VIEWPOINT

Montreal Economic Institute
Ideas for a More Prosperous Nation

Canada's High Airfares and Passenger Leakage

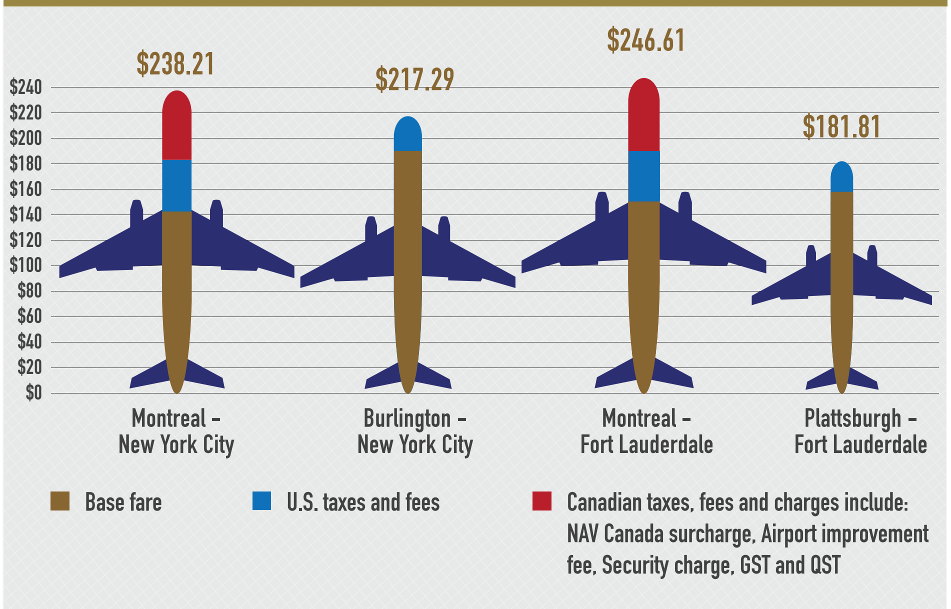
by Michel Kelly-Gagnon | March 2014

Because 75% of Canada's population lives only 90 minutes from the U.S. border, many regional Canadian airports are in direct competition with their northern American counterparts. This geographical proximity means that airfare prices have become one of the biggest competitive advantages of airports in the quest to attract more passengers.

Unfortunately, airfares to North American destinations are significantly higher if one departs from a Canadian airport rather than its regional American competitor. On a national scale, the difference between Canadian and American roundtrip flights averaged $428 per passenger.[1]

Although airfares vary considerably across airlines and seasons, it is possible to illustrate this phenomenon by comparing two typical flights for a passenger leaving from Montreal with those leaving from just across the border: a sunny destination (Fort Lauderdale)[2] and a major city (New York City).[3] On the same day, a passenger flying from Montreal to Fort Lauderdale will pay 36% more ($247) than if he had left from Plattsburgh, NY ($182). Similarly, the flight to New York City is 10% more expensive from Montreal ($238) than from Burlington, VT ($217).

Figure 1
Airline ticket price differences between Montreal-Trudeau Airport and its regional American competitors for two typical North American destinations



Source: Montreal Economic Institute, March 2014.

It is no surprise, then, that between 80% and 85% of passengers at Plattsburgh Airport,[4] and 30% at Burlington Airport,[5] are Canadian. The same phenomenon affects other Canadian cities such as Toronto and Vancouver, where many passengers choose to depart from Niagara Falls and Bellingham Airports, respectively.

It is estimated that each year, some five million Canadians choose to cross the border into the United States to begin their journeys from American airports primarily because of the high prices of airline tickets at their local Canadian airport.[6] This passenger leakage amounts to an economic loss of $2.4 billion in output and costs the country nearly 9,000 jobs[7] per year.

Taxes, fees and charges

Base fares are often not that different between Canadian and American airports. In fact, the Conference Board of Canada calculated that 40% of the price difference between Canadian and American airfares is due to airport fees and navigational fees alone.[8] Other charges include the GST, the QST and

1. Canadian Airports Council, cited in Standing Committee on Transport and Communications (TRCM), *The Future of Canadian Air Travel: Toll Booth or Spark Plug?*, June 2012, p. 10.
2. Flights to Fort Lauderdale on April 15, 2014 with Air Canada (from Montreal) and Spirit Airlines (from Plattsburgh), cheapest fare available. Prices and exchange rate as of March 18, 2014.
3. Flights to New York City on April 16, 2014 with Air Canada (from Montreal) and Delta Air Lines (from Burlington), cheapest fare available. Prices and exchange rate as of March 18, 2014.
4. Information obtained from Kristy Kennedy, Vice President of marketing at Plattsburgh Airport, via a telephone conversation on March 4, 2014.
5. Information obtained from Ryan Betcher, Marketing, Leases and Contracts official at Burlington Airport, via a telephone conversation on March 4, 2014.
6. Vijay Gill, *Driven Away: Why More Canadians are Choosing Cross Border Airports*, Executive Summary, The Conference Board of Canada, October 2012.
7. Canadian Airports Council, cited in Standing Committee on Transport and Communications, *op. cit.*, footnote 1.
8. Vijay Gill, *op. cit.*, footnote 6.

