

FAILURE TO LAUNCH

**How Ontario is Being Held Down
by Bad Aviation Policies**

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Introduction

Ontario's 2014 budget included a series of new taxes and tax hikes to fund massive public transit expansion in the Greater Toronto-Hamilton Area (GTHA). This budget failed to pass and instead triggered a spring election in Ontario where much of the budget's content will be debated and examined. While many of the new taxing measures will likely be defended or even touted by the Ontario Liberals, one of the biggest new taxes has received very little attention. The Liberals have proposed to hike the tax on aviation fuel by 4-cents-per-litre, from 2.7 up to 6.7, which represents a 148 per cent increase. This will have a drastic effect on already over-taxed air travellers and exasperate the trend of Canada's airports and airlines being the most expensive and most taxed in the world.

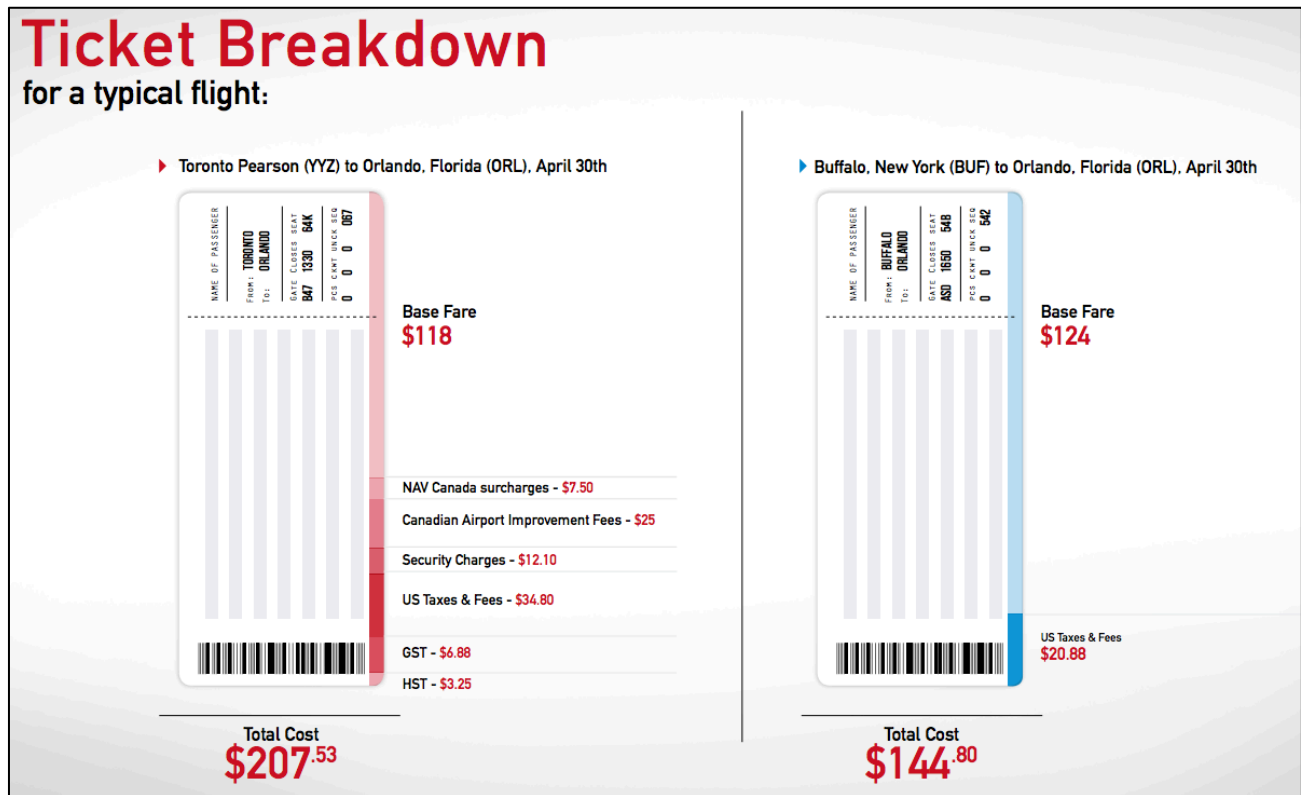
This report examines the current regulatory framework in which airlines and airports operate and demonstrates why Canadian travellers pay so much more to fly than travellers in other countries. The existing taxes, fees, charges, rents, and regulations already imposed by governments will be examined to demonstrate why it is absurd for the Ontario Liberal government to increase taxes even further. The report provides data and analysis on the proposed tax hike and the impact of taxes on base fares for Canadian travellers. Finally, the report discusses the unintended consequences of bad aviation policies, such as the successful marketing campaigns to draw Canadians to small airports in the northern U.S., and the 5 million plus Canadians who get a better deal by driving across the border. Instead of becoming global hubs and gateways between North America and Europe, Asia, and Africa, Canadian airports lose to single-runway airports in small border towns like Bellingham, Washington and Plattsburgh, New York.

