

# Solving the Competitiveness Challenge

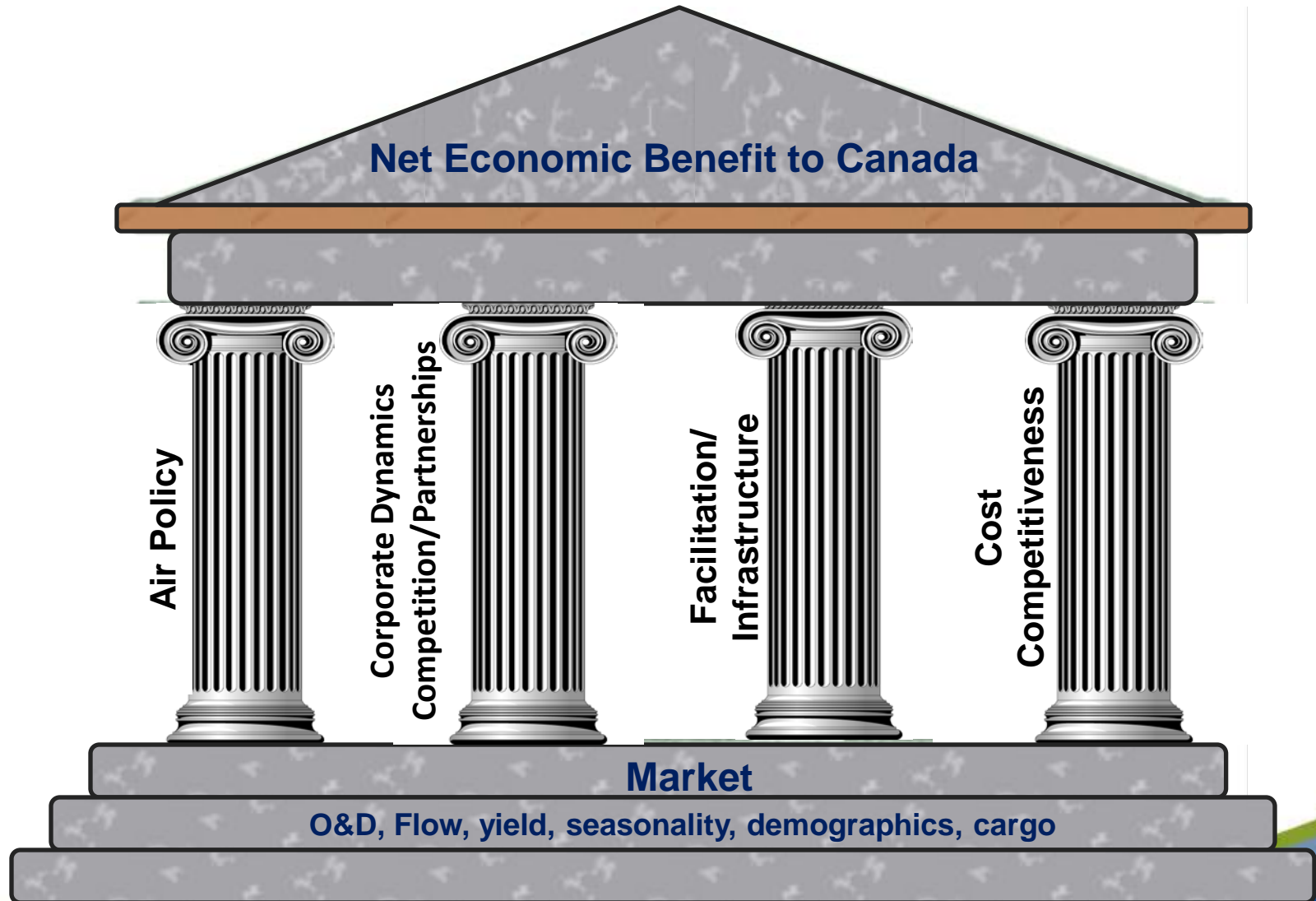
Western Canadian Aviation Forum  
Maximum Velocity

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May 02, 2013



# Foundations



# What are we hearing?

Should I feel guilty about flying out of Buffalo instead of Toronto? *Globe and Mail*, Nov. 11, 2011  
There are calls to make Abbotsford Airport and Vancouver more competitive with U.S. airports as travellers migrate south of the border for their U.S. departures *-Abbotsford Times – November*

15, 2011  
“Canadians are realizing more and more that border airports can save fliers a lot – sometimes hundreds of dollars – on airfare” says Lauren Sullivan, site editor of Cheapflights.ca

Fear of Cross Border Flying – *Toronto Star* March 10, 2012

**Allegiant boosts service from Niagara Falls, N.Y. with eye on Ontario travellers** – *Globe and Mail*, December 25, 2011  
Tourism urges airport rethink – *London Free Press*, Oct. 2011  
Western Ontario's economy is weak but tourism is booming

thanks to Canadians. At the airport long term parking lots, Ontario licence plates represented 8% a decade ago. It was 38% in February.  
**THE REAL AIR RAGE** – *Maclean's Magazine* March, 2012  
Canada's airlines have grown by 10% in the last 10 years, but the airports are funded amid concern an increasing number of Canadians are crossing the border.

