Reduce Costs to Improve Canadian Aviation Competitiveness

High fees and government taxes on the Canadian aviation industry represent significant challenges for Canadian businesses, governments and citizens and have resulted in an uncompetitive travel and tourism industry. This has led to lost GDP and government revenue, and the decision made by millions of Canadians to seek cheaper flight options at U.S. border airports.

The Canadian Chamber of Commerce has listed 'uncompetitive travel and tourism strategies' as one of the Top 10 Barriers to Competitiveness for two consecutive years. The Conference Board projects that certain policy improvements could bring two million or more passengers per year back to Canadian airports, along with over $1 billion in Canadian GDP, 10,000 direct jobs, and approximately $200 million in tax revenue.

Background

Until the early 1990's, Canada's airports were managed by the federal government with taxpayers responsible for all capital investments and operational costs not covered by airport charges. During this time, the annual cost to taxpayers for operations alone was $135 million a year (with minimal investment in facilities).

Today, major airports in Canada are operated by not for profit, non-share capital corporations that are fully responsible for self-funding all operating and infrastructure costs and must invest any profits back into the airport. Under this system, the federal government retains legal title to the land and collects payments from airports in the form of ground lease payments or 'airport rent'.

Since 1992, this model has resulted in airports paying the Government of Canada $4.4 billion for ground lease payments and investing more than $19 billion in airport improvements with virtually no funding from taxpayers. In 2013 Canada's airports paid $291.72 million in airport rent to the federal government.

Passengers in Canada also pay an Air Travellers Security Charge (ATSC), which ranges from $14.96 on a domestic round trip to $25.91 on an international round trip, making security screening part of the "user pay" model. ATSC revenue is growing annually due to an increase in passenger volume. According to Transport Canada, ATSC revenues for 2014-15 are projected to have grown by $132 million since 2010-11. However, the Canadian Air Transport Security Authority's budget was frozen in 2010 in order to "balance" aviation security costs. As such, there are growing concerns about the future financial stability and resourcing of security screening at Canada's airports resulting in longer and longer security lines and wait times for passengers.

Meanwhile, over the years the federal government has continued to off load costs onto the aviation sector, including in areas traditionally delivered by government in other countries around the world, such as regulatory compliance costs for certain infrastructure improvements (e.g. Runway End Safety Areas), the aforementioned 'user pay' approach to security screening, and the imposition of various taxes and levies that take money out of the system. . This, of course, adds to airline ticket prices and other airport-related charges to consumers, not to mention costs associated with the movement of cargo. This inhibits Canada from becoming a true Gateway into North America.

Cost Structure

Canada's airports and airlines have been severely impeded in their efforts to compete for the cost-conscious air travel consumer with their well-funded U.S. counterparts largely because of the fees imposed on the industry by the federal government. As a result, the Canadian aviation industry's cost structure poses a burden on travellers where it matters most – their wallets.

- 21% of Canadians say they travel to U.S. airports, where the cost of a ticket can be between half and three-quarters of the price at home and that number is growing rapidly

According to research by the Canadian Airports Council and the Conference Board of Canada in 2012, the average roundtrip airfare in Canada can be double the cost of fares in the U.S. Fees, taxes and charges account for 43% of the cost of an airline ticket in Canada (about $90) or nearly one-quarter of the difference. In the U.S., taxes account for only 14%. One result of this pricing discrepancy is that about five million Canadians choose to fly out of U.S. border airports rather than their local airport.

The high cost of aviation in Canada renders Canada's air transport sector less competitive relative to other countries. In fact, out of 140 countries the World Economic Forum's 2013 Travel and Tourism Competitiveness Report ranks Canada 136th in the world in ticket taxes and airport charges and 124th in overall travel and tourism price competitiveness.

Regional airports

The airport self-funding policy has even more dire consequences for regional airports that do not attract a sufficient number of travellers to finance the maintenance and improvement of their infrastructure. The fees charged to passengers become prohibitive. On top of providing air service to travellers, business people and tourists, certain airports play a fundamental role in providing essential services such as fighting forest fires, rescuing people at sea or shipping food and other basic commodities to remote communities. These airports also play an essential role in the operation and development of some remote resources. Access to an airport therefore becomes a determining factor for investors when deciding whether to operate a mine or develop an energy source.

The federal government has an Airports Capital Assistance Program that can provide infrastructure improvement assistance. The Conference Board of Canada analyzed this program, which has not be revised in close to 20 years, and offered the following critical remarks:

- This program does not meet the needs of small airports
- Many regional airports do not have access to the program (mainly those that do not provide regular air service)
- This program's funding has decreased continually since the Québec Air Transportation Policy was adopted in 1994
- Access to available funds is difficult, the administrative burden is high and a number of small airports are unable to meet all of the requirements
- A few complementary provincial programs exist, but they are underfunded
- In the past years, emphasis has been placed on investing in safety, which may have contributed to improving basic infrastructure

A competitive air transportation system is vital for business, government and Canadians. The federal government must begin to view airports as an economic engine rather than a tax grab. Fees and taxes must become competitive with the U.S in order to reduce passenger leakage and support the growth of a strong travel and tourism industry.

Recommendations

In order to improve the competitiveness of Canada's aviation sector, the federal government must:

1. Immediately examine the cost structure of government imposed fees on the airlines and airports in Canada with the goal of reducing costs and stimulating the aviation sector.
2. Halt the offloading of additional costs onto Canada's aviation sector and its travelers.
3. Develop policies designed to mitigate the impact of the transportation surcharges and fee differentials in Canada by incorporating the results of the examination (as per recommendation number one).
4. Move immediately to eliminate airport rents where they still exist.
5. Revise the Airports Capital Assistance Program with a view to improving the quality of regional airport services, expanding air service to regions and ensuring economic development.