Kathleen Wynne and the Ontario Liberals are ignoring the overwhelming evidence that flying is one of the most over-taxed activities in our economy. By drastically increasing the tax on aviation fuel, at a time when British Columbia has eliminated this tax in a bid to lure customers back to Canadian airports, the Ontario government is demonstrating how out of touch it is. By ignoring the real effects of their policies, the Wynne government is inadvertently driving up the sale of one-way tickets, out of the province.

Why Do We Have Sky High Prices in Canada?

Notwithstanding the proposed aviation fuel tax hike, Ontario already faces considerable disadvantages thanks to the prevailing government intervention and policy framework. In fact, in 2011, the World Economic Forum ranked Canada 125th out of 139 countries for ticket taxes and airport charges¹. In 2013, Canada slipped to the 136th² spot on the same ranking. The majority of tin pot dictatorships and chronically undeveloped countries in the Global South have a more competitive and freer airline industry than Canada. When looking at the breakdown of taxes, fees, charges, rents, and regulations, it becomes evident how this is the case.

Table 1: Ticket Breakdown for Comparable Flights



¹ Standing Senate Committee Report on Transportation and Communication, June 2012. Page 7. <http://www.parl.gc.ca/content/sen/committee/411/trcm/rep/rep05jun12-e.pdf>

² Analysis and summary by the Office of Strategy Management and Research at the Canadian Tourism Commission, April 2013 http://en-corporate.canada.travel/sites/default/files/pdf/Research/Industry-research/world_economic_forum_tourism_competitiveness_report_2013.pdf

A recent report from the *Senate Standing Committee on Transportation and Communications* included a detailed ticket breakdown of two comparable flights: one from Toronto Pearson to Orlando, Florida, and the other from Buffalo, New York to Orlando. A typical ticket price from Pearson was \$207.53 per person, compared to \$144 from Buffalo. In this scenario, it is 44 per cent more expensive to fly from Toronto than from Buffalo. One common misconception about Canadian air travel is that a lack of competition amongst airline companies means Canadians pay higher ticket prices. But this price difference comes despite the airline's base price, not because of it. The base price from Buffalo was \$124, while Toronto's was \$118. It just so happens that the Toronto traveller pays nearly 450 per cent more taxes!

In this scenario, the Canadian traveller pays about 75 per cent in visible taxes above the base fare rate. This is thanks to current government policy, mostly at the federal level. For instance, the Air Travellers Security Charge is a tax charged to cover the costs of pre-boarding screening of all passengers and their belongings and all security related services provided by the Canadian Air Transport Security Authority (CATSA), an organization that was created after 9/11. According to John McKenna, President and CEO of the Air Transport Association of Canada while testifying in front of the Standing Senate Committee on Transport and Communications, the security fees charged in Canada are "the highest in the world by a significant amount."³

Not all taxes are shown on the ticket price breakdown, as some are imposed directly onto Canadian airports and airlines, and are then passed indirectly to the customer. There are two major hidden taxes that are included in the base fare rates of tickets: airport rents to the federal government and existing aviation fuel tax to the province.

Rent or a Tax?

Thanks to a long-term lease agreement, Canadian airports pay rent to the federal government. This rent is applied progressively, so depending on its size and revenue, airports are levied with either an 8, 10, or 12 per cent airport rent on total gross revenues. Big airports like Toronto Pearson, Montreal, and Vancouver all pay the maximum rate of 12 per cent. Because this rent is calculated based on total revenues, it is more like a tax than a true rent. Airports, of course, pass these costs on to airlines, which then pass the costs to customers. Dr. Fred Lazar of the Schulich School of Business at York University has done extensive research on the added costs of various taxes to the airline industry in Canada,

³ Senate Report, June 2012. Page 10.