“The board fees are pushing up of fares, and making Canada a miserable place to fly”  
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“It’s hard to stimulate travel with low fares while operating in a high-cost environment” quote from Jet Blue Airlines

# We know the Problem...

- **One of our Airports is Missing (Forum)**

- Canadian Airports Council, March 2012



- **Non-Competitive Market Driving Passengers Away from Canada's Airports**

- University of Maryland, June 2012

- **The Future of Canadian Air Travel: Toll Booth or Spark Plug?**

- Standing Senate Committee on Transport and Communications, June 2012



- **Driven Away: Why More Canadians are Choosing Cross Border Airports**

- The Conference Board of Canada, October 2012

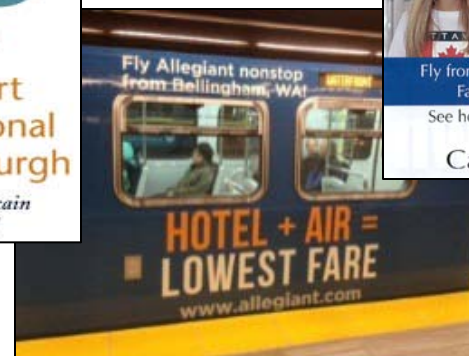


Plus...

- **Numerous local/regional studies undertaken across Canada**

# The Issues

- Canada-wide problem
- Price driven
  1. Base Fare
  2. Taxes/Fees/Charges
- Escalating problem with U.S. Border airports are recognizing a significant opportunity as a credible alternative for the leisure market. Aggressive marketing efforts
- Existing carriers wary of adding transborder capacity
- Collectively, we are sitting by and watching  
.... then some of us say it isn't important or its stimulation





# ONE OF OUR AIRPORTS IS MISSING!

Tackling the Challenge of Cross Border Shopping,  
"Air Travel Edition"

	Canadian City	Leakage	
1	Toronto	1,839,000	21%
2	Vancouver	953,000	22%
3	Hamilton	808,000	43%
4	Montreal	799,000	24%
5	London	747,000	69%
6	Windsor	230,000	99%
7	Winnipeg	163,000	24%
8	Waterloo	141,000	21%
9	Quebec City	124,000	28%
10	Abbotsford	99,000	56%

Source: 2011

- ❑ Just over 75% of the Canadian Population lives within 90 minutes of the U.S. border.
- ❑ Canadians are willing to drive to obtain low fares and appear place no value on their time
- ❑ 21% of Canada-U.S. O&D uses U.S. border airports
- ❑ Greater impact on smaller Canadian communities
- ❑ Stimulation vs Leakage?
- ❑ No U.S. Low Cost Carrier Has Maintained Service in Canada – It's too Expensive!
- ❑ U.S. LCCs lined up along the border  
= 64 B737s/day



