



# Cross-border Airline Shopping

## Why is Canada Losing Out?

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# A snapshot of the Canadian airline industry

- Industry represents \$35 B in GDP annually
- Total employment impact of approx. 400,000
- 150,000 are direct employment
- 110.9 million domestic and international trips in 2012
- 23.5 million Can-U.S. trips



## Recent CBoC research on Can-U.S. air travel

- “Why More Canadians are Choosing Cross Border Airports”
- Each year, up to 5 million Canadians cross the U.S. border on land to fly from U.S. airports, largely to U.S. destinations
- Analysis focused on Vancouver (YVR), Toronto (YYZ) and Montreal (YUL) and their U.S. counterparts
- A “perfect storm” of factors – fees and taxes the largest part, but not the only part



# Average Fares from Canadian Airports and their Cross-Border Competitors (\$)

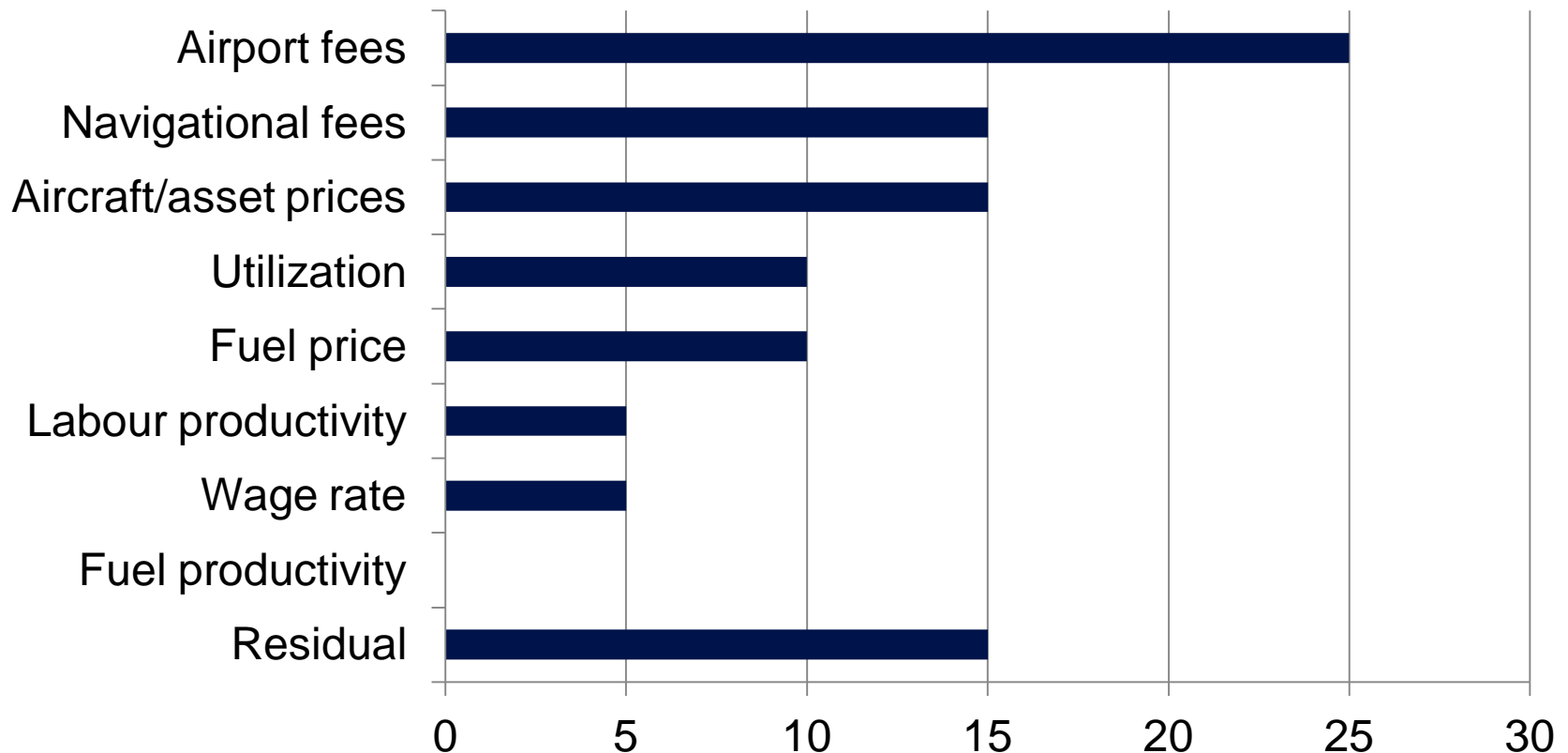
	YVR	BLI	YYZ	BUF	YUL	BTV/PBG
Base	388	269	318	265	573	292
Fees & Tax	105	38	114	59	124	35
Total	493	307	432	324	697	327