security charges, as well as the fuel surcharges included in the base fare.[9]

According to various studies,[10] and the consensus of testimonies reported to the Standing Senate Committee on Transport and Communications,[11] the higher costs in Canada's aviation supply chain are mainly the result of government policies, through the form of taxes, fees and other charges. These claims are supported by a study from the World Economic Forum which ranks Canada 136th out of 140 countries when it comes to airline taxes and airport charges.[12]

When breaking down the prices of flights from Montreal to Fort Lauderdale or New York City and their equivalents from nearby U.S. airports, we observe that Canadian base fares are actually lower than their U.S. equivalents, which is all the more impressive since Montreal is farther away from both destinations. Conversely, Canadian taxes and fees are more than twice as high as U.S. taxes and fees for equivalent flights from Plattsburgh and Burlington. These additional charges account for roughly a quarter of the Canadian airfares (see Figure 1).

Renting airports is not the best option

In 1992, the federal government set up an airport governance structure by which it leased airport lands and capital assets to nonprofit non-share corporations called Airport Authorities. The financial burden of funding airport infrastructure improvements was delegated to these authorities, while Canada's major airports receive no subsidies from Ottawa.[13] However, because the ownership of airports remains in the hands of the federal government, these organizations must pay "rent" proportional to the airports' revenues which, for Canada's three major airports, stands at 12%.[14] Since this tax is calculated on the Airport Authorities' revenues instead of its profits, an airport must increase the prices of its services when its revenues increase in order to cover the higher rent payments.

The $14 billion spent by Canadian airport authorities for improvements since 2001[15] was largely funded by debt, to be repaid by charges passed along to consumers, such as Airport Improvement Fees. So when an expansion leads to increased passenger traffic, the airport authority ends up paying more rent to the government, even though the upgraded terminal was financed entirely by customers. The government gets more money back, in other words, without having put more in.

A 2009 study calculated that eliminating the airport rent would increase passenger traffic by 590,000 annually.[16] This could be done by fully transferring ownership of airports to the non-profit airport authorities or by charging them a symbolic rent of $1 per year. Such a measure would deprive Ottawa of the $280 million it collects each year from rents, although this would be mitigated by an extra $50 million in revenue from increased passenger traffic.[17]

However, the federal government could recover these losses in revenue—and much more—by selling airports off to private investors. The Caisse de dépôt et placement du Québec already owns 13.29% of Heathrow Airport in London.[18] Other measures, such as eliminating the aviation fuel surcharges and enacting less restrictive ownership requirements for airlines, would also help restore the competitiveness of Canadian airports, greatly benefiting Canadian travellers and the Canadian economy more generally.

9. Air Canada, What are the additional charges in my Fare?
10. See for instance Vijay Gill, *op. cit.*, footnote 6; Benjamin Dachis, *Full Throttle: Reforming Canada's Aviation Policy*, C.D. Howe Institute, Commentary No. 398, January 2014; Ben Cherniavsky and Benjamin Dachis, *Excess Baggage: Measuring Air Transportation's Fiscal Burden*, C.D. Howe Institute, Commentary No. 242, February 2007; Stéphanie Giaume and Martin Masse, *How to make the Canadian airline industry more competitive*, Montreal Economic Institute, November 2006.
11. Canadian Airports Council, cited in Standing Senate Committee on Transport and Communications, *op. cit.*, footnote 1, p. 7.
12. Jennifer Blanke and Thea Chiesa, *The Travel and Tourism Competitiveness Report 2013: Reducing Barriers to Economic Growth and Job Creation*, World Economic Forum, 2013, p. 131.
13. Institute for Governance of Private and Public Organizations, *The Governance of Canadian Airports: Issues and Recommendations*, 2014, p. 9.
14. Ben Cherniavsky and Benjamin Dachis, *Excess Baggage: Measuring Air Transportation's Fiscal Burden*, C.D. Howe Institute, Commentary No. 242, February 2007, p. 4.
15. Institute for Governance of Private and Public Organizations, *op. cit.*, footnote 13, p. 14.
16. Inter*VISTAS* Consulting Inc., *The Elimination of Airport Rent: Return on Investment*, July 21, 2009, p. 5.
17. *Ibid.*, p. iii.
18. Heathrow Airport, About Heathrow Airport — Company information.

Michel Kelly-Gagnon is President and CEO of the Montreal Economic Institute. From 2006 to 2008, he was president of the Quebec Employers Council. He graduated in law from the Université de Montréal.