# Canada-wide Issue

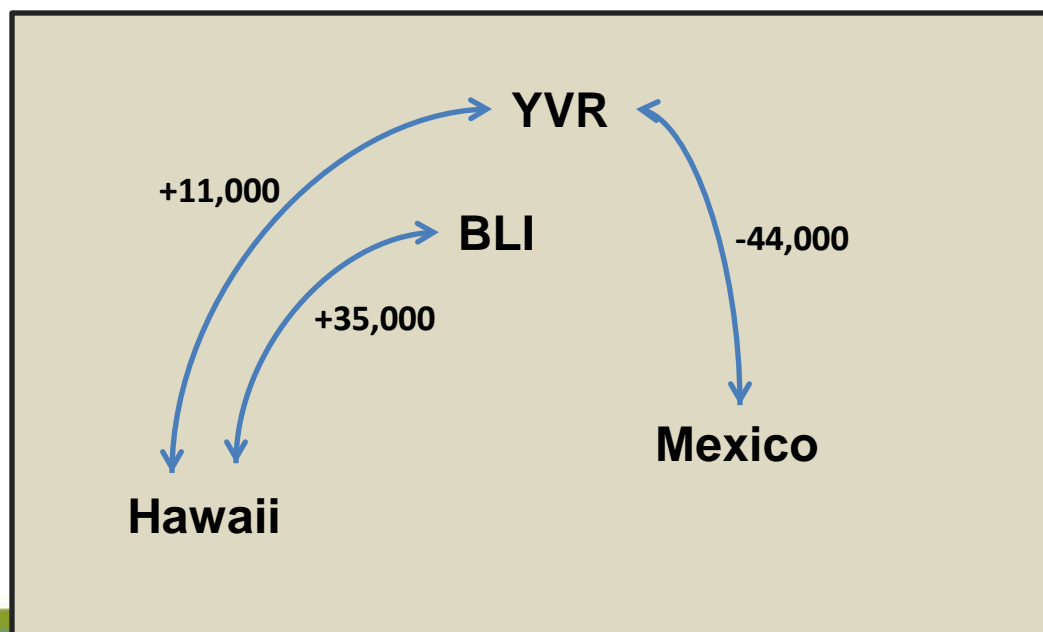


21%

Canadian Airport (% leakage)<sup>2011</sup>

# Recent Trends & Unexpected Consequences

- Ongoing net growth in leakage
- Looked at airports <2 million pax
  - US Border airports +5 to 10%
    - Regional variation to some markets in NE down
  - CDN T/B up only 2% / non-border up +10%
- Market pull/shift ?
  - Mexico to Hawaii
- Caribbean / Mexico





# Traveler's Perspective

## Above the Line

### Ticket Add-ons

	Canada	U.S.
Airport Fees (AIF/PFC)	\$20.00	\$9.20
Security	\$12.10	\$5.12
Flight Segment	--	\$7.60
U.S. Fees	\$17.78	--
U.S. Fed Excise	\$17.08	\$10.50
Sales Tax	\$14.17	
Nav / Insurance	<u>\$15.00</u>	--
Total Taxes/Fees	\$96.13	\$32.42

**\$64 differential**

### Ad Hoc Fares checks

- r/t from Canada ~ \$140
- r/t from U.S. ~\$50
- Accounts for ¼ of fare differential

# Traveler's Perspective

## Below the Line

	Canada		U.S
Base Fare	Two fundamentally different aviation structures		
	Duopoly	← Relative Competitive Environment →	Oligopoly, LCCs, 2xULCCs
	Airport Ground Rent	Cash Outflow →	FAA support of capital projects
	Slightly higher fuel costs		Access to tax free bonds
	Labour and cost of doing business higher		

### Ad Hoc Fares checks

- r/t from Canada ~ \$481
- r/t from U.S. ~ \$203
- Accounts for  $\frac{3}{4}$  of fare differential

# What is the Problem?

- Nearly all of us live in close proximity to the Border
- Two different systems



- Some see aviation as being cash cows; decades long philosophy of so called user pay
- Duopoly



- United States – economic generators
- Oligopoly

- Originally masked by substantial exchange rate differential
- Government not willing to take on the problem... it will go away or the U.S. will close the gap with Canada.
- “Air Passengers” treated differently than “Land Passengers”

Homeland Security's proposed new Canada-U.S. border fee prompts alarm in New York

BY RANDY BOSWELL, POSTMEDIA NEWS APRIL 22, 2013

## Land border crossing fee proposed by Homeland Security

Proposal to study fee feasibility outlined in department's 2014 budget proposal

The Canadian Press Posted: Apr 22, 2013 6:44 AM PT | Last Updated: Apr 22, 2013 9:57 PM PT 109

B.C. business warns on possible cross-border fee  
U.S. security fee, part of homeland security department's proposed 2014 budget, could be charged on all vehicles crossing into America

BY GORDON HOEKSTRA, VANCOUVER SUN APRIL 22, 2013

# Arguments for doing Nothing

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- Well... we have passengers that connect from the U.S. to International points
- The leakage issue reflects stimulation... those passengers would not have travelled if it wasn't for low fares ex U.S. border airports
- There is a partnership opportunity for Canadian airports
- Finance will never give back its tax revenue on the premise of *"a bird in the hand is worth two in the bush"*
- US's financial situation will force them to move towards our model



# Solutions – To start with....

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- Stop making excuses
- Dismissing the issue
- We have enough studies
- Yes we recognize that it is a complex and difficult issue to resolve
- Not just one item to focus on, rather it is how Canada needs to change its philosophical approach to aviation as an economic generator for the country

# Solutions – To start with....

- Develop and within five years implement a “Single National Aviation Strategy” incorporating a broad array of stakeholders
- Airports to have a clear value proposition to the consumer
- Continue to evolve the competitive and entrepreneurial element within airports
- In the short term, reduce some “above” and “below” the line cost elements to the consumer
  - CATSA fees, transborder AIF, some airline ancillary fees, airport rent..... all stakeholders need to step up
- Any recourse re: U.S. fees

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# Conclusions