Source: The Canadian Airports Council



# Summary of Canadian and U.S. Carrier Costs Differentials

share of contribution to Canadian/U.S. price differentials, per cent





# Example of Taxes and Fees Applied to Base Fare to US Destinations (One-Way), \$

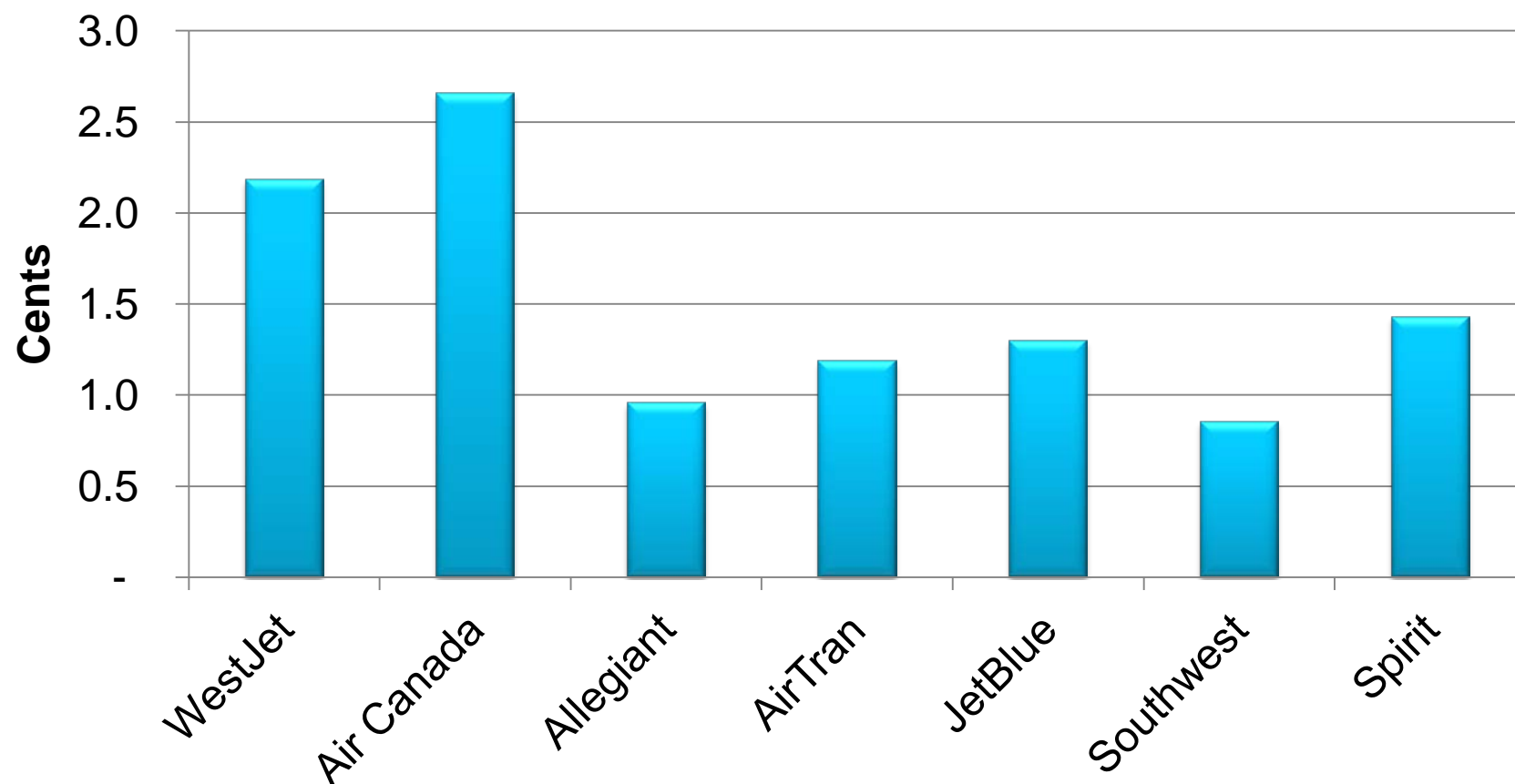
	From Canada	From US	Notes:
<b>Base fare</b>	200.00	140.00	Assuming base fare to be 30 per cent lower based on air carrier cost structure comparison.
<b>AIF/PFC</b>	20.00	9.20	AIFs from Canadian airports are typically \$15 to \$25. Service from the cross-border airports are typically connecting flights, so two PFCs of up to \$4.60 each apply.
<b>Security</b>	12.10	5.12	Security fee in the US is \$2.56 per flight segment, up to a maximum of \$5.12.
<b>US Federal Excise Tax</b>	17.08	10.50	Fixed charges apply to flights with non-domestic origin. 7.5 per cent tax applied to domestic flights.
<b>Sales Tax</b>	14.17		GST or GST portion of HST applied to base fare and security fee, plus HST or GST+PST applied to AIF.
<b>Flight segment tax</b>		7.60	\$3.80 per flight segment.
<b>US Agriculture Fee</b>	5.00		International flights only.
<b>US Immigration User Fee</b>	7.16		International flights only.
<b>US Customs Fee</b>	5.62		International flights only.
<b>Total fees and taxes</b>	81.13	32.42	
<b>Total fare</b>	281.13	172.42	