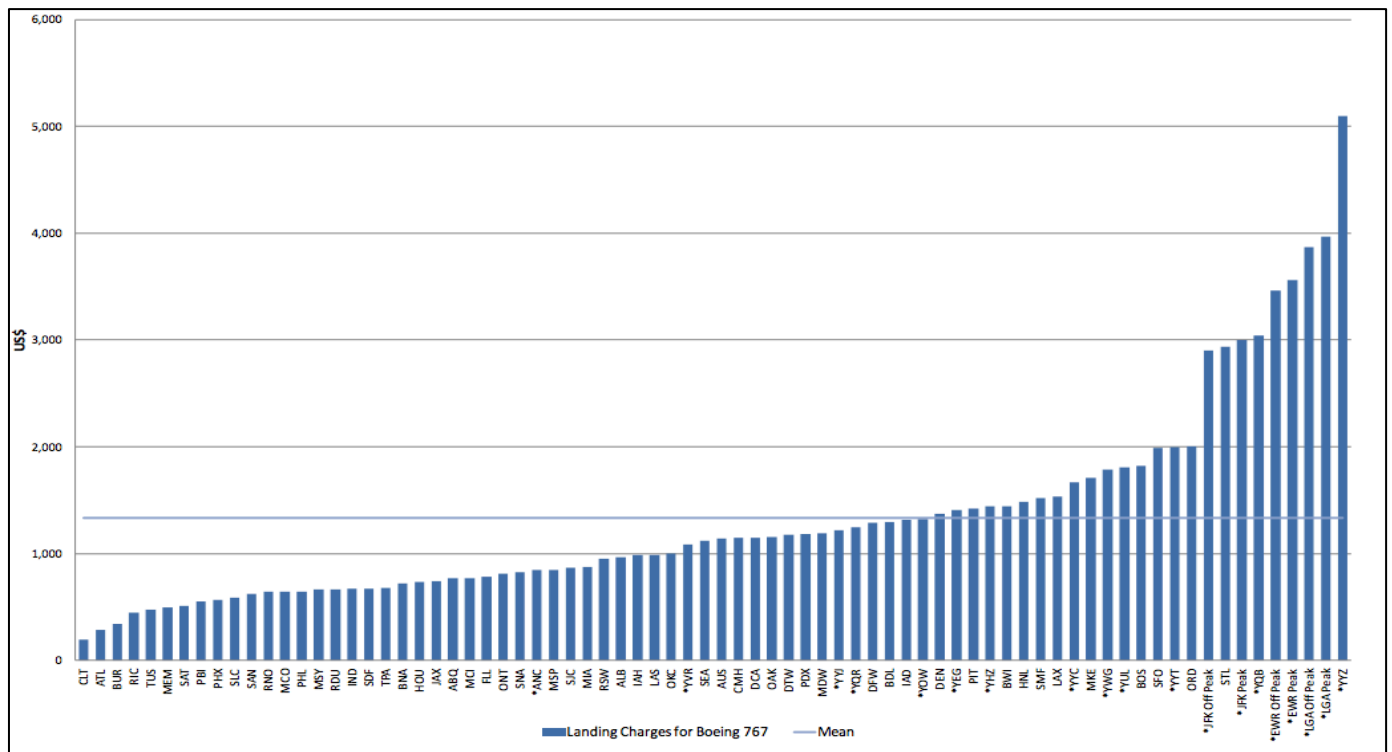
<http://www.parl.gc.ca/content/sen/committee/411/trcm/rep/rep05jun12-e.pdf>

and in 2009 calculated that ground rents per passenger averaged \$4.63 at Toronto Pearson International Airport.⁴

These charges also contribute to Toronto Pearson’s dubious award for being far and away the most expensive airport in North America to land a plane. According to the Standing Senate Committee report, the committee was told that Pearson is actually “the most expensive airport in the world at which to land a plane.”⁵

These assertions are based largely on the Airport Benchmarking Report 2013, completed by the Air Transport Research Society (ATRS) at the Sauder School of Business at the University of British Columbia. The following charts are pulled from that report. (Toronto Pearson airport code is YYZ.)

