regard to passenger transportation with the US and other countries. The rights should also apply to foreign vessels and ancillary equipment. An example would be the use of foreign international containers where a tariff restricts its use to 30 days. This tariff restriction is viewed as uneconomic because it has the effect of promoting inefficient movement of empty containers. A solution proposed by a recent study is to mirror the more permissive US custom regulations that treat containers as if they were re-useable packaging rather than a foreign vehicle.[15]

In sum, the North American Common Area envisioned and recommended by the Review Panel with regard to air transportation in which air carriers from Canada, the U.S. and Mexico would compete freely should also encompass other modes of transportation where they can all compete.

Concluding Remarks

The preponderance of scientific opinion in Canada is that providing cabotage rights to foreign carriers would be beneficial. This view has been expressed with regard to all modes of transportation where cabotage exists.

With regard to air transportation, the Review Panel stated “A priority should be to expose air services to the benefits of North American Free Trade.”[16] With regard to trucking, Beilock and Prentice (2007) stated “For the reasons just presented, it behoves North American policymakers to consider moving toward the more liberal EU system”. “The near-total exclusion of transportation from the U.S. - Canada Free Trade Agreement and, subsequently, from the NAFTA almost surely has negative effects regarding overall efficiency and production in North America.”[17] With regard to short sea shipping, Hodgson and Brooks (2007) stated “Beyond providing artificial protection for hard-pressing and expensive domestic fleets, there is virtually no evidence that the present regulatory regime [cabotage] is providing an optimum environment to encourage

domestic shipping operations.”[18] This is also suggested by the economic rationale discussed - hub and spoke networks, economic density and triangulation and the arguments why it should be removed. The benefits that are likely to arise from enhancing competition also deserve consideration.

In light of the above and the purported benefits, the EU has liberalized rules regarding cabotage in its member states. One should look at transportation through 21st century eyes. Mercantilist principles which govern our thinking about transportation should be abandoned. While political realities - security considerations, tax regimes, labour laws, distribution of benefits - may slow liberalization, it should not entirely preclude the evolution to a more competitive and efficient system. It should also be ensured that there is a competitive playing field i.e., absence of hidden subsidies, tax advantages, etc.

The cabotage issue also received attention by the *Standing Senate Committee on Transport* on the shipping front. It made recommendations with regard to international shipping containers and shortsea shipping. After hearing the testimony of the witnesses, it made three recommendations: harmonize the container regulations with those of the US; remove the Customs Tariff on the point-to-point movement of containers in Canada; and negotiate multilateral cabotage exemptions for shortsea container shipping operations

As a initial step, it is proposed that liberalization should be adopted first with regard to cargo, an approach used in the EU, and then with regard to passengers. This would not only ensure consistency in how cabotage is treated with respect to various modes in transport but gradually ensure that it applies equally with regard to other sectors of the economy which do not receive the privilege of protection from foreign competition.

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7. Barry E. Prentice and Jake Kosior (2007), *Environmental Impact and Economic Benefits of Cabotage Liberalization: Container Regulations and Lean Supply Chains*, 42nd Annual CTRF Conf. Proceedings, 43-57.
8. Ross, Thomas W. and W. T. Stanbury (1999), "Avoiding the Maple Syrup Solution: Comments on the Restructuring of Canada's Airline Industry," *Public Policy Sources (Fraser Institute)* 32.
9. Time for a New National Vision, Opportunities and Constraints for Canada in the Global Movement of Goods, Report of the Standing Committee on Transport and Communications, June 2008.

Endnotes

1. *Competition in Transportation*, Policy and Legislation in Review, Volume I, National Transportation Act Review Commission, 1993, p. 245.
2. *Coasting Trade Act*, s. 3. Under section 663(1) and (2) of the former *Canada Shipping Act*, trade in Atlantic waters was open to Commonwealth registered ships and the change in the *Act* to permit only Canadian registered ships resulted from the proposal in the discussion paper FREEDOM TO MOVE. This change instead of opening entry did just the opposite and was in contrast to the general deregulation policy in the above paper.
3. *Id.* s. 2f.
4. *Id.* ss. 4(1) and 5(1).
5. *Id.* s. 4 (a)-(c).
6. *Id.* s. 6(1).
7. *Id.* s. 6(2).
8. *Transportation in Canada 1996*, Annual Report, Transport Canada 1997, TP13012E, at 82.
9. Canadian Trucking Alliance Will be Watching US Cabotage Enforcement, July 31, 2007, www.cantruck.ca
10. See Beilock, Richard and Barry E. Prentice, *A Single North American Trucking Market Experiment: The Open Prairies Proposal*, *Journal of Transportation Research Forum*, 46(2), 2007: 123-131.
11. Over the period 1991-1999, the statistics of foreign market share has varied between a range of .08% in 1991 to 2.59% in 1999.
12. The three council regulations of the 1990 are combined into a new Proposal for a Regulation of the European Parliament and of the Council on common rules for the operation of air transport services in the Community 2006/0130(COD).
13. Interprovincial trucking in Canada was deregulated on January 1, 2000. Intrastate trucking is under the jurisdiction of each province or state in Canada or the US.
14. *Use of International Marine Containers in Canada*, Transport Canada, www.tc.gc.ca
15. See reference 7 in Bibliography, p. 56.
16. See *Vision and Balance*, Canadian Transportation Act Review Commission, 2001, p. 123.
17. See footnote 10, p. 7 and p. 11.
18. See reference 8 in Bibliography, p. 31.