Ideas for a More Prosperous Society

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WING HEAVY: THE FEES THAT UNDERMINE THE COMPETITIVENESS OF THE AIRLINE SECTOR

By Gabriel Giguère

The Canadian economy has been seriously affected by the pandemic over the past few years. Many sectors saw their contribution to GDP plummet during this period. Certain sectors like air transport, whose contribution fell by 36%, have yet to return to their pre-pandemic level of activity.[1] In a context in which the airline industry is subject to a heavy fiscal and regulatory burden, the federal government could contribute to the recovery of the sector by reducing airport rents, security fees, and the fuel tax.[2]

ELIMINATING AIRPORT RENTS

According to the current regulatory framework—which dates back to 1992—the federal government delegates the management of Canadian airports[3] to non-profit organizations called airport authorities. The framework stipulates that these authorities will pay rent to the government based on the airport's gross revenues.[4] In total, 26 airports are managed by these organizations and belong to the National Airports System (NAS).[5] These are the busiest airports in the country, like the Montréal-Trudeau and Toronto Pearson airports.

The annual rent payments represent a heavy burden for NAS airports, which hurts the sector as a whole, starting with the airport authorities but also including airlines and passengers. Indeed, rent can absorb up to 12% of an airport's revenues, as is the case for the largest of them.[6] This financial pressure due to elevated rents directly limits the ability of airport authorities to invest in their own infrastructure.

For the 2022-2023 fiscal year, the rents paid to the federal government amounted to $419 million, an increase of 42.5% in just 10 years (see Figure 1).[7] During the decade from 2013 to 2023, NAS airports paid over $3 billion to the government, in spite of the reduction in rental revenues during the two years that were seriously affected by the COVID-19 pandemic. Indeed, the airline industry as a whole experienced a drastic decline in its activities, which led the government to suspend rent payments for the 2020-2021 fiscal year.[8]

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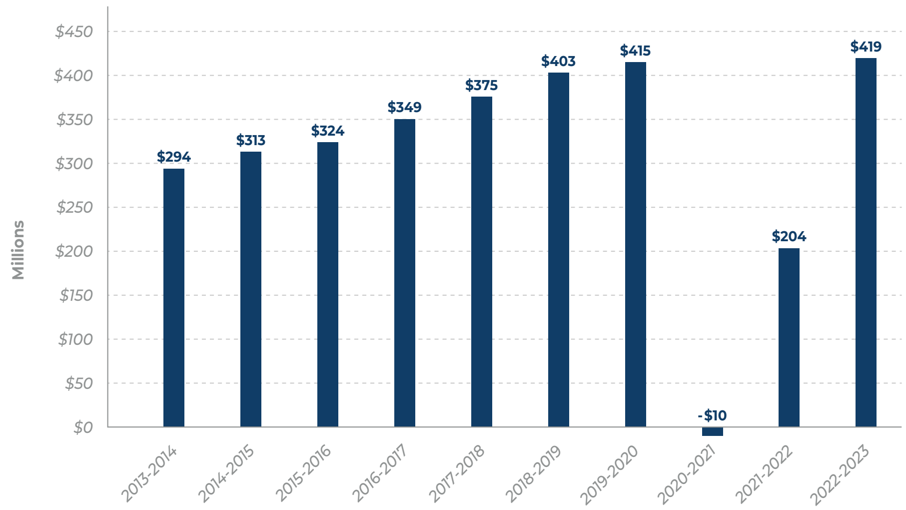
Compared to the billions of dollars it collects in rent, the federal government invests little, if anything, in maintaining airport infrastructure, especially when it comes to the large NAS airports. An annual average of around $32 million was invested from 2013 to 2020 through the federal Airports Capital Assistance Program (ACAP), which represents only around 9% of the average rental revenues collected over the same period.[9] Only a very small portion of ACAP funds are paid to a few small NAS airports, with the majority going to airports that do not pay rent.[10]

Figure 1

Rent paid by airport authorities to the federal government, 2013-2023, millions of $



Sources: Government of Canada, *Public Accounts: Volume 2*, editions from 2013-2014 to 2022-2023.

Worse still, the busiest airports receive no ACAP funding, while they are the ones that pay the lion's share of federal rental revenues. For instance, Pearson and Montréal-Trudeau together accounted for over 55% of the total value of rents collected in 2022.

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In order to ensure the maintenance of the infrastructure under their management, the non-profit airport authorities—having been deprived of funds paid in rent to the federal government—impose airport improvement fees, which are charged directly to passengers on their plane tickets. These fees notably rose from $25 in December 2017 to $35 in February 2021 at Montréal-Trudeau airport, and will increase to $40 in March 2024,[11] while at Pearson airport, they rose from $5 before the pandemic to $35 in 2023.[12] The rents imposed on the airport authorities in order to increase government revenues therefore act as a tax imposed on travellers.

Decision makers should have taken advantage of the temporary pause in rent collection in 2020-2021 to review their policy and implement a permanent change. The post-pandemic context makes these issues relevant once again. Already in 2013, a senate committee had recommended eliminating rental payments from the airport authorities to the federal government.[13] Its report also highlighted the need to transfer airports to the airport authorities, and even to privatize them, thereby allowing them to invest more in infrastructure. Successive governments have failed to follow up on this recommendation.