Table 2: Landing Charges for Boeing 767 (2012) North America – In USD

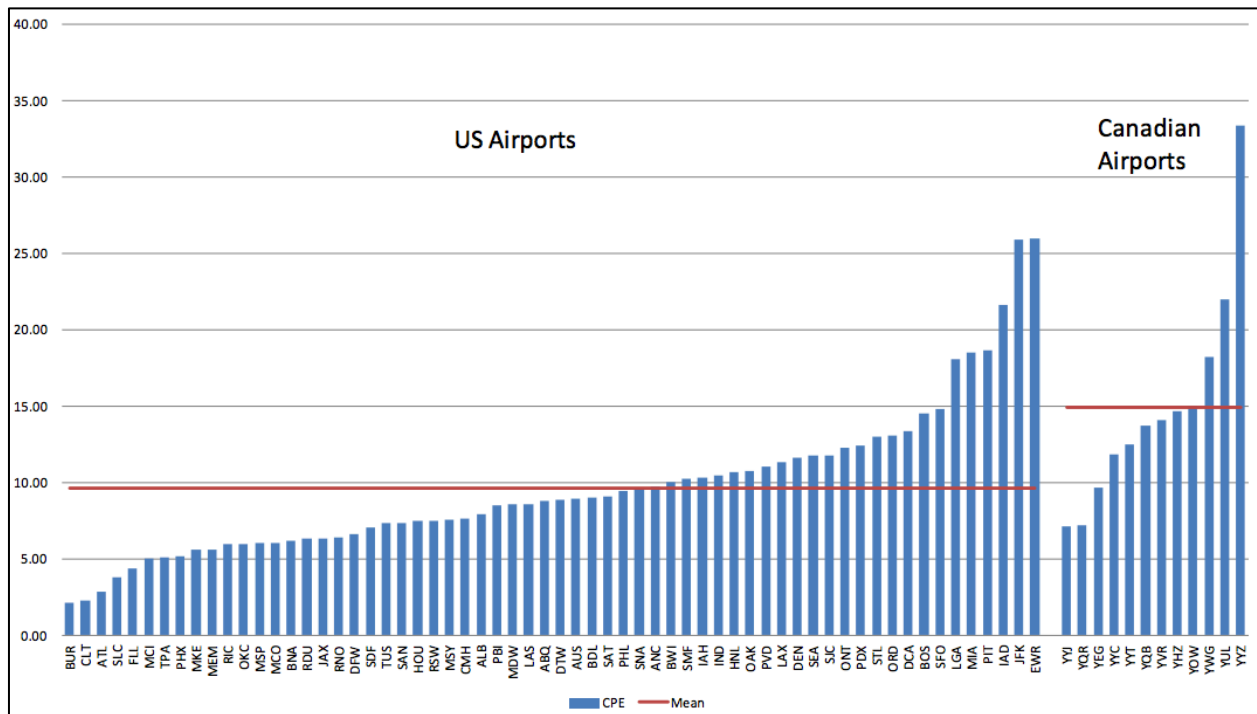


⁴ Senate Report, June 2012. Page 9.

<http://www.parl.gc.ca/content/sen/committee/411/trcm/rep/rep05jun12-e.pdf>

⁵ *ibid.* Page 5 (emphasis added).

Table 3: Landing Fee Costs per Enplaned Passenger (2011) North America – In USD



Tables 2 and 3 demonstrate that, in terms of both landing fees per plane landed and the cost of landing fees per enplaned passenger, Toronto Pearson (YYZ) is an outlier and by far the most expensive airport in North America according to ATRS. This can largely be attributed to the existing aviation fuel tax and airport rent imposed at Pearson.

