Keeping Canada's Air Travel Industry Sustainable & Affordable to Canadians

DESCRIPTION

Domestic air travel within Canada is significantly more expensive than domestic air travel across the United States. The high cost of Canadian domestic air travel makes it inaccessible to some Canadians and limits Canada's ability to grow the tourism industry and to operate multi-city Canadian businesses. Due to the competitiveness of air travel prices in the US, many Canadians head south of the border to depart for flights meaning that Canadian airlines, airports and businesses lose possible revenue streams that could be otherwise redirected into the Canadian economy.

BACKGROUND

Despite recent progress on foreign ownership restrictions increased to 49 percent from 25 percent previously which allows for more Ultra Low-Cost Carriers to enter the marketplace, there are additional hurdles to overcome in order to keep air travel costs low. If the federal government continues to roll out its carbon tax, hundreds of millions of dollars will be added to the cost of domestic air travel.

Secondly, the abrupt introduction of Airline Passenger Protection Regulations (APPR) could imply significant unintended consequences. The APPR will likely threaten the competitiveness of Canada's airline industry, thereby impacting the many areas of the Canadian economy that rely on the connectivity offered by airlines. The new regulations will lead to increased costs to carriers and airports that will likely flow through to the passengers in the form of increased fares, and may ultimately result in a reduction in service, making air travel in Canada considerably more challenging.

Domestic air travel in Canada is already excessively expensive as a result of high federal fees and taxes on travellers, shippers, airports and airlines. In addition to GST/HST, fuel excise taxes and some $390 million a year that airports pay to the federal government in the form of "airport rent." To add a carbon tax to the mix will have significant environmental, economic and social impacts and will jeopardize the longer sustainability of the Canadian aviation industry.

The taxes and fees for domestic air travel in Canada include:

- 5% - 15% GST / HST
- $7.12 Air Travellers Security Charge (ATSC) each way up to $14.25
- $5-$30 in Airport Improvement fees (no limits)

A $600 round trip flight within Canada could be subject to $165 in taxes and fees (over 27% increase from base fare).

For comparison, domestic air travel taxes and fees in the United States include:

- 7.5% US domestic transportation tax
- Up to $5 domestic passenger federal flight segment tax
- Up to $4.50 passenger facilities charges for airport improvements (up to 4 per journey and max 2 per one way trip)

A $600 round trip flight within the US would be subject to up to $69 in taxes and fees (11.5% increase from base fare).
Lower fees for US domestic travel appeals to Canadians and as such they head south of the border for departures to international locations. An estimated 5 million Canadians crossed the border to fly out of the US and avoid high Canadian airline fees. Many of the airports in small US towns bordering Canada have a significant number of Canadian customers such as Bellingham, WA, Grand Forks, ND, Buffalo, NY and Plattsburgh, NY and various eastern seaboard airports. Canadian travellers re-routing through the US causes Canada to lose both revenue and jobs that could be retained or created if domestic air travel within Canada were more accessible and affordable.

The Canadian economy is shifting away from reliance on the oil and gas industry and moving towards technology. While, the oil and gas industries required more travel to remote destinations, technology companies in Canada require travel to other Canadian cities. Technology entrepreneurs should be encouraged to grow businesses within Canada to penetrate and stimulate the Canadian economy. This means opening offices in various cities across the country. The current cost of domestic air travel discourages growth of companies within Canada as it is too expensive to frequently travel between Canadian destinations. This drives Canadian businesses to open offices within the US as the cost to travel to these offices is reduced. Although Canadian business penetrating the US market can be a positive thing, many Canadian businesses are acquired by US companies once parts of their operations move south of the border. Reducing the cost of air travel within Canada could help to stimulate small business growth across the country and allow successful acquisitions within Canada.

The National Airlines Council of Canada has recently commissioned three studies to assess how a carbon tax would affect domestic air travel. The first study, Carbon Pricing in the Canadian Aviation Sector, found that a carbon tax would not reduce carbon emissions in the medium tern because of the aviation industry's technological and systems maturity with respect to fuel consumption and emissions. The second finding of the study was that a carbon offset system was better suited to the industry and would result in measurable emission reductions. Simply stated, a carbon tax will not curb carbon emissions from aviation.

The second study, Impacts and Analysis of Carbon Pricing on Canada's Trade Exposed Aviation Sector, examined some of the more salient market distortions that the backstop carbon tax on air travel would cause.