Sources: Air Canada, Orbitz.com, Canada Revenue Agency, The Conference Board of Canada

Note: Canadian Air Nav charge was not included



## Aircraft Ownership Cost



Sources: The Conference Board of Canada; MIT Data Project; Carrier Annual Reports

Note: CASM is adjusted for stage length



# Compensation: The Impact of Input Prices vs. Labour Productivity

	WestJet	Air Canada	Allegiant	AirTran	JetBlue	Southwest	Spirit
Compensation per ASM (cents)	2.84	2.94	1.76	2.09	2.87	3.21	1.99
Compensation per employee (\$)	80,541	81,250	67,160	65,990	83,740	105,700	71,370
ASM/Employee	2,837,031	2,763,568	3,812,015	3,160,976	2,917,989	3,292,585	3,592,429

Sources: The Conference Board of Canada; MIT Data Project; Carrier Annual Reports  
Note: Comp/ASM and ASM/Employee are adjusted for stage length





## Some economic impacts

- “Cross-border airline shopping”: we estimate annual net loss of 2 million trips (since some would not have travelled otherwise)
- This represents 2 per cent of total Cdn airline trips – small but material
- A 1 per cent reduction in revenues = 4000 Cdn jobs lost, of which 1500 are direct
- Price elasticity of cross-border airline travel is 1 – meaning a 1 per cent reduction in price will increase revenues by 1 per cent



# The Bottom Line

- No single factor explains the Can-US price differential
- No quick fix – fees and taxes are only part of the problem
- Hard to change the fundamental economics of U.S. vs. Canadian air carriers – aircraft financing, labour costs, productivity
- But without a more level playing field, the price gap will remain and consumers will react accordingly

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