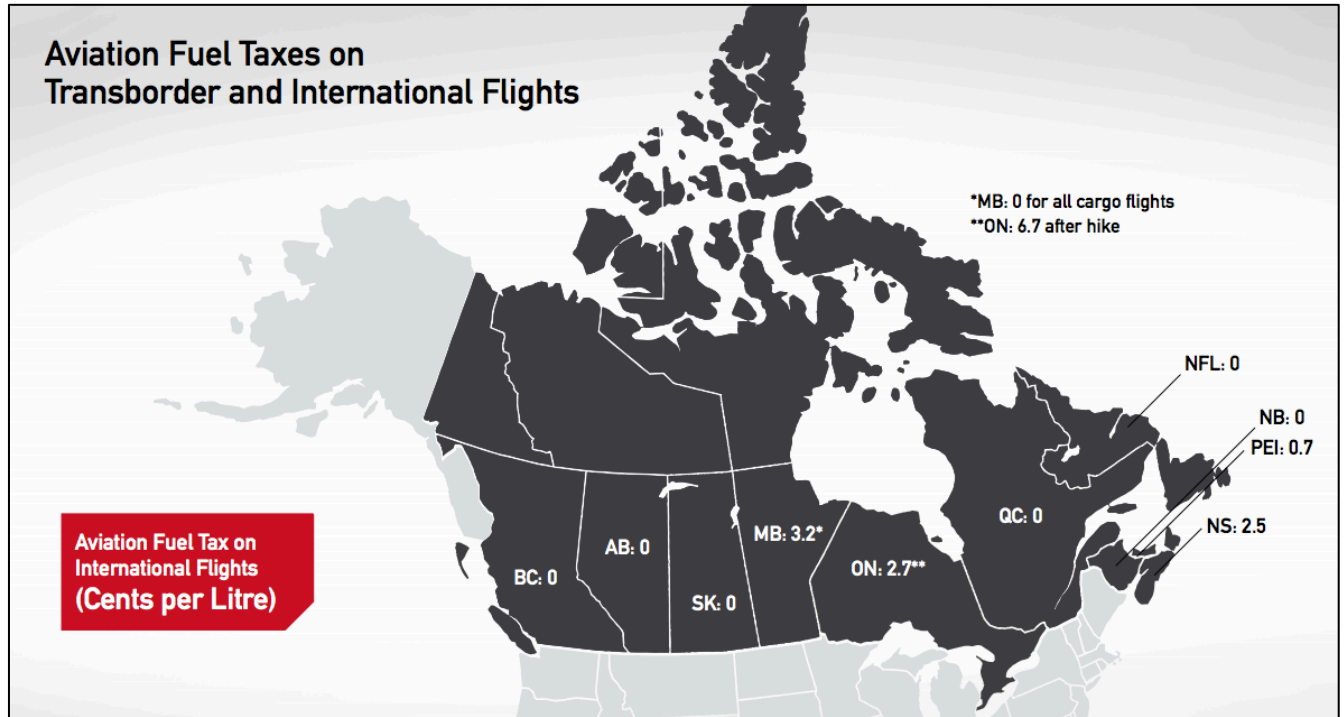
Existing Aviation Fuel Taxes

Many aviation experts were surprised that the Premier of Ontario would unilaterally decide to hike aviation fuel taxes. In fact these experts, including Dr. Fred Lazar of Schulich School of Business, have been calling for the exact opposite – for Ontario to follow other major jurisdictions in North America by eliminating the provincial aviation fuel tax on international flights. Ontario is currently out of step with the federal government, most provincial governments and all the big provinces, not to mention the U.S. federal government and most U.S. state governments by imposing this tax.⁶

⁶ The Case for Eliminating the Government of Ontario Tax on Aviation Fuel on Transborder and International Flights, prepared by Dr. Fred Lazar, Schulich School of Business. March 2013. Page 4.

In September 2012, British Columbia announced it would eliminate its aviation fuel tax on transborder and international commercial flights in order to help Vancouver establish itself as the preferred gateway between North America and the world, especially Asia, and bring tourists and added economic activity to the province.

Table 4: Canadian Aviation Fuel Tax Rates by Province



When British Columbia eliminated its provincial tax on aviation fuel⁸, Vancouver instantly attracted new direct flights into its airport. Within months of removing this tax, Air Canada released a statement announcing that it would add new daily non-stop flights to Shanghai, Beijing, and Hong Kong, and increase its total flying capacity out of Vancouver by 15 per cent over the previous year.⁹

According to Dr. Lazar, the removal of this tax in Ontario could generate up to \$138 million in economic output, up 52,000 additional tourists to Ontario, and up to 1,897 jobs.¹⁰

⁸ Government of British Columbia Press Release, February 2012.
<http://www.newsroom.gov.bc.ca/2012/02/bc-delivers-on-commitment-to-eliminate-jet-fuel-tax.html>

⁹ Air Canada Press Release, September 2012.
<http://aircanada.mediaroom.com/index.php?s=43&item=374>

¹⁰ The Case for Eliminating the Government of Ontario Tax on Aviation Fuel on Transborder and International Flights, prepared by Dr. Fred Lazar, Schulich School of Business. March 2013. Page 4.