REDUCING THE AIR TRAVELLERS SECURITY CHARGE

The air travellers security charge is another fee that weighs down the sector. It was introduced following the September 11, 2001 attacks. In theory, this fee serves to finance the operations of the Canadian Air Transport Security Authority. The amount varies by type of flight: currently, it is $7.48 for a one-way domestic flight and $25.91 for an international flight.[14]

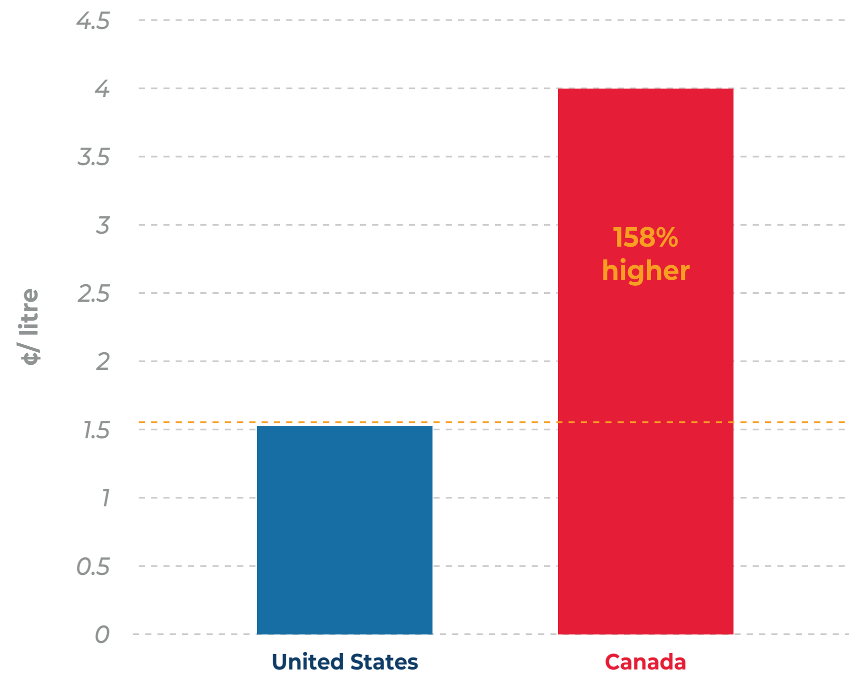
In its 2023-2024 budget, the federal government announced an increase in the air travellers security charge starting May 1st, 2024.[15]

According to the Office of the Parliamentary Budget Officer, this would be an increase of around 33%, which would add $1.2 billion to federal revenues over the next four fiscal years.[16]

By comparing Canada's air travellers security charges to those in effect in the United States, we find that the charges paid by American travellers are lower, especially if Canada's upcoming increases are taken into account. Indeed, for all types of flights (one-way domestic, round-trip domestic, or international), security charges are lower in the United States.[17] For an international flight, a Canadian traveller will pay a fee of $34.42 as of May 1st, 2024, while an American traveller will pay a maximum of $15.30 (in Canadian dollars).[18] The planned increase in Canada would thus lead to a difference between the two countries of nearly $20 per ticket, undermining the competitiveness of the Canadian airline sector.

Figure 2

Excise tax on aviation fuel, United States and Canada, 2023 (¢/L)



Source: Government of Canada, *Excise Tax Act*, Schedule 1, section 9.1, 1985 (June 22, 2023); Airlines for America, Data & Statistics, U.S. Government-Imposed Taxes on Air Transportation, October 1st, 2023.

The government must start looking at alternatives, and request a detailed study of the needs of the Canadian Air Transport Security Authority in order to consider reducing security charges instead of increasing them.

REDUCING THE FUEL TAX

In addition to security fees and rents that are too high, there is the federal excise tax on fuel, in effect since 1985, which also increases the prices of plane tickets.[19] Although this tax is only 4 cents per litre of aviation fuel, this represents a little over $900 million paid into federal government coffers by the airline sector over the past decade.[20]

The American government also imposes a tax on aviation fuel.[21] It is just 4.3 cents US per gallon, however, or 1.55 cents CA per litre of fuel.[22] As the Canadian excise tax on fuel is 158% higher than the American tax (see Figure 2), our airline sector is disadvantaged in this regard as well, which favours American airports just south of the border that attract Canadian travellers.

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The carbon tax on fuel,[23] or fuel charge, is another aspect to consider. It applies to all types of fuel, including kerosene, used in most commercial airplanes. For the moment, flights between provinces subject to the *Greenhouse Gas Pollution Pricing Act* are exempt from this tax.[24] The federal government would do well to maintain this exemption so as not to further undermine the attractiveness of Canadian destinations for domestic flights.

The maintenance of this exemption, combined with a reduction in the fuel tax to bring it down to the level in effect in the United States, would help increase the competitiveness of the Canadian airline sector.

CONCLUSION

The current fiscal and regulatory framework penalizes Canadian travellers, who pay more for their plane tickets due among other things to airport rents and other elevated fees. This framework also undermines the competitiveness of our airports compared to American airports just south of the border.

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In order to reduce the burden imposed on travellers and improve the competitiveness of our airline industry, the federal government should look at abolishing the rents imposed on airport authorities and consider all options for reducing the other fees and taxes that weigh down the sector and raise the prices paid by passengers.

Despite a fairly minor loss of revenues for the federal government compared to its total revenues, these changes would lead to increased economic activity that would benefit the sector and the Canadian economy as a whole, which in the long run would offset those reduced tax revenues.[25]

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