The most recent study, Evaluation of Carbon Tax Backstop Costs on Domestic Air Travel: 2019-2030, reviewed the cost impact on various domestic routes, the effects of a national carbon tax on air travel between 2022-2030 and the competitive position of Canada's commercial aviation industry. It also quantified the revenue windfall generated by a carbon tax on domestic aviation which would be almost $850 million a year by 2030.

The carbon tax would not only conflict with the federal government's plans to grow Canada's visitor economy, it would weaken domestic tourism thus encouraging Canadians to travel outside of Canada and creating an anti-tourism bias, albeit unintentionally. Linked to this, a carbon tax will drive even more Canadians to USA airports and destinations than it is currently.

Implementing a carbon offset system, similar to the one adopted by the International Civil Aviation Organization in 2016, which the federal government endorsed, would generate less tax revenue than a carbon tax by hundreds of millions of dollars a year. By 2022, tax revenue from the carbon tax would be greater than that from the federal excise tax and provincial aviation fuel taxes combined.

Conclusion:
Canadian air passengers pay some of the highest government taxes, fees and charges in the world . In exchange, they expect to receive value for their investment and support. The reality is, these fees and taxes have continued to increase over the last few years, contributing to the general revenue fund for the federal government rather than being specifically reinvested back into Canada's airport authorities, airline industry and its related infrastructure as it was in previous years (see Appendix A for Navigation Canada statistics).

An efficient, cost-effective transportation network is a key part of a prosperous nation. Adding a carbon tax, or any additional government-imposed costs on air travel, should be considered in the context of their cumulative and compounding impact on the cost of air travel and its system-wide implications.
Canada's reliance on the US transportation network diverts revenue and jobs that could stay within Canada. The lack of affordable domestic air travel in Canada harms the growth of Canadian small business, particularly in the technology and tourism sectors by expanding growth into the US and international markets instead of within Canada. From the federal government's own study, Unlocking the Potential of Canada's Visitor Economy, it suggests that by increasing the cost of air travel in Canada would damage Canada's appeal as a visitor destination and, by making it more difficult to develop secondary destinations, would reduce the length of average visitor stays.
It is believed that the taxes generated by additional economic activity, the creation/retention of Canadian jobs in the airline and tourism industries, and the increase in success of Canadian small business would make up for losses in collection of the current federal fee structure.

APPENDIX A [1]
ATSC = Air Travellers Security Charge
CATSA = Canadian Air Transportation Security Authority

Year	ATSC	Total Gov't Funding for CATSA	Difference
2007-2008	$385,713,000	$482,634,000	($96,921,000)
2008-2009	$386,461,000	$476,472,000	($90,011,000)
2009-2010	$374,468,000	$580,000,000	($205,532,000)
2010-2011	$600,078,000	$598,400,000	$1,678,000
2011-2012	$631,003,000	$584,400,000	$46,603,000
2012-2013	$635,600,000	$549,940,000	$85,660,000
2013-2014	$661,948,000	$538,892,000	$123,056,000
2014-2015	$695,702,000	$597,971,000	$97,731,000

[1] http://www.parl.gc.ca/Content/SEN/Committee/411/trcm/rep/rep05jun12-e.pdf and https://www.fraserinstitute.org/article/europe%E2%80%99s-airfares-bargain-compared-canada

2015-2016	$721,224,000	$611,911,000	$109,313,000
2016-2017	767,856,000	$673,157,000	$94,699,000
2017-2018	$822,569,000	$706,023,000	$116,546,000

RECOMMENDATIONS

That the federal government:

1. Reduce fees and taxes on air travel in Canada.
2. Re-evaluate the implementation of a carbon tax on domestic air travel and instead, implement the measures contemplated in the International Civil Aviation Organization's carbon offsetting and reduction scheme for international aviation (CORSIA) as it would result in measurable emission reductions.
3. Reallocate federal revenue collected from the air transport sector within Canada's aviation sector, such as through investments in regional airport infrastructure and safety/security equipment at small airports.
4. Extend the December 15, 2019 Air Passenger Protection Regulations implementation date by at least one year so that a thorough assessment of the impacts of the regulation may be completed and to ensure a more gradual and phased implementation process to ensure successful results.
5. Revise the formula used to calculate federal airport rent to exclude non-aeronautical revenue and revenue airports raise to invest in capital projects (i.e. Airport Improvement Fees).