Can We Afford Another Tax Hike on Aviation?

In the weeks leading up to the 2014 budget, Premier Kathleen Wynne committed that the budget would not include any tax increases on the middle class. By moving forward with a tax hike on aviation fuel, the Ontario Liberals are either breaking their promise, or asserting that middle class people do not fly. To the contrary, the argument could be made that this tax increase *only* affects the middle class, since upper income earners often have their travel costs covered by their place of employment. Canadians rely on flying, perhaps more than any other country in the world, for two obvious reasons. First, Canada is a huge country with the world's second largest landmass, spanning an entire continent and reaching three oceans. We rely on flying to connect remote communities as well as to connect Canada's regions. Second, Canada is a nation of immigrants, with both historic and recent mass immigration. Most Canadians therefore have immediate family, relatives or ancestors all over the world and many reasons to travel. Canadians love to travel, and flying is by no means restricted to the rich. Canadians from all walks of life are frequent air travellers and will be adversely affected by this tax hike.

The proposed tax by the Ontario Liberals will increase the aviation fuel tax portion that is imbedded within the price of the base fare of an airline ticket. Table 5 shows the new charges for aviation fuel taxes in Ontario if the 4-cent-per-litre tax is imposed. The calculations are based on Dr. Lazar's report.¹¹

Table 5: Ontario Aviation Fuel Tax

Aircraft Type	Pre-Hike Fuel Tax per Passenger	Post-Hike Fuel Tax per Passenger	Amount Increased Price Per Passenger
<i>Transborder</i>			
A319	\$5.37	\$13.32	\$7.95
A320	\$4.41	\$10.94	\$6.53
A321	\$4.14	\$10.27	\$6.13
E-175	\$4.32	\$10.71	\$6.39
E-190	\$4.71	\$11.68	\$6.97

¹¹ The Case for Eliminating the Government of Ontario Tax on Aviation Fuel on Transborder and International Flights, prepared by Dr. Fred Lazar, Schulich School of Business. March 2013. Page 25.

B737-800	\$4.34	\$10.76	\$6.42
CRJ-705	\$3.95	\$9.80	\$5.85
CRJ100/200	\$4.36	\$10.81	\$6.45
Q-400	\$2.38	\$5.90	\$3.52
<i>International</i>			
B777-300ER	\$14.02	\$34.77	\$20.75
B777-200LR	\$20.23	\$50.17	\$29.94
B747-400	\$14.07	\$34.89	\$20.82
B767-200ER	\$10.94	\$27.13	\$16.19
B767-300	\$11.59	\$28.74	\$17.15
A330-200	\$14.84	\$36.80	\$21.96
A330-300	\$9.94	\$24.65	\$14.71
A380	\$15.94	\$39.53	\$23.59
A340-300	\$12.95	\$32.12	\$19.17

To demonstrate the severity of this tax hike, these figures have been applied to actual direct flights from Toronto Pearson to various destinations, to show what a family of four would pay in aviation fuel tax, and the increase due to the proposed tax hike.

Table 6: Tax Hike Affect on Ticket Prices for Family of 4 to Fly from Pearson Airport

Toronto Pearson (YYZ) to:	Aircraft used by Air Canada	Aviation Fuel Tax Portion of Tickets for a Family of 4	Price Increase from Tax Hike
New York, NY	E-190	\$46.72	\$27.88

Orlando, Florida	A319	\$53.27	\$31.79
Cancun, Mexico	A319	\$53.27	\$31.79
Paris, France	777-300ER	\$139.08	\$83.00
Warsaw, Poland	777-300ER	\$139.08	\$83.00
Istanbul, Turkey	777-300ER	\$139.08	\$83.00
Shanghai, China	777-200LR	\$200.68	\$119.76
Manila, Philippines	777-200LR	\$200.68	\$119.76

