SUPPORTING CANADA'S AIR TRAVEL INDUSTRY THROUGH LOWER FEES (2016)

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 U.S., 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.

Domestic air travel in Canada is excessively expensive as a result of high federal fees and airport fees.

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; and
- $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 the base fare).

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

- 7.5% US domestic transportation tax;
- $3 domestic passenger federal flight segment tax; and
- 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 U.S. would be subject to up to $69 in taxes and fees (11.5% increase from the base fare).

Lower fees for U.S. 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 U.S. and avoid high Canadian aviation fees. Many of the large airports in small U.S. towns bordering Canada have a significant number of Canadian customers. Canadian travellers re-routing through the U.S. 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.

A March 2015 report by CTC Research "Canada Millennial Domestic Travel Summary Report" states that millennial travel accounted for 20% of total global travel in 2010 and is forecasted to reach about 300 million trips per year by 2020. Millennial Canadians are generally keen on travelling within Canada. Nine out of ten young Canadians are very or somewhat interested in visiting a Canadian destination beyond their home province in the next few years. British Columbia holds the greatest appeal to young Canadians, followed by Ontario, Quebec and Alberta. However, millennial travellers are cost-conscious as a large share of the millennial segment is composed of full-time students or recent graduates, and budget constraints appear to be a significant factor in the choice of the travel destination. As this is a growing segment of the population and one that values travel as part of their life experience, reducing costs for domestic air travel within Canada could increase tourism revenue for this population segment.

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 U.S. as the cost to travel to these offices is reduced. Although Canadian business penetrating the U.S. market can be a positive thing, many Canadian businesses are acquired by U.S. 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.

Conclusion

Canadian air passengers pay some of the highest government taxes, fees and charges in the world.[1] 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 and see the Canadian Airports Council submission to the CTA Review).

An efficient, cost-effective transportation network is a key part of a prosperous nation. Canada's reliance on the U.S. transportation network diverts revenue and jobs that could stay within Canada. The high cost of Canadian domestic air travel deters Millennials (a large and interested group of travellers) from travelling within Canada and generating further domestic tourism revenue. The lack of affordable domestic air travel in Canada harms the growth of Canadian small business, particularly in the technology sector by expanding growth into the U.S. instead of across Canada.

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 more than make up for any losses in collection of the current federal fee structure.

THE CHAMBER RECOMMENDS

That the Federal Government considers reducing and/or subsidizing the current fees for domestic air travel.

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

APPENDIX A

ATSC = Air Travellers Security Charge
CATSA = Canadian Air Transportation Security Authority

Year	**ATSC**[2]	**Total Gov't Funding for CATSA**[3]	**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)
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

2 Public Accounts of Canada
3 CATSA Annual Reports