Unintended Consequences of Bad Policies

Given that 75 per cent of Canadians live within a 90-minute drive of the United States, policies makers in Canada should be hyper-aware of the price discrepancies caused by government policy, and how these policies create an incentive for Canadians to conduct economic activity outside the country. In 2011, the number of Canadians who flew out of U.S. airports rather than their local Canadian one was 4.8 million, a 10 per cent increase from 2010. That number has since increased to over 5 million.¹²

Instead of being established as major hubs for global destinations or gateways to other parts of the world, Canada's big airports have a difficult time competing with small regional airports south of the border. And American airports in the U.S. are well aware of this. Buffalo airport's website¹³ has a dedicated tab on the main page for Canadian travellers, offering information about the distance, directions, border crossing information, and

¹² Conference Board of Canada report, October 2012, <http://www.conferenceboard.ca/topics/energy-enviro/drivenaway.aspx>

¹³ Buffalo Airport Website, May, 2014. <http://www.buffaloairport.com/Canadian/Start.aspx>

parking rates. The site estimates that 2 million Canadians fly from their airport each year. It even offers full fare comparisons on flights to Florida from both Pearson and Buffalo, concluding that “a family of four can save \$672.59 (US\$)” by flying from Buffalo instead of Pearson.¹⁴ It also warns, “if you fly from Toronto Pearson to the U.S. you can expect government-imposed charges of up to \$200 per roundtrip ticket.”

Buffalo is not alone. The heading of the website for Plattsburgh, New York calls it “Montreal’s U.S. Airport.”¹⁵ Bellingham, Washington is a small border town south of Vancouver; this small airport with only one runway offers considerably lower rates to popular destinations like Las Vegas and San Francisco. Because of its proximity to Vancouver, some airlines even refer to it as the “Bellingham-Vancouver Airport.”¹⁶

Enlightened travel agents have taken advantage of this trend, and one such company even offers an entire brochure dedicated to “USA Border City Packages.”¹⁷ This page includes deals and comparisons for beach vacations, comparing high-taxed Canadian airports with their competition in lower-taxed jurisdictions in the U.S.

Conclusion

Canadians already struggle to afford to fly, thanks to government imposition of high taxes and regulations -- but the situation is particularly pronounced in the province of Ontario. Instead of studying the industry and examining costs, the Premier of Ontario proposes to impose a whopping 148 per cent fuel tax hike at a time when taxes are already hurting both the industry and travellers. The most expensive place to land a plane in the world will get a little more expensive. That this will drive travellers and economic activity to U.S. airports is unassailable. Both levels of government need to examine their aviation policies, and Ontario must be particularly sensitive to the impact of its proposed policies. Due to the impact on both industry and taxpaying travellers alike, the Canadian Taxpayers Federation strongly recommends the proposed fuel tax hike in Ontario be shelved.

¹⁴ *ibid*

¹⁵ Plattsburgh Airport Website, May 2014. <http://www.flyplattsburgh.com/>

¹⁶ Bellingham International Airport, Wikipedia page, May 2014.

http://en.wikipedia.org/wiki/Bellingham_International_Airport

¹⁷ Sunquest Vacations website, May 2014. <http://www.sunquestvacations.ca/en/usa-border-cities.aspx>

About the CTF

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit and non-partisan advocacy organization dedicated to lower taxes, less waste and accountable government. The CTF was founded in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national taxpayers organization. Today, the CTF has more than 84,000 supporters from coast-to-coast.

The CTF maintains a federal office in Ottawa as well as provincial and regional offices in British Columbia, Alberta, the Prairies, Ontario and Atlantic Canada. Provincial and regional offices conduct research and advocacy activities specific to their provinces in addition to acting as local organizers of nation-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences, utilize social media like twitter, Facebook, YouTube and the CTF blog, as well as issuing regular news releases, commentaries and publications to advocate on behalf of CTF supporters. The CTF's flagship publication, The Taxpayer magazine, is published four times a year. Action Update e-mails on current issues are sent to CTF supporters regularly. CTF offices also send out weekly Let's Talk Taxes commentaries to more than 800 media outlets and personalities nationwide.

CTF representatives speak at functions, make presentations to government, meet with politicians and organize petition drives, events and campaigns to mobilize citizens to affect public policy change.

All CTF staff and board directors are prohibited from holding a membership in any political party. The CTF is independent of any institutional affiliations. Contributions to the CTF are not tax deductible.